



# Banca Popolare di Sondrio



**ANNUAL REPORT 2010**

# PLAYERS OF THE TWENTIETH CENTURY ART WORLD IN ITALY

## THE WORLD EXPLODED

But what world is this, sometimes so sober and essential, stripped close to the limits of abstraction, sometimes so rich in colour and material to make us feel sucked into a denser world than the one we actually live in? A world in which, from the rooms of Gianfranco Ferroni where a dusty light quietly powders the objects of his still lifes, we can look out over the inebriated waves of the Mediterranean to see Aligi Sassu's red horses galloping, or lose ourselves in Piero Guccione's vast horizons, or explore with Zoran Music a Karst hill, porous, steeped in desperate memories... It is hard to imagine what geographical coordinates can keep together such different places in a single space, or how we can define that huge, chaotic landscape that includes them all and which we call the Twentieth Century. It is a world made of solitary apparitions, of individual epitaphs, and between one and the other, maybe there's nothing at all; more similar, undoubtedly, to the universe of relativistic physics than to that neutral, uniform container in which Newton or Kepler observed the orderly movement of celestial bodies. A world that has exploded in which, here and there, we meet the splinters or the deformed remains: the contorted crossing of the legs of Murer's bull, the crucifix of Somaini, which we imagine floating in the cosmic void as a relic of a star that has waned, the figure of a woman portrayed in coloured smithereens by Guido Pajetta... Wholeness and completeness seem to survive only in nostalgia, in an evocation veined with melancholy and anxiety like the one achieved by Francesco Messina in his bust of a woman (as though he was saying: "Don't you see? This is what life once was").

A strange, fascinating, adventurous world. Very often desperate, because solitude brings with it despair, but sometimes crossed by irony: a slight whiff, or a breeze; the subtle, penetrating irony of Pericoli portraits or the sarcasm with which Schifano makes fun of our degraded symbolism. A world where the sense, the meaning, no longer show themselves as something that is obvious: we have to seek them out and then go back again and keeping looking for them, in each work, in each brushstroke or blow of the chisel, in a long trek where it is highly unlikely that we will meet travel companions or guardian angels. Yes, maybe this is the landscape of the Twentieth Century: an empty sky which holds its breath while waiting and, below it, the forms, the colours, the syllables of a never-ending prayer.

*Paola Capriolo*  
writer





**Banca Popolare  
di Sondrio**

2010 FINANCIAL  
STATEMENTS  
140<sup>TH</sup> YEAR

## From the BPS art collection

### Players of the Twentieth Century art world in Italy

If there is one characteristic that distinguishes the art of the Twentieth Century, it is the extraordinary proliferation of movements and styles, without any common denominator unless it is the purely spiritual one of total creative liberty.

Already at the Salon des Refusés in 1863 the Impressionists had proclaimed “everyone free” and their painting *en plein air* immediately resounded like a cry of liberation from the cage of the academies, a breath of artistic freedom in a Europe that was also seeking political and civil freedom for individual and nationalities. Nowadays we are well aware to what extent that cry of freedom represented an extraordinary Copernican revolution for modern art.

Daily life broke into art: subjects that had always been considered minor up to then, such as the landscape or scenes of community life, leap into the foreground and the tyranny of design is replaced by the creativity of colour; art doubts that it is *mimesis*, the imitation of Nature, to recognise that it is instead the visual synthesis of reality.

In this way, the centre of gravity shifts from what is represented to the eye that represents it, in a process that leads the artists more and more inside himself, into the unconscious recesses of his Ego, from which the infinite forms of modern art are born. Cézanne, Van Gogh, Kandinskij, Picasso, Matisse, Pollock, Rothko, Warhol and so on are the protagonists of this revolution that is still going on today under our very eyes.

For long, Italian art looked to its own tradition and its own past for a road towards modernity. Then, after 1945, it too opened up to the experimentalism of the various movements of European post-Impressionism and American art, managing to insert itself into the panorama of international art as many of its artists were producing powerful, original work.

Some of them, such as Guttuso, Guccione, Pericoli, Schifano, Somaini, Messina, Music, Ferroni, mark with their presence the Twentieth Century chapter of Banca Popolare di Sondrio's art collections, together with other (Sassu, Murer, Pajetta) who were some of the major players of Twentieth Century Italian art. They express some of the most profound trends in Twentieth Century art, starting with the idealising art that translates form into metaphor, as in Music or Murer, or colour into symbol, as in Sassu and Guttuso, to that which in the visible seeks the invisible, such as Guccione, whose supreme aspiration seems to be that of a Leopardian fusion of the Ego with Nature, pursued through a formal minimalism that is tense and lyrical.

All in all, in Twentieth Century art there is a thirst for the absolute which sometimes gives it a visionary connotation, almost mystical, as in Ferroni, which in the existential halo in which everyday objects are suspended spies that superior order, mysterious and unattainable, that presides over the chaos of life, always on the point of revealing itself, but remaining obstinately shrouded in mystery. Ferroni shows us precisely how at the centre of Twentieth Century art there lies the existence, the being there, the being thrown into the world, from which comes the discomfort of the modern individual, as Heidegger would have it.

It is precisely this existential malaise that we find, for example, in the masks and clowns of the latter Pajetta, so full of intellectual suggestions, and in the work of Schifano, where discomfort takes the form of negativity and denouncement of the spiritual void of our times induced by the language of the cinema or television, which is the great metaphor of this emptiness.

Even when Twentieth Century art rediscovers traditional themes like the portrait, the question of existence still remains in the foreground. In fact, what are Pericoli's portraits if not attempts to synthesise in the lines of a face the history and ideas of an individual; in other words, the totality of his existence. In the same way in the highly modern classicism of his busts, a great sculptor like Messina does not seek the ideal form or the essence of the human, but gives us the existential reality of that man or that woman, whose features, the more they are perfect, the more they return to the enigmatic elusiveness of the mystery.

In the informal sculpture of Somaini, stylistically at the antipodes of Messina's work, the sculptural material seems to form itself on its own, through its own life force, in shapes that are always fragmentary because it is the fragment that contains the infinite possibilities of transformation of the material; in other words, its life. It is this same theme, the metamorphosis of form, that we also find in the sculpture of Angiola Tremonti, in this case in the shape of Neo-Liberty female vitalism.

*Franco Monteforte*



**Piero Guccione**  
**Spring, 1987**

Colour lithograph, 380 x 290 mm

*This lithograph – taken from a well-known pastel on paper called “Spring”, part of his “Leopard” cycle – forms part of a set of lithographs also dedicated to “The Leopard”, the novel by Tomasi di Lampedusa, set in the places of that Sicily most familiar to the artist's soul.*

*The theme of the swallows that fly around in the blue of the sky announcing the arrival of Spring is fairly frequent in Guccione's work. Their slim black silhouettes emphasise the deep vastness of the sky and this make reference to the infinite, like the ripples of the water in the seascapes of the Sicilian artist. This unquenchable thirst for the infinite, which underlies all of Guccione's art, responds to his need, an almost religious need, to breathe in time with Nature and to feel himself in harmony with the world; a need that here is expressed in the high profile of that Sicilian palace that rises like a wedge into the sky, a golden spire, desperate for light and the infinite, almost a figurative sublimation of the artist's very soul.*



**Piero Guccione**

**Study for a shipwreck. Homage to Friedrich**, 1981

Colour lithograph, 455 x 635 mm

## **PIERO GUCCIONE**

(Scicli, Ragusa 1935)

Piero Guccione was born in Scicli, province of Ragusa, in 1935. Trained in the Roman circle of Neo-Realist painters tending towards the informal, at the beginning of the Sixties he entered the group called "Il Pro e il Contro", subsequently becoming assistant to Renato Guttuso at the Rome Academy of Fine Arts. There then began his refined and original formal research that soon earned him the attention of the critics and the literary world.

His return to Scicli, in Sicily, in '79 coincided with an intense study of his own poetics, in which the high points are large cycles of pastels and evocative seascapes, in which the Sicilian artist tries to capture the heart of existence in its inescapable cosmic dimension.

As stated by Leonardo Sciascia - and subsequently by the French writer Dominique Fernandez - the essential element of Piero Guccione's painting is its *platitude*, its flatness, that look of the eye that extends towards the infinite on the horizon of the sea and the sky, expressing a contemplative attitude that in the cyclical repetition of reality captures the indestructible permanence of things. It is precisely this *platitude* that gives his works a linear essentiality and a formal minimalism, which makes his innate and silent lyricism so very modern, yet so full of romantic echoes, making him one of Italy's best known artists internationally.

*Guccione's admiration for Friedrich - the German romantic artist with whose lyrical and almost abstract chromaticism Guccione feels a profound affinity - goes back to 1978, when he sees a sizeable group of works at the Paris exhibition on Romanticism. In this Homage to Friedrich - in which Guccione represents the shipwreck of a sailing boat hit by a tempest that is passing, while the survivors head for the shore in a rowing boat - the various references to the German artist's work get fused and combined, as the shipwreck and sails on the sea at night is one of Friedrich's recurring themes.*

*But the most evocative aspect of the composition is, without doubt, the shady atmosphere that shrouds it, an aspect that the work of the great romantic artist shares profoundly with that of Guccione.*

*Guccione dedicated an entire cycle of pastels to the theme of shade, collected in a volume entitled "In Praise of Shade", a title worthy of Borges. As in Friedrich, also in Guccione the shade is not a lack of light, but a veiling of the light.*

*As Roberto Tassi has noted, "it does not cancel appearances, it makes them more vague, more difficult, more mysterious. it is a wing that descends, a shiver, a fear: the resurfacing of a memory". Shrouded in mystery, things lose their certainty and consistence, entering a poetic world of pure sentiment, where everything becomes more intense and more precarious at the same time, as in this Homage to Friedrich.*



# Banca Popolare di Sondrio

Founded in 1871

## ORDINARY SHAREHOLDERS' MEETING OF 9 APRIL 2011

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: € 733,175,003 (figures approved by the shareholders' meeting of 9/4/2011)

Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 28 July 2010:  
- long term issuer default rating: A  
- short-term issuer default rating: F1  
- individual: B





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MAURIZIO BERTOLETTI

\* Members of the Chairman's Committee

\*\* Secretary to the Board of Directors

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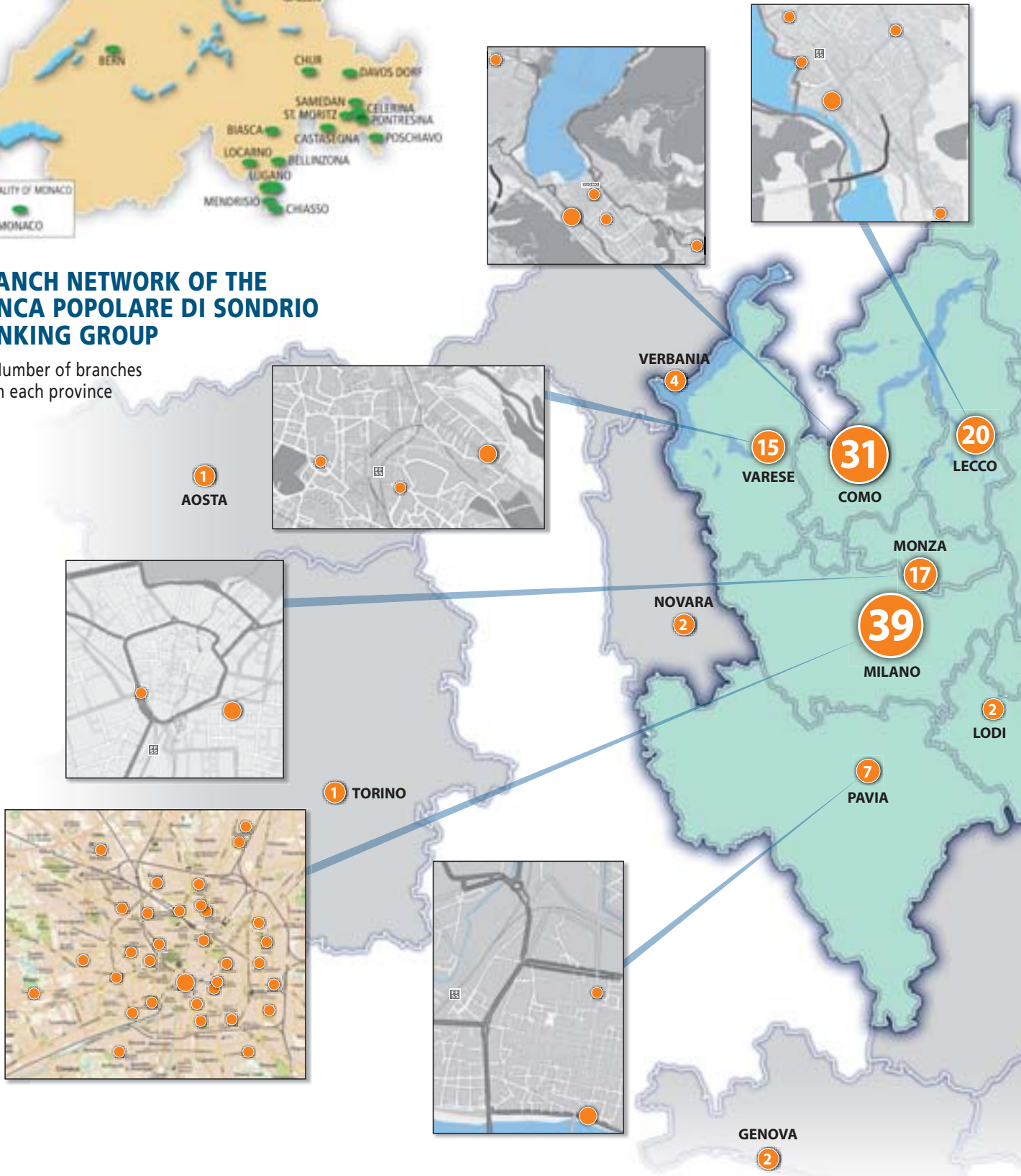
- 51 in the province of SONDRIO
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- 15 in the province of VARESE
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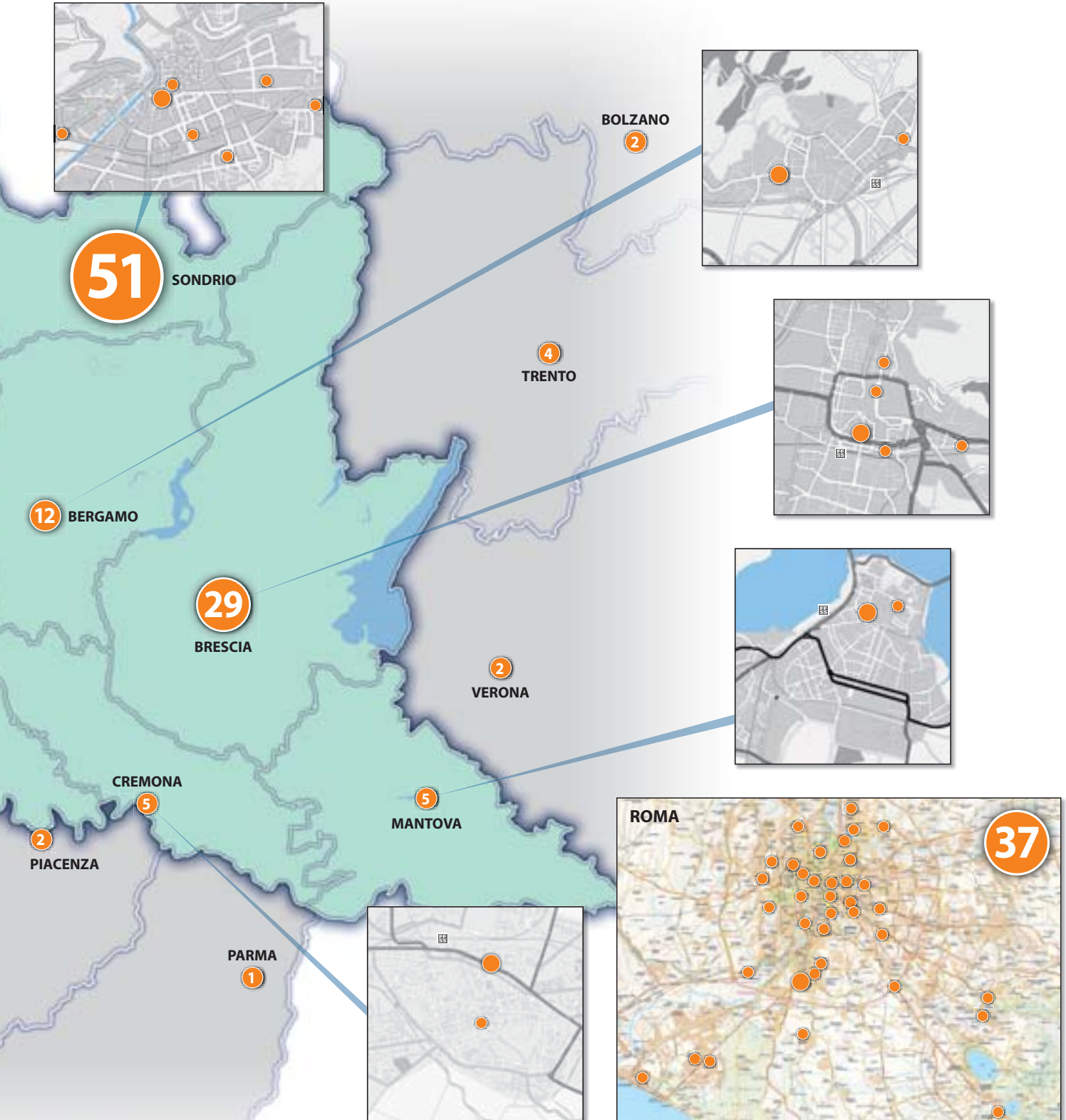
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Società cooperativa per azioni - Established in 1871  
Sondrio Companies Register no. 00053810149  
Official List of Banks no. 842  
Parent Bank of the Banca Popolare di Sondrio Group,  
Official List of Banking Groups no. 5696.0  
Member of the Interbank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

## MANAGEMENT AND HEAD OFFICE

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## BRANCH OFFICES

### ORGANISATION AND IT SYSTEMS:

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

INTERNATIONAL UNIT: lungo Mallero Luigi Cadorna 24, Sondrio  
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**SALÒ** viale Alcide De Gasperi 13 tel. 0365 522974  
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**SAN FEDELE TELTIVI** via Provinciale 79 tel. 031 831944  
**SAN SIRO**  
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**PANDINO** via Umberto I 1/3 tel. 0373 91016  
**RIVOLTA D'ADDA** via Cesare Battisti 8 tel. 0363 370661

### PROVINCE OF GENOVA

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

### PROVINCE OF LECCO

**ABBADIA LARIANA** via Nazionale 140/A tel. 0341 701402  
**BELLANO\***  
**BOSISIO PARINI** via San Gaetano 4 tel. 031 866865  
**CALOLZIOCORTE** corso Europa 71/A tel. 0341 643184  
**CASATENOVINO** via Roma 23 tel. 039 9207454  
**COLICO** via Nazionale - ang. via Sacco tel. 0341 941260  
**DERVIO** via Don Ambrogio Invernizzi 2 tel. 0341 804447  
**LECCO**  
**Head Office**,  
corso Martiri della Liberazione 65 tel. 0341 471111  
**Branch no. 1**, viale Filippo Turati 59 tel. 0341 361919  
**Branch no. 2**, piazza XX Settembre 11 tel. 0341 282520  
**Branch no. 3**,  
corso Emanuele Filiberto 104 tel. 0341 422748  
**Branch no. 4**, viale Montegrappa 18 tel. 0341 495608  
**LOMAGNA** via Milano 24 tel. 039 9278080  
**MANDELLO DEL LARIO** piazza Sacro Cuore 8 tel. 0341 732878  
**MERATE** via Don Cesare Cazzaniga 5 tel. 039 5983013  
**NIBIONNO - fraz. Cibrone**, via Montello 1 tel. 031 692045  
**OGGIONO** via Papa Giovanni XXIII 45 tel. 0341 263061  
**PESCATO** via Roma 98/E tel. 0341 283964  
**PRIMALUNGA** via Provinciale 66 tel. 0341 981151  
**VALMADRERA** via San Rocco 31/33 tel. 0341 582972  
**VARENNA** via Corrado Venini 53 tel. 0341 815239

### PROVINCE OF LODI

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

### PROVINCE OF MANTOVA

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

### PROVINCE OF MILANO

**BUCCINASCO** via Aldo Moro 9 tel. 02 45716239  
**CINISELLO BALSAMO**  
via Giuseppe Garibaldi 86 tel. 02 66047602  
**LEGNANO** corso Giuseppe Garibaldi 71 tel. 0331 470255  
**MILANO**  
**Head Office**, via Santa Maria Fulcorina 1 tel. 02 85541  
**Branch no. 1**, Porpora,  
via Nicola Antonio Porpora 104 tel. 02 70630941  
**Branch no. 2**, Barona, viale Faenza 22 tel. 02 89111163  
**Branch no. 3**, a2a, corso Porta Vittoria 4 tel. 02 76005333  
**Branch no. 4**, Regione Lombardia,  
via Torquato Taramelli 20 tel. 02 603238  
**Branch no. 5**, Bovisa, via degli Imbriani 54 tel. 02 39311498  
**Branch no. 6**, Corvetto,  
via Marco d'Agate 11 tel. 02 55212294  
**Branch no. 7**, Caneva,  
via Monte Ceniso 50 tel. 02 33606260  
**Branch no. 8**, Quarto Oggiaro,  
via Michele Lessona - ang. via Trilussa 2 tel. 02 39001760  
**Branch no. 9**, c/o A.L.E.R.,  
viale Romagna 24 tel. 02 70128148  
**Branch no. 10**, Solari,  
via Andrea Solari 15 tel. 02 89404235  
**Branch no. 11**, Università Bocconi,  
via Ferdinando Bocconi 8 tel. 02 58301984  
**Branch no. 12**, Baggio,  
via delle Forze Armate 260 tel. 02 48915910  
**Branch no. 13**, Repubblica,  
viale Monte Santo 8 tel. 02 29003075  
**Branch no. 14**, Palazzo di Giustizia,  
via Cesare Battisti 1 tel. 02 76390159  
**Branch no. 15**, Murat,  
via Gioacchino Murat 76 tel. 02 6682823  
**Branch no. 16**, Ortomercato,  
via Cesare Lombroso 54 tel. 02 5453131  
**Branch no. 17**, Pirelli/Bicocca,  
viale Sarca 226 - stabile n. 143 tel. 02 6438400





## SUMMARY OF THE BANK'S GROWTH

(2000/2010)

(in millions of euro)	2000	2005	2010
Customer deposits:			
direct	4,588	10,664	18,967
indirect	10,726	16,571	23,072
Equity (excluding net profit for the year)	576	1,120	1,590
Customer loans:			
cash loans	4,444	9,198	18,248
overdraft facilities	1,119	2,092	3,427
Financial assets	1,432	2,655	3,249
Income from banking activities	277	416	570
Operating profit (loss)	75	143	192
Net profit for the year	38	85	133
Number of branches	150	218	290
Personnel (number)	1,687	2,149	2,487



# BANCA POPOLARE DI SONDRIO

Società cooperativa per azioni – Founded in 1871 - Official List of Banks no. 842,  
Official List of Cooperative Banks no. A160536,  
Official List of Banking Groups no. 5696.0, Sondrio Companies Register no. 00053810149  
Share capital € 924,443,955, made up of 308,147,985 ordinary shares with a par value of € 3 each  
Reserves € 656,883,091

## NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the ordinary annual general meeting at the head office in Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Friday, 8 April 2011 and, if necessary, on second calling in Bormio (So) at the Centro Polifunzionale Pentagono, via Alessandro Manzoni 22, at 10.30 a.m. on Saturday, 9 April 2011 to discuss the following

### AGENDA

- 1) Presentation of the financial statements as of 31 December 2010: report of the Board of Directors and proposed allocation of net profit; report of the Board of Statutory Auditors; related resolutions;
- 2) Mandate to the Board of Directors to buy and sell treasury shares in accordance with art. 21 of the articles of association;
- 3) Information on implementation of the «Compensation policies of Banca Popolare di Sondrio»;
- 4) Determination of directors' emoluments;
- 5) Appointment of five Directors for the three-year period 2011-2013;
- 6) Resolutions in accordance of art. 6 of Treasury Minister Decree no. 161 of 18 March 1998.

Pursuant to arts. 13.2 and 27 of the articles of association, shareholders are entitled to attend shareholders' meetings and exercise their voting rights if they have been recorded on the shareholders' register for at least ninety days and providing they have delivered to the bank's head office the declaration that the appointed intermediary that holds the shares on deposit has to make to the issuer at least two working days prior to the date of the meeting at first calling. In any case, the provision of art. 83 sexies, para. 4, of D.Lgs. 58/98 will be applied. Shareholders are asked to bring a copy of this declaration to the meeting to facilitate entry formalities.

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

Each shareholder has the right to only one vote, however many shares they hold. Shareholders may be represented at the meeting by another shareholder, by



means of a proxy ballot prepared in compliance with Italian law. No shareholder can be a proxy for more than two other shareholders. Proxy forms are available at all branches of the Bank.

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

The documentation related to the agenda and required under current legislation will be published and filed at the head office of the Bank and at the offices of Borsa Italiana SpA according to the terms and methods laid down in the related legal and regulatory provisions. Shareholders have a right to look at this documentation and to obtain a copy of it at their own expense. With reference to point 5) of the agenda of the shareholders' meeting, the text of art. 35 of the articles of association is as follows:

«Presentation of lists of candidates

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

The lists have to be deposited at head office at least fifteen days prior to the date set for the Shareholders' Meeting at first calling.

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

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

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

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

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

Candidates should also declare if they have the requisites of independence as per art. 33.2 and, if they do, this is mentioned in the lists.

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

*Sondrio, 11 March 2011*

FOR THE BOARD OF DIRECTORS  
The Chairman  
(Piero Melazzini)

This notice of calling was published as required by law in the Official Gazette of the Republic of Italy - part IIa, insert no. 30 of 15 March 2011, pages 7-10, notice no. TS11AAA2897.

*Note. The figures in this report are in euro; all changes expressed as percentages refer to comparable data from the end of 2009, unless otherwise specified.*

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

# DIRECTORS' REPORT ON OPERATIONS

## SUMMARY OF RESULTS

Shareholders,

While some learned economists declaim the end of the crisis, others - no less authoritative - maintain the opposite. Perhaps the question we ought to be posing is not which school of thought is right, but which crisis are we talking about. If we are talking about the dramatic situation of instability that brought prestigious financial institutions to the brink of disaster, some even beyond it, this seems to be more or less over. On the other hand, if we are talking about the difficulties being encountered by many economies, especially those in the West, in returning to secure growth that is able to reduce unemployment to within socially acceptable limits, then that is quite a different matter.

And that's without mentioning things like the reliability of certain sovereign issuers.

There has certainly been no lack of problems and uncertainties for Italy, in the same way that there is no lack of possible and oft-repeated solutions to try and overcome the structural delays that afflict our economy. Here's hoping that resolute and united measures will be taken, above all soon. As we write these words, hope remains a dream.

Our Bank, which is stable because it is well capitalised, has continued to carry out its mission in support of the local economies in the territories where we operate, boosting its volumes considerably. Also on the lending front, healthy businesses and households, who are particularly interested in mortgage loans to buy a house, have found an adequate response to their needs, while also enjoying particularly low interest rates.

Nervous financial markets, partly caused by the tensions that had Greece as their epicentre, have been penalising for the prices of government bonds held in portfolio.

The net profit for the year amounted to 133,320 million, a decrease of 30.08% compared with the previous year's record figure of 190,674. A decrease that could have been a lot more if we had not pursued a policy firmly based on common sense.

The BPS stock, which is listed on the MTA, the screen-based market, Blue Chips segment, of the Italian Stock Exchange, saw its price fall by 14.05%, which compares with -13.23% on the part of the FTSE MIB index and, above all, -31.08% on the part of the Banking Sector index. The body of shareholders is still growing and now has 168,328 members.

Let's now take a look at the figures, which are the fruit of the intense efforts of our excellent staff, which consists of 2,487 people. Total assets have increased to 23,778 million, +7.50%. Both customer deposits and loans have improved, coming to 18,967 million (+8.26%) and 18,248 million (+9.20%), respectively.



## BANCA POPOLARE DI SONDRIO (SUISSE)



 **BPS** (SUISSE)

[www.bps-suisse.ch](http://www.bps-suisse.ch)

*General Management:*

CH - 6900 Lugano - Via Giacomo Luvini 2a  
Tel. 0041 58 8553000 - Fax 0041 58 8553015

*Operational office:*

CH - 6900 Lugano - Via Maggio 1  
Tel. 0041 58 8553100 - Fax 0041 58 8553115



In another year of world-wide economic and financial turbulence, our subsidiary operated positively, supported by its solid balance sheet and organisational structure and by management policies geared to offering high-quality retail services. The desire to remain faithful to its mission and to strengthen its 22 branches' territorial roots is also reflected, among other things, in an increase in loans to customers, which have risen by more than 16%. Direct customer deposits are substantially stable, while over deposits have seen a modest decline.

Operational growth was only partly able to offset the decline in net interest income – penalised by the continuous flattening of the rate curve, ending up close to zero – and in commission income from services, which have been affected by rising competition and the difficult state of financial markets.





I - 20122 Milan - Via Cino del Duca 12  
Tel. 02 581501 - Fax 02 58150205  
[www.factorit.it](http://www.factorit.it)



The Bank gained control of Factorit spa on 29 July 2010 by purchasing 60.5% of the share capital from the Banco Popolare Group for an outlay of 102.85 million. The Banco Popolare Group retained 9.5% of the share capital, while the other 30% was bought by Banca Popolare di Milano.

The acquisition of Factorit spa reflects the Bank's willingness to increase its support for businesses and is based on a detailed assessment of the benefits that it would bring our Group.

Factorit, which was founded by the cooperative banking movement in 1978, has long-standing professional skills and a well-formed organisation, both elements that have given it an important ranking in this particular market, as for years it has been the fourth biggest factoring company in Italy. The commitment of the three shareholder banks and of the many other banks with which it has special arrangements is a good basis for further growth.

As regards our Group, the inclusion of Factorit, which is complementary to the typically banking components, is also a valid tool for achieving important synergies.



## PIROVANO STELVIO

**PIROVANO** PASSO  
DELLO  
STELVIO  
L'UNIVERSITÀ DELLO SCI m.2760-3.450

I - 23100 Sondrio SO - Via Delle Prese, 8  
Tel. 0342 210040 - 515450 - Fax 0342 514685  
[www.pirovano.it](http://www.pirovano.it)



After years of declining numbers, the 2010 season showed a reversal in this trend, turning in a small increase in the number of guests staying at the hotel. This is the positive response to intense and varied promotional activities. As in the past, this is a considerable commitment, but it does give us considerable returns indirectly in terms of corporate image. Our "Ski University" is in fact much appreciated, not only for its exciting downhill runs on ice, but also for the various other sports, such as cycling, trekking and hiking, and leisure activities that the Stelvio permits. In addition, there is the comfort of the hotel at Pirovano and, last but not least, the enhancement of the territory that it provides. In the chapter on "Promotional and Cultural Activities", there is a summary of the initiatives that we have organised together with this subsidiary.

## RESULTS IN BRIEF

(in millions of euro)	2010	2009	Change %
<b>Balance sheet</b>			
Customer loans	18,248	16,711	9.20
Due from other banks	1,466	1,294	13.24
Financial assets	3,249	3,354	-3.13
Equity investments	349	147	138.30
Total assets	23,778	22,120	7.50
Direct customer deposits	18,967	17,519	8.26
Indirect customer deposits	23,072	20,644	11.76
Insurance premiums	610	524	16.39
Customer assets under administration	42,649	38,687	10.24
Other direct and indirect funding	6,354	5,081	25.05
Equity (excluding net profit for the year)	1,590	1,493	6.46
<b>Income statement</b>			
Net interest income	393	446	-11.87
Income from banking activities	570	760	-25.05
Operating profit (loss)	192	309	-37.90
Net profit for the year	133	191	-30.08
<b>Key ratios (%)</b>			
Net interest income/Total assets	1.65	2.02	
Balance of financial management/Total assets	1.88	2.78	
Net interest income/Income from banking activities	69.03	58.70	
Administrative expenses/Income from banking activities	57.47	41.87	
Net profit/Total assets	0.56	0.86	
Profit/Average equity (excluding net profit for the year)	8.65	12.83	
Non-performing loans/Customer loans	1.06	0.91	
<b>Capital ratios (%)</b>			
Tier 1 capital/Risk-weighted assets (Tier I)	11.07%	12.55%	
Total capital/Risk-weighted assets (Total capital ratio)	13.17%	12.06%	
Excess capital	747	481	
<b>Other information</b>			
Number of employees	2,487	2,454	
Number of branches	290	278	

Net interest income of 393,367 million (-11.87%) was affected by the trend in interest rates, whereas net commission income has seen a positive evolution. The income from banking activities, penalised above all by losses on securities, came to 569,877 million (-25.05%).

The increase in expenses, which is within physiological limits, is related above all to expansion of the branch network.

Despite the generally precarious situation, credit quality has remained good overall.

Factorit spa now forms part of our Banking Group. This company, which we have worked with ever since it was founded in 1978, will allow us to reinforce the range of commercial services that we can offer businesses, with particular regard to the collection of domestic and international invoices and related advances.

Banca Popolare di Sondrio (Suisse) SA closed the year with a net profit, although it has suffered from a difficult context and has been penalised by particularly low interest rates on the Swiss market.

Based on the year's positive results, the Board is of the opinion that a dividend of 0.21 euro per share (-36.36%) should mark a point of equilibrium between the needs of the shareholders and those of the Bank in terms of self-financing.

## **TERRITORIAL EXPANSION**

As someone of authority once said, «Large banks can also be judged by the way in which they organise their activities on the territory». This affirmation has always been true, but it has been made particularly topical by the recent vicissitudes in the world of international finance. The experience of recent years is there to demonstrate that the relationship with the territory is one of the elements thanks to which the Italian banking system has been sheltered from the more serious consequences of this financial turbulence.

An affirmation that is also valid for our Bank, even if it is not large in terms of size. Remaining close to the areas that we serve has always been for us the secret of successful growth. The relationship with the local economies has allowed us to put down strong roots, gaining ideas and stimulus from the priority desire to satisfy the needs of the various communities, above all households and businesses. Concrete, effective work, a thousand miles distant from that creative finance which, with the mirage of immediate profits, in the end only created risks, debts and losses.

To offer customers the products and services that they really need; to show clearly the risk/return ratio of all our investment instruments; to grant loans within the limits and according to the criteria of responsibility and credit worthiness, are the guidelines followed by our branches.

The branch network, which is the primary source of our work, anchors our operations to the healthy productive system of the areas that we serve. From them we receive deposits, a bank's raw material, which we transform into loans.



A mutually advantageous exchange, which allows us to grow by helping our customers to grow.

The branches focus the Bank's efforts on the territory, but in the awareness that to facilitate its development, we have to have a vision of the whole, extended even to international trends. It is precisely the attention that we give simultaneously to local and global situations - the new dimension of the economy for which the term «glocal» was coined - which allows us to fulfil our mission: to support entrepreneurs in the places where we operate, protecting their specific nature and role in an increasingly vast and competitive market.

These were again our objectives in 2010, during which our aim was to strengthen and extend our distribution network. Twelve branches were opened during the year, for a total of 290.

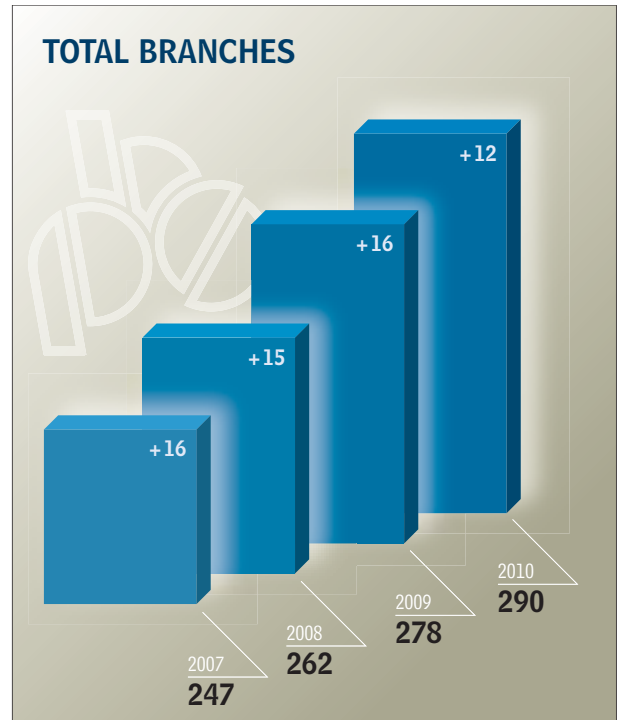
We set out to do a great deal in Lombardy and the results are there to be seen. The first was our agency no. 1 in Cremona, which will work alongside our branch which has been operating in the city of the Torrazzo (the cathedral's belltower) since 2002. The location that we chose for it is Piazza Stradivari, one of Cremona's most elegant streets, where the main events of the city's cultural, political and economic life take place.

In Brescia, where our first office goes back to 1991, we have opened agency no. 4 in the west district of the city centre, in Via Fratelli Ugoni to be precise. A well articulated presence for a city that is more active than ever, one that to date has always provided us with lots of customers.

In Val Camonica (province of Brescia) we have opened a second branch at Darfo Boario Terme, a town of more than 15,000 inhabitants that is well known because of its historical thermal baths, which have made a significant contribution to its growth. A decision taken as a gesture of attention to that community, putting ourselves at the service of the historical centre, which features, among other things, a good number of shops and other businesses.

Close to the new branch, there are also public utilities and administrative offices, professional studios and the head offices of many small firms.

In the province of Brescia it was then the turn of Corte Franca, a municipality with 7,000 inhabitants created in 1928 by combining four ancient villages: Borgonato, Colombaro, Nigoline and Timoline. Corte Franca is located in the rolling hills south of Lake Iseo. This is a large area that is very well preserved, with green countryside that alternates with long lines of vines. This is in fact the Franciacorta, the area that can boast some of the best known names in the world in the field of «bubbly». Our development plans certainly couldn't leave out Brianza, and it was to Erba, the capital of Como's part of



the Brianza, that we went in June last year. This town of almost 17,000 inhabitants has a dynamic productive structure and is very well-known also at LarioFiere, the trade fair hub for the provinces of Como and Lecco and the location for important events that attract a large number of exhibitors and visitors. Still in Brianza, we have reinforced our presence in Seregno, where the existing branch has been transferred to Via Cavour 84 and a new agency no. 1 has been opened in Via Formenti. More than 23 years from when we first arrived in Seregno, the aim of our larger presence is to monitor an important and potentially very interesting marketplace that has a population of almost 45,000 inhabitants.

The series of branches in Lombardy closes with Legnano, a municipality of more than 58,000 inhabitants located 20 kilometres north west of Milan. This is a city of ancient traditions, well-known for the battle of Legnano (won in 1176 by the Lombard League against the German Emperor Barbarossa), which is why it is mentioned in the Italian national anthem. Together with Busto Arsizio, Castellanza and Gallarate – all places where we already have branches - Legnano is one of the most important and dynamic productive agglomerates in Italy. Like other Lombard centres, Legnano has been going through a profound transformation in the last few decades. The historical heavy industries no longer exist, being replaced by numerous smaller businesses, while the service sector has grown considerably. To intensify our presence in Trentino, we chose Riva del Garda and Rovereto, with 16,000 and 37,000 inhabitants respectively. The first of these two towns, which is Trentino's point of access to Lake Garda, has tourism as the main item of its florid economy, thanks to the beauty of its surroundings and its mild climate. It offers a wide choice of hotels, as well as a trade fair and conference hub of long-standing tradition.

Rovereto, which is about 20 kilometres from Lake Garda, offers itself as a tourist centre as well as an important cultural centre, thanks in particular to the MART, its prestigious Museum of Modern Art. Also worth mentioning is the imposing Bell of the Fallen, cast from the bronze cannons of the countries that took part in the Great War. Every evening, it tolls one hundred times to remember the victims of all wars. This small city can boast a solid productive structure thanks to various industries and artisan businesses. Not to be forgotten in Vallagarina, of which Rovereto is the main centre, is cultivation of the vine, producing the prestigious Marzemino.

In Liguria we expanded our presence in the riviera di Levante, opening in Chiavari. It is a town of 28,000 inhabitants located at the heart of the Gulf of Tigullio. Along with numerous public and private offices, it also hosts the local court and bishop's see. Its economy is mainly based on tourism. In fact, this is one of Liguria's favourite seaside resorts, with a good number of hotels, restaurants and shops. Its vivacity is helped by a high-quality marina.

After Grottaferrata, Frascati and Genzano, Ciampino is the fourth branch opened by the Bank in the area south-east of Rome. The town is situated just outside Rome's ring-road in the direction of the Colli Romani. Ciampino is well served by the railways, the underground and the road system and in recent decades has seen considerable demographic growth - it

now has nearly 40,000 inhabitants - and a considerable productive structure has also developed. One of the pillars of the local economy is the airport (named after G.B. Pastine, an airship pioneer), which has benefited recently from a new period of expansion, mainly thanks to the boom in low-cost operators.

Verona, a provincial capital with almost 270,000 inhabitants, received us during the Christmas period, when the decorations make its lovely city centre - declared Unesco heritage of mankind - even more fascinating. It is in fact one of the cities of art that is visited the most, also because of its important cultural events that are held there, starting with the opera season at the Arena. And it is very close to the Arena, in Corso Cavour 45, that we have opened our branch, in a prestigious building that we own. The service sector is taking on an increasingly important role in the local economy, while the commercial network is equally significant. Verona and its hinterland can claim to have a strong economic structure with a solid and dynamic productive system. Nor should we forget the importance of structures like the Verona Trade Fair, which hosts events of international appeal, and the Interporto, the largest multi-modal logistics hub in Italy. This is also thanks to Verona's strategic position in trade relations with Germany and Austria through the Brenner Pass. Lastly, we would like to mention the airport (dedicated to Valerius Catullus, the Verona-born Latin poet), which links this area with the main European capitals. Our presence in this territory also includes 442 ATMs, of which 23 were added during the year. And our treasury offices, which service local entities and communities, have in turn increased in number by 10.

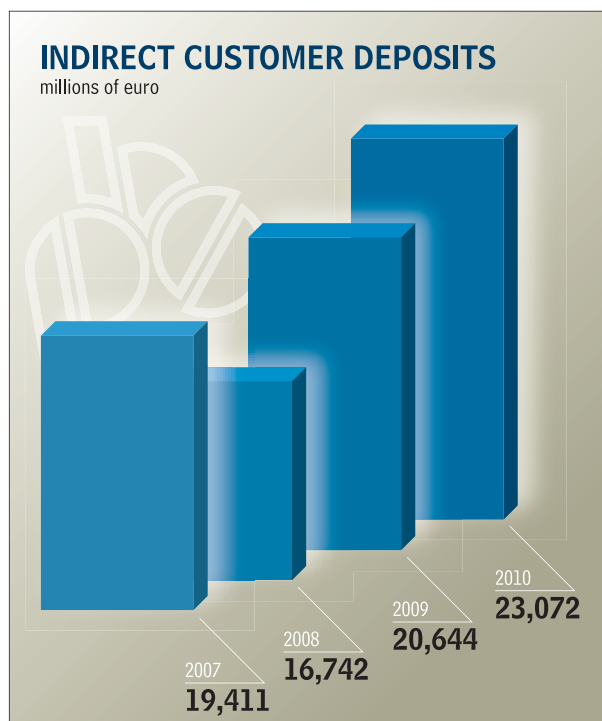
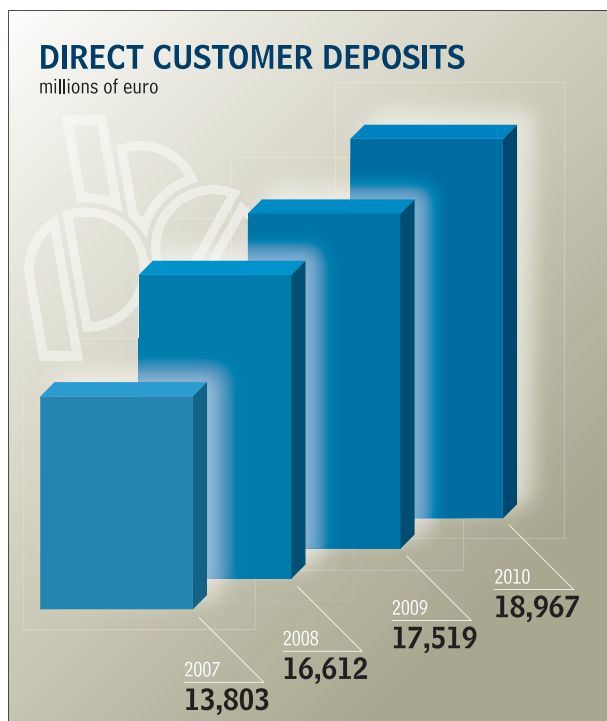
Banca Popolare di Sondrio (Suisse) SA is commented on in the part of this report dedicated to it.

## DEPOSITS

Work to win the trust of customers, because a good harvest depends on the sowing. This could be a way of summarising how the Bank again operated during the last twelve months.

A year in which businesses have had to cope with a crisis that, instead of passing, has gone through other difficult phases. Taking care of private sector debt went to the detriment of sovereign issuers' deficits and, in certain cases, the patch looked worse than the hole. This then led to a lack of confidence in government securities, especially those of the peripheral nations of the euro-zone, following the financial tensions originated in Greece.

To tell the truth, a number of important steps towards stabilising the markets were also taken in 2010, but fear remained in many small investors, with the result that they tended to adopt a «wait and see» policy, hoping that the situation would definitively calm down before they started investing again. This approach was probably induced also by the fact that interest rates stayed extremely low, which advised many to put off their medium/long-term investment decisions, preferring to stay liquid. Which is one way of protecting yourself, by avoiding any exposure to risks that sometimes are hard to quantify.



We did our part, constantly reinforcing the image and, above all, the substance of BPS as a local territorial bank. This means not only choosing a series of high-quality investments to offer customers. It also means making sure that counterparties, large or small, have all the necessary assistance; offering investors quick and clear answers, accompanying them constantly.

It is for these reasons, each valid and together decisive, that we are seen by our customers as a trustworthy and credible interlocutor, who does not aim, like many others, to drain financial resources from the territory, but rather to share its vicissitudes as part of a long-term vision, taking an active role in its development.

Assessments that are reflected in the rating given by the London agency Fitch Ratings. They confirmed their positive evaluation of the Bank given in 2009 despite the difficult state of the economy. They also highlighted the good quality of our assets, the fact that we had adequate liquidity, supported by a solid base of customer deposits, our high level of capitalisation and our limited propensity for risk.

All elements that are known and appreciated by our deposit-holders, who are well aware that the adequacy of our capital and the healthiness of our loans also benefits the security of their savings.

Our efforts are reflected in the numbers, which show the important results that we managed to achieve in a year that was anything but easy. Direct customer deposits have risen to 18,967 million, +8.26%, an increase that is higher than the system average and to be considered satisfactory considering the general context in which it took place.

Indirect customer deposits, at market value, come to 23,072 million,

+11.76%, while insurance premiums rose to 610 million, +16.39%.

Deposits from banks rose to 2,276 million, +0.71%, and securities under administration amounted to 4,078 million +44.55%, thanks to the acquisition of new customers.

Total deposits have therefore gone up to 49,003 million, an increase of 11.96%.

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

As regards the individual elements, current accounts have gone up by 2.14% to 14,740 million. As mentioned previously, a distinct preference for liquidity and aversion to risk again orientated customers toward this type of instrument, which represents 77.72% of total direct deposits.

Worthy of mention is the result of repo transactions. Penalised for most of the year because of the low level of interest rates, as soon as they looked like rising, the love affair with repos flared up yet again: +92.37% to 1,747 million.

Also to be noted is the trend in bond loans, which have risen to 1,827 million, +21.92%, and now constitute 9.63% of total direct deposits. The

## DIRECT CUSTOMER DEPOSITS

(thousands of euro)	2010	%	2009	%	Change %
Savings deposits	547,749	2.89	557,547	3.18	-1.76
Certificates of deposit	30,315	0.16	33,746	0.19	-10.17
Bonds	1,827,043	9.63	1,498,595	8.55	21.92
Repo transactions	1,747,431	9.21	908,367	5.19	92.37
Bank drafts and similar	74,380	0.39	90,635	0.52	-17.93
Current accounts	14,234,072	75.05	13,939,490	79.57	2.11
Current accounts in foreign currency	505,850	2.67	491,101	2.80	3.00
<b>Total</b>	<b>18,966,840</b>	<b>100.00</b>	<b>17,519,481</b>	<b>100.00</b>	<b>8.26</b>

## TOTAL FUNDING

(thousands of euro)	2010	%	2009	%	Change %
Total direct customer deposits	18,966,840	38.70	17,519,481	40.03	8.26
Total indirect customer deposits	23,071,829	47.08	20,644,083	47.16	11.76
Total insurance-related deposits	610,206	1.25	524,259	1.20	16.39
<b>Total</b>	<b>42,648,875</b>	<b>87.03</b>	<b>38,687,823</b>	<b>88.39</b>	<b>10.24</b>
Due to banks	2,276,297	4.65	2,260,274	5.16	0.71
Indirect funding from banks	4,077,835	8.32	2,820,992	6.45	44.55
<b>Grand total</b>	<b>49,003,007</b>	<b>100.00</b>	<b>43,769,089</b>	<b>100.00</b>	<b>11.96</b>

various emissions during the year were favourably received by our customers. The significant increase is largely due to the issue of a step-up subordinated lower tier II bond (a loan with increasing interest rates and suitable characteristics to be included in Tier 2 capital for supervisory purposes) for an amount of 350 million. Its placement closed in advance, on the second day of the offering, as it was fully subscribed.

Savings deposits have decreased to 548 million, -1.76%, while certificates of deposit, at 30 million, -10.17%, are by now a residual item, because of an unfavourable tax regulation.

Bank drafts amounted to 74 million, -17.93%. The progress made by the Bank is also reflected in a constant increase in customers, a sign of dynamism and effective marketing. As regards asset management, please see the chapter on treasury and trading activities.

## LENDING

The crisis, which was born financial but is still economic, naturally involved businesses, which were heavily conditioned by the world recession. The impact on the banking system was immediate and the consequences for the quality of credit inevitable.

In this scenario, we were forced to pay a great deal of attention and use maximum prudence in disbursing financial resources, but we can fairly say (along with Corrado Faissola, the President of ABI) that Italian banks «did not pull in their oars, waiting for the cycle to recommence. They worked to combat the recession». In this regard, it is sufficient to recall the principal measures taken on behalf of companies and households: thanks to the Common Notice, SMEs were able to suspend loan principal repayments; on the other hand, the suspension of mortgage payments was also a help for thousands of households.

The statistics tell us two other important things: the much-feared credit squeeze did not come about, a sign that the system generally continued to do its job of financial intermediation; non-performing loans increased less than in the past recessions, as a demonstration of a greater ability on the part of bankers to select borrowers and to manage their risk profile.

This is the true core of the matter: there is only one way to run a bank and to run it properly: «to recognise a deserving business even when the figures are not in its favour». In other words, it's precisely in the middle of a crisis - and the one that is still underway is undoubtedly important in terms of gravity and duration - that banks are called upon to perform in the best way possible their function of selecting economic initiatives, granting trust to those that deserve it, despite the adverse state of the economy.

That's what we have done, directing our lending activity according to criteria of responsibility and prudence, in the awareness that this is the road to run in the higher interest of the Bank and of the economies that we serve, for which fair and professional disbursement of credit is vital for healthy, long-lasting growth. It is also worth recalling that bank credit ought to be

marginal if, as is necessary, it has to be based on the reasonable certainty that it will be repaid.

Another important initiative during the year was our acquisition of Factorit spa: full details are given in the section on equity investments. The purpose is to expand and enhance the range of financial services that we can offer our customers.

The role of the cooperative bank is by definition that of a local bank. And it maintains this characteristics even if it gradually expands the areas that it serves and the sectors of activity that it operates in.

A task that we are called upon to do by our history as a cooperative. One that we can do in the best way possible thanks to the professional resources and organisational structure that we have built up. Our fine-meshed network of branches is of great importance in this regard as they are able to put down roots in the local territory, gaining detailed knowledge and a deeper understanding of its dynamics. It is they who make available to the Bank all of the information relating to the customers who have been given credit; information that is useful, even indispensable, to integrate the figures taken from the accounting documents, thereby giving trust to those who really deserve it. This is particularly true of SMEs, where the relationship of trust is based on the fact that the lender and the borrower are directly acquainted. A wealth of information has been built up in this way over the years. This allows us, obviously with the support of specific procedures, as well as the experience and sensitivity of the staff involved in this area, to grant loans in total awareness and responsibility. This allows us to quantify and manage the risk that is inevitably linked to this activity and, hence, to apply the right remuneration to it. This has always been a very delicate topic and the current state of the economy is forcing everyone to pay more attention to it.

## DUE FROM CUSTOMERS

(thousands of euro)	2010	%	2009	%	Change %
Current accounts	6,484,270	35.53	5,847,211	35.00	10.90
Foreign currency loans	1,507,638	8.26	1,819,694	10.89	-17.15
Advances	306,781	1.68	297,542	1.78	3.11
Advances subject to collection	260,468	1.43	229,708	1.37	13.39
Discounted portfolio	14,679	0.08	10,584	0.06	38.69
Artisan loans	24,403	0.13	27,071	0.16	-9.86
Agricultural loans	31,820	0.17	32,201	0.19	-1.18
Personal loans	85,150	0.47	86,228	0.52	-1.25
Other unsecured loans	3,585,393	19.65	3,308,348	19.80	8.37
Mortgage loans	5,747,996	31.50	4,899,837	29.32	17.31
Net non-performing loans	192,794	1.06	152,657	0.91	26.29
Repo transactions	6,469	0.04	-	-	-
<b>Total</b>	<b>18,247,861</b>	<b>100.00</b>	<b>16,711,081</b>	<b>100.00</b>	<b>9.20</b>

## TULLIO PERICOLI

(Colli del Tronto, Ascoli Piceno 1936)

He is Italy's best known portrait painter and illustrator. Born in Colli del Tronto, province of Ascoli Piceno, in 1936, Pericoli moved to Milan in 1961 where he first worked with *Linus* and *Corriere della Sera* and subsequently with the weekly magazine *L'Espresso*. Today he collaborates with the daily newspaper *La Repubblica* and with two prestigious international magazines, *Harper's* and *The New Yorker*. His most famous portraits, bound together in volumes by the publishing house Adelphi in 2002 and 2009, are not just portraits, but story-portraits, in which Pericoli amplifies the basic features of the person concerned, almost like a caricature, and in this way relates their history, character and

Tullio Pericoli

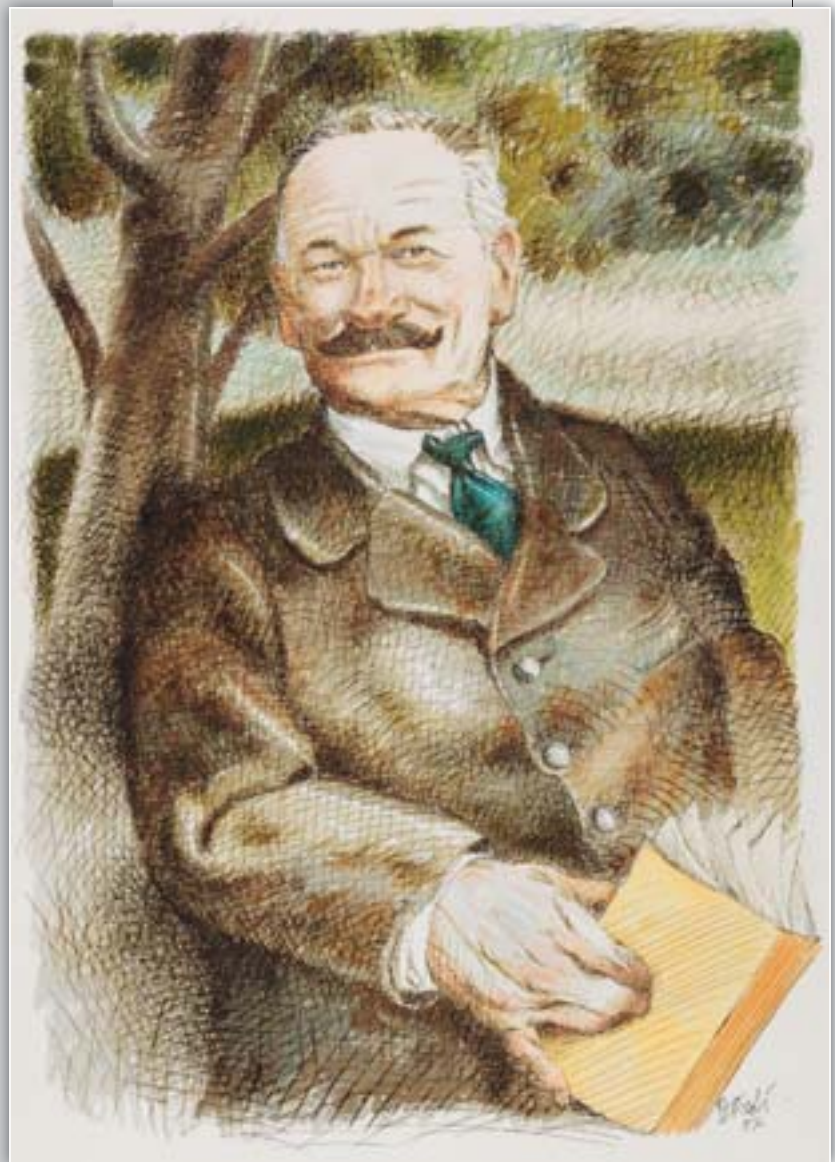
Portrait of Luigi Credaro, 2007

Watercolour and ink on paper, 58 x 38.5 cm

*For Pericoli, each one of us is unconsciously writing our history on our own face, following the rules of a hieroglyphic syntax that it is up to the artist to decipher. This is the basis of his story-portraits, like this one of Luigi Credaro (1860-1939) to whom is dedicated the public library opened in 2007 by Banca Popolare di Sondrio.*

*Credaro was the maximum exponent of neo-Kantian pedagogical thinking in Italy between the 19th and 20th centuries. He was Professor of Pedagogy at the University of Rome and became Minister of Education in the Giolitti governments between 1910 and 1914, which introduced important school reforms.*

*Pericoli painted his portrait from an old photo taken in 1910, when Credaro was promoted for the first time from Undersecretary to Minister. Credaro was fifty years old and at the peak of his intellectual and political activity. On his face, however, intellectual and political authority are tempered by a smiling mountain bonhomie which Pericoli accentuates, underlined by the trees and natural environment that surrounds the figure. Pericoli also captures the pride of his modest peasant origins and his attachment to the Valtellina, where he was elected without a break from 1895 in the ranks of the Radical Party and which, as Augusto Monti wrote, he wanted to turn into "a sort of mountain Athens" in the years in which he was Minister of Education.*





sometimes even their thoughts and work, with brilliant interpretative synthesis and sophisticated visual immediacy.

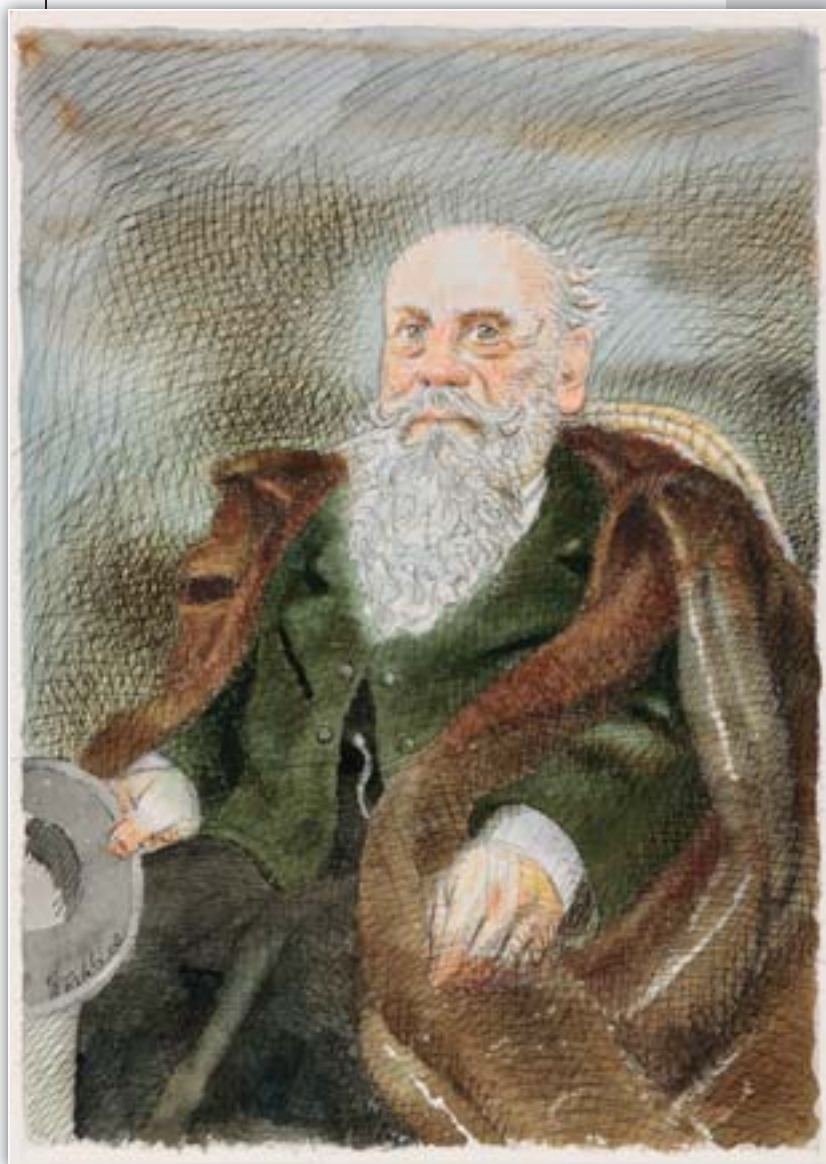
In 1995 he turned towards theatre with the stage design and costumes for the Zurich Opernhaus and the Scala theatre in Milan. In 2001, he was director, scenographer and costume designer for Ionescu's *Les Chaises* at the Piccolo Teatro Studio in Milan.

During the Nineties, Pericoli devoted himself intensely to landscapes with results that were just as convincing as his portraits, as demonstrated by his beautiful 2009 exhibition in Milan called "Sedendo e mirando" (Sitting and admiring).

**Tullio Pericoli**

**Portrait of Vilfredo Pareto, 2002**

Watercolour and ink on paper, 41 x 29 cm

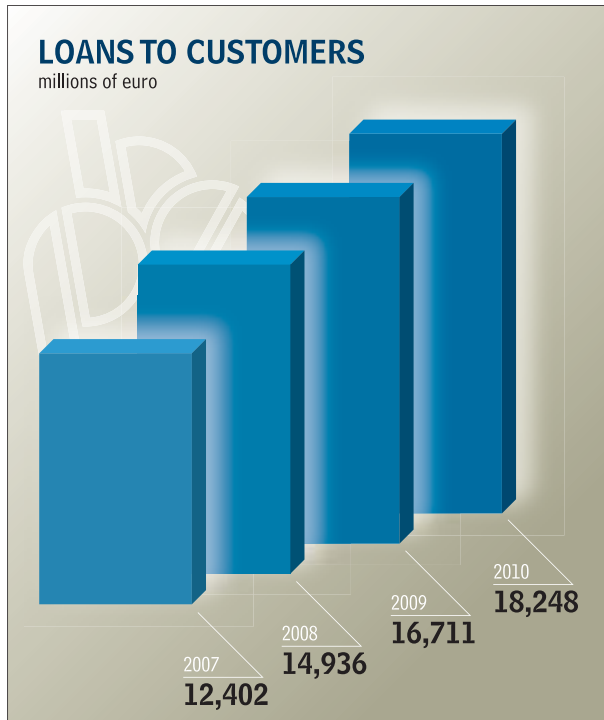


*Vilfredo Pareto (1848-1923) was one of the most important Italian intellectuals between the 19th and 20th centuries, a ferocious critic of socialist systems and of the protectionist policy of Italian governments of that time, theorist of the élites and founder of the famous School of Economy at Lausanne University, where he was first Professor of Economy and then of Sociology.*

*Based on some old photos, Pericoli portrays him sitting in a chair, with the famous overcoat that he loved to wrap himself in, his long beard and the inevitable hat in hand. His figure emerges from a thick mesh of lines, on a chromatic background against which his face and ample forehead shine. The hair on the back of his head stands out, indicating the polemic vehemence of his thinking, the ardent, penetrating eyes well express the inflexibility of the intellectual who does not accept any compromise and, lastly, the face carries the signs of a reserved and disdainful character and a personal history of suffering, lived with haughty dignity.*

*It is a face, that of Pareto, that recalls not only the features of his personality, but also those of his era, rich in light and shade like the atmosphere that shrouds the figure.*

*This portrait, which was commissioned in 2002, represents an iconographic homage to the Italian intellectual, the largest part of whose correspondence – more than 9,000 letters – is now held by Banca Popolare di Sondrio.*



Given these premises, our efforts had to produce positive results. Loans to customers have gone up to 18,248 million, +9.20%, most of the increase taking place in the latter part of 2010 after being flat for most of the year. It is a sign of corporate dynamism, as well as the vitality of many entrepreneurs.

So to a certain extent, the horse seems to be drinking again. Now it is up to us to choose the most deserving.

The question of credit quality is in fact fundamental and the figures on problem positions confirm the attention given to specific risk profiles. A commitment that obviously has to continue. Even if the most acute phase of the crisis is perhaps behind us, we still have to take into account that new situations of difficulty could still arise over the coming months. For this reason, we have continued to maintain a cautious approach and, above all, we have continued to improve

our risk management and control tools and refine the professional skills of those who work in this area.

Moreover, because of the habitual delay with which problem positions emerge in periods of crisis, we have still had to make substantial loan loss provisions and adjustments during the year, even if they are lower than last year. The above is reflected in the figure for doubtful loans, which went up from 559 to 679 million, +21.47%.

Net doubtful loans amount to 193 million, +26.29%, corresponding to 1.06% of total customer loans, compared with 0.91% at 31 December 2009. The increase is justified by the general economic crisis; in any case, the total figure is well below the national average.

Writedowns to cover estimated losses on non-performing loans increased to 204 million, +11.39% to 51.44% of such loans.

Watchlist loans, namely, loans to borrowers in temporary difficulty that is expected to be resolved, amounted to 219 million, +39.01%. This account for 1.20% of total loans to customers compared with 1% last year.

Restructured loans amount to 63 million, +58.72%, as companies have been making more use of loan restructuring procedures in accordance with arts. 67 and 182 of the Bankruptcy Law. Impaired past-due loans calculated according to the new rules issued by the Bank of Italy come to 205 million versus 197 million + 3.92%.

Total adjustments carries out amount to 349 million, +10.64. Of these, provisions made for performing loans amount to 97 million (89 million in the previous year), which is 0.55% of the gross amount of such loans (17,666 million).

Several different technical forms have contributed in varying degrees to the positive trend in loans. These items are shown in greater detail based

on other criteria compared with table 7.1 of the Explanatory Notes in Section 7, Part B.

Considering these hard times, mortgage loans went particularly well, rising by 17.31% to 5,748 million, helped by the low level of interest rates. The requests from numerous families to buy the house they live in have been satisfied also thanks to the contribution of specialist institutions with which we operate and that make available technical methods of intervention that are always in line with market needs.

Current accounts have in their turn show a significant growth:

6,484 million, +10.90%. Their incidence on total amounts due from customers comes to 35.53%. The trend in other unsecured loans was also significant, coming in at 3,585 million, +8.37%. There was a decrease in foreign currency loans, 1,508 million, -17.15%.

Our collaboration with the Consorzi Fidi (loan guarantee consortiums) was extended to new territories during the year as our preferred method of offering subsidised forms of financial support to businesses, SMEs in particular. We would also like to remind you of the work performed together with Banca della Nuova Terra spa on behalf of the farming sector.

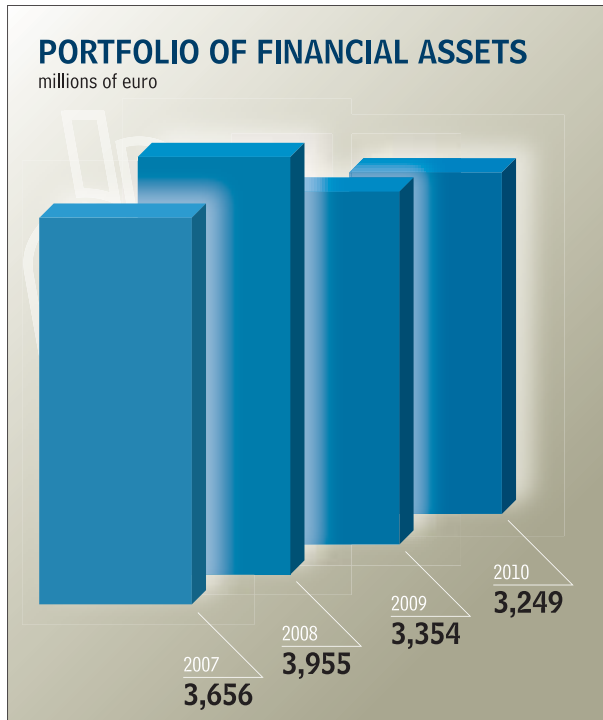
In closing this topic, which is of fundamental importance for the Bank, we would like to remind you that taking deposits and granting credit are essential for the support of the public and private sector economies. Loans are the raw material and the product of the banking business.

## TREASURY AND TRADING OPERATIONS

For some years, financial markets have been sorely tried by destabilising factors - the main ones being the insolvencies linked to subprime mortgages, the Lehman Brothers crash and the international economic crisis - which have caused enormous turbulence and imposed massive government interventions. A trend that in 2010 found further confirmation in the worries about the solvency of the sovereign debt of the so-called «peripheral» European states, with particular regard to Greece and Ireland and, to a lesser extent, Spain and Portugal. At a European level, the worst affected were the stockmarket lists with a high concentration in the financial segment, which included the local FTSE Italia All Share index, which fell by 11.49%. All this despite important salvage plans by the EU and the IMF in favour of Greece and Ireland.

The MSCI World index for international stock exchanges posted a +9.55%; the US Standard & Poor's 500, +12.78%; the European Dow Jones Eurostoxx 50, -5.85% (despite +16.06% of the German Dax and +9% of the British FTSE 100); the Japanese Nikkei, -3.01%.

This situation then reflected on bonds, with investors seeking safe havens in so-called «quality» government markets (USA and Germany), where yields fell to all-time lows, also because of the expansive monetary policies implemented by the Fed and the ECB, the central banks of the USA and Europe. Towards the end of 2010, the emergence of a less accommodating attitude on the part of the ECB and fear of an upswing in inflation in the USA



weakened the fixed income sector, leading to an upward trend in yields.

In this context, the domestic bond market has shown weakness and rising volatility, though with more evident signs of reaction compared with the peripheral European issuers, thanks to the greater solidity of Italy's macroeconomic and financial picture. The floating income sector has suffered considerable tensions, with CCTs losing ground, above all on long maturities. The MTS CCT index, which considers prices and coupons, marked a -1.51% during the year. Investors appreciated the government bond issues at floating rates linked to Euribor. These uncertainties also reflected on the Bank's issues, which were considerably lower than the previous year.

The pertinent structures of the Bank - the central finance department and the commercial network - have faced these market

dynamics with common sense and their traditional professionalism, always maintaining transparent and balanced relations with customers. Also from this point of view, the advisory service has been extended to order collection. Our operating quality is confirmed, together with satisfactory work volumes, by the very low quantity of complaints that we have received, and by their contents, all of which were promptly checked. The following comments relate to the relevant departments of the Bank's financial activities: the interbank market and corporate liquidity; the proprietary portfolio and its components.

As regards the first aspect, the persistently low level of official interest rates and, as we said, the extraordinary measures taken by the ECB, produced huge injections of liquidity into the system, lowering recent tensions. Interbank interest rates have remained at their all-time lows for most of the year, gradually inverting the trend according to the monetary policy being implemented by the ECB. At the end of 2010 the Bank's net interbank position showed a negative balance of 811 million, an improvement of 155 million compared with a year earlier, when it was negative for 966 million. This borrowing situation was also the case during the year, having to cope with a money market conditioned by limited liquidity, though the Bank managed to procure funds for itself without too much difficulty. Alongside our traditional operations on the e-MID (electronic deposits market), our volumes increased on the MIC (collateralised interbank market), which since October has been replaced by the New MIC. Like the old one, it is devoid of counterparty risk and therefore preferred for long maturities. The guarantee and central counterparty functions of the New MIC have been delegated to the Cassa di Compensazione e Garanzia (clearing house). The portfolios of financial assets at the end of 2010 come to a total of 3,249 million, a decrease of 3.13%. The following table summarises the various amounts:

## FINANCIAL ASSETS

(in thousands of euro)	2010	2009	Change %
Financial assets held for trading (HFT - Held For Trading)	2,800,451	2,877,646	-2.68%
<i>of which, derivatives</i>	98,100	76,723	27.86%
Financial assets carried at fair value (CFV - Carried at Fair Value)	91,888	98,822	-7.02%
Financial assets available for sale (AFS - Available For Sale)	106,925	113,409	-5.72%
Financial assets held to maturity (HTM - Held to Maturity)	249,304	263,654	-5.44%
Hedging derivatives	-	-	-
<b>Total</b>	<b>3,248,568</b>	<b>3,353,531</b>	<b>-3.13%</b>

The overall decline amounts to 105 million and concerns all portfolios, though to differing extents.

A brief comment on each of these portfolios follows.

### Financial assets held for trading

Financial assets held for trading (HFT), amounting to 2,800 million as shown in the following table, have decreased by 2.68%:

(thousands of euro)	2010	2009	Change %
Floating-rate Italian government securities	2,184,758	2,312,247	-5.51%
Fixed-rate Italian government securities	120,008	131,559	-8.78%
Bank bonds	191,513	177,869	7.67%
Bonds of other issuers	52,089	24,447	113.07%
Securitisation	98,993	104,656	-5.41%
Variable-yield securities and shares of collective investment undertakings	54,990	50,145	9.66%
Net book value of derivative contracts	98,100	76,723	27.86%
<b>Total</b>	<b>2,800,451</b>	<b>2,877,646</b>	<b>-2.68%</b>

The HFT portfolio, which continued to be made up principally of CCTs, has been affected by the crisis that hit financial markets. There have therefore been losses of 73.33 million, of which 59.5 million related to CCTs, against only 8.9 million of gains. Last year, on the other hand, there were gains of 64.36 million, of which 54 related to CCTs.

The total result of assets on the HFT portfolio is negative for 58.93 million, versus a positive result of 112.15 million in 2009. «Net trading income» referred to total fixed-yield securities include net trading profits of 3.84 million, losses of 63.57 million and realized gains of 8.85 million. To these we have to add 1.66 million of variable-yield securities and shares of

collective investment undertakings and net losses on these securities of 9.71 million. On the other hand, the following were reported on the overall portfolio the previous year: gains of 64.36 million; net profits of 52.48 million and losses of 4.70 million.

The HFT portfolio continued to be made up principally of CCTs (being 78.01% of it).

Floating-rate bonds amount to 192 million, of which 164 million are bank bonds. Securities that are part of securitisations are all senior and have fallen to 99 million, because of partial reimbursements and sales. Of fixed-income securities, which amount to 172 million, 120 million are for BTPs, down on last year mainly because of reimbursements on maturity. Equities and mutual funds have gone up to 55 million, though this is marginal, whereas derivatives rise to 27.86% to 98 million.

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

Financial assets carried at fair value (CFV) amount to 92 million, with a decline due to sales of 7.02%. They are made up of mutual funds and sicavs of various kinds for 63 million and CCTs for 29 million.

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

Financial assets available for sale (AFS) comes at 107 million, a decrease of 5.72%. They consist of fixed-yield securities for 31 million, mainly bank bonds, variable-yield securities for 64 million and mutual funds for 12 million.

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

The main changes are for the reclassification to equity investments of the interest held in Banca della Nuova Terra spa, 14.7 million, including the increase during the year for an outlay of 10.1 million, and impairment adjustments of 3.3 million, mainly on listed equities.

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

At 31 December 2010, financial assets held to maturity (HTM) amounts to 249 million, -5.44%.

We would remind you, with regards to the content of the portfolio, that in 2008 the anomalous performance of equity and bond markets persuaded the Bank to take advantage of the amendment to IAS 39, issued by the International Accounting Standards Board (IASB) on 13 October 2008 and endorsed by the European Commission with Regulation (EC) 1004/2008 of 15 October 2008, which amended Regulation (EC) 1725/2003, allowing companies in exceptional circumstances to disregard the ban on transferring financial assets (apart from derivatives) from the category of those designated

at fair value through profit and loss to another category where securities are booked at amortised cost. As a result, we transferred from the HFT portfolio to the HTM portfolio unlisted bonds that were illiquid and not expected to be sold. These had a par value of 243 million and were carried at 233 million, whereas their fair value at 31 December 2008 was 193 million, generating a theoretical loss, prior to the tax effect, of 40 million.

At 31 December 2010, these securities amount to 199 million, with a decrease of 12.15% following reimbursements compared with 226 million in the previous year. They have a fair value of 190 million. The theoretical loss, before the tax effect, therefore amounts to 9 million. Lastly, as relates to the asset management sector, market tensions and volatility did not help consolidate the hints of a recovery that could be seen in 2009, feeding new uncertainties. Not an easy scenario, in which our specialised structures and sales network operated with professionalism and equilibrium, respecting the profile of investors and achieving satisfactory results considering the circumstances.

At 31 December 2010 the various forms of assets under management report 3,509 million, +3.50%.

In detail, the Arca SGR funds, which showed a considerable increase in 2009, turned in further growth, with a balance of 1,586 million. There was a satisfactory rise in the net inflow to funds of other issuers, including those of Etica SGR's Sistema Valori Responsabili (Responsible Values System) and the Group's sicav Popso (Suisse) Investment Fund. The fund management schemes handled by the Bank's central offices posted a slight contraction in value caused by the general fall in market prices. And this despite the professionalism applied, the broad base of investors and the significant relationships developed with leading institutions.

## EQUITY INVESTMENTS

This chapter and the next one concern minority interests held for operational purposes; these are companies that provide products and services that are then sold by the Bank as part of its own commercial range. Current regulations define equity investments from an accounting point of view as those held in subsidiary and associated companies, as listed below. During the year under review, the Bank has substantially maintained its traditional approach, where equity investments as a whole are functional to the Bank's operations and held on a long-term basis. We therefore make every effort to reinforce them, providing them with business and, if considered appropriate, with financial support, also with a view to increasing cohesion among cooperative banks.

At 31 December 2010, equity investments in the balance sheet amount to 349.47 million, with an increase of 202.82 million.

The changes shown below mainly relate to:

- as increases, the acquisition of 60.5% of Factorit spa; increases in capital for Banca Popolare di Sondrio (Suisse) SA and Sinergia Seconda srl; calling-up

of the second tranche of the increase in capital of Arca Vita spa authorised in 2009 and participation in the one proposed in 2010; transfer from the AFS portfolio, also after an increase, of the interest held in Banca della Nuova Terra spa;

- as a decrease, the sale of the equity investments held in Arca Vita spa (partial) and Arca Assicurazioni spa (total).

#### *Subsidiaries:*

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

In another year of world-wide economic and financial turbulence, our subsidiary operated positively, supported by its solid balance sheet and organisational structure and by management policies geared to offering high-quality retail services. The desire to remain faithful to its mission and to strengthen its 22 branches' territorial roots is also reflected, among other things, in an increase in loans to customers, which have risen by more than 16%. Direct customer deposits are substantially stable, while over deposits have seen a modest decline. Operational growth was only partly able to offset the decline in net interest income - penalised by the continuous flattening of the rate curve, ending up close to zero - and in commission income from services, which have been affected by rising competition and the difficult state of financial markets. The income statement has suffered the effects of this, reporting a net profit, after charging adequate depreciation and provisions, of 4,700,780 Swiss Francs, -51.02% on the previous year with substantially the same level of costs. We are of the opinion that the investments made in the past and those currently being made should improve future profitability as the Swiss economy recovers. The company's equity, which amounts to 227 million Swiss Francs, +31.68%, has benefited from last year's entire net profit being allocated to reserves and from an increase in capital from 50 to 100 million Swiss Francs subscribed by the Parent Bank to bring it into line with the company's higher operating volumes.

As regards the commercial side of the business, the traditional professionalism of the staff, who now number 340, the quality of the products and services offered, including the successful on-line channel Go-Banking, combined with technological and organisational efficiency guarantee adequate levels of competitiveness. Popso (Suisse) Investment Fund Sicav and Sofipo Fiduciaire sa are valid and distinctive elements of the bank's product range.

**Factorit spa** (60.5%, a new entry). This is a factoring company that grants advances on domestic and international trade receivables with related services.

The Bank gained control of Factorit spa on 29 July 2010 by purchasing 60.5% of the share capital from the Banco Popolare Group for an outlay of 102.85 million. The Banco Popolare Group retained 9.5% of the share capital, while the other 30% was bought by Banca Popolare di Milano. The acquisition of Factorit spa reflects the Bank's willingness to increase its support for



businesses and is based on a detailed assessment of the benefits that it would bring our Group. Factorit, which was founded by the cooperative banking movement in 1978, has long-stand professional skills and a well-formed organisation, both elements that have given it an important ranking in this particular market, as for years it has been the fourth biggest factoring company in Italy. The commitment of the three shareholder banks and of the many other banks with which it has special arrangements is a good basis for further growth. As regards our Group, the inclusion of Factorit, which is complementary to the typically banking components, is also a valid tool for achieving important synergies.

The year closed with a net profit of 10 million.

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

After years of declining numbers, the 2010 season showed a reversal in this trend, turning in a small increase in the number of guests staying at the hotel. This is the positive response to intense and varied promotional activities.

However, the economic results were unable to take full advantage of this, turning in another loss despite an increase in prices. The Bank covered the losses of 2009, 0.39 million, and advanced the money to cover the loss for the year under review, based on the accounts at 30 November 2010, paying in 0.65 million on capital account.

As in the past, this is a considerable commitment, but it does give us considerable returns indirectly in terms of corporate image. Our «Ski University» is in fact much appreciated, not only for its exciting downhill runs on ice, but also for the various other sports, such as cycling, trekking and hiking, and leisure activities that the Stelvio permits. In addition, there is the comfort of the hotel at Pirovano and, last but not least, the enhancement of the territory that it provides. In the chapter on «Promotional and Cultural Activities», there is a summary of the initiatives that we have organised together with this subsidiary.

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

This company provides support for the Group's functional needs in the property field. It operates mainly through targeted acquisition of premises that will be rented to the Bank, to reinforce the branch network, and to its subsidiaries. It also looks after property management and maintenance.

Because of the purchases made during the year – above all, a prestigious building in Milan – the Bank increased the share capital of Sinergia Seconda srl from 10.2 to 50 million. There were no sales during the year.

The company closed the year with a small loss, but the current year is already looking as though it will make an adequate profit.

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

It owns part of a building in downtown Sondrio which, among other things, has sizeable premises on the ground floor. The building is leased together with office furniture and equipment to Equitalia Esatri spa, the tax collection company controlled by Gruppo Equitalia spa.

The company's results are positive.

**Francesco Somaini**

**Crucifix, 1960**

Chrome-plated steel,

54 x 57 cm

panel 100 x 100 cm

Unpublished



*The idea of suffering in this "Crucifix" is given by the suffering itself, which seem to have in it the broken and contorted form, full of intricate light and shade, and his material "dense and rotten like torn flesh" to use the words of Rossana Bossaglia when referring to his "Large Bleeding Martyrdom" of 1960 to which this "Crucifix" is closely related.*

*But if the form of the cross is painfully tormented, the serene geometry of the flat area on which it rests dilates and completes its religious meaning with the idea of universally extended redemption, as symbolised by the flat area.*

*So in fact the mystique of this Crucifix all lies in the dense exchange of meanings between its tormented and fragmented form and the relaxed regularity of the flat area on which it lies. This also gives it a certain monumentality in the environment for which it was conceived, namely the "Fabio Besta" conference room of Banca Popolare di Sondrio.*

**FRANCESCO SOMAINI**

(Lomazzo, Como 1926 - Como 2005)

Son of a textile entrepreneur, Francesco Somaini made a name for himself internationally in 1959 when he won first prize at the V Biennale of Sao Paulo in Brazil. This opened the doors for him to museums and the principal art galleries in the United States, where he has since repeatedly exhibited his large sculptures.

Somaini is naturally attracted to the monumental form: one of his best known sculptures, "The Gate of Europe", was created for a large commercial centre in Como, reflecting his idea that these places of modernity are the new agorà of today's social life. He has in fact gone through various stylistic phases, from figurative to cubist, to informal, to expressionist, in an ongoing tension of experiment and innovation. On the other hand, the thing that has not changed is his "vitalistic dynamism of form" as it was defined by G. Carlo Argan, which tends to become biomorphism and technomorphism, namely the vital and crinkly form of the sculpted material, which seems to be continuously reborn from itself. In this way, his informal sculpture links up with that of the Futurists, of Boccioni and Medardo Rosso and to the "spiritualist sensitivity" of the symbolist sculptors of northern Italy between the 19th and 20th centuries, such as Leonardo Bistolfi. It is also from here that he derived the fragmented nature of his sculpture, which for Argan tends to become sculpture of the "absolute fragment".

*As in his sculpture, also in this Mosaic – which covers the stretch of floor between the old part and the ground floor of the modern wing of Banca Popolare di Sondrio's head office – there reappears this fragmented dynamism of form which characterises the work of Somaini and which aims to condense in the form itself the idea of what he wants to represent, the inherent nature of his meaning.*

*Here the incessant movement of people within the Bank, their white footprints, form a sort of current in movement, a dynamic flow that by becoming a decorative sign, mimics life, pedibus calcantibus, which takes place on it and almost becomes the ironic representation of it.*



**Francesco Somaini**  
**Mosaic, 1960**

Floor of Banca Popolare di Sondrio's  
head office, 155 sq.m.

*Associated companies:*

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

Alba Leasing's operations went nation-wide in January 2010, thanks to commercial agreements with the shareholder banks and numerous medium and small credit institutions, and is now one of the top ten Italian operators in this sector in terms of new production. Its affirmation regards not only its operating efficiency in terms of professional and operating quality, but also the range of services that it offers, going from equipment and car leasing to property, naval and public sector leasing, including financial support for the construction of plant for the production of energy from renewable sources. In this context, we have ensured excellent commercial collaboration, standing out for our ability to involve practically our entire branch network, and financial support together with the other shareholders.

The satisfactory trend in commercial activity made it possible to exceed the targets set in the business plan.

Despite this, the start-up costs of the business and its fixed costs, the latter also in relation to the planned development of the company's operations, did not allow it to break even, so the financial statements are likely to close with a loss, as expected.

**Banca della Nuova Terra spa** (19.50%, previously 6%). This is a bank that specialises in lending to farmers and businesses in agro-industry, environmental protection and alternative energy sources.

This very specific type of service enhances and supplements the Bank's lending activity, above all for the numerous firms in the agricultural sector in the Po Valley, an area where our presence is growing. Banca della Nuova Terra is supported by the subsidiaries Agripart, which advances EC contributions, and BNTConsulting, which provides advice. The increase in the stake held in Banca della Nuova Terra (for an outlay of 10.1 million) is part of a decision shared with the other partners to rebalance the various equity holdings after the acquisition of Meliorbanca by the Banca Popolare dell'Emilia Romagna Group. The financial statements show positive economic results.

**Arca Vita spa** (15.036%, previously 39.927%). This company is in the life insurance sector and is controlled by UGF - Unipol Gruppo Finanziario Spa.

During the year, we completed the transfer of the majority of the company's share capital to UGF and as a result of this transaction, Arca Vita acquired 100% control of Arca Assicurazioni. This initiative, which was decided in full agreement with Banca Popolare dell'Emilia Romagna, is designed to raise the competitiveness of our offering in the important insurance sector thanks to the professional assistance of a leading insurance company like Unipol

In detail, the Bank sold 25% of Arca Vita and 9.90% of Arca Assicurazioni for a total of 107 million and realized net gains of 47.4 and 11 million

respectively. Last year these investments were shown under assets held for sale. At the same time, the Bank paid the second tranche of the increase in the capital proposed by Arca Vita in 2009, with an outlay of 5.1 million. As regards operations, in 2010 the company increased its total premiums in life and accident insurance, the latter through Arca Assicurazioni, guaranteeing the banking channel a competitive product. Our contribution, which is also increasing, confirms the Bank's cooperation in terms of generating business. The chapter on commercial activities summarises the new products being offered by these insurance companies.

Towards the end of the year, Arca Vita carried out an increase in capital to improve its solvency ratio. For us, this involved an outlay of 8.2 million. As a result, our stake has been increased by 0.109%.

The financial statements show positive results.

**B. & A. Broker spa** (28.571%). This company operates as an insurance broker and consultant.

This company enriches the services offered by the Bank in the insurance sector, above all in the accident segment. This integrates the policies offered by Arca Vita and Arca Assicurazioni, which are specifically designed for the banking channel.

Thanks to its valid professionals, the brokerage makes it possible to find insurance solutions that are as near as possible to the needs of the customer, whether private individuals, companies or institutions, in terms of both coverage and price. The value added lies in the personalisation and competitiveness of these policies.

The financial statements are expected to show positive results.

**Servizi Internazionali e Strutture Integrate 2000 srl** (33.333%).

This is a service company which operates internationally; it is jointly owned together with Banca Popolare dell'Emilia Romagna and Veneto Banca. This company has successfully operated through the representative offices in Hong Kong and Shanghai, offering qualified advisory services and assistance to the shareholder banks and other interested parties, on behalf of their respective customers, involved in evaluating and developing business relationships in the dynamic Chinese market.

Its facilities are completed by the Milan office, whose experts are involved in risk analysis of banking systems, individual institutions and countries, emerging nations in particular.

The year ends around breakeven.

## **MINORITY INTERESTS HELD FOR OPERATIONAL PURPOSES**

The following are comments on our main minority interests held for operational purposes, which are providers of products and services that complete the Bank's commercial range. They are shown under «financial assets available for sale», though they are considered long-term investments.

**Centrobanca spa** (1.60%). This is a bank that belongs to the UBI Banca Group.

It specialises in corporate and investment banking for medium-sized enterprises and is one of Italy's leading players in this sector, backed by long-standing expertise and service excellence.

According to its published information, the company's results are expected to be positive.

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

Unione Fiduciaria spa has a top domestic ranking in this sector, sustained by long-standing expertise and an ability to take advantage of innovative factors very rapidly. It also has an excellent network of contacts with national and international legal and tax specialists. In this last area, considerable support is provided by our affiliates, starting with Sofipo Fiduciaire in Switzerland.

We would also remind you of our Art Advisory service, which provides help in valuing, buying, selling and insuring works of art, with the collaboration of Dorotheum, a leading auction house. The results of this company should be positive, as in the past.

**Polis Fondi Immobiliari di Banche Popolari S.G.R.p.A.** (9.80%).

This company promotes and manages real estate investment trusts. In a still reflexive market, the company's consolidated professionalism allowed it to manage the Polis fund, its main activity, with satisfactory results.

The value of the units at 31 December 2010, calculated by independent experts, amounts to Euro 2,136. Last year, income of Euro 45 and a partial reimbursement of euro 35 (1.75% of the initial value of the unit) were paid out. The fund's historical net compound yield is 3.93% per annum. The market price of the units, which reflects the negative trend of financial market, is well below the real value of the underlying properties.

We expect positive results

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

Like last year, the ongoing problems of financial markets have reflected on the asset management sector, progressively reducing the positive signs in terms of net inflows during the year.

This affiliate was also affected, though it was still able to take advantage of market opportunities in terms of product diversification, proposing numerous issues of funds with coupons, which were much appreciated by small investors. The introduction of an on-line service called «Personal position in mutual funds» has increased the amount of assistance given to customers.

Positive results are expected.

**Etica SGR spa** (11.10%). An asset management company controlled by the Banca Popolare Etica Group, Etica SGR creates and promotes mutual funds with an ethical content, called «Sistema Valori Responsabili» (Responsible Values System), which are also distributed by our network.

## INVESTMENTS HELD BY THE DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGER AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

Company		No. shares held at 31/12/2009		Changes in 2009				No. shares held at 31/12/2010	
		direct	indirect	No. of shares assigned and purchased		No. of shares sold		direct	indirect
				direct	indirect	direct	indirect		
<b>Directors</b>									
PIERO MELAZZINI	Banca Popolare di Sondrio scpa	235,200	80,144	50,000	-	-	-	285,200	80,144
MILES EMILIO NEGRI	Banca Popolare di Sondrio scpa	74,000	74,000	-	-	-	-	74,000	74,000
CLAUDIO BENEDETTI	Banca Popolare di Sondrio scpa	3,000	2,750	-	-	-	-	3,000	2,750
PAOLO BIGLIOLI	Banca Popolare di Sondrio scpa	27,300	48,292	-	-	-	-	27,300	48,292
GIANLUIGI BONISOLO	Banca Popolare di Sondrio scpa	3,679	1,456	-	-	-	-	3,679	1,456
FEDERICO FALCK	Banca Popolare di Sondrio scpa	5,000	-	-	-	-	-	5,000	-
ATTILIO PIERO FERRARI	Banca Popolare di Sondrio scpa	20,000	-	-	-	-	-	20,000	-
GIUSEPPE FONTANA	Banca Popolare di Sondrio scpa	448,000	-	-	-	-	-	448,000	-
MARIO GALBUSERA	Banca Popolare di Sondrio scpa	4,970	10,280	-	-	-	-	4,970	10,280
NICOLÒ MELZI DI CUSANO	Banca Popolare di Sondrio scpa	105,000	3,000	10,000	-	10,000	-	105,000	3,000
ADRIANO PROPERSI	Banca Popolare di Sondrio scpa	14,000	10,000	-	-	-	-	14,000	10,000
RENATO SOZZANI	Banca Popolare di Sondrio scpa	25,000	25,000	-	-	-	-	25,000	25,000
LINO ENRICO STOPPANI	Banca Popolare di Sondrio scpa	50,000	50,000	-	-	-	-	50,000	50,000
DOMENICO TRIACCA**	Banca Popolare di Sondrio scpa	795	-	3,000	-	795	-	3,000	-
BRUNO VANOSSI*	Banca Popolare di Sondrio scpa	55,658	54,083	-	-	-	-	55,658	54,083
FRANCESCO VENOSTA	Banca Popolare di Sondrio scpa	32,424	15,277	-	-	-	-	32,424	15,277
<b>Board of Statutory Auditors</b>									
EGIDIO ALESSANDRI	Banca Popolare di Sondrio scpa	2,037	1,528	-	-	-	-	2,037	1,528
PIO BERSANI	Banca Popolare di Sondrio scpa	1,120	10,000	-	-	-	-	1,120	10,000
PIERGIUSEPPE FORNI	Banca Popolare di Sondrio scpa	7,120	27,734	-	-	-	-	7,120	27,734
MARCO ANTONIO DELL'ACQUA	Banca Popolare di Sondrio scpa	9,100	2,190	900	650	-	-	10,000	2,840
MARIO VITALI	Banca Popolare di Sondrio scpa	21,000	4,896	-	-	-	-	21,000	4,896
<b>General Manager</b>									
MARIO ALBERTO PEDRANZINI	Banca Popolare di Sondrio scpa	33,000	-	14,000	-	-	-	47,000	-
MANAGERS WITH STRATEGIC RESPON.	Banca Popolare di Sondrio scpa	28,772	49,114	-	-	-	-	28,772	49,114

\* in office until 27/3/2010

\*\* in office since 27/3/2010

This affiliate is the only asset management company in Italy that offers exclusively ethical funds. After careful selection, it invests in issuers that pay attention to social and environmental aspects, a process that consists of various phases based on specific data collected by Eiris, a qualified UK research company. In a troublesome year, this rigorous line of action allowed Etica SGR to achieve more than satisfactory results in terms of new inflows, a result that we contributed to quite considerably, reaffirming the fact that we agree with the company's objectives and supporting the needs of those who like Etica SGR's investment philosophy.

The company's results are positive.

**Group srl** (14.286%, formerly 10%). This is a service company that coordinates and assists the cooperative banks that own it, as well as their groups, during the placement of financial instruments that are of proven interest for the quality and size of the issuer with a view to increasing the competitiveness for retail and institutional customers. The Royal Bank of Scotland placement in 2010 is a good example. Last year, it Group srl took part in a syndicate to grant a sizeable loan to Finmeccanica.

The increase in this investment forms part of an agreed reorganisation of the shareholder structure.

Its financial statements should close around break even. «Financial assets available for sale» at 31 December 2010 amounted to 106.92 million, a decrease of 6.48 million. As regards the shareholdings that we discussed in this section in previous years, we should mention the sale of our entire investment in Centrosim spa (3.176%), at a loss of 0.21 million. Istituto Centrale delle Banche Popolari Italiane spa acquired 100% control of it with the agreement of all of the sellers and the transfer to equity investments of the interest in Banca della Nuova Terra, as discussed in the chapter on equity investments.

## Related party transactions

This matter has now been regulated by the «Regulation on related party transactions», according to CONSOB Resolution 17221 of 12 March 2010 and 17389 of 23 June 2010 (CONSOB Regulation). CONSOB communication DEM/6064293 of 28 July 2006, DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001 are still ruling and their provisions affected the whole year under review.

By Board resolution and with the favourable opinion of the «Committee for related party transactions», the Bank adopted and published on its website [www.popso.it](http://www.popso.it) its «Regulation on related party transactions» by 1 December 2010 which was the legal deadline. It defines the internal procedures for the handling of related party transactions as is in force from 1 January 2011, in accordance with CONSOB's rules.

Related party transactions, as identified in accordance with IAS 24 and the CONSOB Regulation, form part of the Bank's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred. These transactions amount to 7.65% of total loans



to customers and banks and financial assets and 3.30% of direct deposits from customers and banks and financial liabilities.

As regards the new dispositions, we would point out that from 1 to 31 December 2010 there have not been carried out in any form (procedures with subsidiaries and associated companies considered internally as ordinary, as per art. 136 of the Banking Code) neither transactions of greater relevance nor transactions of lesser relevance that had a significant impact on the Bank's balance sheet or results. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Bank's balance sheet or results with regard to related party transactions carried out during 2009; in any case none were atypical, unusual or not on market terms.

In relation with the CONSOB communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the CONSOB Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Bank's economic results and cash flows. In the notes to the financial statements, the paragraph entitled «Related party transactions» includes a table that summarises these figures. During 2010 and the current year, there have not been any positions or transactions deriving from atypical or unusual operations.

According to CONSOB Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are any that may raise doubts concerning the accuracy of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the subject of the transaction, the methods in which the transfer price is set or the time at which the transaction is carried out.

The notes to the financial statements (Part H, «Transactions with related parties») also report the emoluments paid to Directors, Auditors, the General Manager and key executives as well as the credit facilities and guarantees issued, in compliance with Article 136 of Legislative Decree 385 of 1 September 1993.

In accordance with Article 79 of CONSOB Regulations 11971 of 14 May 1999, as amended, we have prepared a separate table reporting the shares of the Bank and its subsidiaries held by Directors, Statutory Auditors, the General Manager and key executives (or by their spouses, unless legally separated, and their minor children), whether directly or through subsidiaries, trust companies or third parties.

## **REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE**

The «Report on Corporate Governance and the Ownership Structure» required by art. 123-bis of Decree 58/98 (Finance Consolidation Act) <http://www.popso.it/> is available (in Italian) in the Corporate Information

(«Informativa Societaria») section of the Bank's website ([www.popso.it](http://www.popso.it)). This document relates, among other things, the fact that BPS has not adopted the Code of Conduct approved by the Committee for Corporate Governance.

## INTERNATIONAL UNIT

This was a relaunch year for international trade: a year when goods started to circulate again.

In fact, this dynamic won the day: trade flows, which had been immobilised by the economic chill, started running again, warmed up by the sun of a recovery that was born in the east.

If the crisis had caused globalisation to stall, it now seems to be moving again - goods, services, resources and ideas - in a world in which, for better or worse, we are and will be ever more interdependent.

For the Italian economy, which is still weighed down by a domestic situation where consumer spending has remained stagnant, exports have been the main driver of growth. Italian manufacturing industry, which is seriously making every effort to become more efficient, has shown that it is ready to seek new markets abroad.

During this period, our Bank, which is solidly anchored to the areas where it operates, but by geographical and cultural vocation attentive to international relations, has provided support for this important effort being made by the productive system, offering ourselves as a bridge between the local dimension of the economy and its global dimension.

The basic idea is to create a sort of «single window» where businesses can go to find rapid and integrated solutions to their needs. In doing this we can count on the skills and knowledge that we have acquired over the decades; moreover, on products, services and tools thanks to which we are able to promote the internationalisation of many businesses. A further strength of our way of operating is the collaboration agreements that we have arranged with qualified institutions, which make it possible to expand the range that we can offer customers, guiding them with competence and security in new operating and territorial areas.

For some time now, many businesses in Lombardy have had a chance to get to know and appreciate the services provided by Promos, a subsidiary of the Milan Chamber of Commerce that specialises in international trade. For us, Promos is a very valid partner. In over 10 years of activity and thanks to its vicinity to the trade associations, it has developed a detailed knowledge of foreign markets and of the problems that firms encounter when seeking new markets. The two representative offices in China (Hong Kong and Shanghai) and the 27 desks spread around the world in the more dynamic marketplaces are secure points of reference for our customers. As proof of our ability to build business relationships all over the world, suffice to mention that we have more than 1,800 correspondent banks in 150 countries. Among the other partners that give us support in the field of internationalisation services, we would mention the system of Italian Chambers of Commerce

Abroad, with which we have been collaborating for years; SACE, with which we have further developed «Impresa senza confini» (Business without frontiers), a type of loan aimed at Italian SMEs that operate in exports. Intertek Testing Services Italy Srl, a company specialising in inspections and certification services for goods being imported and exported; Servizi Internazionali e Strutture Integrate srl, mentioned in the chapter dedicated to equity investments; CBE-GEIE, European economic interest grouping based in Brussels, specialised in information and assistance on EC and international project financing programmes, competitive bids and other things for enterprises. As part of the communication with customers, we would like to mention that the Bank's website has a section called «Mondo Estero» (Foreign World), edited directly by the international unit, which is seeing more and more interest from entrepreneurs. In addition, the Newsletter Business Class, sent by e-mail is very appreciated.

In a scenario that is featuring a progressive enlargement of commercial and productive frontiers, handling of all the required financial and trade documents properly according to the rules of the International Chamber of Commerce, not to mention documentary credits and export bank guarantees, has become strategic.

In a market context teeming with uncertainties, our foreign exchange centre has done an excellent job, one that is both delicate and useful. It has known how to combine customers' needs and efficient cash management with a canny and prudent risk policy.

As regards payment and collection services, one of our traditional strongpoints, it is worth mentioning that our public is extremely varied: it ranges from large companies that are famous throughout the world to small firms; from leading supranational institutions that process hundreds of thousands of transactions to immigrant remittances to their countries of origin.

This mixture is of great comfort to us. It is the result of the professionalism and motivation of our personnel and their willingness to listen to the needs of the market. They are helped by technological solutions built on the basis of the experience gained on the job, effective products and services that are flexible and able to be personalised.

Appreciation for our work is reflected in the «World Payments Report 2010», where we are mentioned as a type of institution that, despite our small size, has known how to operate very successfully, managing to enter into the restricted number of banks - most of them international - that are used by the European Commission. In this connection, it has to be said that this activity has taken off with vigour and mutual satisfaction.

To remain at this level, indeed if possible to improve it, the investments that we have made all along to update our technology structure have proved fundamental, also to take account of the string of important regulatory changes that have been made over the years. Suffice to think of the problems involved in the «Sepa», the single payment area for the euro (involving 32 countries), in which all transactions are considered the same as those carried out locally.

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**Guido Pajetta****Woman with a long neck**, 1969

Acrylic on canvas, 80 x 60 cm

Signed and dated "pajetta 69"

at the bottom on the left



*This painting came to be owned by Banca Popolare di Sondrio's art collection thanks to a generous donation on the part of Lino Stoppani, a Director of the Bank, and his family. This female figure belongs to the latest period of Guido Pajetta's production, that of existential expressionism, in which his painting lost the narrative character that it had previously and the figure takes on a dual identity, it gets deformed into a grotesque mask, it no longer has any history or individuality, all in all it becomes the symbol and allegory of the absurdity of life. After all, these were the years when after reading Nietzsche and Schopenhauer, the artist's favourite philosophers, he started reading Beckett as well, and the persistent suggestions of the work of a Picasso and a Rouault were joined by those of a Bacon, who had made grotesque deformation as the torment of existence the central motif of his painting. Emptied of its existential sense, the life of the figure gets entrusted entirely to the colour which "moves within it", it too becomes form, it becomes the protagonist. Precisely to give greater incisiveness to the colour, in 1967 the artist shifted to acrylic paint, which with its density and brilliance is better suited to exalt in the picture the constructive force of the form through colour, the foundation of all Europe's avant-garde movements in art.*

**GUIDO PAJETTA**

(Monza 1889 - Milan 1987)

Guido Pajetta was born in Monza in 1889 into a family originally from the Veneto, the last heir of a 17th century dynasty of important painters in the Venetian naturalistic tradition.

A pupil of the Brera Academy, between 1920 and 1950 Pajetta passes from youthful enthusiasm for Sironi, to the artistic climate of the Twentieth Century, to Metaphysics and Chiarism, which in his painting gets intertwined with the contemporary influence of Dufy and the Fauves.

In this way, his painting has that eclectic tendency to assimilate different artistic languages and forms, which remains the underlying characteristics of his work. At the beginning of the Fifties, while his style opens to the influence of Picasso, Post-Cubism and the expressionism of Rouault, Grosz and Bacon, in the wake of philosophical and literary suggestions (Nietzsche, Schopenhauer, Brecht, Beckett, etc.), his painting veers towards a dimension of greater interiority in which emerge the themes of suffering and pain; then those more congenial to him: the ambiguity of life, the mask, the cheeky grin, the grotesque deformation of the figure and the face; in other words, the existential condition of man and the general loss of sense of modern life.

This greater intellectual density did not eliminate the instinctive nature of his painting, which Pajetta always claimed, in which style remains purely a means of expression, without any intellectual implication. Pajetta died in Milan in February 1987, in his home-atelier in Via Delio Tessa 1.

The most recent exhibition of his work was the one held at the head office of Banca Popolare di Milano in February 2011.



**Francesco Messina**

**Portrait of a woman, 1967-70**

Bronze, 23.5 x 18.5 x 13.5 cm;

Height with base 34 cm;

Width of the support base 10 x 10 cm  
signed "Messina" at the bottom on the left

Unpublished

**FRANCESCO MESSINA**

(Linguaglossa, Catania 1900 – Milan 1995)

Francesco Messina lived through the entire Twentieth Century of Italian art, making a profound mark with his work in which he was able to renew the human figure in a highly modern but classical way. Born in Linguaglossa, Province of Catania, in 1900, he was already an established sculptor when he moved in 1932 to Milan, where in 1934 he became Professor of Sculpture at Brera Academy, of which he also acted as director from 1936 to 1944. Messina was invited in 1949, together with Marino Marini, to the Third International Sculpture Exhibition in Philadelphia (USA) and from then he was one of the best known and most appreciated Italian sculptors in the world, not only for his monumental funeral groups and his famous "Dying Horse" for the RAI building in Rome, but also for his statues and portraits of famous people of the artistic and literary world, such as Lucio Fontana, Giuseppe Papini, Salvatore Quasimodo, Indro Montanelli, Aida Accolla, Carla Fracci, Luciana Savignano, etc., in which Messina kept faith with his highly modern classical style.

In fact, as Carlo Carrà already wrote in 1929, his sculpture stands out for "an approach that is both simple and grandiose" and for an "idealistic and classical process" able to give life to forms that remain "ideal images", immobile in their measured expressive equilibrium and subtly enigmatic in their total lack of emotional excess.

The last major exhibition of his work during his life was the one inaugurated in '95 at the Vatican in Rome, "God in man". *Homage to Francesco Messina.*

*The harmonious beauty of this women's face – which research to date has been unable to give a name – the perfect symmetry of its lines, the shiny smoothness of the bronze, which here achieves the delicate softness of skin; it all transmits the image of a timeless perfection and a fullness of life, fed by an intimate vibration of the form. Already in 1929 at Francesco Messina's very first exhibition, Carlo Carrà noted how in his idealistic process of turning real images into ideal images, an important role is played by "certain female heads where the sweetness of the expression and the clever modelling acquire unseen vibrations". Erich Steingraber wrote that as in all of Francesco Messina's sculpture, there is in this face "a millenarian Mediterranean tradition in which it is possible to find together again, in equal measure, the grace of Greek art, the dryness of Roman portraiture and the realism of 15th century figurative art", admirably synthesised in an image of totally modern sensitivity. But there is above all that frontality that gives it a hieratic enigmaticness, which makes its essence both clear and elusive at the same time.*

Our commitment to ISO Quality Certification has also progressed. Renewal of these certifications during the year involved in particular the foreign exchange centre and the international units in Sondrio and Rome.

For the sixth year we have renewed our commitment as part of the Global Compact project, to support the ten universal principles of the United Nations. Our Bank is in fact one of more than 8,000 participants, spread over 130 countries, who undertake to contribute, each in its own area of activity, towards economic, social and environmental development that is sustainable and respectful of natural resources and human rights.

In our report presented to the New York office of Global Compact, we mentioned the initiatives that we had taken as a cooperative bank in favour of the territories in which we operate: from charity activities and fund-raising to enhancement of our cultural heritage; from providing support to households and businesses sorely tried by the crisis to the promotion of savings.

We could continue to mention numerous other activities, but we are sure that we have already given an idea of what this service does. An articulated work that takes account of the progressive integration of markets and the chance to harmonise the Bank's initiatives with institutional ones. It is an effort that is a harbinger of positive results, so it only remains to hope for a constant refinement of the initiatives taken at a national level to promote Italy in the world.

## **SERVICES, PROJECTS AND STRUCTURE**

### **Sales and Marketing**

The dynamic nature of the banking sector is above all sustained by the success of its commercial efforts, which are based on enhancement of what is being offered - in terms of quality, products and distribution channels - and its ability to define effective lines of development for its branch networks. This last is an aspect that we have successfully consolidated through vigorous expansion of our distribution network in complete autonomy in order to increase the intensity of our presence in local markets as they become of interest to us. Particular attention is paid in this context to the territory's public sector institutions.

As for the product catalogue, which is looked after by the pertinent structures of the Bank together with our affiliates, constant updates maintain our competitiveness at an excellent level, with an emphasis on the professionalism and helpfulness of our staff. Of great importance is SCRIGNO, our on-line channel, which is being used increasingly by private individuals, companies and institutions. The attention that we pay to small investors is also reflected in the way we enrich our catalogue. From this point of view, we have integrated our range of asset management schemes in funds with four equity lines that specialise in the stock exchanges of the BRICs (Brazil, Russia, India, China) and Latin America in general.

Euro Flex Quant, which invests with flexible methods in international shares and bonds, is expanding the lines of Popso (Suisse) Investment Fund Sicav. Lipper, a rating and research agency, assigned first place, based on a period of five years, to the Global Opportunity Equity (EUR) segment of the Sicav, this being a category of world-wide balanced equity funds distributed in Italy.

Arca SGR, which is always careful in diversifying its range of products, successfully placed its Arca Cedola Governativo Euro Bond III and IV, Arca Cedola Corporate Bond III and IV, Arca Cedola Bond 2015 Alto Potenziale, Arca Cedola Bond Total Euro I and II, and Arca Formula II Euro Stoxx 2015. The subscribers of Arca funds can now use on-line the «Personal position in mutual funds» service, to consult their portfolios' composition, value and movements.

Arca Vita expanded its catalogue with the following policies: ARCAemmeglobale<sup>SP</sup> that guarantees repayment of any balance on your mortgage loan in the event of death;

InvestiDOC TFM, reserved for businesses to invest the termination indemnities of directors and statutory auditors. It has also diversified its policies that provide financial protection for loans with Difendi Prestito 60 CPI and Difendi Prestito 96 CPI, together with Arca Assicurazioni.

The latter has developed ARCA ENERGIA FUTURO, to protect the photovoltaic installations financed, even partially, by the Bank.

The offer of credit cards has been expanded with CartaSi MasterCard PayPass («FreeTouch»), with contactless technology, for payments up to 25 euro.

ATM-Bancomat transactions have been expanded to payment of the MAV forms issued by any bank.

The growing volumes of business done on-line by our customers through SCRIGNO Internet banking are assisted by the constant development of security controls to combat IT fraud. They consist of innovative automatic blocking systems, among other things; targeted transaction limits; specific check and authorisation methods; SCRIGNO *IdentiTel*, an authentication tool with joint intervention via PC and mobile phone. SCRIGNO *Internet Banking* has also been revamped graphically, which increases its user-friendliness as well as the quality perceived by users.

Together with the Consorzio Movincom and Siteba, we have developed a service for making purchases on the move by mobile phone and credit card at affiliated stores.

Our commitment to keeping our technology up-to-date has allowed the Bank to win first prize in AIFIn's «Cerchio d'Oro dell'Innovazione Finanziaria» (Golden Circle for Financial Innovation) in the Organisation and Operations category with our «New teller: a challenging project oriented towards multi-channelling» and third prize in the Payment Products category with «Carta di Ateneo contactless».

As regards our relationships with public and private institutions, we have been appointed to run the treasury service of the Fondazione IRCCS - Istituto Nazionale dei Tumori di Milano.

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Euro Flex Quant

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New products  
launched by Arca  
SGR

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ARCAemmeglobale<sup>SP</sup>,  
InvestiDOC TFM,  
Difendi Prestito, Arca  
Energia Futuro

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CartaSi MasterCard  
PayPass

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SCRIGNO



## Central offices

The following comments relate to the Bank's central offices, which help to raise our competitiveness on the market and the effectiveness of our catalogue.

### SOSI

SOSI is the Bank's Organisation and IT Systems Department, which looks after the technological and organisational structure of the Bank. To plan, innovate and update – with long-lasting commitment – are the main purposes that sustain our daily work. One example in terms of importance and impact is the new teller procedure, which is soon to be activated.

The most important areas of intervention have been those relating to sector regulations, which are frequently revised, especially those concerning anti-money laundering, the transparency of banking services, stock trading and usury. Also of importance is the field of payment services, where the Bank intends to maintain a high level of competitiveness.

As regards the on-line channel, innovation and maximum security go side by side. A product that answers this need is *SCRIGNOIdentiTel*, a mobile phone app. that protects the user by providing information on any transactions on their account via the SCRIGNO *internet banking system*.

The business continuity plan, which concerns the action to be taken in the event of crisis scenarios, saw the SOSI successfully involved in our fourth annual global test, which involves simulating critical events. Lastly, we would remind you of the support provided by the Organisation Department to our subsidiaries to ensure their correct and effective integration within the scope of the Banking Group.

### Public Entities and Treasury Offices

Choral appreciation by its clients benefits the *Public Entities and Treasury Offices Department*, which features numerous contract acquisitions and renewals to run treasury, cashier and collection services on behalf of institutions, some of national importance.

A commitment based on rapid, concrete action, above all in favour of the community in the areas served, as an expression of our desire to be effectively «Popular». It is a way for us to get known in areas where we have just opened, helping us to raise market share; it is also a source of spin-off work.

### Virtual Unit

Our *Virtual Unit* is making rapid progress, not only increasing the volumes of its typical service, even in the interest of professional categories, but also managing particular forms of loans, such as «Diamogli credito» (Let's give them credit), for public sector employees, and «Prestito della Speranza» (Hope loan), jointly promoted by the CEI (Conferenza Episcopale Italiana, representing the Catholic Church) and by ABI (Associazione Bancaria Italiana, representing the banking system). The related call centre has received positive feedback.

### Corporate Finance

The *Corporate Finance Department* has continued its support to branches in analysing extraordinary finance deals and corporate debt restructurings, the latter being a need that has grown during the year because of the recession. The offer of value added services for companies interested in requirements of growth, business continuity and generational transfer makes use of cooperation with institutional investors, such as closed-end mutual funds, privileged interlocutors for companies wanting to give access



to their risk capital. Also of importance is the activity that involves handling syndicated loans and collaboration with top management regarding the ownership structure of affiliated companies.

*The Planning and Control Department* is called upon more and more frequently to update analysis methods and tools to bring them into line with sudden changes and to monitor accurately the Bank's situation, also projecting it into the future to consider forecast scenarios.

To facilitate the work of the decision-making centres of the various areas of the Bank, this department is involved in making available to them timely, reliable and properly supported information that allows them, among other things, to understand in advance the effects on the variables that underlie the Bank's economic and financial equilibrium.

With these objectives, the Bank's performance is fathomed with regard to individual products and the various layers that make up the organisational structure. The budgets that are assigned to the branches, bearing in mind the nature of their clientele, local market prospects and the potential of the productive units, represent the lines within which the branches have to operate on a day-to-day basis. As for the various types of risk, their exposure gets measured and assessed according to regulatory and/or internal systems able to appreciate their trend and to alert the protective structures even if the surveillance limits are only approached. Credit, which is the backbone of our activity, is placed under the magnifying glass to appreciate in particular the evolution of the loan book's quality and the reasonableness of the yields being received, also in respect of the risk being assumed.

Liquidity is kept under close observation, so as to anticipate difficult situations when markets are submitted to tensions. In the same way, the adequacy of our capital resources is estimated on a current and prospective basis, taking into account as far as possible the effects coming from the progressive application of Basel 3, the new regulatory scheme.

Our *Technical, Health and Safety Department* provides support to the territorial network and to the central offices. Its constant commitment is fitting out new branches and modernising old ones. This action, which is based on compliance with the rules on safety and hygiene in the workplace, is also carried out taking into consideration the quality of the installations, together with careful evaluation of the costs. 35 interventions of this kind were completed during 2010. There are also commitments in the current year as around twenty building sites have already been opened. The installation of a sizeable photovoltaic plant at our Service Centre in San Pietro Berbenno is also being completed. The total floor area of property owned by the Bank covers 133,143 sq.m., of which 12,193 sq.m. held under finance leases, with a total volume of 403,445 cu.m. The surface area of the land owned by the Bank comes to 78,773 sq.m. The total book value of these properties, net of depreciation, amounts to 80.245 million for those owned and 32.412 million for those being bought under finance leases. 2010 saw purchases and restructurings of owned buildings for 2.043 million and depreciation of 2.742 million; as regards those being bought under finance leases, there are additions of 3.916 million, disposals of 13,358 million and depreciation of 0.998 million.

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**Planning and Control  
Department**

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**Technical, Health  
and Safety  
Department**



The market value of the Bank's property reflects significant unrealised capital gains. We own 41 buildings and 48 units in condominiums. Banking operations are carried on in 60 properties owned by the Bank and in 362 leased premises, including 11 held under finance leases. «Furniture and fittings», a sub-category of property, plant and equipment, totals 19 million. The net decrease of 0.567 million reflects the difference between new investments and depreciation for the year.

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**Security**

The task of the *Security Department* is to look after physical and IT security for the protection of the Bank's personnel, assets and operations, working together with the other corporate structures. Among other things, it has intervened to combat the numerous attempts to carry out computer fraud at a system level; also to prevent or, at least, to limit the consequences of bank robberies, increasing the security levels of the devices made available to the branches.

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**Supply Office**

The *Supply Office* supports our operations and development by handling all of the supply and logistics processes for the benefit of the branches and central offices, also with a view to holding down costs. These are objectives that it has pursued also by updating and adopting IT procedures to automate certain aspects of operations. The Supply Office has also handled the upgrades needed by the Environment Ministry's Decree of 17 December 2009, applying the provisions of the SISTRI, which is a system for tracking hazardous waste

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**Legal and Claims Department**

The *Legal and Claims Department* continues the important task of handling debt recovery, an activity that unfortunately is expanding because of the crisis. However, there has been no improvement in the duration and methods of bankruptcy procedures in court, which has obvious repercussions on creditors. The structure is also constantly involved in giving specialist advice to the Bank's central offices and branches, as well as dealing with any requests on the part of the Authorities.

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**Compliance Unit**

The workload of the *Compliance Unit* intensified, also because of the growing involvement at system level of the Supervisory Authorities through regulatory instructions and interventions on specific topics. As regards the first aspect, we would highlight the Unit's efforts to ensure correct application of the new rules on related party transactions and the European Consumer Credit Directive.

This function also monitors the delicate sectors of anti-money laundering and transparency, consolidating its role in the internal control system with a view to contributing to the prevention of reputational and legal risk. With the assistance of the checks carried out in agreement with the Internal Audit Department, it also monitors investment services, an area that has a very low number of complaints, all of which have been handled promptly.

More in general, there is growing interaction between the Compliance Unit and the Central Offices of the Bank, especially of a commercial nature; this encourages more frequent exchanges of information which benefits a corporate culture based on operational regularity.

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**Internal Audit Department**

Lastly, the *Internal Audit Department* is very active in carrying out checks to ensure that the Bank's operations are in line with internal procedures and ever-changing external regulations. This has led to a constant updating

and specialisation of its checklists to ensure that audits are as effective as possible. In 2010 this department carried out 461 interventions in branches and central offices, of which 104 helping the Board of Statutory Auditors, in addition to an intense programme of remote checks.

As regards the internal audit element, at the apex of the Bank's internal control system, progressive refinement of professional skills permits more detailed analysis of sensitive operating processes, also in relation to banking system instructions and specific initiatives on the part of the Supervisory Authorities.

As usual, the Internal Audit Department makes an important contribution to the spread and maintenance over time of behaviour based on professionalism and honesty, both operational and intellectual, as part of a consolidated corporate culture that continues to get stoked day after day.

This also means good faith in the proper handling of credit, which gives the Bank its good name, which in turn generates trust.

## **RISK MANAGEMENT**

In 2010 the Bank handled risk management in terms of the growing need for external reporting and, above all, in terms of internal functioning, both aspects that had to be addressed in connection with our acquisition of control over Factorit spa. With regard to the first aspect, in addition to preparing the pertinent sections of the 2009 financial statements, we also published the matters to be disclosed to the public required by the third pillar of Basel II on the Bank's website and sent the annual Internal Capital Adequacy Assessment Process (ICAAP) Submission to the Bank of Italy as required by the second pillar.

Compared with previous years, we have also submitted to quantitative measurement geo/sectoral concentration risk, adopting the model proposed by the interbank task force, which we played an active role in developing. Attention was also paid to improving «data quality»: an application was added to the IT procedure dedicated to this theme to carry out quality controls over the data flows used for reporting purposes. In view of the transition to Basel III, our Bank was called upon by the Bank of Italy to take part, together with a select group of banks from all over the world, in the Quantitative Impact Study (QIS) in connection with the new regulations. This involved collecting a vast amount of data on the basis of which the effects on intermediaries of the regulatory changes proposed in response to the international financial crisis were estimated at a global level. Still with regard to the question of external reporting, we satisfied all of the requests made by Fitch Ratings, some regarding risk; and despite all of the pressure on the international banking system, Fitch confirmed its long term issuer default rating of «A». As regards the management of liquidity risk, we would observe above all that in 2010 the Bank continued to operate on the markets, maintaining the full trust of our counterparties without encountering problems of funding.

To control this type of risk, we took steps to fine-tune our monitoring

tools in accordance with the instructions issued by the competent bodies, especially the directives of the Bank of Italy. Of these, we would mention the recent update of Circular 263 of 2006 which marked the application in Italy of the innovations introduced in this area by the Committee of European Banking Supervisors (CEBS) and the Basel Committee. Currently we are able to measure on a daily basis the liquidity position expected in the short term. i.e. up to three months, which is then reported once a week to the Supervisory Authority according to the methods laid down by it. There is also a project underway to expand monitoring to all types of operations with any time limits (so-called «structural liquidity») with the monthly production of a liquidity calendar extended to the entire management of assets and liabilities.

With regard to operating liquidity, the monitoring activity uses this liquidity calendar (or «maturity ladder» as it is commonly called) as its main tool. Its production firstly requires the collection of data on treasury operations and the liquidity reserve made up of easily marketable securities and other assets. Starting from the expected cash flows in and out, a forecast net liquidity balance gets calculated for each maturity date between one day and three months. This is then added to the liquidity reserve to give a total net liquidity balance.

As for the results of this measurement process, from the analysis of weekly figures sent to the Supervisory Authority during the year, one can see an evolution in the liquidity situation that is in line with the systemic picture; this is still characterised by a widespread lack of trust at an interbank level, leading to a scarcity of transactions even though there may be ample liquidity. Given this market situation, which naturally tends to get worse as the end of the year approaches, the Bank has continued to operate calmly, meeting its liquidity requirements at market prices, helped by its ample reserves, represented above all by freely negotiable securities.

On the topic of risk management with a view to improving internal operations, credit risk to start with, after a complex period of preparation, new models were released at the start of the year for estimating the amount of loss that would be incurred in the event of insolvency (LGD, Loss Given Default). these models are accompanied by an opportune procedure for the branches to use to help them understand and monitor the elements making up recovery risk for each counterparty and relationship. As for the evolution of our rating models for forecasting insolvencies, specific evaluation forms for real estate companies have been distributed. Considering the importance of this sector to the economy and therefore to the portfolio of the Bank's customers, we felt that it was opportune and prudent to refine the existing models to focus specifically on the financial structure of operators in the real estate sector.

Continuing our efforts to obtain an adequate level of good quality information for use in our internal rating models, we have concentrated with specific projects on monitoring and fine-tuning so-called «soft information», which constitutes a complementary wealth of information of great importance for a bank with strong local roots like ours. To overcome the limits of a statistical system for measuring the probability of default, we designed a series

of exceptions, in specific and contingent situations, to the automatic ratings, which was then prepared from a technical point of view. This is in line with current banking practice and with the guidelines of the Bank of Italy.

With regard to market risk (interest rate, exchange rate and equity price risk), we mean above all that even if overruns of the operating limits expressed in terms of daily VaR (Value at Risk) on the three individual risk factors are recorded, the overall VaR limit has been constantly respected, with only two exceptions, on 12 and 13 May, when markets were at peak volatility due to the Greek crisis. Capital absorption - obtained by transforming daily VaR into a VaR on maturity, taking account of the working days still to go to the end of the year and adding to them in absolute terms the losses, net of gains, and any negative net balance between gains and losses accruing since the start of the year - also remained within set limits. This apart from a couple of occasions in May when substantial losses arose because of high volatility in government bond prices. This capital absorption hit a high on 26 May of 117.254 million, so it has always been under the Maximum Acceptable Loss of 100 million initially set by the Board of Directors and subsequently increased to 120 million during the meeting of 13 May.

Limited exposure to the market risk inherent in derivatives is reflected in a specific average VaR for the year of around 48,000 euro, with a maximum of less than 86,000.

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

This information is set out in the following table.

(in thousands of euro)	31/12/2010	Average	Minimum	Maximum	Limit
Capital absorption	79,095	73,962	46,386	88,979	100,000*
Maximum capital absorption	243,794	247,885	237,877	252,534	265,000
Individual counterparty risk	15,000	14,424	14,250	15,000	15,900
Concentration risk	78,375	81,989	78,375	85,862	92,750
Country risk	24,261	23,318	21,777	24,777	26,500

\* Not so much a limit as a threshold of attention. It was raised by the Board of Directors on 13 May 2010 from 80 to 100 million euro (after 9 overruns).

While waiting for the new system that will be integrated with the one for structural liquidity, measurement of interest rate risk on the entire balance

Here Ferroni offers us a table set with light, in which each object has its shady side, even the sheet that falls in front of us, its folds and crumples indicating chaos and life. Closed between the walls of shadow in the foreground and the one in the background, the table, and the objects sitting randomly on it, shines even more brightly.

Light and shade give objective emphasis to the existence of the things in the space, but they also mark the boundary between their physical evidence and the intangible existence, in an ideal world that remains unattainable for us, but which we deeply feel the need of to subtract the world from insignificance and emptiness.

“Inside emptiness – Ferroni said – I always need order [...] an order that is beyond our comprehension, i.e. cosmic order”.

In other words, space hovers round things like a halo of mystery that gives them sense; a halo of mystery that Ferroni tries to penetrate. This means that his paintings are not “nature morte” (still life), but “nature vive” (alive life), with a life that goes beyond the objects in the painting, beyond their physical existence. In a word, they are illuminations, as in the case of this lithograph.



**Gianfranco Ferroni**  
**Still life, 1983**

Lithograph on stone, 6 colours with surround, 300 x 240 mm  
II state

What stands out in this composition is the minute reticular, punctiform webbing of the surfaces which, while taking account of every atom in the space, dematerialises the objects, softens the shadows and increases the radiating effect of the light.

It is almost a dusting of fragments that coagulates in space and gives life to the things under the effect of the light and the shade. “I even get to the folly – Ferroni has declared – of trying to explain point by point, microcosm by microcosm even the dust, which is as important as a universe, because it is in the micro that lies the macro, the extremely large lies in the imperceptibly small”.

This punctiform explanation of space in Ferroni’s work has the function of taking to the maximum degree the evidence of things that are sensitive, beyond which they pass on into the mystery.

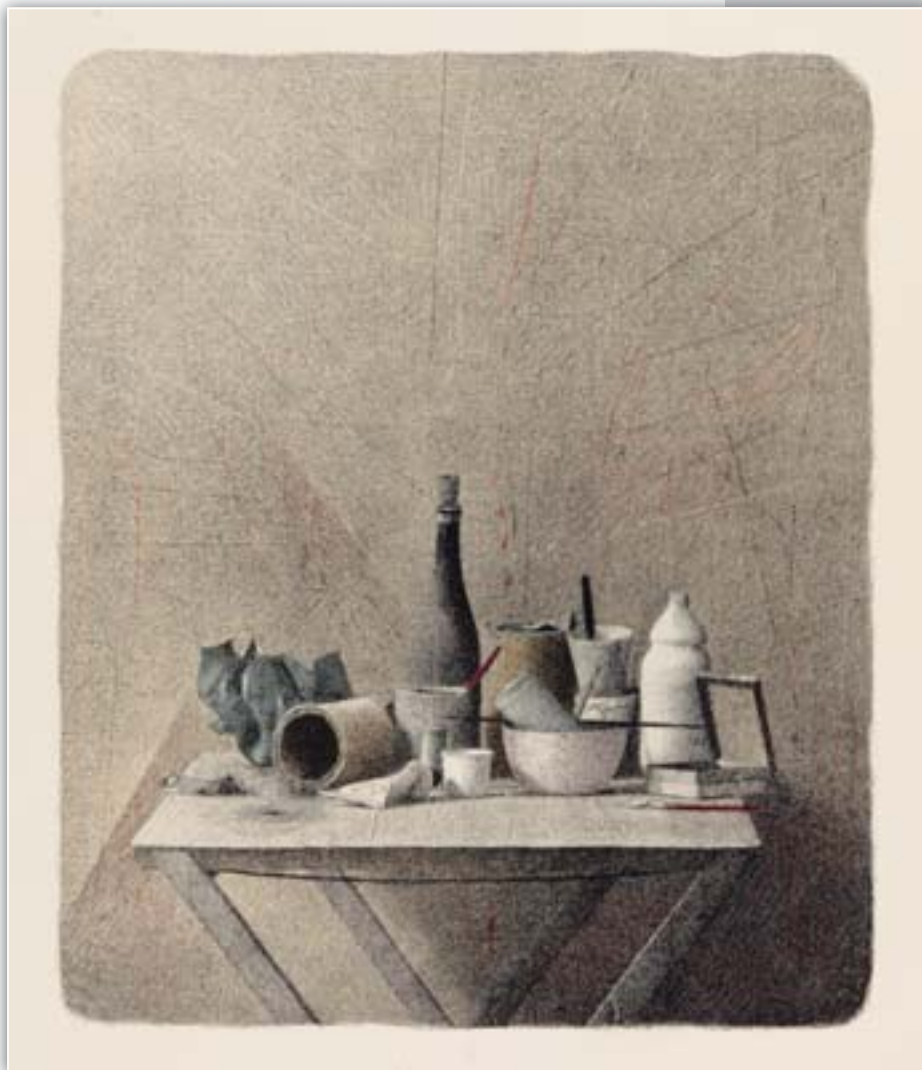
Light gives evidence to things, but does not deprive them of their silence and their aura of mystery.

In fact, the more it illuminates them, the more it makes the shadow and the mystery grow. So light and shade contend for the dominion of things.

**Gianfranco Ferroni**  
**Large still life, 1986**

Lithograph on stone, 4 colours with surround, 330 x 285 mm





**Gianfranco Ferroni**

**Objects**, 1986

Lithograph on stone, 8 colours with surround, 300 x 260 mm

### **GIANFRANCO FERRONI**

(Livorno 1927 – Bergamo 2001)

Born in Livorno in 1927, Gianfranco Ferroni debuts in the mid '50s, joining the existential realism movement that included artists like Bacon, Soutine and Giacometti. After a period between '63 and '70 when – together with the artists of the New Figuration – he discovered historical themes of political and social interest like war, the Holocaust and waste, a more mature phase of production began, based on the works of Caravaggio, Vermeer and Morandi, which he reinterpreted with an intense existential pathos. In his pictures, drawings and engravings, from that moment space becomes empty and the objects in his daily world – cups, glasses, bottles, scissors, brushes – unfold in a dusty light with an objective clarity that alludes to a perfection and an unattainable order that we sense under the chaos of the universe. Immersed in this emptiness and silence, the objects show, but do not reveal, their mystery, which stretches into the light like a shadow or disappears in the flare like a ghost. It is this mystery that Ferroni tries to penetrate to the extreme limit of his pictorial expressiveness, waiting for something to reveal itself, but in the certainty that nothing will ever be able to reveal itself, because that mystery is nothing other than emptiness, nothingness, the night that never passes, or rather “The Night That Moves”, to use the title of the evocative film that Elisabetta Sgarbi dedicated to the artist. “The meaning that I give my existence today – said Ferroni – lies in the waiting, a sacred waiting, because the desire for a revelation is sacred, and even though I know that it will never arrive, I still go on looking for it”.

*“Objects are alibis, they don't interest me in particular. They are points of reference to give the light and the space the chance to become protagonists. Light and space are the essential conditions to try to understand a mystery that is that of existence”. These words of Gianfranco Ferroni in a radio interview in '95 with Gianfranco Nembrini on RTSI reflect exactly his paintings and engravings of the '80s and '90s. The objects - a bottle, an empty, overturned jar, a bowl, vases, glasses, brushes, in other words the tools of his trade as an artist - are the occasion for a game of light and shadows with which the artist gives form to space. The soft, delicate light which falls on them from above accentuates their plastic evidence in the space, on which they project a silent halo of mystery which makes them evanescent and goes way beyond them. In the silence and the void, the bottle, in a sort of “secular altar”, rises like a chalice, it shines and radiates mystically into space, making it vibrant and filling every fibre, opening the doors to the mystery, but without revealing it. The silence, the void, the nothingness become, all in all, the condition of the mystery and, perhaps, they are all the mystery: the artist returns day after day to knock on its doors, anxious to know more, but he is destined to remain unsatisfied.*

sheet is carried out through the ALM (*Asset & Liability Management*) procedure which has been in use for years.

The analysis of average financial duration provides a measure of the immediate change in the net value of assets and liabilities in the event of a 1% increase in interest rates: the monthly analyses for 2010 averaged -55.531 million; the last measurement at 31 December showed a figure of -57.916 million. The improvement in these figures compared with 2009 was made possible by issuing a substantial subordinated bond loan in February.

The analysis of mismatches measures the potential change in net interest income for the year in the event of a 1% decrease in interest rates: the monthly analyses for 2010 averaged -3.698 million; the measurement at 31 December showed a figure of -13.947 million.

The scenario analysis provides a measurement of the difference between the future net interest margin for the next twelve months after the calculation date in the best and worst case scenarios: the monthly analyses for 2010 averaged -32.010 million; the measurement at 31 December showed a figure of -33.551 million.

Lastly, it is worth mentioning that from a «quantitative» point of view, operational risk is monitored with the help of systematic collection and ageing of loss data. From a «qualitative» point of view, operational risk is monitored by analysing the processes in order to estimate the two variables of «economic impact» and «frequency» of this type of risk. The result is expressed both gross and net of the quotas of capital absorption of the control areas. It has to be said that this method, translated into a specific IT support, guarantees that the entire model is more dynamic thanks to information flows that taken into account the trend in anomaly indicators and the results of controls on the branch network and central offices. It also takes account of the fact that operational risk is monitored by means of internal audit checks carried out during physical visits and by a structured system of remote checks.

The fourth annual global test of the business continuity plan was carried out successfully in December 2010. As usual, the test was carried out in our Lecco branch. In the disaster recovery field, during the year we successfully carried out periodic tests on data recovery and functionality checks on the various elements of the Bank's IT system: central processor, internet/intranet services provided by the departmental systems of the server farm, data transmission networks.

## HUMAN RESOURCES

The Bank's employees are a distinctive element of our complex organisation, an element that brings quality to the way that we operate. Each member of staff is not just a simple cog in a wheel that is much bigger than him or her, but rather a source of energy that helps put the entire mechanism in motion day after day. Our colleagues are a vital force made of willingness, skill, know-how and initiative, but also of shared values and rules of conduct based on tradition that express our way of operating. In this way, everyone



makes their contribution in accordance with a framework of rules that pursue and ensure the quality and uniformity of the service rendered to our counterparties.

In the branches, the natural place to meet customers, every effort is made to personalise the relationship, this being a key element if relationships are to be mutually satisfying. Attention to the needs of each one, operating flexibility and diligence, together with scrupulous observance of the rules, are the basis for solid relationships of trust that are likely to last for a long time.

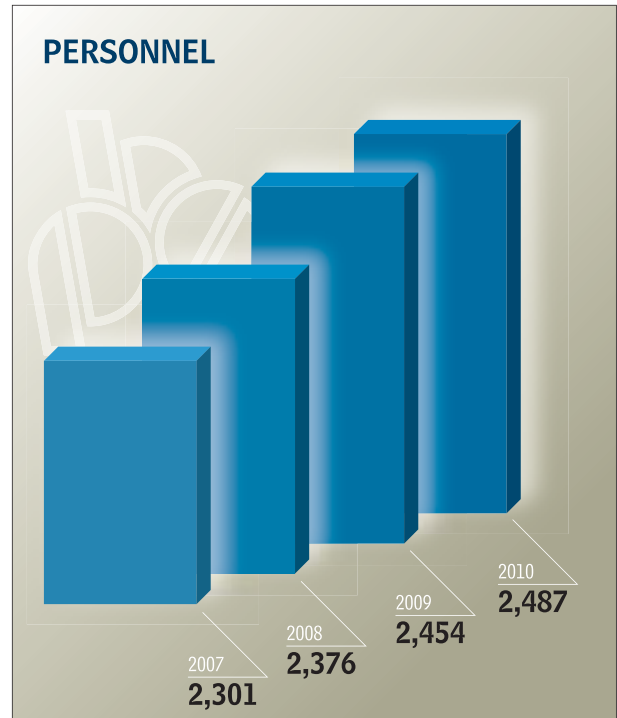
In this context, our personnel stand out in terms of style, for their ability to listen and to give concrete responses to customers, and for their loyalty to the Bank; characteristics that are consolidating despite expansion of the workforce due to the Bank's growth strategies.

The work done by the more expert employees, who can ensure continuation of a tradition of rigour, fairness and goodwill, is fundamental in transmitting to the younger generation the professional qualities and corporate values that are our real «trademark». New hires are the result of various delicate phases of selection, practically all of them high school or university graduates. In 2010 the Bank's personnel rose by 33 people, +34%, for a total of 2,487, of whom 76.48% work at the branches and 23.52% at the central functions. The average age of employees (36 years and 7 months) and their average period of service (12 years and 6 months) have increased by 6 and 7 months respectively.

Our need for professional skills, which derive from a process of internal growth, are satisfied by ensuring that new hires get plenty of hands-on experience, generally at branch level; also by rotating staff in various positions of rising complexity. Rotation that was possible thanks to the hiring of new staff and sustained by frequent training courses given to broad categories of employees, based on the skills model, using traditional classroom teaching and/or multimedia tools, without overlooking the importance of on-the-job training.

Classroom training, which takes place in a climate of open and lively discussion, involved 1,816 participants during the year, for a total of 58,651 man/hours, whereas 1,908 employees took multimedia courses for a total of 31,018 man/hours.

As regards knowledge of sector legislation, it is worth mentioning the courses on anti-money laundering and anti-terrorism, regulated by D.Lgs. 231 of 21 November 2007, which involved branch managers and newly-appointed staff working in this area. With reference to ISVAP Regulation 5 of 16 October 2006, we also ran courses on insurance brokerage for new-hires and already qualified employees. In accordance with the recommendations of the Bank



of Italy, significant attention was paid to the question of transparency in banking services and to that of business continuity.

Training also had the objective of developing and consolidating specific operating skills. This refers, for example, to the credit and loans sector, with courses being given to various categories of participants; to treasury services; to the new teller procedures and those for the management of conditions and bank transfers. It was also decided to enhance skills linked to personal abilities, especially in communication and customer relationship management, as well as those needed by heads of department for staff motivation. Our «in-house school» ran an important programme aimed at new hires that covers the entire period of the professional apprenticeship contract. In 2010, this involved 442 members of staff in theoretical and practical activities relating to the main operating areas of the Bank and 14 heads of department. The latter were appointed as tutors for the new hires under the apprenticeship contract and received specific training for this activity.

The multimedia courses included modules on health and safety in the workplace (D.Lgs. 81 of 9 April 2008), anti-money laundering, banking transparency and how to behave in the event of a bank robbery and how to prevent one taking place.

As regards legislation affecting the banking sector, we would mention in particular Law 183/2010, the so-called «Work Appendix», which delegated powers to the government to adopt measures that would have a significant impact on employment relationships.

The national collective labour contract expired on 31 December 2010 having been formally cancelled by ABI on 24 September.

Negotiations for the new contract will commence in 2011. Relations with the trade union organisations continue to be based on reciprocal respect.

Once again, we would like to emphasise the importance of the human element in the banking sector. It is fair to say that there is no other organisation that offers services to the economy that employees as many people as banking does..

## **PROMOTIONAL AND CULTURAL ACTIVITIES**

Culture, art, history and traditions appear to be a long way away from the institutional activity of a bank. But if we recognise as part of our mission the promotion of the territory as a whole, we have to dedicate care and interest to its tangible and intangible values, i.e. those that we perceive with our senses and those that we perceive with our intellect.

This commitment is a conscious assumption of responsibility in favour of the growth of the communities that we serve; and not only economic growth. This all goes to the benefit of our relationship with local communities and, of course, the formation and preservation of a cultural heritage that everyone can now enjoy, at least in part, thanks to modern means that make it accessible at any time and at any distance.

Our website is in fact being enriched more and more by themed sections

featuring above all the Credaro Library, the Bank's art collection, the Notiziario, our conferences, the Pareto Fund, the Donegani Museum and trips to our valleys. A huge amount of very important material, unique of its kind, which we add to constantly.

Let's now look at the initiatives that took place during the year, starting with the regional recognition that we received as part of the project launched by the Lombard Chambers of Commerce entitled «Good CSR practices by Lombard businesses», 2010 Edition.

Our traditional cycle of conferences opened on 12 February with Professor Giulio Ballio, in his day the Rector of Milan Polytechnic, who entertained the audience on «The concept of safety in buildings over the centuries». On 2 July, Professor Alberto Quadrio Curzio, well-known Valtellina-born economist, Dean of the Faculty of Political Science at the Università Cattolica del Sacro Cuore and Vice President of the Accademia Nazionale dei Lincei, dealt with the very topical subject of «Italy: federalism and europeism».

Of particular interest, given our efforts to have Valtellina's terraced vineyards recognised as a World Heritage Site, was the meeting on 24 September 2010 with Professor Giovanni Puglisi, Rector of the Libera Università di Lingue e Comunicazione - IULM of Milan and Chairman of the Italian National Commission for UNESCO. The evening was dedicated to «UNESCO's Heritage Sites, an occasion for cultural growth and economic development: an example at a glance, the terraced vineyards on the Rhaetian Alps side of the Valtellina».

This was followed, on 1 October, by the excellent conference held by Professor Marcello Fontanesi, Rector of the Università degli Studi di Milano-Bicocca, on the subject «Energy from the stars for our future?».

Then, on 29 October, we had the honour of having as our guest Mrs. Anna Maria Tarantola, Deputy General Manager of the Bank of Italy, who spoke interestingly on «Structure and function of the Bank of Italy. Evolution of the supervisory role». This conference, which will remain part of our small history as a bank, was also a way of celebrating the 86th World Savings Day.

Lastly, on 22 December, we were honoured to receive for the ninth time Cardinal Gianfranco Ravasi, recently promoted from Archbishop by Pope Benedict XVI at the public consistory on 20 November 2010. As Chairman of the Pontifical Council for Culture, he spoke with inimitable authority and eloquence on «Faith and science».

Of our various public meetings, we would recall in particular the presentation on 15 January, in our Besta Room, of the conference proceedings on «Luigi Credaro and the Rivista Pedagogica» and the related round table «The educational role between the present day and tradition», an initiative developed by our Credaro Library and the Sondrio Institute for the History of the Resistance and the Modern Era on the occasion of the 150th anniversary of the birth of our illustrious compatriot. Our publishing activity, which has its point of strength in the quarterly magazine «Notiziario», can boast among its best works «Adventure in Valtellina» by Mario Soldati, published in 1985 and reissued in 2006 to mark the centenary of the birth of this great writer.

It was donated to the shareholders who attended the AGM in Bormio on 27 March 2010 as part of an attractive booklet that also contained a piece written by Professor Marco Vitale. «Adventure in Valtellina» was also a source of inspiration for film director Ermanno Olmi. He used it as the leitmotiv of his admirable documentary film «Rupi del Vino» (Wine Rocks), produced on our initiative based on an idea of Marco Vitale, as part of the activities to have Valtellina's terraced vineyards recognised by UNESCO as part of the world heritage of humanity.

Our 2009 financial statements was illustrated by images from the Bank's collection of paintings from the 18th and 19th century, explained in detail by Franco Monteforte and with an introduction by Melania Gaia Mazzucco. The cultural appendix of the 2009 accounts of BPS (Suisse) contained an interesting essay on Ignazio Silone, the anti-fascist writer and politician who was born in Abruzzo, but then lived for many years in Switzerland, where he died.

This year's promotional material includes the 14th diary book by Gigliola Magrini, entitled «The market and the days of 2011».

Our Luigi Credaro Library, whose intense activity affirms its prestige, also in terms of visitors, has been enriched by more than 4,800 books owned by the late Professor Giulio Spini, a Valtellina-born personality of great culture and political commitment at a local level. We would like to thank his heirs yet again for this important donation. The Credaro Library also hosted a photographic exhibition entitled «A month in Ponte», in collaboration with the Municipal Library of Ponte in Valtellina as part of the XXXIII edition of «Ponte in Fiore». It also organised, together with the Sondrio Institute for the History of the Resistance and the Modern Era, a talk on «The evolution of the democratic school in Valtellina between the 19th and 20th centuries», which took place on 23 April during the XII National Culture Week.

We collaborated with the Unione Sportiva Bormiese and our Pirovano in organising the 6th edition of Mapei Day, held on 11 July 2010, this year dedicated to the unforgettable «Monsieur Roubaix», Franco Ballerini. This event, which Mr and Mrs Squinzi of Mapei will continue to sponsor, saw the participation of more than 3,000 athletes on racing bikes - many registered for the 25th edition of the Re Stelvio race - and roller skis, tackling the many hairpin bends of the imperial road between Bormio and the Stelvio Pass. In this connection, we would like to remember the human and professional qualities of the late Aldo Sassi, the manager of the Mapei Sport Service of Castellanza, who was one of the promoters of Mapei Day and who on this occasion went up the Stelvio for the last time.

Last year, the Holy Mass dedicated to the Madonna della Neve was celebrated at the Pirovano in the Stelvio Pass by Don Adriano Folonaro, director of the Guanellian Historical Archive and author of the book «In the steps of Don Guanella», which was presented on that occasion.

Again at the Stelvio, on 18 September, we and Pirovano collaborated with the Italian Post Office for the event «Post Office: messenger of peace». This consisted of a conference entitled «Communication yesterday, today and tomorrow» at which the speakers were Enrico Menegazzo, Head of the

Post Office for Lombardy, and the designer Claudio Sciarrone; there was also «Letters of memory», an exhibition of letters, postcards and photographs from the Great War, collected by Edoardo Mezzera and Oscar Sceffer; and a special postmark dedicated to the event. The Interbank Ski Competitions held at the Stelvio on 22 and 23 October presented a novelty: the traditional Interbank Triangular Meeting (Unicredit Group, Deutsche Bank and Banca Popolare di Sondrio) was replaced after 15 years by the 1st Interbank Quadrangular Meeting with the participation of Intesa Sanpaolo. The 9th Pirovano Interbank Meeting saw the participation of 139 athletes representing 14 banks. Pirovano closed the season with the 11th Snowfestival, which also has charitable ends as it supports the Associazione Sciare per la Vita Onlus, headed up by Deborah Compagnoni, and the Fondazione Ariel.

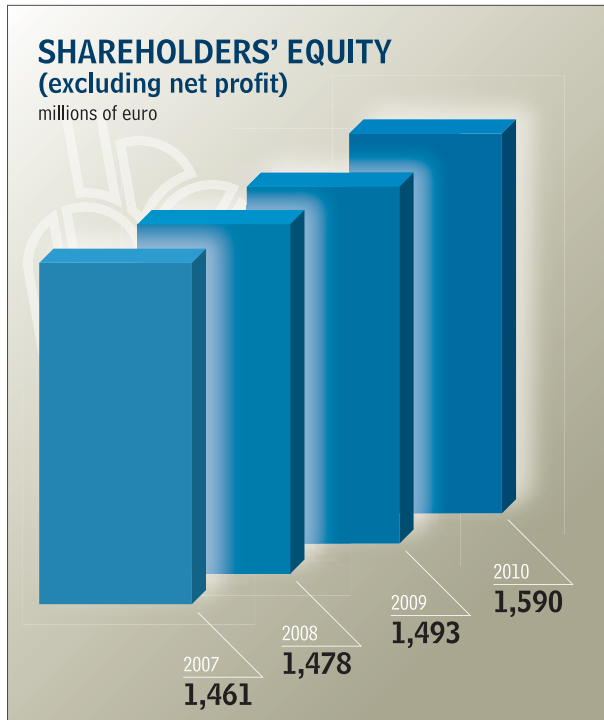
We took part in the IX edition of «Invito a Palazzo», held on ABI's initiative on 2 October 2010, accompanying many guests to visit the Bank's art collection, the Credaro Library and the Donegani Museum at the Stelvio Pass.

Of the initiatives that we contributed to, one that we can mention with pleasure was «An opera season in Bormio in the '50s», which took place on 30 July at our Bormio office, with the participation of violinist Gabriele Baffero, dedicated to the local poets Gino Berbenni and Giulio Pedranzini. Contributions were also received from the Cultural Commission of the Municipality of Bormio and the Bormio section of the Civil School of Music of the Province of Sondrio.

Towards the end of the year our branch in Bormio's Via Roma hosted an exhibition of photographs and postcards entitled «Propagandistic iconography and real life of our soldiers during the highest war in Europe», with contributions by the collectors, Edoardo Mezzera and Oscar Sceffer. Then it was the turn, in honour of the famous poet Salvatore Quasimodo, whose stay in Valtellina we commemorate, of the photo exhibition «Operaio di sogni» (Worker of dreams), preceded by a poetry recital of the same name by his son Alessandro, held in the conference room of the Terme Bormiesi.

Our website is constantly update, not just to add more content, but also to speed up access and increase user-friendliness. It was begun in 1997 and has millions of hits every month from all over the world, thanks among other things to the various webcams that open a window on our territories. We have been involved in important initiatives of solidarity, as well as targeted charitable donations:

- for the population of Haiti, hit by a very bad earthquake on 12 January 2010, we promoted fund-raising together with the UN's World Food Programme and, in particular, its Italian Committee;
- the funds raised on behalf of the earthquake victims in Abruzzo, almost 400,000 euro, were handed over to the Civil Protection Department and helped to finance construction of a multifunctional centre for university students in the Pile district of LAquila;
- through the Solidarity Current Account we make significant donations each year to UNICEF, AIRC, AVIS, ADMO and AISLA.



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

## UPDATE OF THE SECURITY POLICY DOCUMENT

The security policy statement was updated as prescribed in Rule 19 of Annex B to Legislative Decree 196 of 30 June 2003, the Italian Data Protection Law. In this connection, we should mention that the procedures that govern relations between the Bank and the providers of IT services, outsourced and otherwise, have now been rationalised. The revised contractual and behavioural rules are designed to regulate in a uniform way, among other things, the salient aspects involved in the handling of personal data: confidentiality, security and availability of the information. This also with

reference to the ISO 27001 certifications that the Bank has obtained.

The updated security policy statement, with annexes, is kept by the Data Protection Officer at SOSI.

## EQUITY

The serious crisis that the world economy is trying to overcome - definitively, one hopes - has left in its wake many negative elements, as well as some important lessons. Of these, the one that stands out the most for banks, but not only for them, is the importance of having sufficient capital to cope with the overall exposure to risk and to finance expansion plans.

The idea of growth based on extreme financial leverage has been abandoned, as it turned out to be noxious; and having understood that expansion based on debt very often only expands the debt and related costs, there is now a return to putting own funds centre stage.

For our Bank, equity has always reflected the trust our shareholders have in us, which is why we have always managed to keep it high. Periodic increases in capital and a good level of self-financing through positive cash flow year after year have in fact made it possible to initiate important processes of corporate development, while an adequate level of profitability has also made it possible to suitably remunerate the rising volume of resources received from the shareholders.

The correct balance maintained in this way has also made it possible to cope with the recent hardships in the world of national and international finance without too much worry. Thanks to an adequate endowment of

capital, our Bank has the chance to exercise its entrepreneurial vocation in the best way possible. Not only: it is precisely during a period of extreme difficulty in general that we have been able to carry out an important acquisition that is intended essentially to provide support for the financial needs of companies. We are talking about our takeover of control of Factorit spa, a company that has now joined our Banking Group and on which we have more to say in the chapter on equity investments.

As we said, this was made possible thanks to the trust that our shareholders have in us, in addition to that of our customers on the occasion of the issue of a step-up subordinated lower tier II bond (a loan with increasing interest rates and suitable characteristics to be included in Tier 2 capital for supervisory purposes) for an amount at par of 350 million.

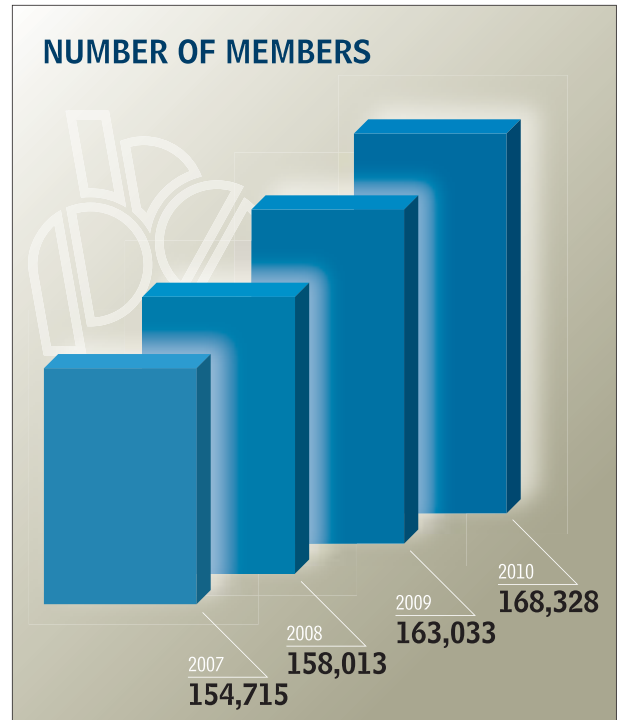
This operation, which was the first of its kind carried out by the Bank and completed with extreme rapidity and total success at the beginning of this year, has guaranteed the Bank further space for growth, especially in granting credit to support local economies. Moreover, in significantly reinforcing our capital, it also provided higher guarantees for our deposit-holders.

At 31 December 2010 capital and reserves amounted to a 1,590 million, +6.46% – excluding net profit for the year. The share capital, made up of 308,147,985 ordinary shares with a par value of 3 euro, remained unchanged at 924.444 million. The share premium reserve of 174.315 million decreases by 1.01%, because of the allocation of the loss deriving from the trading of own shares of 1,770 million. The reserves rose to 522,958 million (+20.71%) due to allocation of a large part of the net profit for 2009. This following the resolutions passed by the Shareholders' Meeting on 27 March 2010, which approved the 2009 financial statements and the proposal to distribute a dividend of Euro 0.33 per share.

The valuation reserves have gone from a negative figure of 0.513 million, to a positive balance of 0.614 million.

As regards treasury shares, the Bank held 3,580,000 shares, for a book value of 32,821 million compared with 40,211 at the end of 2009. Purchases were made using the specific provision of 73 million shown in the financial statements under reserves.

During the year, trading aimed at favouring the circulation of our shares included purchases of 377,316 shares, for a total of 1,131,948 euro at par (0.122% of the share capital) and sales of 1,149,893 shares, for a total of 3,449,679 euro at par (0.373% of the share capital). The market value of



Travelling by train in '47 towards Rome, Zoran Music was struck by the hilly countryside in Tuscany and Umbria, which when reproduced by him, looks a lot like the Karst landscape around his home town of Gorizia.

*"The name Gorizia means a small hill [...] – wrote Music – I was born on a small hill". The hill is a primordial metaphor in which all of Music's art is condensed.*

*Hill is the mother's womb full of life.*

*Hill is the rolling countryside of the Carso, hollowed out and eroded by the rains that impress on it a thousand wounds. Hill is the heap of corpses in the camp of Dachau. Hill is the mound that covers the tomb. The hill is the image of the beginning and the end, the alpha and omega of life. The hill is covered in light on the outside, but is dark on the inside. Light and shade that are in constant, inseparable tension, like the conscious and the unconscious. The white of the hill shown here highlights its empty, weightless form, that is at the same time speckled and spotted. For Music, hills are in fact always those of his childhood: arid and flat, without vegetation, rounded areas where the earth shows its naked wounds. "Imagine - he wrote referring to the hills of the Karst plateau around Gorizia - an immense expanse of stones, interrupted only by small rounded mounds, like dry breasts".*

*Can we not recognise the landscape of these flat hills in this description?*



**Zoran Music**  
**Flat hills**

Colour lithograph, plate 340 x 440 mm

#### **ZORAN MUSIC**

(Gorizia 1909 - Venice 2005)

Zoran Music was born in Gorizia in 1909, then part of the Austro-Hungarian Empire and the point where Italian, Slav and German culture all met, together with the millenarian traditions of Byzantium and the Mediterranean, which would feed his work as a European artist firmly anchored to the Karst countryside and the myriad faces of Gorizian culture. Trained at the Academy of Fine Arts of Zagabria, after various artistic peregrinations around Spain, Italy, Slovenia and Croatia, in '44 he was arrested by the Gestapo in Venice and deported to Dachau. There, evading the controls, he managed to portray the day-to-day horror of the extermination and the skeletal bodies in 200 drawings, though he only managed to save 35 of them.

After a long period of interior sedimentation, the terrible experience of the concentration camps re-emerged intact and painful for his artistic conscience in the mid '60s with a descent into his own hell and his own memory. This gave rise to an extraordinary cycle of drawings entitled "We are not the last", one of the highest testimonies of the Holocaust in all Twentieth Century art.

In this way, the theme of the Shoah intertwines with his Dalmatia-themed work of the '50s, portraits of his wife Ida, the Karst countryside around Gorizia, the hilly landscapes of Tuscany and Umbria, his Venetian subjects. All themes where the constant remains that almost empty and weightless form, surrounded by light and shade and sometimes enriched by gems of colour and deep streaks like wounds, in which Music combines, with extremely modern sensitivity, the stylised and ethereal fixity of the Byzantine tradition with the expressivity that is typical of the western artistic tradition.



## MARIO SCHIFANO

(Homs, Libya 1934 - Rome 1998)

Born in Homs (Libya) in 1934, Schifano had his first important international recognition in 1962, when his works appeared in a New York exhibition of *The New Realists*, alongside those of the major exponents of American Pop Art. And it is always to Pop Art that his interest in those years returned, for the irreverent re-elaboration of the best known advertising brands, like Coca Cola and Esso, and subsequently for the revisitation of certain moments of the history of art, such as Futurism, as he always felt particularly close to its provocative vein.

In later years, his attention concentrated more and more on cinema and television, making a number of full-length films that transformed in profundity his painting, where around 1970 there appear, in the irreverent ways that he enjoyed, isolated television images fixed on the canvas in a mix of collage, photomontage and photo impression. After his naturalistic cycles, in the '90s Schifano went back to work on cinema and TV images, re-elaborated on the computer, to highlight the basic trash and conformist banality that contaminates all forms of expression, including artistic expression, whose apparent aesthetic and cultural quality is therefore only a worthless mystification, that can only be stripped naked and neutralised with the same means, using the same language as is used in films and television. Arrested on various occasions for drugs, he died in a Roma hospital on 26 January 1998.

*One of the typical elements of the conformist banality of TV language is the obsessive repetition of stereotypes, of which daily weather forecasts are perhaps the most striking example. Here Schifano gives us an example of estrangement and pictorial re-invention of television's banality, building a television with a screen, inside a multicolour frame that surrounds it, that is like an enormous black hole, which seems to swallow the two deformed globes that float in it (the Earth? two human heads?). But it is the writing, which repeats in Arabic (Schifano was born in Libya after all) the stereotype of the picture's title, which with its mysteriousness translates television's banality into anguish, taking on an almost prophetic character considering the events of recent years.*

*All in all, everything in this image transmits a subtle sense of disorientation and catastrophe, fuelled by that alarming black hole of the television screen. In fact, we could ask ourselves whether we are on Italian, European or American TV, or are we on Al Jazeera? For Schifano, we are quite simply heading towards catastrophe in an undifferentiated television world that by now has become the only reality. And this is the spiritual weather forecast of our time.*

### Mario Schifano

**Very cloudy sky, 1991**

Oil and mixed technique on canvas, 135 x 240 cm



# Growth in the number of our **SHAREHOLDERS**



purchases was 2.5 million; that of sales 8.1 million. These trades resulted in a loss of 1.77 million (at average negotiation price), which was booked to equity.

As regards market performance, our shares suffered the general weakness of the stock exchange, especially in the financial sector. There was therefore a deterioration of 14.05% for the year, compared with -13.23% on the part of the FTSE MIB index and -11.49% on the part of the FTSE Italia All Share index. The most significant comparison is with the banking sector index, which fell by 31.08%. Trust in us continues to be reflected in the constant increase in the shareholder base – in 2010, 5,295 new shareholders for a total of 168,328 – most of whom are also customers, who therefore take part in the Bank's virtuous growth process, sharing its values and management policies.

Applications for admission as a shareholder received during the year were examined by the Board of Directors in accordance with the law and the articles of association (as per art. 2528, last para., of the Italian Civil Code). In particular, art. 9 of the articles of association states that: «the Board of Directors decides on applications for admission as a member by adopting a suitably-reasoned resolution, having regard for the interests of the bank, the spirit of the cooperative movement and the requirements of the articles of association», taking into account the guidelines laid down by the Board. Proof of the Bank's capital adequacy is also given by the following elements. Risk-weighted assets total 14,450 million. The Bank's individual solvency ratio (ratio of capital for supervisory purposes to risk-weighted assets) is 13.17%, compared with the minimum of 8% required under current regulations for banks that belong to banking groups.

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

- *capital/direct customer deposits*  
8.38% v. 8.52%
- *capital/customer loans*  
8.71% v. 8.93%
- *capital/financial assets*  
48.93% v. 44.52%
- *capital/total assets*  
6.68% v. 6.75%
- *Net non-performing loans/capital*  
12.13% v. 10.22%.

With reference to the above, the capital is well balanced and therefore provides good support to the fiduciary funds both in terms of its amount and in terms of its composition. Our capital is made up of a considerable amount of share capital, associated with substantial reserves which are being constantly reinforced.



## INCOME STATEMENT

In a macroeconomic context that featured ongoing uncertainty about whether the crisis was going to be overcome and about the effective strength of the recovery, factors that weighed on the entire banking system, conditioning the trend in volumes, credit quality and the trend in revenues, our Bank made a net profit of 133.320 million, 30.08% less than in the previous year.

The decline on last year, when we even managed to turn in the best ever result in the Bank's history, is principally due to the contraction in net interest income and the negative result of trading activities. Elements deriving from this difficult general situation and from the nervousness present on financial markets, which we did everything to overcome by making every effort to increase revenues and limit costs, while also focusing on a prudent approach to risk assumption.

### Net interest income

Net interest income has fallen from 446.362 million to 393.367 million and suffered the stability in market rates – at all-time lows – together with a further reduction in customer spreads, despite the steps taken to ensure a correct remuneration of the risk taken on. Another influence was the downward trend in volumes handled during the year and a shift in allocation towards forms of loans and deposits that were, respectively, less remunerative and more onerous, also because of the increase in competition, especially on the funding front. The comparison with the previous year is also penalised by the fact that the decline in interest rates had not yet shown its complete effect during the first half of 2009. Net commission income has increased from 173.450 million to 206.372 million, mainly because of those linked to the cash loan and endorsement credit activity and, to a lesser extent, those on trading. Dividends have almost doubled to 6.368 million, essentially because of those paid by Arca Vita spa.

The result of financial activities is negative for 36.230 million, versus a positive result of 137.352 million in the previous year. Above all, it feels the effects of the crisis in sovereign debt, which hit the peripheral countries of the European Union, but not only them. The general weakness in financial markets, which closed the year close to their lows, has in fact had as a consequence the booking of considerable losses on debt securities, especially floating-rate Italian government securities. Last year, on the other hand, it was possible to book significant gains on the same type of securities.

Among the various items involved in financial activities, net trading income of 131.333 million has turned into a loss of 36.676 million. Analysing its component parts, trading income on securities has fallen from 52.482 million to 5.501 million; The difference between gains and losses is negative for 64.435 million, versus a positive balance of 59.669 million in the previous year; exchange gains and differences have risen from 13.821 to 16.352 million. Lastly, derivatives amount to 5.906 million, up from 5.361 million. The loss from the sale of AFS and HTM assets amounts to 0.360 million, principally due to the loss on sale of the investment in Centrosim. Financial assets carried at fair value, which last year made a profit of 7.477 million, in 2010 made a profit of 0.806 million.

Income from banking activities fell as a result from 760.356 to 569.877 million, -25.05%. Analysing the elements making up this item, net interest income has increased to 69.03%, while the weighting of trading profits and dividends has fallen to 30.97%. The continuing unfavourable scenario, which already last year had a strongly negative impact on credit risks, has also reflected on net adjustments to loans, which remain at high levels, although lower than in 2009. Net adjustments to loans, financial assets available for sale and those held to maturity came to 123.752 million compared with 145.642 million (-15.03%). Of this item, the element relating to customer loans went from 141.276 to 116.646 million, -17.43%, reflecting both the difficulties generated by the ongoing negative cycle in the economy and the prudent valuations made by the Bank's credit committees. Impairment adjustments to securities have gone from 4.366 to 5.106 million and concerns certain listed equities and mutual funds for which an objective impairment has been ascertained comparing market prices with their original book values, while adjustments on other financial transactions amount to 2 million for the writedown of endorsement credits. The ratio

Income from banking activities

## SUMMARY INCOME STATEMENT

(thousands of euro)	2010	2009	(+/-)	% change
Net interest income	393,367	446,362	-52,995	-11.87%
Dividends	6,368	3,192	3,176	99.50%
Net commission income	206,372	173,450	32,922	18.98%
Results of financial activities	-36,230	137,352	-173,582	-
<b>Income from banking activities</b>	<b>569,877</b>	<b>760,356</b>	<b>-190,479</b>	<b>-25.05%</b>
Net adjustments to loans and financial assets	-123,752	-145,642	21,890	-15.03%
<b>Balance of financial management</b>	<b>446,125</b>	<b>614,714</b>	<b>-168,589</b>	<b>-27.43%</b>
Personnel expenses	-164,840	-156,858	-7,982	5.09%
Other administrative expenses	-162,674	-161,485	-1,189	0.74%
Other operating income/expense	34,367	38,336	-3,969	-10.35%
Net provisions for risks and charges	1,429	-	1,429	-
Adjustments to property, plant and equipment and intangible assets	-20,525	-18,524	-2,001	10.80%
<b>Operating costs</b>	<b>-312,243</b>	<b>-298,531</b>	<b>-13,712</b>	<b>4.59%</b>
<b>Operating profit (loss)</b>	<b>133,882</b>	<b>316,183</b>	<b>-182,301</b>	<b>-57.66%</b>
Share of profit (loss) of equity investments and other investments (+/-)	57,796	-7,509	65,305	-
<b>Profit (loss) before tax</b>	<b>191,678</b>	<b>308,674</b>	<b>-116,996</b>	<b>-37.90%</b>
Income taxes on current operations	-58,358	-118,000	59,642	-50.54%
<b>Net profit (loss)</b>	<b>133,320</b>	<b>190,674</b>	<b>-57,354</b>	<b>-30.08%</b>

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



of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has therefore gone down from 0.85% to 0.64%.

The balance of financial management therefore comes to 446.125 million, -27.43%.

Operating costs amount to 312.244 million (+4.59%). The low increase is due to constant monitoring of the various items. Personnel expenses grow from 156.858 to 164.840 million, +5.09%. This increase is essentially linked to pay rises envisaged in the national labour contract and in the in-house supplementary contract, as well as to the higher number of employees. Other administrative expenses are up from 161.485 to 162.674 million, +0.74%. This increase, though generalised, concerns in particular rents, IT and data processing costs. Adjustments to property, plant and equipment and amortisation of software amounted to 20.525 million (+10.80%).

Other revenues, net of other operating expenses, gave a positive result of 34.367 million, even if it declined by 10.35%. This trend is due to the reduction in operating income, -6.48%, against which there was a 48.83% increase in operating expenses. The largest item in this caption is tax recoveries, while the related cost is included in other expenses.

Net movements on provisions for risks and charges, which last year showed a zero balance, now amount to 1,429 million because of the provisions made during the year of 5,088 million less 6,517 million of prior year provisions that were released during the year.

The ratio of operating costs/income from banking activities was 54.79%, compared with 39.26%. This mainly reflects the loss made on trading activities, which last year made a profit.

The operating profit therefore came to 133.882 million, -57.66%.

Profits/losses on equity and other investments show a positive balance of 57.796 million compared with -7.509 million the previous year. It derives for 58.403 million from the realised gains on the partial sale of the interest in Arca Vita Spa and of the total holding in Arca Assicurazioni spa; for 0.416 million from the writedown of the equity investment in Pirovano Stelvio spa; for 0.192 million from losses on disposal of property, plant and equipment.

Accordingly, the profit from ordinary operations was 191.678 million, -37.90%. After deducting income taxes of 58.358 million, down by 50.54% due to lower taxable income, also because of the reduced taxation to which the gains on sale of equity investments are subject (thanks to the PEX regime), net profit for the year comes to 133.320 million, compared with 190.674 the previous year, -30.08%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, comes to 30.45% compared with 38.23% in the comparative year.

Based on the Bank's net result, which management considers satisfactory considering the context in which it was made, the Board of Directors would like to propose a dividend of 0.21 euro per share, which takes into account the need to boost capital and the reasonable expectations of shareholders. The previous year it was possible to pay the shareholders a dividend of 0.33

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**Net profit for the year**

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**Dividend**

euro. The aim of our prudent valuations and care in reinforcing reserves is to defend savings and collaboration with our customers, who benefit from the support provided by our loans.

## CRITERIA FOR MUTUALISTIC ACTIVITIES

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

In this matter, points 1 and 2 of our Articles of Association are fundamental points of reference for us; they read: «The company's activities are based on the principles of mutuality and cooperation» and «As part of institutional work to facilitate the development of all productive activities, the company, in consideration of its specific objectives as a cooperative bank, intends to provide specific support for the smaller enterprises and cooperatives present in the territories served; in addition, it will take all appropriate steps to spread and encourage saving».

In the year under review, mutuality has again been reflected above all in making important financial resources available to local communities. The Company's data on loans, show a rise from 16,711 to 18,248 million, +9.20%, demonstrating that the economic crisis did not interrupt the Bank's commitment in this crucial area. This is an expression of our contribution to economic development: a transversal movement that involves all subjects in the area, safeguarding their identity and fostering their potential. It is also a function that we are called upon to do by our status as a cooperative, allowing us to become a point of reference for households and business in geographical areas that are getting wider and wider. As regards businesses, our focus is particularly on small and medium sized enterprises (SMEs). In this way we helped provide support at a time of widespread crisis to those who form the basic structure of the economies that we serve.

We also made every effort to make various forms of financing available to households, the main ones being home purchase loans, loans for families with small babies and loans to pay for children's schooling. We would also mention the initiatives promoted together with the institutions to provide advances in favour of those awaiting redundancy benefits and the «Prestito della Speranza» (Hope Loan), following the agreement between the CEI and ABI.

Supporting local communities also means helping to direct initiatives towards forms of sustainable economic development. Among others, we would recall the loans that aim to spread the use of renewable energy sources and to implement rural development plans. Social responsibility was also a feature of our funding activity. The protection of savings took concrete form in our offer of investment products and tools based on clarity and transparency. Equally important, the diffusion of an adequate financial culture among all categories of customers, even the smallest, is designed to raise the level of awareness in investment decisions, thereby offering greater protection against

risk. Our catalogue also includes instruments of ethical finance, the expression of an ecosustainable economy, and supplementary pension products, which are fundamental to guarantee adequate retirement conditions, especially for the young.

The users of our products and services include numerous public entities and institutions, a category that ranges from small local entities to bodies of national importance, to which we ensure complete professional assistance to help them carry on their complex activities.

The constant increase in the number of shareholders, which increased by 5,295 during the year, is an excellent sign of corporate vitality, able to involve more and more members of the cooperative. This is accompanied by an intense effort to promote the role of shareholder/customer, implementing the original principles of the cooperative banking movement and strengthening their relationship with the Bank.

This last aspect is boosted by institutional communication. Part of this is the traditional letter of the Chairman to the shareholders, halfway through and at the end of the year, with an explanation of the Bank's performance. The directors' report that accompanies these financial statements, being addressed to the shareholders, provides an exhaustive picture of the events that took place during the year, using simple, clear language as much as possible, without too much technical jargon, far less anglicisms. The various interim reports also follow the same approach.

A high level of participation by shareholders at general meetings is helped by such communication. There were almost 4,900 registered attendees at the meeting on 27 March 2009, who made use of the transport service that we provided and took part in the lunch that followed.

The will to contribute towards the economic and social development of the communities that we serve also manifests itself in the financial support that we give to a vast range of initiatives on their behalf. They reflect a solidaristic vision of the market, in which profit is not the sole objectives. There are also other objectives that reflect the acceptance of long-term responsibility. The initiatives of the year are as follows:

- running the library in Sondrio named after Luigi Credaro, illustrious compatriot and former Education Minister from 1910 to 1914. In addition to making available to the general public our significant heritage of books and documents, we have also established fruitful contacts with the world of education;
- support for Pirovano Stelvio spa and through it for the tourist complex of the Stelvio and the Upper Valtellina;
- the ongoing effort to obtain recognition from UNESCO of the terraced vineyards in the Valtellina as a World Heritage Site;
- the cultural events we organise on an ongoing basis such as conferences and seminars, as well as the publications we edit and publish, and the sporting events that involve a large number of participants;
- the traditional celebration of World Savings Day;



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

## SIGNIFICANT EVENTS

The following information on significant events that have taken place subsequent to year end is provided in accordance with regulatory requirements. On 21 January the Bank increased its stake in CartaSi spa from 0.041% to 2%. This is the company that issues and manages CartaSi credit cards, which belongs to the Istituto Centrale delle Banche Popolari Italiane Group. This interesting operation, which derives from a reorganisation of the shareholder structure, entailed an outlay of 6.3 million. Our long-standing collaboration with CartaSi, a company that is both solid and profitable, also involves innovative products created with success. Last February we increased our interest in Polis Fondi Sgr, raising it from 9.8% to 19.6%. Even if this operation was of a limited amount, given that it entailed an outlay of 1.6 million, it is worthy of note as it forms part of a wider agreement with the company's original owners to widen the support that it offers financial institutions. As regards our subsidiary Banca Popolare di Sondrio (Suisse) SA, on 14 February its general meeting examined and approved the results for 2010, the 15th year since its foundation. With the recent inauguration of a branch in Samedan in the Grisons Canton the subsidiary has confirmed its status as the number one foreign bank in Switzerland by number of branches. In 2010 it made a net profit of 4.7 million Swiss Francs, which is down on the previous year because of the economic and financial crisis which affected even Switzerland.

On 15 February the Bank of Italy began a routine inspection of our operations. The last inspection was in 2004.

The new Aosta branch opened on 28 February, our first in the Val d'Aosta.

## OUTLOOK FOR OPERATIONS

The hope that we could consider the serious financial tensions of the last few months of the year as past and gone lasted the space of a morning. The upheavals that took place in various Arab countries fed market uncertainty, raised worries about the civilian populations involved and fuelled inflationary pressure from the energy sector.

There are also still fears in the banking industry about the effects of the crisis on the quality of credit.

In this context, which includes the expectation of a slight recovery in interest rates, the Bank should see a small rise in net interest income, also as

**Renato Guttuso**

**The skier (Livigno 1982)**, 1982

Colour lithograph, plate 240 x 170 mm



Made by Guttuso at the time of the Youth Downhill Skiing Championships at Livigno in 1982, this lithograph shows us the aerodynamics of a young skier caught in the tension of speed. The skier fills the foreground in a realistic way with the snow of Livigno in the background just hinted at with fleeting touches that reveal his superb expressive ability. His skis seem to slide as though suspended in a void, with an effect that is almost magical and surreal, which works well with Guttuso's realism that is always vaguely expressionist, with his typical way of outlining his figures and objects.

The red of the ski suit, gloves and woollen bonnet stand out against the pale background, creating a chromatic division that emphasises the dynamism of the athlete.

#### **RENATO GUTTUSO**

(Bagheria, Palermo 1912 - Rome 1987)

Born in Bagheria (Palermo) in 1912, Guttuso devoted himself to painting at the beginning of the '30s, first as part of the Roman School, with Scipione and Mafai, then in the Milanese "Corrente", with Sassu, Birolli, Treccani and Elio Vittorini.

In '37 he established himself definitively in Rome, but it is with his *Crucifixion* of 1941 - in which echoes of Piero della Francesca and archaic Italian painting combine with Cubist influences and a clear reference to Picasso's *Guernica* - that his dramatic realism and vivacious choice of colours, with hints of the Sicilian tradition of painted carts, caught the attention of a vast public and of the critics. Having joined the Italian Communist Party in 1940, his realism shifted more and more towards political and social themes, ending up in the '50s with a popular narrative tone, in line with the canons of Socialist realism. From '65 onwards, with a tribute to Morandi and a cycle dedicated to Picasso, his painting rediscovered his early innovative expressive ferment, which is clear in justly famous works such as *Caffè Greco* (1976) and *La Vucciria* (1974), which Werner Haftmann called "a huge still life", where the people take on a secondary function compared with the overflowing presence of the things that give the picture an atmosphere of almost magical realism.

In this way, Guttuso managed to give his innate realism an increasingly allegorical, dreamlike, almost surreal dimension. His last work is a huge canvas, *In the room the women come and go*, which remains unfinished because of the death of the artist on 18 January 1987.



**Augusto Murer**  
**Charging bull**, 1970  
Bronze, 25 x 16 x 16 cm  
Unpublished

#### **AUGUSTO MURER**

(Falcade, Belluno 1922 - Padua 1985)

Born in 1922 at Falcade, in the Bellunese Dolomites, Murer realises his vocation as an artist in '43 when he was in Venice, in contact with Arturo Martini.

After the war and fighting for the partisans in the Resistance movement, he began his artistic activity in 1945, developing over the years from a local environment to a national one thanks to the attention of critics like Orio Vergani, Leonardo Borgese and Raffaele De Grada. He concentrated mainly on public monuments, where the most important testimonies are his four bronze panels for the *Twentieth Anniversary Monument to the Resistance and the Liberation* in the central square of Belluno (1965) and the bronze doors for the San Pellegrino di Caxias do Sul Cathedral in Brazil, dedicated to the theme of emigration from the Veneto to Brazil.

Alongside this public aspect of his work, Murer always exhibited frequently, which earned him prestigious recognition from critics and writers in Italy and abroad. Murer, wrote Franco Solmi, is "a sculptor of gesture and material" in whose work "the powerfulness of the material and the dynamism of the form converge" to become a sort of "materialised narration", whose fundamental character is instinct. In 1986, a year after his death, his home-atelier in Falcade was reopened as a permanent museum of his works.

*Around 1964, alongside his wooden sculptures, Murer starts to model wax and to cast it in bronze sculptures. It was a technique that came from the creation of large monuments made of bronze, one that the artist was refining in the production of small sculptures, like this one, which shows strong expressionist realism. The theme of the bull, together with the mythological theme of the Minotaur, is recurrent in his work in bronze, where it expresses the strength and vital energy, blind and primordial, which Murer found in Nature.*

*What hits you in this little bronze statue is the dynamic and dramatic tension that this energy acquires in the massive body of the bull, its powerful, material physicality, which can also be found to the same extent in his large Bull of 1983, where the body of the animal, in the final act of the charge, rises up completely on its two hind legs, with an expression that is even more lined and tormented.*

*This Charging Bull, like the later Bull of 1983, can also be considered "a synthesis of gesture and formal structure", come as Raffaele De Grada wrote, in which stands out that supreme quality of narrator through forms, that has made Murer's monumental sculpture famous.*



a result of a limited increase in the volumes handled.

Net commission income is expected to progress as normal, whereas financial profits should grow, even though they are conditioned by random market trends, especially for government securities.

With income from banking activities rising considerably, net adjustments to loans should remain at much the same level, which is quite high. Operating costs are in line with previous years. The net result should therefore improve, even without the non-recurring income that we saw in 2010.

\* \* \*

#### Audit of the financial statements

Shareholders,

The 2010 financial statements, comprising the balance sheet, the income statement and the attachments forming an integral part of these documents, are presented for your examination and approval. These financial statements, which show a net profit for the year of € 133,319,754, have been audited by KPMG spa.

## BALANCE SHEET

Total assets		€	23,777,836,563
Liabilities	€	22,055,006,528	
Valuation reserves	€	614,271	
Share capital	€	924,443,955	
Share premium reserve	€	174,314,662	
Treasury shares	€	-32,820,863	
Other reserves	€	522,958,256	
Total liabilities and equity (excluding net profit for the year)		€	23,644,516,809
Net profit for the year		€	133,319,754

## ALLOCATION OF NET PROFIT FOR THE YEAR

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

- to the legal reserve 10%	€	13,331,975,40
- to the statutory reserve 30%	€	39,995,926,20
- dividend to shareholders of € 0.21 per share	€	64,711,076,85
- to the reserve for treasury shares	€	14,000,000,00
- to the reserve for donations	€	500,000,00
- to the legal reserve, a further	€	780,775,55
<b>Total</b>	<b>€</b>	<b>133,319,754,00</b>

## EQUITY

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

- Valuation reserves	€	614,271
- Share capital - 308,147,985 shares, par value € 3 each	€	924,443,955
- Share premium reserve	€	174,314,662
- Treasury shares	€	-32,820,863
- Reserves	€	591,066,933
<b>Total</b>	<b>€</b>	<b>1,657,618,958</b>

Shareholders,

as can be seen from the figures and the information that we have provided, 2010 was another year full of complex and varied activities. It is our duty, but also a pleasure, to thank those who have allowed us to file away another year of positive results, by giving us their trust and preference.

Firstly, we would like to thank our shareholders and customers and to those who are both shareholders and customers.

Our appreciation for the efforts of the Board of Statutory Auditors which, valiantly chaired by Egidio Alessandri, has performed its broad and delicate functions with, as ever, dedication and professionalism. Recognition too for the work of the Advisory Committee, which is always on hand, and to the members of the Supervisory and Discount Committees for their experience and knowledge, with a special mention for those based in Milan.

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

We express our respect and profound gratitude to the staff of the Bank of Italy, from Mario Draghi, the Governor, to the Members of the Directorate, to the Chief of Supervision and his staff, to the general officers and the directors of the main offices and branches located in the provinces where we are present. We also salute Salvatore Messina, Manager of the Milan head office of the Bank of Italy, who has always followed us with his precious advice. On 28 February he retired after forty years service; Giambattista Chiarenza, Manager of the Rome head office, and Carmela Lanza, Manager of the Sondrio branch, taking over from Luigi Bettoni, whose professional benevolence we remember well. Many thanks too for the constant collaboration of the directors, managers and staff of Consob, the Italian Exchange Office and Borsa Italiana, which also manages the MTA, the screen-based market where our shares are traded. Our respect and recognition go to the Federal Commission of the Berne Banks for their supervision of our Swiss subsidiary, and to the Bank of France, which supervises the French banking system and,



accordingly, the branch of «Suisse» located in the Principality of Monaco.

Our heartfelt thanks to all our staff for their intelligent and loyal collaboration and their spirit of commitment to the Bank. Our best wishes for a long, healthy and serene retirement go to Angela Fagioli, Bruno Amonini, Fabrizio Ciapponi, Dario Della Cagnoletta, Antonio De Vecchi, Umberto Gherardi, Dario Moroni, Nello Oberti, Dario Silvestri and Marco Urbani,

Numerous letters were received during the year, many from admirers, some from critics - few, to tell the truth. We answered all of them. Here we would like to thank also those whose criticism has helped us to improve. Our final thoughts go to those we may have mistakenly overlooked who, nevertheless, have helped us with their friendly advice, information and whatever.

Shareholders,

In presenting the 2010 financial statements for your approval, the directors invite the Shareholders' Meeting – having read the report of the Board of Statutory Auditors – to adopt the following resolution:

«The ordinary meeting of the shareholders of Banca Popolare di Sondrio, meeting today, having heard the directors' report on operations during 2010 and the proposed allocation of net profit for the year, which includes the payment of a dividend to the shareholders of € 0.21 per share; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet, the income statement, the explanatory notes and, in addition, the financial statements of the subsidiary and associated companies,

approves:

- the directors' report on operations;
- the financial statements at 31 December 2010, comprising the balance sheet, income statement and related explanatory notes; financial statements which report a net profit for the year of € 133,319,754. The Shareholders' Meeting therefore specifically approves the allocation of net profit for the year of € 133,319,754 as proposed by the Board of Directors in accordance with current legislation and the articles of association and, in particular, resolves:

a) to allocate:

- |                                |                 |
|--------------------------------|-----------------|
| – 10% to the legal reserve     | € 13,331,975.40 |
| – 30% to the statutory reserve | € 39,995,926.20 |

b) to pay a dividend of € 0.21 to each of the 308,147,985 shares in circulation at 31/12/2010 with dividend rights as from 1/1/2010, transferring to the statutory reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of	€ 64,711,076.85
c) to allocate to the reserve for treasury shares	€ 14,000,000.00
d) to allocate the residual net profit:	
– to the reserve for donations	€ 500,000.00
– to the legal reserve, a further	€ 780,775.55

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

Shareholders,

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

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

hereby resolves:

to set at Euro 87,000,000 – shown in the financial statements under «Reserves» – as the amount made available to the Board of Directors to make purchases of the Bank's own shares in accordance with art. 21 of the Articles of Association, within the limit of this amount and whatever part of it is made available by subsequent sales of the shares purchased; all as part of an activity that is compliant with current regulations and designed in particular to facilitate circulation of the shares.

Purchases and sales of treasury shares – namely the ordinary shares of Banca Popolare di Sondrio of par value Euro 3 each – will have to be carried out on organised markets according to operating methods that ensure parity of treatment between shareholders and which do not permit direct matching of purchase and sale offers. Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2011 financial statements. Purchases will have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned «Reserve» of 87,000,000 euro and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 4% of the shares making up the share capital. Sales will have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned «Reserve» of Euro 87,000,000.

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

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

**Point 3) on the agenda:** Information on implementation of the «Compensation policies of Banca Popolare di Sondrio»

Shareholders,

In implementation of the «Supervisory Instructions on the Organisation and Corporate Governance of Banks» issued by the Bank of Italy on 4 March 2008 and art. 29 of the Articles of Association, last year's Shareholders' Meeting approved the document containing the «Compensation Policies of Banca Popolare di Sondrio» in favour of the directors, employees and contract workers.

The Supervisory Authority has laid down that the Shareholders' Meeting has to be adequately informed about how these compensation policies have been implemented. This information has to be prevalently quantitative in nature and concerns the effective methods of application of the compensation policies with specific regard to the variable elements of remuneration; it also has to show that the policies have been applied in line with the declared guidelines and objectives.

The Internal Audit function has carried out the necessary controls, checking the methods by which it is ensured that the remuneration practices comply with the regulatory context. The results of the tests show that: «no



anomalies have emerged in the application of the rules, which means that the policies and practices in use at Banca Popolare di Sondrio can be considered in line with the regulatory requirements.»

The Compensation Policies approved by the Shareholders' Meeting were implemented during 2010. As expected, the overall pay structure consists of a fixed portion, which makes up most of the amount, while the rest is variable.

The former remunerates the skills and responsibilities involved in the position held, favouring professional abilities and experience, as well as the level of commitment shown. In full compliance with the contractual provisions, the fixed portion of pay is developed according to the level of the personnel (pay rises on promotion) as well as individual increases which can be reabsorbed in the event of promotion.

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

- the productivity bonus that comes from the collective bargaining process;
- an incentive scheme involving a one-off payment per year.

In line with the Compensation Policies approved by the Shareholders' Meeting, the Board of Directors has implemented the trade union agreements for recognition of the productivity bonus and decided the overall amount to be paid under the incentive scheme.

As regards application of the criteria laid down in the Compensation Policies, the proportion of the variable portion to total remuneration in 2010 came to 9.80%, which is in line with policy and with the previous three years. The planned remodulation of the fixed portion of remuneration has also been implemented. This raises the fixed portion to the detriment of the variable portion and applies to the members of General Management, the managers and certain officials.

The percentage parameters for the ratio between the variable portion and total pay have also been respected on an individual basis. In 2010, the productivity bonus represented 70.5% of the variable portion. The rest is for the incentive scheme. In absolute terms, total payroll amounted to 103 million, of which 7.1 million related to the productivity bonus and 3 million to the incentive scheme.

As regards the variable portion of pay, these figures bear witness to the fact that the contractual elements of pay agreed with the workers' representatives are more important than the «discretionary» elements, which in total represented 2.90% of total salaries in 2010. This system does not envisage share-based incentive schemes, such as stock option plans, nor have any such schemes been implemented. Specific, results-based incentives have not been paid to those in charge of control functions nor to the Financial Reporting Officer. The same criteria have been applied to them as to all the other employees. The level of remuneration given is considered adequate for the responsibility and commitment required of each position.

The financial consultants, who all operate as employees, are paid according to the same criteria as the rest of the personnel. A number of external consultants were used for specific activities and they were paid a fixed fee. Board members and statutory auditors have been paid according to the amounts authorised by the Shareholders' Meeting. The Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association - as laid down by law - having heard the opinion of the Board of Statutory Auditors. No forms of variable remuneration have been awarded to them.

The principles on which the Bank's policies are based are also shared by Banca Popolare di Sondrio (Suisse) SA and Factorit spa. Comparing our figures with those of the banking system, the figures for employees at 30 June 2010, which are the latest to be available, show that the Group's ratio of payroll to income from banking activities comes to 32.04%, which is in line with the European average (32.7%) and well below the national average (37%). And if we only refer to the Parent Bank, the results are even better. In this case, the ratio falls to 28.66%. Analysing the ratio between operating costs and income from banking activities, the Group's percentage at 30 June 2010 amounts to 60.15%, with respect to 58.6% of the UE average and 61.7% of the Italian average. The Parent Bank's figure mark a percentage of 56.22%.

A good balance between the fixed and variable portions of remuneration and careful management of costs show that our Group is well positioned in the Italian banking scenario compared with the system.

**Point 4) on the agenda:** Fixing the remuneration of the directors.

Shareholders,

The Shareholders' Meeting is responsible for fixing the remuneration of the directors, in accordance with the «Compensation Policies of Banca Popolare di Sondrio» approved on 27 March 2010. The directors will propose the amounts concerned.

**Point 5) on the agenda:** 2011) Appointment of five Directors for the three-year period 2011-2013.

Shareholders,

In accordance with the articles of association, the Shareholders' Meeting is called upon to renew the appointment of directors. The mandates of the following directors have expired: Paolo Biglioli, Gianluigi Bonisolo, Piero Melazzini, Miles Emilio Negri and Lino Enrico Stoppani. To this end, the notice of calling includes the entire text of Article 35 of the Articles of Association, which governs the presentation of lists of candidates.

**Point 6) on the agenda:** Resolutions in accordance of art. 6 of Treasury Minister Decree no. 161 of 18 March 1998.

*Sondrio, 11 March 2011*

THE BOARD OF DIRECTORS

*Taken from a painting with the same subject, this lithograph reposes the theme of horses, which is one of the most recurrent in Sassu's work.*

*Sassu was fascinated by the plastic energy emanated by horses, the very image of freedom and vitality. The moment of maximum expression of this energy lies in the dynamic tension between the race and their twisting bodies. The red - Sassu's favourite colour - heightens this energetic and vital sensation, here associated with the theme of the wave, another expression of the blind force of Nature. This combination also becomes a pictorial motif with a chromatic contrast.*

*In fact, the red of the horses stands out against the blue of the wave, almost in relief against the background, strengthening even more the plastic dynamism of the scene.*

## **ALIGI SASSU**

(Milan 1912 - Majorca 2000)

Sassu was born in Milan in 1912. After an early experience in Futurism in 1927-29 and careful assimilation of European post-Impressionist painting during the course of two visits to Paris in '34 and '35, Sassu was one of the protagonists of the Milanese "Corrente" at the end of the '30s, when his *Red Horses* and *Cyclists* had already made him a famous painter. It was in the cultural climate of the "Corrente", animated by passionate discussions about realism and the role of the artist, that he matured, developing a more precise artistic direction, marked by the conscience of a militant anti-fascist.

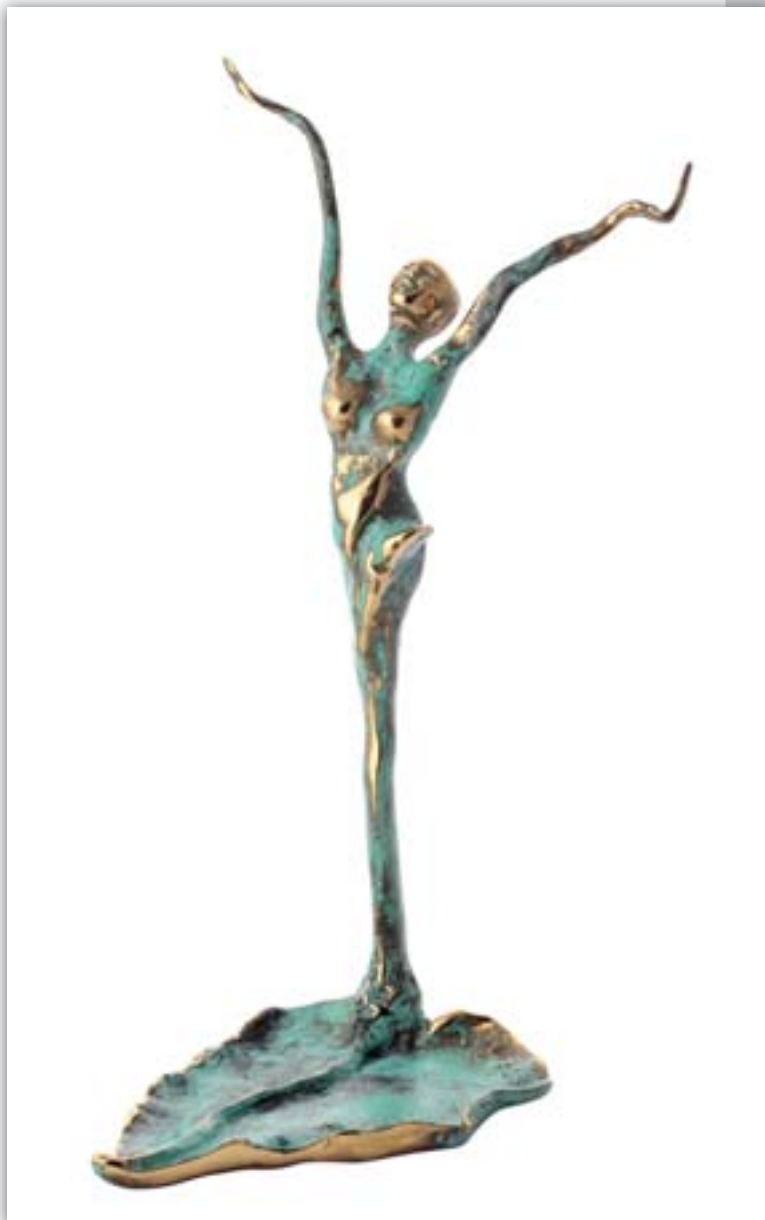
Sassu's painting was born essentially from an ethical need for expressive freedom, which turned into an extraordinarily imaginative use of colour as the constructive element of the form, able to give symbolic expression to the interior world of the artist. Here lies the poetic strength of his *Red Men*, his *Argonauts*, his crucifixes, portraits, bullfights, horses, landscapes, in an inexhaustible fantasy of colour, devoid of all worried about being realistic, linked to constant attention to the social values of works of art.

Painter, sculptor, poet, author of religious mosaics and monumental fresco cycles, Sassu died in July 2000 in his villa on the island of Pollença, in Majorca, where he had begun to live in 1963.

**Aligi Sassu**  
**Horses**

Colour lithograph, plate 500 x 700 mm





**Angiola Tremonti**

**Elevation, 2001**

Polished and patinated bronze, h. 30 cm

Unpublished

### **ANGIOLA TREMONTI**

(Sondrio 1948)

Born in Sondrio in 1948, Angiola Tremonti lives and works in Cantù (Como). She only started practising art in 1988, soon making a name for herself with her inlays, her sculptures and the design of her jewels and gaining the attention of authoritative critics like Rossana Bossaglia, Luciano Caramel, Raffaele De Grada and Gillo Dorfles.

Bossaglia, in particular, highlighted her “surreal-fantasy tendency” which has enabled her to dialogue both with children for “the playful/fairytale aspect of her images”, and with a highly educated public, for the “complexity of the references that her works suggest”.

This double register – fairytale and philosophy at the same time – is expressed in her painting and sculpture in the Mabilla motif in which are condensed the themes of motherhood (the *mater dulcissima*) and femininity as an irrepressible natural vitality and primeval energy.

If her painting is characterised above all by an original informal tendency using a plastic (polystyrene) support inlaid with resins and chalks, her sculpture moves between the evanescent abstract evocative of the silhouette and stylised elegance of Neo-Liberty motifs on the themes of the woman-tree and the woman-leaf, most recently leaning towards an expressionism that is increasingly rough and raw, as could be seen in her latest personal exhibition at the Gallery of Modern Art in Milan.

*The theme of metamorphosis and the woman-leaf is typical of Art Nouveau. Angiola Tremonti revived it with elaborate refinement in this small sculpture, which is perhaps the best of the series. Working on the green and golden patina, Tremonti manages to give us an admirable organic intertwinement of female and vegetable forms. It is the triumph of femininity as a natural absolute, of life that is born of nature - from the leaf of the vine in this case - and that, at its height, becomes nature again through the arms that become branches in an eternal circle of metamorphosis. Elsewhere, Tremonti has represented the woman-tree hanging on a cross, to emphasize natural femininity mortified, but here it is the vital explosion, the triumph of life, the real theme, underlined by the consonance of “vite” and “vita” (vine and life in Italian).*



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

Shareholders,

As is our duty pursuant to art. 153 of Decree Law 58/98 and art. 2429 of the Italian Civil Code, we hereby submit to you the report on our activities during 2010. In carrying out this work, we have followed the rules of law and the instructions issued in this field by the Supervisory Authorities. Accordingly, we have monitored compliance with the law and the Articles of Association, the observance of correct principles of administration, the adequacy of the organisation structure, administrative and accounting system of the Bank,

We monitored compliance with the law and the Articles of Association, on the one hand, by attending all eight meetings of the Board of Directors and all 94 meetings of the Chairman's Committee held during the year; on the other, we interacted with the Bank's internal control functions and with the Independent Auditors. Note that following elimination of the role of Chief Executive Officer from the end of June 2009, from that moment the Chairman's Committee is the only other body invested with executive powers along with the Board of Directors. Thanks to this participation, we have been able to assess on an ongoing basis the fairness of the decision-making process behind the individual resolutions and their compliance with correct principles of administration. We believe that, in practice, the governance tools and bodies adopted by the Bank constitute a valid system for ensuring that such principles are always followed. More specifically, we can confirm that in 2010 the Bank did not carry out any transactions unrelated to the corporate purpose, nor operations that were manifestly imprudent or excessively risky, such as to compromise the integrity of the Bank's capital, nor any atypical or unusual transactions. We also confirm that all meetings of the Board of Directors held in 2010 were convened and run in accordance with the rules that govern them. The rules governing the Chairman's Committee were also respected. As regards related party transactions, we can confirm that they were all settled at market conditions or, in the absence of suitable parameters, at cost. We can assure you that none of them had a significant impact on the Bank's capital or results; we can also confirm that the directors have drawn up a specific regulation governing related party transactions and that it complies with the regulation laid down by CONSOB during the year. The regulation was formally approved by the Board of Directors during the meeting on 11 November 2010 and took effect according to the legislative deadline. Its provisions have been observed up to now.

We can also confirm that on 11 March the Board of Directors approved the «Report on Corporate Governance and the Ownership Structure», in accordance with art. 123-bis of the Consolidated Finance Act. Even though the Bank has not adopted the Code of Conduct promoted by Borsa Italiana because of the Bank's particular characteristics, the model of corporate governance approved by the Board largely reflects this code.

We have monitored, to the extent that required of us, the adequacy of the organisational structure, through visits to the central offices, exchanges of information with the Independent Auditors and checks performed at the Bank's branches. We can issue our opinion on the substantial adequacy of the structure, as it is able to ensure, among other things, sufficient clarity in the definition of delegated powers and mandates and therefore responsibilities. As regards the validity and effectiveness of the internal control system, we have concentrated above all on the aspects concerning the ability to identify potential risks, the validity of the regulatory and operating tools used to measure the various types of risk and to quantify the related capital absorbed, as well as the application in operating processes of the measures considered necessary to permit the conscious assumption of risk and/or its mitigation. To this end, we have worked closely with the functions responsible for second and third level controls, discussing with them the results of their activities and the outcome of the various checks and tests carried out by us directly in the field together with the Internal Audit Department.

Within the scope of these activities and in light of the size and complexity of the Banking Group following the acquisition of control of Factorit spa, we agreed with the steps taken to bring this company's internal control system into line with that of the parent bank. Not only, taking advantage of this occasion, we supported the launch of a specific project, still in progress, to refine the entire system of controls according to the risks involved in the individual operating processes. Moreover, we agreed and helped to promote action to reinforce so-called Group controls and to prepare a general regulation for laying down principles of governance and for managing them to ensure, above all, adequate and continuous monitoring of risks.

Nor have we forgotten to analyse and evaluate the risks that could affect the reliability of the administrative and accounting system in recording transactions and giving a true and fair view of the Bank's affairs. In the same way, we have taken action to control the compliance risk, especially in the field of investment services, the Bank's policies for handling conflict of interest, the rules on anti-money laundering, transparency and privacy and, of course, related party transactions, which as indicated in the first part of this report, are governed by a specific regulation.

Based on these activities, our assessment of the internal control system taken as a whole is positive, both as regards the adequacy of the administrative and accounting process in terms of its functionality and reliability in recording transactions and giving a true and fair view of the Bank's affairs, and, more generally, with reference to the system for controlling operational and compliance risk; also in consideration of the steps being taken for the latter's continuous refinement and reinforcement.

In line with our rules of conduct, in 2010 we continued to carry out numerous tests at the branches together with the Internal Audit Department (94 to be exact) to make sure that they operate as they should, while also checking for any weaknesses from an organisational point of view. These checks did not reveal any anomalies, irregularities or weaknesses worthy of note. As regards management policy and coordination, we confirm that the



Bank, in its role of Parent Bank, exercises this activity for all of the subsidiaries, also through the presence of managers and the role they play on the subsidiary's governing bodies.

Within the limits of the powers granted to us as the Parent Bank's control body, we have exercised our supervision of the subsidiaries as follows:

- as regards Banca Popolare di Sondrio (Suisse) SA, in addition to meeting its managers to find out more about its results and the impact on the system of controls of certain specific operating and regulatory peculiarities, we examined and discussed the outcome of our checks, in accordance with the limits set by FINMA (the federal supervisory authority for financial markets), by the Bank's Internal Audit Department which also read and discussed the results of the checks performed by the Swiss subsidiary's own internal auditors. We have also read the opinion issued by KPMG SA, the Independent Auditors, after their audit of the 2010 financial statements;
- as regards the other subsidiaries, we have been in touch with the corresponding bodies and with their auditors, if appointed, obtaining all necessary information on the functioning of the administration and control systems and on the overall results of the business. As regards Factorit spa, we have taken advantage of the fact that one of the Parent Bank's statutory auditors is also Chairman of the subsidiary's Board of Statutory Auditors.

From all these activities, no serious problems worth mentioning here have emerged.

Without wanting to overlap the work of KPMG spa, which by law has exclusive responsibility for auditing the financial statements, in carrying out our duty we have monitored, to the extent required of us, compliance on the part of the directors with the rules of the Civil Code and the instructions issued by the Supervisory Authorities with regard to the format and contents of the financial statements. On the basis of our checks, we can confirm that:

- the 2010 financial statements were prepared in accordance with the IFRS adopted by the European Community and applied according to the principles and methods explained in the notes. These principles and methods are consistent with those used when preparing the previous year's financial statements.
- the financial statements at 31 December 2010 reflect the results of the accounting system and have been independently audited by KPMG spa, which transmitted us formally their audit report with a clean opinion that does not contain any qualifications or comments on the matters explained in detail by the directors in their report on operations and in the notes;
- the report on operations can be considered exhaustive and is consistent with the figures and other information provided in the financial statements

and explanatory notes; this both with reference to the so-called «financial information» (analysis of the income statement, balance sheet and financial position, indicators of solidity, outlook for operations, etc.), and with reference to the so-called «other information», such as risk management in the Bank's affairs, human resources, the approach to mutualistic activity, the Bank's promotional and cultural activities, etc.

In addition, we add that:

- the report on operations and explanatory notes provide complete disclosure of all of the major transactions that took place during the year, as well as those that were carried out after the end of the year. Similarly, they contain information on related party transactions and with subsidiary and associated companies;
- during 2010, 12 complaints were received concerning investment services (16 in 2009), of which 10 have been settled and 2 are currently being settled;
- no petitions under art. 2408 of the Civil Code were received by the Board;
- we did not issue any opinions apart from those required by law.

As regards the remuneration paid to KPMG spa for their activities during 2010, in addition to the audit fee of € 207,000, they were also paid € 100,000 for the due diligence carried out prior to the acquisition of Factorit spa. Moreover, in 2010 KPMG Advisory spa, which belongs to the same network as the auditing firm, was appointed by the Bank to help draft the regulation on related party transactions. The fee for this service was € 40,000.

With reference to the Bank's approach to mutualistic activities, we can confirm that the Bank continued to be faithful to its corporate mission as a cooperative bank. In line with this mission, the Bank continued to sustain local economies in all their forms, particularly households and small and medium-sized enterprises. Particularly important are the initiatives in favour of sustainable development. The measures adopted in 2009 have been maintained to attenuate the effects of the crisis on the real economy, above all deciding not to ration credit. Also in terms of funding, the Bank continued to enhance savings, offering products that featured transparency and low risk exposure. In addition, there was the effort to give customers an adequate financial culture to raise their level of awareness when making investment decisions.

In acknowledging the completeness of the report on operations, we have emphasised the fact that it provides complete disclosure of all of the major transactions that took place during the year, as well as those that were carried out after the end of the year, all of which were in the interests of the Bank. Of those that took place during the year, in addition of course to the acquisition of Factorit spa, we would also mention the increase in capital of the Swiss subsidiary (SF 50 million) and that of Sinergia Seconda (€ 39.8 million), the latter being to enable it to buy the building in Via Cino del Duca 12, Milan. As regards subsequent events, we would mention - more for the validity of the operation than for the amount of the investment (€ 1.6 million) - the purchase of Sopaf's interest in Polis Provisions Sgr on a pro quota basis

together with the other shareholders. As a result, the Bank's investment in this company has doubled, from 9.8% to 19.6%.

To conclude, we would reiterate that our supervisory work did not reveal any reprehensible situations, omissions or irregularities that are worthy of note, so to the extent that it concerns us, we express our opinion in favour of you approving the 2010 financial statements and the proposed allocation of the net profit for the year.

*Sondrio, 23 March 2011*

THE BOARD OF STATUTORY AUDITORS

*Egidio Alessandri, Chairman*

*Pio Bersani, Auditor*

*Piergiuseppe Forni, Auditor*



- COOPERATIVE IN NAME AND DEED ■
- ASSETS UNDER MANAGEMENT ■
- BANCASSURANCE ■
- AND SUPPLEMENTARY PENSION SCHEMES
- EQUITY INVESTMENTS ■
- INTERNATIONAL UNIT ■
- VIRTUAL BANK - SCRIGNO *Internet Banking* ■
- LOANS TO BUSINESSES ■
- LOANS TO HOUSEHOLDS ■
- PUBLICATIONS ■
- CONFERENCES ■
- CULTURAL EVENTS ■
- VALTELLINA AND THE RISORGIMENTO ■

# Banca Popolare di Sondrio





## COOPERATIVE IN NAME AND DEED

Points 1 and 2 of our Articles of Association are fundamental points of reference for us; they read: "The company's activities are based on the principles of mutuality and cooperation" and "As part of institutional work to facilitate the development of all productive activities, the company, in consideration of its specific objectives as a cooperative bank, intends to provide specific support for the smaller enterprises and cooperatives present in the territories served; in addition, it will take all appropriate steps to spread and encourage saving".

In the year under review, mutuality has again been reflected above all in making important financial resources available to local communities.

The Company's data on loans, show a rise from 16,711 to 18,248 million, +9.20%, demonstrating that the economic crisis did not interrupt the Bank's commitment in this crucial area. This is an expression of our contribution to economic development: a transversal movement that involves all subjects in the area, safeguarding their identity and fostering their potential.

It is also a function that we are called upon to do by our status as a cooperative, allowing us to become a point of reference for households and business in geographical areas that are getting wider and wider.



# ASSETS UNDER MANAGEMENT

**ASSET  
MANAGEMENT**

 **Popso (SUISSE)**  
Investment  
Fund SICAV

 **Società di Gestione  
del Risparmio**  
**MUTUAL FUNDS**

 **Etica SGR**  
SISTEMA VALORI RESPONSABILI  
**ETHICAL MUTUAL FUNDS**



The attention that we pay to small investors is also reflected in the way we enrich our catalogue. From this point of view, we have integrated our range of asset management schemes in funds with four equity lines that specialise in the stock exchanges of the BRICs (Brazil, Russia, India, China) and Latin America in general.

Euro Flex Quant, which invests with flexible methods in international shares and bonds, is expanding the lines of Popso (Suisse) Investment Fund Sicav.

Arca SGR, which is always careful in diversifying its range of products, successfully placed its Arca Cedola Governativo Euro Bond III and IV, Arca Cedola Corporate Bond III and IV, Arca Cedola Bond 2015 Alto Potenziale, Arca Cedola BondTotal Euro I and II, and Arca Formula II Euro Stoxx 2015.

There was a satisfactory rise in the net inflow to funds of other issuers, including those of Etica SGR's Sistema Valori Responsabili (Responsible Values System) and the Group's sicav Popso (Suisse) Investment Fund.



## BANCASSURANCE AND SUPPLEMENTARY PENSION SCHEMES



ARCA VITA



ARCA ASSICURAZIONI



ARCA  
Società di Gestione  
del Risparmio



Arca Previdenza  
FONDO PENSIONI APERTO

Arca Vita – now controlled by UGF, Unipol Gruppo Finanziario, as part of a combination designed to increase its competitiveness – has enriched its catalogue with the “ARCAemmeglobaleSP” and “InvestiDOC TFM” policies. The first, which if offered together with our mortgage loans, guarantees repayment of the residual liability in the event of death. “InvestiDOC TFM” is a product with a guaranteed minimum yield for investing the amounts set aside by companies to pay the termination indemnities of their directors.

“Arca Energia Futuro” was launched during the year by Arca Assicurazioni to offer insurance cover to protect the photovoltaic installations financed totally or partially by the Bank. The types of cover offered by the “Zero Pensieri” policy have also been extended with inclusion of the “contractual legal protection” guarantee.

The Arca Previdenza open-ended pension fund, launched by Arca SGR, continued to be sold successfully to customers. This product is aimed at all of those who want to build themselves a supplementary pension, whether they are self-employed, dependants or employees.

Employees also have the chance of joining this fund by contributing their termination indemnity accruals.





### SUBSIDIARIES

BANCA POPOLARE  
DI SONDRIO (SUISSE) SA  
FACTORIT SPA  
PIROVANO STELVIO SPA  
SINERGIA SECONDA SRL  
RAJNA IMMOBILIARE SRL

### ASSOCIATED COMPANIES

ALBA LEASING SPA  
BANCA DELLA  
NUOVA TERRA SPA  
ARCA VITA SPA  
B. & A. BROKER SPA  
SERVIZI INTERNAZIONALI  
E STRUTTURE INTEGRATE 2000 SRL

### MINORITY INTERESTS HELD FOR OPERATIONAL PURPOSES

CENTROBANCA SPA  
UNIONE FIDUCIARIA SPA  
POLIS  
FONDI IMMOBILIARI  
DI BANCHE POPOLARI SGR PA  
ARCA SGR SPA  
ETICA SGR SPA  
GROUP SRL



During the year under review, the Bank has substantially maintained its traditional approach, where equity investments as a whole are functional to the Bank's operations and held on a long-term basis. We therefore make every effort to reinforce them, providing them with business and, if considered appropriate, with financial support, also with a view to increasing cohesion among cooperative banks. Of considerable importance was the acquisition of control (60.5%) over Factorit spa, a leading Italian factoring company that grants advances on domestic and international trade receivables.



# INTERNATIONAL UNIT



## DESKS OUTSIDE ITALY



PROMOS

**Business Class** 

Periodico informativo  
del Servizio Internazionale  
Banca Popolare di Sondrio



**Cooperation Bancaire  
pour l'Europe - GEIE**  
GOVERNEMENT EUROPEEN  
D'INTEGRATION ECONOMIQUE

BRUSSELS

**PSD SEPA** 

La nuova direttiva europea  
per i pagamenti



[www.popso.it/estero](http://www.popso.it/estero)

Our Bank, which is solidly anchored to the areas where it operates, but by geographical and cultural vocation attentive to international relations, has provided support for this important effort being made by the productive system, offering ourselves as a bridge between the local dimension of the economy and its global dimension.

The basic idea is to create a sort of "single window" that businesses can go to find rapid and integrated solutions to their needs. In doing this we can count on the skills and knowledge that we have acquired over the decades; moreover, on products, services and tools thanks to which we are able to promote the internationalisation of many businesses. A further strength of our way of operating is the collaboration agreements that we have arranged with qualified institutions, which make it possible to expand the range that we can offer customers, guiding them with competence and security in new operating and territorial areas. For some time now, many businesses in Lombardy have had a chance to get to know and appreciate the services provided by Promos, a subsidiary of the Milan Chamber of Commerce that specialises in international trade. For us, Promos is a very valid partner. In over 10 years of activity and thanks to its vicinity to the trade associations, it has developed a detailed knowledge of foreign markets and of the problems that firms encounter when seeking new markets.



## VIRTUAL BANK - SCRIGNO INTERNET BANKING



[www.popso.it](http://www.popso.it)

# SCRIGNO

*Simple, convenient, safe and fast!*



*Your on-line bank wherever you are*

The growing volumes of business done on-line by our customers through **SCRIGNO Internet Banking**, are assisted by the constant development of security controls to combat IT fraud. They consist of innovative automatic blocking systems, among other things; targeted transaction limits; specific check and authorisation methods; **SCRIGNO IdentiTel**, an authentication tool with joint intervention via PC and mobile phone.

With **SCRIGNO Internet Banking** customers can sign up for the "Correspondence on-line" service and receive all of their accounting documentation in a digital format, with the added benefit that they save on the postal charges. There is also a significant benefit for the environment as it reduces the consumption of paper and of the energy involved in delivering the documentation by post.

We are one of the first banks in Italy to support and foster the mobile payments sector, even initiating our own experience in this field thanks to the WiW Mobile application and the agreement with the Movincom consortium.

Our commitment to keeping our technology up-to-date has allowed the Bank to win first prize in AIFIn's "Cerchio d'Oro dell'Innovazione Finanziaria" (Golden Circle for Financial Innovation) in the Organisation and Operations category with our "New teller: a challenging project oriented towards multi-channelling" and third prize in the Payment Products category with "Carta di Ateneo contactless".

Our on-line banking solution: simple, convenient, safe and fast. **SCRIGNO Internet Banking** has a multiplicity of functions, all of them intuitive, ranging from bank transfers to mobile phone top-ups, from car licence payment to prepaid card top-ups, and much more besides. It makes it possible to save time and money, thanks to commissions that are usually advantageous and the chance to eliminate the sending of printed documentation and the related costs.



With **SCRIGNO Trading On Line** it is possible to buy and sell in real time financial instruments listed on the Italian Stock Exchange, as well as shares in high cap companies listed on the main European stock exchanges.



This is the way to have your bank always "in your pocket"! **SCRIGNO mobile** makes it possible to access and operate the on-line bank also thanks to a mobile phone.



An ideal authentication tool that is extremely secure and easy to use. Based on the combined use of PC and mobile phone, it makes it possible to authorise on-line transactions with a straightforward telephone call! **SCRIGNO IdentiTel** is one of the components of **SCRIGNO plus**, which is the packet of ancillary services of **SCRIGNO Internet Banking**.



**WiW Mobile** is an innovative and straightforward application for mobile phones that allows you to make mobile payments with any charge card.



**SCRIGNO GesTes** is a technical service for public and private entities to which the Bank provides treasury and cashier services. It permits on-line consultation of the documentation and movements on your account, updated in real time, as well as various instruction-giving functions including the management of on-line orders approved by digital signature.



**SCRIGNO Pago Facile** is a portal that is open to everyone, whether or not they are customers of the Bank, for making on-line payments to counterparties (public and private entities, businesses, etc.) that have signed up for the initiative.



**navigosereno.it** allows PCs to be verified on line, gives suggestions and collects useful free programs for the protection of your computer.



## LOANS TO BUSINESSES

The statistics tell us two other important things: the much-feared credit squeeze did not come about, a sign that the system generally continued to do its job of financial intermediation; non-performing loans increased less than in the past recessions, as a demonstration of a greater ability on the part of bankers to select borrowers and to manage their risk profile.

This is the true core of the matter: there is only one way to run a bank and to run it properly: "to recognise a deserving business even when the figures are not in its favour". In other words, it's precisely in the middle of a crisis - and the one that is still underway is undoubtedly important in terms of gravity and duration - that banks are called upon to perform in the best way possible their function of selecting economic initiatives, granting trust to those that deserve it, despite the adverse state of the economy.

That's what we have done, directing our lending activity according to criteria of responsibility and prudence, in the awareness that this is the road to run in the higher interest of the Bank and of the economies that we serve, for which fair and professional disbursement of credit is vital for healthy, long-lasting growth.



## LOANS TO HOUSEHOLDS



The requests from numerous families to buy the house they live in have been satisfied also thanks to the contribution of specialist institutions with which we operate and that make available technical methods of intervention that are always in line with market needs.

Particularly interesting among the specific initiatives are the forms of loans "Diamogli credito" (Let's give them credit), for public sector employees, and "Prestito della Speranza" (Hope loan), jointly promoted by the CEI (Conferenza Episcopale Italiana, representing the Catholic Church) and by ABI (Associazione Bancaria Italiana, representing the banking system).



## PUBLICATIONS

Culture, art, history and traditions appear to be a long way away from the institutional activity of a bank. But if we recognise as part of our mission the promotion of the territory as a whole, we have to dedicate care and interest to its tangible and intangible values, i.e. those that we perceive with our senses and those that we perceive with our intellect. This commitment is a conscious assumption of responsibility in favour of the growth of the communities that we serve; and not only economic growth. This all goes to the benefit of our relationship with local communities and, of course, the formation and preservation of a cultural heritage that everyone can now enjoy, at least in part, thanks to modern means that make it accessible at any time and at any distance.

Our publishing activity, which has its point of strength in the quarterly magazine "Notiziario", can boast among its best works "Adventure in Valtellina" by Mario Soldati. It was donated to the shareholders who attended the AGM in Bormio on 27 March 2010 as part of an attractive booklet. "Adventure in Valtellina" was also a source of inspiration for film director Ermanno Olmi.

Our 2009 financial statements was illustrated by images from the Bank's collection of paintings from the 18th and 19th century, explained in detail by Franco Monteforte and with an introduction by Melania Gaia Mazzucco. The cultural appendix of the 2009 accounts of BPS (Suisse) contained an interesting essay on Ignazio Silone, the anti-fascist writer and politician.

This year's promotional material includes the 14th diary book by Gigliola Magrini, entitled "The market and the days of 2011".





## CONFERENCES



**GIULIO BALLIO**  
12 February 2010



**ALBERTO QUADRIO CURZIO**  
2 July 2010



**GIOVANNI PUGLISI**  
24 September 2010



**MARCELLO FONTANESI**  
1 October 2010



**ANNA MARIA TARANTOLA**  
29 October 2010



**Cardinal GIANFRANCO RAVASI**  
22 December 2010

Our traditional cycle of conferences opened on 12 February with Professor Giulio Ballio, who entertained the audience on "The concept of safety in buildings over the centuries".

On 2 July, Professor Alberto Quadrio Curzio dealt with the very topical subject of "Italy: federalism and europeism".

Of particular interest was the meeting on 24 September 2010 with Professor Giovanni Puglisi. The evening was dedicated to "UNESCO's Heritage Sites, an occasion for cultural growth and economic development: an example at a glance, the terraced vineyards on the Rhaetian Alps side of the Valtellina".

This was followed, on 1 October, by the excellent conference held by Professor Marcello Fontanesi on the subject "Energy from the stars for our future?".

Then, on 29 October, we had the honour of having as our guest Mrs. Anna Maria Tarantola, who spoke interestingly on "Structure and function of the Bank of Italy. Evolution of the supervisory role".

Lastly, on 22 December, we were honoured to receive for the ninth time Cardinal Gianfranco Ravasi, who spoke with inimitable authority and eloquence on "Faith and science".

## CULTURAL EVENTS

Our library organised, together with the Sondrio Institute for the History of the Resistance and the Modern Era, a talk on “The evolution of the democratic school in Valtellina between the 19th and 20th centuries”, which took place on 23 April during the XII National Culture Week”, an initiative organised by the Cultural Heritage Ministry.

Of our various public meetings, we would recall in particular the presentation on 15 January, in our Besta Room, of the conference proceedings on “Luigi Credaro and the Rivista Pedagogica” and the related round table “The educational role between the present day and tradition”. Of the initiatives that we contributed to, one that we can mention with pleasure was “An opera season in Bormio in the '50s”, which took place on 30 July at our Bormio office, with the participation of violinist Gabriele Baffero, dedicated to the local poets Gino Berbenni and Giulio Pedranzini. The event was coordinated by Leo Schena.

Towards the end of the year, our Bormio branch in Via Roma hosted a photo exhibition “Operaio di sogni” (Worker of dreams) in honour of the famous poet Salvatore Quasimodo, whose stay in Valtellina we commemorate. It was preceded by a poetry recital of the same name by his son Alessandro, held in the conference room of the Terme Bormiesi.



## VALTELLINA AND THE RISORGIMENTO



Shareholders who attended the AGM on 9 April 2011 in Bormio were given a gift box entitled "Valtellina and the Risorgimento" with a meaningful and authoritative message from the President of the Republic Giorgio Napolitano. This was to commemorate the 150th Anniversary of the Unification of Italy and the 140th Anniversary of our Bank's foundation. The box contained reprints of two extremely rare works of art by Valtellina artists from that period and two booklets: "Observations on the present condition of the Valtellina" by Luigi Torelli, patriot and senator and "Summary of political affairs of the Valtellina from March 1848 to 1859" by Antonio Maffei, Archpriest of Sondrio and intellectual. These two booklets are accompanied by a third that contains an essay by the historian and journalist Franco Monteforte, all introduced by a qualified contribution by Arturo Colombo, Professor Emeritus of History at Pavia University.

The first, which was published in 1845, is a theoretical manifesto that marked the foundation in Milan in 1846 of the "Società Agraria Valtellinese", which acted as a coterie for patriots in the Lombard capital throughout the Risorgimento.

The second, on the other hand, is a faithful, first-hand chronicle of events in the Valtellina during the Risorgimento.

Together, these two works relate the economic and political reasons and ideals that inspired the protagonists of that time, which can help us understand better the historical sense of the epic events of the Risorgimento that took place in our province.

For this important anniversary, in March 2011 our Luigi Credaro Library hosted an exhibition entitled "Coins and medals that recount the Unification of Italy", organised together with the Circolo Culturale Filatelico Numismatico Morbegnese



**FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2010**



# BALANCE SHEET

(in euro)

ASSET ITEMS		31-12-2010	31-12-2009
10.	CASH AND BALANCES WITH CENTRAL BANKS	80,243,283	81,250,810
20.	FINANCIAL ASSETS HELD FOR TRADING	2,800,451,233	2,877,645,640
30.	FINANCIAL ASSETS AT FAIR VALUE	91,887,524	98,821,727
40.	FINANCIAL ASSETS AVAILABLE FOR SALE	106,925,415	113,408,863
50.	FINANCIAL ASSETS HELD TO MATURITY	249,303,845	263,653,725
60.	DUE FROM BANKS	1,465,507,138	1,294,214,922
70.	DUE FROM CUSTOMERS	18,247,861,145	16,711,080,589
100.	EQUITY INVESTMENTS	349,475,661	146,652,702
110.	PROPERTY, PLANT AND EQUIPMENT	131,656,194	143,363,065
120.	INTANGIBLE ASSETS	10,837,065	6,980,823
130.	TAX ASSETS	63,417,459	38,153,435
	a) current	20,240,556	-
	b) deferred	43,176,903	38,153,435
140.	NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	-	45,366,162
150.	OTHER ASSETS	180,270,601	299,349,479
<b>TOTAL ASSETS</b>		<b>23,777,836,563</b>	<b>22,119,941,942</b>

THE CHAIRMAN  
Piero Melazzini

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



EQUITY AND LIABILITY ITEMS		31-12-2010	31-12-2009
10.	DUE TO OTHER BANKS	2,276,296,738	2,260,274,063
20.	CUSTOMER DEPOSITS	17,035,101,728	15,896,505,024
30.	DEBT SECURITIES IN ISSUE	1,931,738,258	1,622,975,969
40.	FINANCIAL LIABILITIES HELD FOR TRADING	90,855,961	74,047,579
80.	TAX LIABILITIES	12,749,514	99,130,238
a)	current	-	86,148,583
b)	deferred	12,749,514	12,981,655
100.	OTHER LIABILITIES	557,740,390	335,095,614
110.	RESERVE FOR TERMINATION INDEMNITIES	35,734,387	35,657,711
120.	PROVISIONS FOR RISKS AND CHARGES	114,789,552	112,539,863
a)	post-employment benefits	77,216,339	74,668,653
b)	other provisions	37,573,213	37,871,210
130.	VALUATION RESERVES	614,271	(512,970)
160.	RESERVES	522,958,256	433,237,067
170.	SHARE PREMIUM RESERVE	174,314,662	176,084,564
180.	SHARE CAPITAL	924,443,955	924,443,955
190.	TREASURY SHARES (-)	(32,820,863)	(40,211,189)
200.	NET PROFIT (LOSS) FOR THE YEAR (+/-)	133,319,754	190 674,454
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>23,777,836,563</b>	<b>22,119,941,942</b>

THE GENERAL MANAGER  
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER  
Maurizio Bertoletti



# INCOME STATEMENT

(in euro)

ITEMS	2010	2009
10. INTEREST INCOME AND SIMILAR REVENUES	571,663,367	691,877,121
20. INTEREST EXPENSE AND SIMILAR CHARGES	(178,296,266)	(245,514,875)
<b>30. NET INTEREST INCOME</b>	<b>393,367,101</b>	<b>446,362,246</b>
40. COMMISSION INCOME	218,601,016	185,173,680
50. COMMISSION EXPENSE	(12,229,180)	(11,724,193)
<b>60. NET COMMISSION INCOME</b>	<b>206,371,836</b>	<b>173,449,487</b>
70. DIVIDENDS AND SIMILAR INCOME	6,367,943	3,192,320
80. NET TRADING INCOME	(36,675,920)	131,333,489
100. GAINS/LOSSES ON DISPOSALS OR REPURCHASES OF:	(360,031)	(1,458,725)
<i>b)</i> financial assets available for sale	(327,473)	(1,061,954)
<i>c)</i> financial assets held to maturity	-	42,797
<i>d)</i> financial liabilities	(32,558)	(439,568)
110. NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE	805,938	7,477,343
<b>120. INCOME FROM BANKING ACTIVITIES</b>	<b>569,876,867</b>	<b>760,356,160</b>
130. NET IMPAIRMENT ADJUSTMENTS (+/-):	(123,751,620)	(145,641,939)
<i>a)</i> loans	(116,645,555)	(141,276,374)
<i>b)</i> financial assets available for sale	(5,106,065)	(4,365,565)
<i>d)</i> other financial transactions	(2,000,000)	-
<b>140. BALANCE OF FINANCIAL MANAGEMENT</b>	<b>446,125,247</b>	<b>614,714,221</b>
150. ADMINISTRATIVE EXPENSES:	(327,514,220)	(318,343,060)
<i>a)</i> personnel expenses	(164,839,951)	(156,857,660)
<i>b)</i> other administrative expenses	(162,674,269)	(161,485,400)
160. NET PROVISIONS FOR RISKS AND CHARGES	1,428,761	-
170. NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(12,106,233)	(12,229,992)
180. NET ADJUSTMENTS TO INTANGIBLE ASSETS	(8,419,344)	(6,293,940)
190. OTHER OPERATING CHARGES/INCOME	34,367,311	38,335,796
<b>200. OPERATING COSTS</b>	<b>(312,243,725)</b>	<b>(298,531,196)</b>
210. SHARE OF PROFIT (LOSS) OF EQUITY INVESTMENTS	57,987,583	(7,233,499)
240. PROFIT/LOSS FROM DISPOSAL OF INVESTMENTS	(191,748)	(275,072)
<b>250. PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES</b>	<b>191,677,357</b>	<b>308,674,454</b>
260. INCOME TAXES ON CURRENT OPERATIONS	(58,357,603)	(118,000,000)
<b>270. PROFIT (LOSS) ON CURRENT OPERATIONS AFTER INCOME TAXES</b>	<b>133,319,754</b>	<b>190,674,454</b>
290. NET PROFIT (LOSS) FOR THE YEAR	<b>133,319,754</b>	<b>190,674,454</b>



## STATEMENT OF COMPREHENSIVE INCOME

Items/Amounts	2010	2009
10. <b>Net profit (loss) for the year</b>	<b>133,319,754</b>	<b>190,674,454</b>
<b>Other income items net of income taxes</b>		
20. Financial assets available for sale	1,127,241	6,894,465
110. <b>Total other income items net of income taxes</b>	<b>1,127,241</b>	<b>6,894,465</b>
120. <b>Comprehensive income (item 10+110)</b>	<b>134,446,995</b>	<b>197,568,919</b>



## STATEMENT OF CHANGES IN EQUITY

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

A dividend from the results for 2009 of € 0.33 per share, totalling € 101,689 million, was paid from 9 April 2010. The directors have proposed a dividend of € 0.21 from the results for 2010. This dividend is subject to approval by the shareholders and, accordingly, has not been reported as a liability in these financial statements.

The proposed dividend is payable from 21 April. The payout envisaged totals € 64,711 million.

## STATEMENT OF CHANGES IN EQUITY

	Opening balance 31.12.2008	Change in opening balances	Opening balance 1.1.2009	Allocation of prior year results	
				Reserves	Dividends and other allocations
<b>Share capital</b>					
a) ordinary shares	924,443,955	-	924,443,955	-	-
b) other shares	-	-	-	-	-
<b>Share premium reserve</b>	<b>176,084,564</b>	-	<b>176,084,564</b>	-	-
<b>Reserves</b>					
a) from earnings	430,617,089	-	430,617,089	4,140,807	151,155
a) other	-	-	-	-	-
<b>Valuation reserves</b>	<b>(7,407,435)</b>	-	<b>(7,407,435)</b>	-	-
<b>Equity instruments</b>	-	-	-	-	-
<b>Treasury shares</b>	<b>(45,452,225)</b>	-	<b>(45,452,225)</b>	-	-
<b>Net profit for the year</b>	<b>13,735,247</b>	-	<b>13,735,247</b>	<b>(4,140,807)</b>	<b>(9,594,440)</b>
<b>Equity</b>	<b>1,492,021,195</b>	-	<b>1,492,021,195</b>	-	<b>(9,443,285)</b>

Changes in the year

Equity transactions

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

Changes in the year

Equity transactions

Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income	Equity at 31.12.2009
-	-	-	-	-	-	-	-	924,443,955
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	176,084,564
(1,671,984)	-	-	-	-	-	-	-	433,237,067
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	6,894,465	(512,970)
-	-	-	-	-	-	-	-	-
-	-	<b>5,241,036</b>	-	-	-	-	-	<b>(40,211,189)</b>
-	-	-	-	-	-	-	190,674,454	190,674,454
<b>(1,671,984)</b>	-	<b>5,241,036</b>	-	-	-	-	197,568,919	1,683,715,881



## CASH FLOW STATEMENT (Indirect method)

	31-12-2010	31-12-2009
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Cash generated from operations</b>	<b>326,709,596</b>	<b>407,612,619</b>
- net profit for the year (+/-)	133,319,754	190,674,454
- gains/losses from financial assets held for trading and from financial assets/liabilities carried at fair value (-/+)	59,824,894	(68,457,289)
- net hedging gains (losses) (-/+)	-	-
- net impairment adjustments (+/-)	106,836,055	106,071,663
- net adjustments to property, plant and equipment and intangible assets (+/-)	20,525,576	18,523,932
- provisions for risks and charges and other costs/revenues (+/-)	188,968	(509,353)
- unpaid taxes and duties (+)	58,357,603	118,000,000
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	-	-
- other adjustments (+/-)	(52,343,254)	43,309,212
<b>2. Cash generated/absorbed by financial assets</b>	<b>(1,674,589,386)</b>	<b>(1,362,324,030)</b>
- financial assets held for trading	27,877,717	673,958,241
- financial assets carried at fair value	7,426,686	12,861,971
- financial assets available for sale	2,534,704	(24,261,182)
- due from other banks: sight	(40,336,298)	108,765,802
- due from other banks: other receivables	(131,241,294)	(227,732,652)
- due from customers	(1,636,721,101)	(1,903,095,184)
- other assets	95,870,200	(2,821,026)
<b>3. Cash generated/absorbed by financial liabilities</b>	<b>1,543,691,016</b>	<b>1,047,434,225</b>
- due to other banks: sight	547,167,168	(28,089,441)
- due to other banks: other payables	(516,902,746)	444,224,513
- customer deposits	1,137,836,277	813,522,218
- debt securities in issue	299,807,704	106,949,421
- financial liabilities held for trading	7,828,567	(211,354,361)
- financial liabilities carried at fair value	-	-
- other liabilities	67,954,046	(77,818,125)
<b>Net cash generated/absorbed by operating activities</b>	<b>195,811,226</b>	<b>92,722,814</b>

	31-12-2010	31-12-2009
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash generated by:</b>	<b>139,513,004</b>	<b>18,451,338</b>
- sale of equity investments	106,964,424	9,800,772
- dividends collected from equity investments	2,994,527	-
- sales of financial assets held to maturity	29,500,000	8,525,062
- sales of property, plant and equipment	54,053	125,504
- sales of intangible assets	-	-
- sales of business divisions	-	-
<b>2. Cash absorbed by:</b>	<b>(242,188,776)</b>	<b>(106,804,010)</b>
- purchases of equity investments	(203,238,717)	(81,022,670)
- purchases of financial assets held to maturity	(12,778,936)	(6,390,576)
- purchases of property, plant and equipment	(13,895,538)	(11,431,576)
- purchases of intangible assets	(12,275,585)	(7,959,188)
- purchases of business divisions	-	-
<b>Net cash generated/absorbed by investing activities</b>	<b>(102,675,772)</b>	<b>(88,352,672)</b>
<b>C. FINANCING ACTIVITIES</b>		
- issues/purchases of treasury shares	5,620,424	3,569,052
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	(100,953,335)	(9,445,912)
<b>Net cash generated/absorbed by financing activities</b>	<b>(95,332,911)</b>	<b>(5,876,860)</b>
<b>NET CASH GENERATED/ABSORBED IN THE YEAR</b>	<b>(2,197,457)</b>	<b>(1,506,718)</b>

Key:

(+) generated (-) absorbed

## RECONCILIATION

Line items	31-12-2010	31-12-2009
Cash and balances with central banks at beginning of year	81,250,810	82,745,400
Total net cash generated/absorbed in the year	(2,197,457)	(1,506,718)
Cash and balances with central banks: effect of change in exchange rates	1,189,930	12,128
<b>Cash and balances with central banks at end of year</b>	<b>80,243,283</b>	<b>81,250,810</b>



# NOTES TO THE FINANCIAL STATEMENTS

## **PART A** *Accounting policies*

### *A.1 General information*

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

Banca Popolare di Sondrio s.c.p.a. declares that these financial statements have been prepared in accordance with all the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2010 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

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

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

#### **Section 2** *Basis of preparation*

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

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



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

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

The financial statements are prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 87/92, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.), the audit (art. 2409-bis c.c.) and publication (art. 2435 c.c.).

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

### **Section 3** *Subsequent events*

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 11/3/2011 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

### **Section 4** *Other aspects*

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

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

Preparing financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, and the use of valuation models for identifying the fair value of instruments that are not listed on active markets, on the basis of business continuity and excluding forced sales of assets. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements. The Bank defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2010, as required by prevailing accounting standards and relevant regulation. These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in



accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale. The outcome of this work supports the carrying amount of these items at 31 December 2010. It should be stated, however, that this valuation process was particularly complex in view of the current macroeconomic and market context, featuring abnormal volatility in all financial measures used for valuation purposes, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used for verifying the values mentioned above have been heavily affected by the particularly uncertain macroeconomic and market environment which could, like in recent months, experience currently unforeseeable rapid changes, with a consequent impact, including materially, on the amounts reported in the financial statements at 31 December 2010.

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

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

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

#### **Classification**

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

#### **Recognition**

Assets held for trading are recorded at the settlement date with reference to their fair value, usually represented by the consideration paid, while the transaction costs and revenues are reflected directly in the income statement. Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

#### **Accounting policies**

Subsequent to initial recording, trading financial instruments are stated at their fair value at the reference date. With regard to instruments listed on active markets, fair value is represented by their official bid price at the close of trading, while the fair value of instruments not listed on active markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and



valuation models that take account of market data; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer. If the fair value of equity instruments cannot be determined on a reliable basis, they are stated at cost.

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

The components of income generated by financial instruments held for trading are recognised in the income statement for the period in which they arise as «Net trading income». An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. The original value is not reinstated, even if the losses no longer exist. realised gains and losses from the sale or reimbursement and unrealised gains and losses deriving from the change in the fair value of the trading portfolio, as well as the impairment of financial assets carried at cost are booked to the income statement under «net trading income». Interest income and dividends are reported in the income statement under «Interest income and similar revenues» and «Dividends and similar income» respectively.

### **Derecognition**

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

## **2. Financial assets available for sale**

### **Classification**

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

In particular, this caption includes securities not held for trading and equity interests, also not held for trading, that do not represent investments in subsidiary companies, associated companies or companies under joint control.

### **Recognition**

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

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

### **Accounting policies**

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

Variable-yield securities whose fair value cannot be determined reliably are stated at cost. These comprise equities held by way of support for the core business and to encourage the

development of initiatives in the territories where the Bank operates. These instruments show that equities represent the majority in this portfolio. The fair value of these investments cannot be reliably determined, given that the valuation techniques applied to them would have to make significant use of discretionary, non-market factors. An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. Any subsequent writebacks cannot exceed the impairment losses recorded previously. The rules adopted by the Bank prescribe that an impairment test has to be carried out on variable-yield securities in one of the following cases:

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

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

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

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

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

### **Derecognition**

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

## **3. Financial assets held to maturity**

### **Classification**

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

### **Recognition**

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



Any assets booked under the terms of the amendment to IAS 39 regarding the application of fair value, as adopted by the European Union with EC Regulation 1004/2008 of 15/102008 are measured at their fair value as of 1 July 2008, providing they were on the books as of 1/7/2008; those booked subsequently are shown at their fair value at the date of reclassification.

### **Accounting policies**

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

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

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

### **Derecognition**

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

## **4. Receivables**

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

#### **Classification**

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

#### **Recognition**

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

### **Accounting policies**

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity.

The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans without a specific repayment date and loans repayable on demand are booked at their historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this value. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount the expected cash flows, even if the loan is later restructured and changes are made to the contractual rate.

Loans are subjected to impairment testing at each reporting date to check for any loss in value due to deterioration in the solvency of borrowers. The following categories of impaired loan are subjected to specific analysis:

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

### **Derecognition**

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

## **4.2 Endorsement loans**

### **Classification**

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

### **Recognition and measurement**

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

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

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

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

The portfolio of «Financial assets measured 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 measured at fair value booked to the income statement in the period when they arise to «net change in financial assets and liabilities measured at fair value».

## **6. Hedging transactions**

### **Classification and recognition**

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

The hedging of market risks can take two different forms:

- a) fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;

- b) cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

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

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

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

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

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

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

### **Derecognition**

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

## **7. Equity investments**

### **Classification**

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



interest of less than 20%, if one or more of the following circumstances apply:

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

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

### **Recognition**

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

### **Accounting policies**

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

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

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

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

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

### **Derecognition**

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

## **8. Property, plant and equipment**

### **Classification**

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

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

### **Recognition**

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



### **Accounting policies**

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

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

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

### **Derecognition**

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

## **9. Intangible assets**

### **Classification**

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

### **Recognition**

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

### **Accounting policies**

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

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

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

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

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



## **Derecognition**

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

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

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

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

## **11. Current and deferred taxation**

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes. Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation since, at present, the conditions for the payment of such taxation in future do not apply. Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain.

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

## **12. Provisions for risks and charges**

This caption comprises the following provisions:

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

They consist of:

- 1) Post-employment benefits. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Bank has not adopted the «corridor» method allowed by IAS 19. The bank is responsible for any unfunded liabilities.
  - 2) Provision for long-service bonuses. This represents the liability for bonuses to employees who reached a period of service of 30 years. It is recorded under «other provisions».
- b) Other provisions. This caption comprises the provision for long-service bonuses mentioned above and provisions recorded for liabilities whose timing and extent cannot be determined. They are recorded when the following conditions are met:
- 1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
  - 2) it is likely that settlement of the obligation will involve the use of economic resources;
  - 3) a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

### **13. Payables and debt securities in issue**

#### **Classification**

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

#### **Recognition**

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected by the bank. The amount initially recorded includes any transaction costs and revenues that are directly related to each liability; this amount does not include the charges made to creditors in order to recover administrative costs. The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

#### **Accounting policies**

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

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

Interest expense linked to funding instruments are booked to the income statement under «Interest expense and similar charges».

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

#### **Derecognition**

Financial liabilities are derecognised when they expire or are settled.

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

### **14. Financial liabilities held for trading**

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



## **15. Financial liabilities at fair value**

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

## **16. Currency transactions**

### **Classification**

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

### **Recognition**

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

### **Accounting policies**

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

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

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

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

### **Derecognition**

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

## **17. Termination indemnities**

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

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

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements. The actuarial gains and losses arising from adjustments to the actuarial estimates are recorded in the income statement with reference to the estimated residual period of service of employees.

## **18. Other information**

All assets sold have been eliminated from the financial statements. The Bank has not established any stock option plans.

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

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



## A.3 INFORMATION ON FAIR VALUE

### A.3.1 Transfers between portfolios

#### A.3.1.1 Reclassified financial assets: book value, fair value and the impact on comprehensive income

Type of financial instruments ( <sup>1</sup> )	Portfolio of origin ( <sup>2</sup> )	Portfolio destination ( <sup>3</sup> )	Book value at 31.12.2010 ( <sup>4</sup> )	Fair value at 31.12.2010 ( <sup>5</sup> )	Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
					Valuation ( <sup>6</sup> )	Others ( <sup>7</sup> )	Valuation ( <sup>8</sup> )	Others ( <sup>9</sup> )
A. Debt securities	HFT	HTM	198,798	190,034	(671)	2,513	1,725	2,513

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

The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those transferred.

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

### A.3.2 Fair value hierarchy

Amendment to IFRS 7 approved by EU Regulation European 1165 of 27/11/2009 introduced the obligation to classify value measurements on the basis of a hierarchy of levels that reflect the reliability of the inputs used in valuing financial instruments. These levels are:

- prices (without adjustments) on active markets - according the definition of IAS 39 - for the assets and liabilities being measured (level 1);
- inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);
- inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Bank.

#### A.3.2.1 Accounting portfolios: breakdown by level of fair value

Financial assets/liabilities measured at fair value	31/12/2010			31/12/2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	2,400,634	391,112	8,705	2,538,461	328,397	10,788
2. Financial assets carried at fair value	31,002	60,886	-	45,537	53,285	-
3. Financial assets available for sale	15,943	79,148	11,834	18,317	84,872	10,220
4. Hedging derivatives	-	-	-	-	-	-
<b>Total</b>	<b>2,447,579</b>	<b>531,146</b>	<b>20,539</b>	<b>2,602,315</b>	<b>466,554</b>	<b>21,008</b>
1. Financial assets held for trading	203	90,653	-	87	73,961	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
<b>Total</b>	<b>203</b>	<b>90,653</b>	<b>-</b>	<b>87</b>	<b>73,961</b>	<b>-</b>

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

### A.3.2.2 Changes during the year in financial assets measured at fair value (level 3)

	Financial assets			
	held for trading	carried at fair value	available for sale	for hedging
<b>1. Opening balance</b>	<b>10,788</b>	-	<b>10,220</b>	-
<b>2. Increases</b>	<b>379</b>	-	<b>2,149</b>	-
2.1. Purchases	25	-	1,833	-
2.2. Income booked to:				
2.2.1. Income statement	179	-	-	-
- of which realized gains	-	-	-	-
2.2.2. Equity	-	-	316	-
2.3. Transfer from other level	-	-	-	-
2.4. Other increases	175	-	-	-
<b>3. Decreases</b>	<b>2,462</b>	-	<b>535</b>	-
3.1. Sales	7	-	-	-
3.2. Reimbursements	2,271	-	-	-
3.3. Losses booked to:				
3.3.1. Income statement	-	-	245	-
- of which losses	-	-	245	-
3.3.2. Equity	-	-	128	-
3.4. Transfers to other levels	-	-	-	-
3.5. Other decreases	184	-	162	-
<b>4. Closing balance</b>	<b>8,705</b>	-	<b>11,834</b>	-

### A.3.2.3 Changes during the year in financial liabilities measured at fair value (level 3)

There are no financial liabilities carried at a level 3 fair value.

### A.3.3 Information on the so-called «day one profit/loss»

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



## **PART B** *Information on the balance sheet*

### *Assets*

#### **Section 1** *Cash and cash equivalents - line item 10*

##### **1.1 Cash and balances with central banks: analysis**

	31/12/2010	31/12/2009
a) Cash	80,243	81,251
b) Unrestricted deposits with central banks	-	-
<b>Total</b>	<b>80,243</b>	<b>81,251</b>

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

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

Items/Amounts	31/12/2010			31/12/2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>A. Cash assets</b>						
1. Fixed-yield securities	2,355,267	283,389	8,705	2,496,499	243,490	10,788
1.1 Structured securities	-	16,439	2,037	3,043	34,053	1,915
1.2 Other fixed-yield securities	2,355,267	266,950	6,668	2,493,456	209,437	8,873
2. Variable-yield securities	43,066	1,754	-	40,015	1,703	-
3. Mutual funds	2,277	7,892	-	1,862	6,566	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total A</b>	<b>2,400,610</b>	<b>293,035</b>	<b>8,705</b>	<b>2,538,376</b>	<b>251,759</b>	<b>10,788</b>
<b>B. Derivatives</b>						
1. Financial derivatives:	24	98,077	-	85	76,638	-
1.1 for trading	24	98,077	-	85	76,638	-
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>24</b>	<b>98,077</b>	<b>-</b>	<b>85</b>	<b>76,638</b>	<b>-</b>
<b>Total (A+B)</b>	<b>2,400,634</b>	<b>391,112</b>	<b>8,705</b>	<b>2,538,461</b>	<b>328,397</b>	<b>10,788</b>

The other debt securities shown under level 3 are made up of a bond deriving from the securitisation of loans. The valuation of this instrument was made using internal valuation models based on discounting future cash flows and applying an average credit spread for Italian ABS with a corresponding rating.



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

Items/Amounts	31/12/2010	31/12/2009
<b>A. Cash assets</b>		
1. Fixed-yield securities	2,647,361	2,750,777
a) Governments and central banks	2,329,167	2,443,843
b) Other public entities	-	-
c) Banks	191,513	177,869
d) Other issuers	126,681	129,065
2. Variable-yield securities	44,820	41,718
a) Banks	19,216	14,374
b) Other issuers:	25,604	27,344
- insurance companies	3,930	3,859
- financial companies	1,228	864
- non-financial companies	20,446	22,621
- other	-	-
3. Mutual funds	10,169	8,428
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
<b>Total A</b>	<b>2,702,350</b>	<b>2,800,923</b>
<b>B. Derivatives</b>		
a) Banks	62,497	43,463
- fair value	62,497	43,463
b) Customers	35,604	33,260
- fair value	35,604	33,260
<b>Total B</b>	<b>98,101</b>	<b>76,723</b>
<b>Total (A + B)</b>	<b>2,800,451</b>	<b>2,877,646</b>

Mutual funds are made up of: bond funds and sicavs for € 9.732 million, real estate funds for € 0.392 million, and other funds for € 0.045 million,



### 2.3 Cash financial assets held for trading: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total
<b>A. Opening balance</b>	<b>2,750,777</b>	<b>41,718</b>	<b>8,428</b>	-	<b>2,800,923</b>
<b>B. Additions</b>	<b>7,415,718</b>	<b>81,400</b>	<b>22,003</b>	-	<b>7,519,121</b>
B.1 Purchases	7,362,623	79,626	20,627	-	7,462,876
B.2 Positive changes in fair value	8,854	50	1,104	-	10,008
B.3 Other changes	44,241	1,724	272	-	46,237
<b>C. Decreases</b>	<b>7,519,134</b>	<b>78,298</b>	<b>20,262</b>	-	<b>7,617,694</b>
C.1 Disposals	7,372,639	68,170	20,050	-	7,460,859
C.2 Reimbursements	48,928	-	-	-	48,928
C.3 Negative changes in fair value	63,575	9,912	208	-	73,695
C.4 Transfer to other portfolios	-	-	-	-	-
C.5 Other changes	33,992	216	4	-	34,212
<b>D. Closing balance</b>	<b>2,647,361</b>	<b>44,820</b>	<b>10,169</b>	-	<b>2,702,350</b>

Other increases consist of net trading income and accrued interest coupons and premiums. Other decreases consist of net trading losses and the amount of coupons collected.

### Section 3 Financial assets carried at fair value - line item 30

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

Items/Amounts	31/12/2010			31/12/2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1, Fixed-yield securities</b>	<b>29,224</b>	-	-	<b>43,880</b>	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	29,224	-	-	43,880	-	-
<b>2, Variable-yield securities</b>	-	-	-	-	-	-
<b>3, Mutual funds</b>	<b>1,778</b>	<b>60,886</b>	-	<b>1,657</b>	<b>53,285</b>	-
<b>4, Loans</b>	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total</b>	<b>31,002</b>	<b>60,886</b>	-	<b>45,537</b>	<b>53,285</b>	-
<b>Cost</b>	<b>32,592</b>	<b>58,826</b>	-	<b>44,886</b>	<b>47,192</b>	-

This portfolio includes all securities, other than those booked to the trading portfolio, which the bank has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.

### 3.2 Financial assets carried at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2010	31/12/2009
<b>1. Fixed-yield securities</b>	<b>29,224</b>	<b>43,880</b>
a) Governments and central banks	29,224	43,880
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>2. Variable-yield securities</b>	<b>-</b>	<b>-</b>
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
<b>3. Mutual funds</b>	<b>62,664</b>	<b>54,942</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
<b>Total</b>	<b>91,888</b>	<b>98,822</b>

Mutual funds are made up of: bond funds and sicavs for € 24.776 million, funds and sicavs for € 27.426 million, real estate funds for € 1.778 million, monetary funds for € 3.519 million and flexible funds for € 5.165 million.

### 3.3 Financial assets measured at fair value: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total
<b>A. Opening balance</b>	<b>43,880</b>	<b>-</b>	<b>54,942</b>	<b>-</b>	<b>98,822</b>
<b>B. Additions</b>	<b>13,538</b>	<b>-</b>	<b>18,670</b>	<b>-</b>	<b>32,208</b>
B.1 Purchases	13,033	-	16,000	-	29,033
B.2 Positive changes in fair value	-	-	2,641	-	2,641
B.3 Other changes	505	-	29	-	534
<b>C. Decreases</b>	<b>28,194</b>	<b>-</b>	<b>10,948</b>	<b>-</b>	<b>39,142</b>
C.1 Disposals	26,067	-	10,791	-	36,858
C.2 Reimbursements	-	-	-	-	-
C.3 Negative changes in fair value	1,759	-	49	-	1,808
C.4 Other changes	368	-	108	-	476
<b>D. Closing balance</b>	<b>29,224</b>	<b>-</b>	<b>62,664</b>	<b>-</b>	<b>91,888</b>

«Other changes» include net trading income and accrued interest coupons and premiums (as an increase) and coupons collected (as a decrease).



## Section 4 Financial assets available for sale - line item 40

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

Items/Amounts	31/12/2010			31/12/2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	<b>609</b>	<b>30,100</b>	-	-	<b>30,092</b>	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	609	30,100	-	-	30,092	-
<b>2. Variable-yield securities</b>	<b>15,334</b>	<b>49,048</b>	-	<b>18,317</b>	<b>54,780</b>	-
2.1 Carried at fair value	15,334	6,538	-	18,317	6,587	-
2.2 Carried at cost	-	42,510	-	-	48,193	-
<b>3. Mutual funds</b>	-	-	<b>11,834</b>	-	-	<b>10,220</b>
<b>4. Loans</b>	-	-	-	-	-	-
<b>Total</b>	<b>15,943</b>	<b>79,148</b>	<b>11,834</b>	<b>18,317</b>	<b>84,872</b>	<b>10,220</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.

Mutual funds all consist of closed-end unlisted equity funds. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net assets value (NAV).

### 4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Amounts	31/12/2010	31/12/2009
<b>1. Fixed-yield securities</b>	<b>30,709</b>	<b>30,092</b>
a) Governments and central banks	-	-
b) Other public entities	1,320	1,316
c) Banks	28,631	28,018
d) Other issuers	758	758
<b>2. Variable-yield securities</b>	<b>64,382</b>	<b>73,097</b>
a) Banks	13,768	19,678
b) Other issuers:	50,614	53,419
- insurance companies	1,607	2,126
- financial companies	32,672	32,701
- non-financial companies	16,335	18,592
- other	-	-
<b>3. Mutual funds</b>	<b>11,834</b>	<b>10,220</b>
<b>4. Loans</b>	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
<b>Total</b>	<b>106,925</b>	<b>113,409</b>

#### 4.4 Financial assets available for sale: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total
<b>A. Opening balance</b>	<b>30,092</b>	<b>73,097</b>	<b>10,220</b>	-	<b>113,409</b>
<b>B. Additions</b>	<b>1,022</b>	<b>11,144</b>	<b>2,149</b>	-	<b>14,315</b>
B.1 Purchases	616	10,461	1,833	-	12,910
B.2 Positive change in FV	-	563	316	-	879
B.3 Write-backs	-	-	-	-	-
- booked to income statement	-	-	-	-	-
- booked to equity	-	-	-	-	-
B.4 Transfers from other asset portfolios	-	-	-	-	-
B.5 Other changes	406	120	-	-	526
<b>C. Decreases</b>	<b>405</b>	<b>19,859</b>	<b>535</b>	-	<b>20,799</b>
C.1 Disposals	-	412	-	-	412
C.2 Reimbursements	-	-	-	-	-
C.3 Negative change in FV	22	1,070	128	-	1,220
C.4 Impairment write-downs	-	3,339	245	-	3,584
- booked to income statement	-	3,339	245	-	3,584
- booked to equity	-	-	-	-	-
C.5 Transfers to other asset portfolios	-	14,654	-	-	14,654
C.6 Other changes	383	384	162	-	929
<b>D. Closing balance</b>	<b>30,709</b>	<b>64,382</b>	<b>11,834</b>	-	<b>106,925</b>

This item passes from € 113.409 million to € 106.925 million.

As stated in IAS/IFRS, assets held for sale are tested to check if there is any objective evidence of a reduction in value in conformity with the Bank's policies adopted. The rules adopted for handling impairment set quantitative and time thresholds beyond which any reduction in the fair value of variable-yield securities entails booking the loss immediately to the income statement.

The main increase concerns for € 10.145 million the interest in Banca della Nuova Terra Spa; the decrease relates to the transfer of the above company for the entire amount of holding to equity investments, € 14.654 million, and to the writedown of securities, mainly equities, for € 3.339 million.

Other decreases mainly concern collected coupons.

### Section 5 Financial assets held to maturity - line item 50

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

Type of transaction/Amounts	31/12/2010				31/12/2009			
	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>249,304</b>	<b>6,732</b>	<b>233,795</b>	<b>-</b>	<b>263,654</b>	<b>5,636</b>	<b>252,703</b>	<b>-</b>
- structured	11,657	-	10,284	-	11,591	-	10,589	-
- other	237,647	6,732	223,511	-	252,063	5,636	242,114	-
<b>2. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

In 2008 we transferred securities held for trading to this portfolio for a total par value of € 242.686 million, taking advantage of the amendment issued by IASB on 13/10/2008 and adopted by the European Commission with Regulation 1004/2008 on 15/10/2008.

if the securities transferred, which are currently in portfolio at an amount of €198.798 million at par, had been measured at fair value at the date of the financial statements, they would have been worth € 190.031 million with a loss of € 8,764 million.



## 5.2 Financial assets held to maturity: breakdown by debtor/issuer

Items/Amounts	31/12/2010	31/12/2009
<b>1. Fixed-yield securities</b>	<b>249,304</b>	<b>263,654</b>
a) Governments and central banks	7,139	5,458
b) Other public entities	-	-
c) Banks	143,137	171,151
d) Other issuers	99,028	87,045
<b>2. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
<b>Total</b>	<b>249,304</b>	<b>263,654</b>

## 5.4 Financial assets held to maturity: changes during the year

	Fixed-yield securities	Loans	Total
<b>A. Opening balance</b>	<b>263,654</b>	<b>-</b>	<b>263,654</b>
<b>B. Additions</b>	<b>20,020</b>	<b>-</b>	<b>20,020</b>
B.1 Purchases	12,779	-	12,779
B.2 Write-backs	-	-	-
B.3 Transfers from other asset portfolios	-	-	-
B.4 Other changes	7,241	-	7,241
<b>C. Decreases</b>	<b>34,370</b>	<b>-</b>	<b>34,370</b>
C.1 Disposals	-	-	-
C.2 Reimbursements	29,500	-	29,500
C.3 Write-downs	-	-	-
C.4 Transfers to other asset portfolios	-	-	-
C.5 Other changes	4,870	-	4,870
<b>D. Closing balance</b>	<b>249,304</b>	<b>-</b>	<b>249,304</b>

Other increases concern interest coupons and premiums and the positive element of amortised cost. Other decreases consist of collected coupons and the negative element of amortised cost.

Item C2. relates to the repayment of securities expired, mainly bonds issued by Banca Italease.

## Section 6 Due from other banks - line item 60

### 6.1 Loans and advances to banks: breakdown by sector

Type of transaction/Amounts	31/12/2010	31/12/2009
<b>A) Deposits with central banks</b>	<b>341,901</b>	<b>121,373</b>
1. Time deposits	-	-
2. Compulsory reserve	341,901	121,373
3. Repurchase agreements	-	-
4. Other	-	-
<b>B) Due from banks</b>	<b>1,123,606</b>	<b>1,172,842</b>
1. Current accounts and sight deposits	119,382	79,046
2. Time deposits	1,000,635	1,090,932
3. Other loans	3,589	2,864
3.1 Repurchase agreements	-	-
3.2 Financial leases	-	-
3.3 Other	3,589	2,864
4. Fixed-yield securities	-	-
4.1 Structured securities	-	-
4.2 Other fixed-yield securities	-	-
<b>Total (book value)</b>	<b>1,465,507</b>	<b>1,294,215</b>
<b>Total (fair value)</b>	<b>1,465,507</b>	<b>1,294,215</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.

## Section 7 Due from customers - line item 70

### 7.1 Due from customers: breakdown by sector

Type of transaction/Amounts	31/12/2010		31/12/2009	
	Performing	Impaired	Performing	Impaired
<b>1. Current accounts</b>	<b>6,281,246</b>	<b>278,838</b>	<b>5,644,635</b>	<b>268,121</b>
<b>2. Repurchase agreements</b>	<b>6,469</b>	-	-	-
<b>3. Mortgage loans</b>	<b>7,781,191</b>	<b>335,380</b>	<b>6,627,607</b>	<b>238,436</b>
<b>4. Credit cards, personal loans and assignments of one-fifth of salary</b>	<b>90,008</b>	<b>5,243</b>	<b>90,660</b>	<b>5,059</b>
<b>5. Financial lease</b>	-	-	-	-
<b>6. Factoring</b>	-	-	-	-
<b>7. Other transactions</b>	<b>3,409,665</b>	<b>59,821</b>	<b>3,789,271</b>	<b>47,292</b>
<b>8. Fixed-yield securities</b>	-	-	-	-
8.1 Structured securities	-	-	-	-
8.2 Other fixed-yield securities	-	-	-	-
<b>Total (book value)</b>	<b>17,568,579</b>	<b>679,282</b>	<b>16,152,173</b>	<b>558,908</b>
<b>Total (fair value)</b>	<b>17,960,312</b>	<b>679,282</b>	<b>16,407,767</b>	<b>558,908</b>

These receivables are not specifically hedged.

Reference should be made to Part E «Information on risks and related hedging policies, Section 1, Credit risk» with regard to impaired assets.

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



## 7.2 Loans and advances to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2010		31/12/2009	
	Performing	Impaired	Performing	Impaired
<b>1. Fixed-yield securities:</b>				
a) Governments	-	-	-	-
b) Other public entities	-	-	-	-
c) Other issuers	-	-	-	-
- non-financial companies	-	-	-	-
- financial companies	-	-	-	-
- insurance companies	-	-	-	-
- other	-	-	-	-
<b>2. Loans to:</b>				
a) Governments	171	-	525	-
b) Other public entities	63,138	-	65,894	3
c) Other parties	17,505,270	679,282	16,085,754	558,905
- non-financial companies	12,377,237	522,550	11,753,816	444,839
- financial companies	1,615,608	15,910	1,342,455	6,218
- insurance companies	2,263	343	4,709	-
- other	3,510,162	140,479	2,984,774	107,848
<b>Total</b>	<b>17,568,579</b>	<b>679,282</b>	<b>16,152,173</b>	<b>558,908</b>

## Section 10 Equity investments - line item 100

### 10.1 Investments in subsidiary companies, companies under joint control and companies subject to significant influence: disclosures

Name	Location	% holding	% of votes
<b>A. Investments in wholly-owned subsidiaries</b>			
1. BANCA POPOLARE DI SONDRIO SUISSE S.A.	Lugano	100.000	100.000
2. FACTORIT S.p.A.	Milan	60.500	60.500
3. SINERGIA SECONDA S.R.L.	Milan	100.000	100.000
4. PIROVANO STELVIO S.p.A.	Sondrio	100.000	100.000
<b>B. Investments in companies under joint control</b>			
1. RAJNA IMMOBILIARE S.R.L.	Sondrio	50.000	50.000
<b>C. Associated companies (subject to significant influence)</b>			
1. ALBA LEASING S.p.A.	Milan	20.950	20.950
2. ARCA VITA S.p.A.	Verona	15.036	15.036
3. BANCA DELLA NUOVA TERRA S.p.A.	Milan	19.500	19.500
4. B & A BROKER S.p.A.	Milan	28.571	28.571
5. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.R.L.	Milan	33.333	33.333



## 10.2 Investments in subsidiary companies, companies under joint control and companies subject to significant influence: accounting information

Name	Total assets	Total revenues	Net profit (loss)	Equity	Book value	Fair value
<b>A. Investments in wholly-owned subsidiaries</b>						
1. BANCA POPOLARE DI SONDRIO SUISSE S.A.	2,875,635	93,350	1,599	181,997	67,695	-
2. FACTORIT S.p.A.	1,438,705	82,209	10,014	161,203	102,850	-
3. SINERGIA SECONDA S,R,L.	73,919	958	-363	59,464	50,129	-
4. PIROVANO STELVIO S.p.A.	4,036	1,393	-416	2,494	2,494	-
<b>B. Investments in companies under joint control</b>						
1. RAJNA IMMOBILIARE S.R.L.	944	158	62	741	265	-
<b>C. Associated companies (subject to significant influence)</b>						
1. ALBA Leasing S.p.A.	5,136,172	71,964	-4,475	336,399	75,420	-
2. ARCA VITA S.p.A.	4,401,031	985,347	18,214	261,789	35,571	-
3. BANCA DELLA NUOVA TERRA S.p.A.	506,624	21,204	535	61,827	14,654	-
4. B & A BROKER S.p.A.	5,117	2,434	295	1,595	365	-
5. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.R.L.	827	817	72	326	32	-
	<b>14,443,010</b>	<b>1,259,834</b>	<b>25,537</b>	<b>1,067,835</b>	<b>349,475</b>	<b>-</b>

Equity investments are shown in the financial statements at cost in accordance with IAS 27, 28 and 31. This amount is adjusted in the event of permanent impairment. Equity investments did not show any signs of impairment that needed adjusting.

The figures shown in the table are taken from the financial statements at 31/12/2010, reclassified according to IAS/IFRS, except for Alba Leasing Spa. For the latter, set up on 15 August 2009 and operating from 1 January 2010, the figures at 30 June 2010 have been used as no figures were available at 31 December 2010. For affiliates that prepare financial statements or consolidated financial statements, the figures shown in these documents are used.

During the year, we received dividends of € 2.995 million from Arca Vita spa.

The fair value is not shown for companies that are not listed on active markets.



### 10.3 Equity investments: changes during the year

	2010	2009
<b>A. Opening balance</b>	<b>146,653</b>	<b>127,653</b>
<b>B. Additions</b>	<b>203,238</b>	<b>81,629</b>
B.1 Purchases	187,541	80,523
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	15,697	1,106
<b>C. Decreases</b>	<b>416</b>	<b>62,629</b>
C.1 Disposals	-	14,730
C.2 Write-downs	416	2,533
C.3 Other changes	-	45,366
<b>D. Closing balance</b>	<b>349,475</b>	<b>146,653</b>
<b>E. Total revaluations</b>	<b>-</b>	<b>-</b>
<b>F. Total write-downs</b>	<b>(47,107)</b>	<b>(46,691)</b>

This item passes from 146.653 million to 349.475 million.

The increase refers to:

- acquisition of 60.5% of the share capital of Factorit Spa for € 102.850 million;
- subscription of the increase in share capital to € 50 million of the subsidiary Sinergia Seconda srl for 39.800 million;
- subscription of the increase in share capital to CHF. 100 million of Banca Popolare di Sondrio (Suisse) SA for € 34.767 million;
- transfer of the interest held in Banca Della Nuova Terra Spa from the «Assets held for sales» portfolio for € 14.654 million following the rise in this investment from 6% to 19.5%;
- subscription of € 8.218 million for the increase in capital of Arca Vita Spa and payment of € 1.907 million for the calling up of five tenths still outstanding from the previous increase in capital;
- coverage of the 2009 loss of Pirovano Stelvio spa of € 0.394 million and subscription of the increase in share capital of € 0.648 million.

The decrease is due to the writedown of the interest in Pirovano Stelvio spa of € 0.416 million.

### 10.4 - 10.5 - 10.6 Commitments relating to investments in subsidiaries, companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing spa granted when this company started up as part of the reorganisation of Banca Italease spa, against which the Bank has made a specific risk provision.

## Section 11 Property, plant and equipment - line item 110

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

Assets/Values	31/12/2010	31/12/2009
<b>A. Assets used in business</b>		
1.1 owned	99,244	100,510
a) land	37,315	37,315
b) buildings	42,930	43,628
c) furniture	7,548	7,621
d) IT equipment	2,221	2,572
e) other	9,230	9,374
1.2 purchased under finance leases	32,412	42,853
a) land	6,803	11,047
b) buildings	25,609	31,806
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
<b>Total A</b>	<b>131,656</b>	<b>143,363</b>
<b>B. Investment property</b>		
2.1 owned	-	-
a) land	-	-
b) buildings	-	-
2.2 purchased under finance leases	-	-
a) land	-	-
b) buildings	-	-
<b>Total B</b>	<b>-</b>	<b>-</b>
<b>Total A+B</b>	<b>131,656</b>	<b>143,363</b>

Property, plant and equipment are valued at cost. Buildings have a fair value of € 255.035 million, as determined by an internal appraisal. Buildings used for business purposes are worth € 105.145 million.

Property, plant and equipment are free from restrictions and commitments guaranteeing liabilities.

Assets purchased under finance leases are represented by buildings used as bank branches.



### 11.3 Property, plant and equipment used for business purposes: changes during the year

	Land	Buildings	Furniture	IT equipment	Other	Total
<b>A. Opening gross amount</b>	<b>48,362</b>	<b>129,508</b>	<b>15,483</b>	<b>9,093</b>	<b>26,900</b>	<b>229,346</b>
A.1 Total net reductions in value	-	54,074	7,862	6,521	17,526	85,983
A.2 Opening net amount	48,362	75,434	7,621	2,572	9,374	143,363
<b>B. Additions</b>	<b>-</b>	<b>6,103</b>	<b>1,764</b>	<b>1,328</b>	<b>4,844</b>	<b>14,039</b>
B.1 Purchases	-	289	1,764	1,328	4,844	8,225
B.2 Capitalised improvement expenditure	-	5,670	-	-	-	5,670
B.3 Write-backs	-	-	-	-	-	-
B.4 Fair value increases booked to						
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate adjustments	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	144	-	-	-	144
<b>C. Decreases</b>	<b>4,244</b>	<b>12,998</b>	<b>1,837</b>	<b>1,679</b>	<b>4,988</b>	<b>25,746</b>
C.1 Disposals	4,100	9,258	-	-	138	13,496
C.2 Depreciation	-	3,740	1,837	1,679	4,850	12,106
C.3 Impairment charges booked to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Fair value decreases booked to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate adjustments	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) assets related to discontinued operations	-	-	-	-	-	-
C.7 Other changes	144	-	-	-	-	144
<b>D. Closing net amount</b>	<b>44,118</b>	<b>68,539</b>	<b>7,548</b>	<b>2,221</b>	<b>9,230</b>	<b>131,656</b>
D.1 Total net reductions in value	-	57,814	9,699	8,195	21,992	97,700
D.2 Closing gross amount	44,118	126,353	17,247	10,416	31,222	229,356
<b>E. Valuation at cost</b>	<b>44,118</b>	<b>68,539</b>	<b>7,548</b>	<b>2,221</b>	<b>9,230</b>	<b>131,656</b>

This item totals € 131.656 million, a decrease of € 11.707 million - 8.17%.

The principal changes relate to:

- owned buildings:
  - in Milan for the purchase of a flat and in Chiavenna for the purchase of a garage;
  - in Sondrio Lungo Mallerio Cadorna, Chiesa Valmalenco, S.Pietro Berbenno, Gravedona, Breno, Bergamo for restructuring works;
- buildings being purchased under finance leases
  - works in Grumello, Sondrio via Macello, Sondrio via Veneto, Seregno and Milan via Canova. Transfer of lease contracts to Sinergia Seconda srl for buildings in Sondrio via Veneto and Seregno.
- furniture, installations and other:
  - increases relate to head office and branch IT equipment, furniture and fittings and miscellaneous equipment for newly-opened branches.

Depreciation is provided over the estimated useful lives of the fixed assets concerned, as summarised below:

property, plant and equipment	depreciation period (years)
buildings	33
furniture and fittings	7
IT equipment	3
miscellaneous machinery and equipment	5
vehicles	3
security counters	3
Photovoltaic plant	12
safes	8

In accordance with article 10 of Law 72 of 19 March 1983, an appendix to this report provides information on the buildings still owned by the bank for which monetary revaluations were carried out in the past.

### 11.5 Commitments for the purchase of property, plant and equipment

Contractual commitments for the purchase of property, plant and equipment amount to € 4.033 million, compared with € 3.223 million the previous year.

## Section 12 Intangible assets - line item 120

### 12.1 Intangible assets: breakdown by type

Assets/Values	31/12/2010		31/12/2009	
	Specified duration	Unspecified duration	Specified duration	Unspecified duration
<b>A1. Goodwill</b>	-	-	-	-
A.2 Other intangible assets	10,837	-	6,981	-
A.2.1 Carried at cost:	10,837	-	6,981	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	10,837	-	6,981	-
A.2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
<b>Total</b>	<b>10,837</b>	<b>-</b>	<b>6,981</b>	<b>-</b>

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years.

These intangible assets are listed below by year of acquisition:

	31/12/2010	31/12/2009
recorded in 2008	-	1,675
recorded in 2009	2,653	5,306
recorded in 2010	8,184	-
	<b>10,837</b>	<b>6,981</b>



## 12.2 Intangible assets: change in year

	Other intangible assets generated internally			Other intangible assets: other		Total 31/12/2010
	Goodwill	Specified	Unspecified	Specified	Unspecified	
<b>A. Opening balance</b>	-	-	-	<b>39,272</b>	-	<b>39,272</b>
A.1 Total net reductions in value	-	-	-	32,291	-	32,291
A.2 Opening net amount	-	-	-	6,981	-	6,981
<b>B. Additions</b>	-	-	-	<b>12,275</b>	-	<b>12,275</b>
B.1 Purchases	-	-	-	12,275	-	12,275
B.2 Increases in internally generated intangible assets -	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- booked to equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
<b>C. Decreases</b>	-	-	-	<b>8,419</b>	-	<b>8,419</b>
C.1 Disposals	-	-	-	-	-	-
C.2 Write-downs	-	-	-	8,419	-	8,419
- Amortisation	-	-	-	8,419	-	8,419
- Write-downs	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value	-	-	-	-	-	-
- booked to equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
C.4 Transfers to discontinued operations due for disposal	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
<b>D. Closing net amount</b>	-	-	-	<b>10,837</b>	-	<b>10,837</b>
D.1 Total net value adjustments	-	-	-	40,710	-	40,710
<b>E. Closing gross amount</b>	-	-	-	<b>51,547</b>	-	<b>51,547</b>
<b>F. Valuation at cost</b>	-	-	-	<b>10,837</b>	-	<b>10,837</b>

Key:

Specified: specified duration

Unspecified: unspecified duration

## 12.3 Other information

Contractual commitments to purchase software user rights amount to € 6.164 million, compared with € 7.888 million in the prior year.

## **Section 13** *Tax assets and liabilities- asset line item 130 and liability line item 80*

### **13.1 Deferred tax assets: breakdown**

Deferred tax assets recorded in relation to timing differences are analysed as follows:

	<b>31/12/2010</b>	<b>31/12/2009</b>
Loan write-downs	25,995	20,916
Provisions for risks and charges	11,796	10,466
Deferred charges	3,613	3,810
Securities and equity investments	550	599
Administrative expenses	218	1,724
Amortisation and depreciation	1,005	638
<b>Total</b>	<b>43,177</b>	<b>38,153</b>

The deferred tax assets recorded in relation to the provisions for risks and charges concern the provision for legal disputes, the provision for guarantees given and the provision for personnel charges. Deferred tax assets have been recognised in relation to all deductible timing differences.

### **13.2 Deferred tax liabilities: breakdown**

Deferred tax liabilities are analysed as follows:

	<b>31/12/2010</b>	<b>31/12/2009</b>
Owned buildings	5,589	5,588
Accelerated depreciation	2,840	2,884
Leased buildings	1,980	2,051
Revaluation of securities and gains	360	478
Administrative expenses	1,981	1,981
<b>Total</b>	<b>12,750</b>	<b>12,982</b>

The amount relating to owned buildings comprises the deferred taxation arising on the adoption of IFRS, with the elimination of the accumulated depreciation of land, and that calculated in 2004 on the elimination of «fiscal interference».



### 13.3 Change in deferred tax assets (with contra-entry to the income statement)

	31/12/2010	31/12/2009
<b>1. Opening balance</b>	<b>37,999</b>	<b>22,533</b>
<b>2. Increases</b>	<b>11,426</b>	<b>20,198</b>
2.1 Deferred tax assets arising during the year	11,426	20,198
a) relating to prior years	40	162
b) due to changes in accounting policies	-	-
c) write-backs	-	-
d) other	11,386	20,036
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>6,382</b>	<b>4,732</b>
3.1 Deferred tax assets eliminated during the year	6,382	4,732
a) reversals	6,382	4,732
b) written down as no longer recoverable	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>43,043</b>	<b>37,999</b>

### 13.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2010	31/12/2009
<b>1. Opening balance</b>	<b>12,906</b>	<b>13,024</b>
<b>2. Increases</b>	<b>11</b>	<b>73</b>
2.1 Deferred tax liabilities arising during the year	11	73
a) relating to prior years	-	46
b) due to changes in accounting policies	-	-
c) other	11	27
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>268</b>	<b>191</b>
3.1 Deferred tax liabilities eliminated during the year	268	191
a) reversals	268	191
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>12,649</b>	<b>12,906</b>



### 13.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2010	31/12/2009
<b>1. Opening balance</b>	<b>154</b>	<b>924</b>
<b>2. Increases</b>	<b>24</b>	<b>-</b>
2.1 Deferred tax assets arising during the year	24	-
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	24	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>44</b>	<b>770</b>
3.1 Deferred tax assets eliminated during the year	44	770
a) reversals	44	770
b) written down as no longer recoverable	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>134</b>	<b>154</b>

This amount relates to the tax on the losses on securities available for sale booked to equity.

### 13.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2010	31/12/2009
<b>1. Opening balance</b>	<b>76</b>	<b>77</b>
<b>2. Increases</b>	<b>37</b>	<b>59</b>
2.1 Deferred tax liabilities arising during the year	37	59
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	37	59
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
<b>3. Decreases</b>	<b>12</b>	<b>60</b>
3.1 Deferred tax liabilities eliminated during the year	12	60
a) reversals	12	60
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>101</b>	<b>76</b>

This amount relates to the tax on the gains on securities available for sale booked to equity.



**Section 14** *Non-current assets and disposal groups held for sale and associated liabilities - line item 140 of assets and line item 90 of liabilities and equity*

**14.1 Non-current assets and disposal groups held for sale: breakdown by type**

	31/12/2010	31/12/2009
<b>A. Individual assets</b>		
A.1 Financial assets	-	-
A.2 Equity investments	-	45,366
A.3 Property, plant and equipment	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
<b>Total A</b>	<b>-</b>	<b>45,366</b>
<b>B. Disposal groups of assets (discontinued operations)</b>		
B1. Financial assets held for trading	-	-
B2. Financial assets measured at fair value	-	-
B3. Financial assets available for sale	-	-
B4. Financial assets held to maturity	-	-
B5. Due from banks	-	-
B6. Due from customers	-	-
B7. Equity investments	-	-
B8. Property, plant and equipment	-	-
B9. Intangible assets	-	-
B10. Other assets	-	-
<b>Total B</b>	<b>-</b>	<b>-</b>
<b>C. Liabilities associated with individual assets held for sale</b>		
C1. Payables	-	-
C2. Securities	-	-
C3. Other liabilities	-	-
<b>Total C</b>	<b>-</b>	<b>-</b>
<b>D. Liabilities associated with disposal groups of assets</b>		
D1. Due to banks	-	-
D2. Due to customers	-	-
D3. Securities issued	-	-
D4. Financial liabilities held for trading	-	-
D5. Financial liabilities measured at fair value	-	-
D6. Provisions	-	-
D7. Other liabilities	-	-
<b>Total D</b>	<b>-</b>	<b>-</b>

This item has a zero balance at year-end as the contract between Banca Popolare di Sondrio, Banca Popolare dell'Emilia Romagna Scpa and Unipol Gruppo Finanziario for the transfer of the controlling interest in Arca Vita and Arca Assicurazioni was executed as soon as all the necessary authorisations had been obtained, which took place on 22 June 2010. So on that date, 25% of Arca Vita with a book value of € 45.812 million, including the calling up of five tenths that took place during the year, was sold for € 93.262 million and the entire 9.90% interest in Arca Assicurazioni Spa with a book value of € 2.749 million was sold for € 13.703 million.

## Section 15 Other assets - line item 150

### 16.1 Other assets: breakdown

	31/12/2010	31/12/2009
Advances paid to tax authorities	18,279	15,793
Withholdings on interest due to customers	47	63
Tax credits and related interest	19,123	46,467
Unpaid cheques and bills	-	1,255
Current account cheques drawn on third parties	38,694	42,841
Current account cheques drawn on the bank	21,548	24,102
Transactions in customers' securities	475	92
Inventories	1,535	2,071
Costs pertaining to the subsequent year	981	1,216
Advances to suppliers	119	8,767
Advances to customers awaiting collections	8,142	89,846
Miscellaneous debits in transit	23,899	14,080
Liquid assets serving post-employment benefits	1,762	4,718
Accrued income not allocated	20,282	21,085
Prepayments not allocated	3,775	2,724
Residual items	21,610	24,229
<b>Total</b>	<b>180,271</b>	<b>299,349</b>

## Liabilities and equity

### Section 1 Due to other banks - line item 10

#### 1.1 Deposits from banks: breakdown by type

Type of transaction/Amounts	31/12/2010	31/12/2009
<b>1. Due to central banks</b>	<b>20,959</b>	<b>20,829</b>
<b>2. Due to banks</b>	<b>2,255,338</b>	<b>2,239,445</b>
2.1 Current accounts and sight deposits	1,075,996	528,829
2.2 Time deposits	1,006,117	1,438,470
2.3 Loans	173,225	272,135
2.3.1 repurchase agreements	-	126,492
2.3.2 other	173,225	145,643
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	-	11
<b>Total</b>	<b>2,276,297</b>	<b>2,260,274</b>
<b>Fair value</b>	<b>2,276,297</b>	<b>2,260,274</b>

These payables are not specifically hedged.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

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



## 1.5 Payables for finance leases

	31/12/2010	31/12/2009
Payables for finance leases	15,165	28,827

Payables per finance leases at floating rates amount to € 15.165 million, compared with € 28.827 million \*at the end of the prior year, -47.39%, and relate to buildings used as banking branches. Total outstanding lease commitments, including interest, amount to € 15.817 million. These payables fall due as follows:

within 12 months	4,538	4,169
1 to 5 years	7,677	13,867
Over 5 years	2,950	10,791

## Section 2 Customer deposits - line item 20

### 2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2010	31/12/2009
<b>1. Current accounts and sight deposits</b>	<b>14,257,683</b>	<b>14,625,658</b>
<b>2. Time deposits</b>	<b>1,029,772</b>	<b>361,905</b>
<b>3. Loans</b>	<b>1,747,431</b>	<b>908,367</b>
3.1 Repurchase agreements	1,747,431	908,367
3.2 Other	-	-
<b>4. Payables for commitments to repurchase own equity instruments</b>	<b>-</b>	<b>-</b>
<b>5. Other payables</b>	<b>216</b>	<b>575</b>
<b>Total</b>	<b>17,035,102</b>	<b>15,896,505</b>
<b>Fair value</b>	<b>17,035,102</b>	<b>15,896,505</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.

## Section 3 Securities issued - line item 30

### 3.1 Securities issued: breakdown by sector

Type of security/Amounts	31/12/2010				31/12/2009			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
<b>A. Securities</b>								
<b>1. Bonds</b>	<b>1,827,043</b>	<b>-</b>	<b>1,820,782</b>	<b>-</b>	<b>1,498,595</b>	<b>-</b>	<b>1,511,427</b>	<b>-</b>
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	1,827,043	-	1,820,782	-	1,498,595	-	1,511,427	-
<b>2. Other securities</b>	<b>104,695</b>	<b>-</b>	<b>104,695</b>	<b>-</b>	<b>124,381</b>	<b>-</b>	<b>124,381</b>	<b>-</b>
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	104,695	-	104,695	-	124,381	-	124,381	-
<b>Total</b>	<b>1,931,738</b>	<b>-</b>	<b>1,925,477</b>	<b>-</b>	<b>1,622,976</b>	<b>-</b>	<b>1,635,808</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.

### 3.2 Details of line item 30 «Debt securities in issue»: subordinated securities

Subordinated securities amount to € 362.453 million and are made up of a bond loan with a nominal value of € 350 million from 26/2/2010 and maturity on 26/2/2017 with a forecast annual repayment of 20% from 26/2/2013. It belongs to the Lower Tier II category of bonds, i.e. those that according to the regulations can be included in capital for supervisory purposes. It has an interest rate of 4% which will gradually rise to 4.50%.

## Section 4 Financial liabilities held for trading - line item 40

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

Type of transaction/Amounts	31/12/2010					31/12/2009				
	NV	Fair Value				NV	Fair Value			
		Level 1	Level 2	Level 3	FV*		Level 1	Level 2	Level 3	FV*
<b>A. Cash liabilities</b>										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
<b>Total (A)</b>	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	-	-	-	-	-	-	-	-	-	-
1. Financial derivatives	-	203	90,653	-	-	-	87	73,961	-	-
1.1 For trading	-	203	90,653	-	-	-	87	73,961	-	-
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>203</b>	<b>90,653</b>	-	-	-	<b>87</b>	<b>73,961</b>	-	-
<b>Total (A+B)</b>	-	<b>203</b>	<b>90,653</b>	-	-	-	<b>87</b>	<b>73,961</b>	-	-

FV\* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

VN = Nominal or notional value



## **Section 8** *Tax Liabilities - line item 80*

This item reports a balance of euro 12.750 million totally referred to deferred taxes. Current taxes are not shown, as during the year the Bank paid tax advances of 83.678 million, higher than the liability for current taxes booked in the year of 64 million; this gave rise to a tax credit which has been booked to item 130 of the balance sheet under «Tax assets». As regards the composition and amount of deferred taxes, please read Assets Section 13 of these notes.

The Bank's tax years from 1979 to 1981, from 1984 to 1987 and from 2006 onwards, are still open. The long-standing dispute has reached the Central Tax Commission and the initial pronouncements by the latter are favourable to the Bank for the years 1980, 1981, 1984, 1986 and 1987, while for 1979 the appeal has been heard and we are waiting for the decision. The long-standing dispute about withholding tax on deposits abroad is also being settled: the initial pronouncements by the Central Tax Commission accepted the Bank's arguments and declared that the matter was extinct as the reason for the dispute no longer existed.

## **Section 10** *Other liabilities - line item 100*

### **10.1 Other liabilities: breakdown**

	<b>31/12/2010</b>	<b>31/12/2009</b>
Amounts at the disposal of third parties	137,400	53,150
Taxes to be paid on behalf of third parties	35,496	27,889
Taxes to be paid	1,774	2,404
Employee salaries and contributions	20,175	22,319
Suppliers	9,236	8,350
Transit accounts for sundry entities	3,507	841
Invoices to be received	8,265	8,543
Credits in transit for financial transactions	493	3,159
Value date differentials on portfolio transactions	159,545	84,496
Directors' and statutory auditors' emoluments	957	1,105
Loans disbursed to customers to be finalised	13,112	12,332
Miscellaneous credit items being settled	137,744	84,495
Accrued expenses not allocated	1,075	1,108
Deferred income not allocated	9,587	7,521
Allowance for risks on guarantees and commitments	6,000	4,000
Residual items	13,374	13,384
<b>Total</b>	<b>557,740</b>	<b>335,096</b>

This item increases by 66.44% mainly due to the rise in the sub-items «taxes to be paid on behalf of third parties», «value date differentials on portfolio transactions» and «miscellaneous credit items being settled».

## **Section 11** *Termination indemnities - line item 110*

### **11.1 Termination indemnities: change in year**

	<b>2010</b>	<b>2009</b>
<b>A. Opening balance</b>	<b>35,658</b>	<b>36,580</b>
<b>B. Additions</b>	<b>8,322</b>	<b>7,538</b>
B.1 Provisions	8,294	7,527
B.2 Other increases	28	11
<b>C. Decreases</b>	<b>8,246</b>	<b>8,460</b>
C.1 Payments made	1,423	1,998
C.2 Other decreases	6,823	6,462
<b>D. Closing balance</b>	<b>35,734</b>	<b>35,658</b>

### **11.2 Other information**

Other decreases relate to payments to the Arca Previdenza Fund for a total of € 4.309 million, compared with € 3.960 million the previous year, payments to INPS of € 2.424 million and tax on the annual revaluation of € 0.090 million, compared with € 0.127 million the previous year.

The provision for termination indemnities required under Italian regulations amounts to € 41.163 million. The actuarial measurement of the provision for termination indemnities was carried out on a closed group. The actuarial simulations were carried out according to the Projected Unit Credit Method. The Projected Unit Credit Method lays down that the costs to be incurred during the year to build up the termination indemnity are determined according to the proportion of services rendered during the same period. According to the accrued benefits method, the company's obligation to the individual employee is based on the services already rendered at the measurement date.

The actuarial calculations made the following assumptions:

	<b>31/12/2010</b>	<b>31/12/2009</b>
Discount rate	4.70%	4.70%
Rate of inflation	2.00%	2.00%
Annual rate of increase in termination indemnities	3.00%	3.00%

## **Section 12** *Provisions for risks and charges - line item 120*

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

Items/Amounts	<b>31/12/2010</b>	<b>31/12/2009</b>
<b>1. Post-employment benefits</b>	<b>77,216</b>	<b>74,669</b>
<b>2. Other provisions for risks and charges</b>	<b>37,573</b>	<b>37,871</b>
2.1 legal disputes	31,571	33,000
2.2 personnel expenses	5,323	4,625
2.3 other	679	246
<b>Total</b>	<b>114,789</b>	<b>112,540</b>

At year end, the bank is not aware of being exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above.

It is reasonable to conclude that there are no contingent liabilities.



## 12.2 Provisions for risks and charges: change in the year

	Post-employment benefits	Other provisions	Total
<b>A. Opening balance</b>	<b>74,669</b>	<b>37,871</b>	<b>112,540</b>
<b>B. Additions</b>	<b>6 259</b>	<b>10 102</b>	<b>16 361</b>
B.1 Provisions	2,345	9,114	11,459
B.2 Changes due to the passage of time	-	516	516
B.3 Changes due to variations in the discount rate	-	472	472
B.4 Other changes	3,914	-	3,914
<b>C. Decreases</b>	<b>3,712</b>	<b>10,400</b>	<b>14,112</b>
C.1 Utilisations during the year	3,273	2,749	6,022
C.2 Changes due to variations in the discount rate	-	-	-
C.3 Other changes	439	7,651	8,090
<b>D. Closing balance</b>	<b>77,216</b>	<b>37,573</b>	<b>114,789</b>

## 12.3 Defined-benefit pension plans

### 12.3.1. Description of plans

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

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 454 employees and 217 pensioners. Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen. 1,863 employees have joined this fund.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

### 12.3.2 Defined-benefit pension plans: annual changes

	2010	2009
At 1 January	74,669	80,027
service cost	1,523	1,855
interest cost	3,509	3,712
actuarial gains/losses	788	3,296
payments	(3,273)	(14,221)
<b>At 31 December</b>	<b>77,216</b>	<b>74,669</b>



### 12.3.3 Defined-benefit pension plans - Changes in plan assets during the year

The changes in the fair value of plan assets during the year are summarised below:

	2010	2009
At 1 January	74,669	80,027
yield	3,915	4,710
contributions	2,344	4,620
payments	(3,712)	(14,688)
<b>At 31 December</b>	<b>77,216</b>	<b>74,669</b>

The fair value of pension plan assets is summarised in the following table:

	31/12/2010	31/12/2009
Fixed-yield securities	64,795	59,333
Variable-yield securities	2,375	3,687
Mutual funds invested in shares	7,892	6,566
Mutual funds invested in property	392	365
Other assets	1,762	4,718
<b>Total</b>	<b>77,216</b>	<b>74,669</b>

### 12.3.4 Defined-benefit pension plans – Reconciliation between the present value of the plans, the present value of the plan assets and the assets and liabilities shown in the financial statements

	31/12/2010	31/12/2009
Present value of the obligations to plan members	77,216	74,669
Fair value of assets	77,216	74,669
<b>Difference</b>	<b>-</b>	<b>-</b>

### 12.3.5 Defined-benefit pension plans – Description of the principal actuarial assumptions

The actuarial calculations made the following assumptions:

	31/12/2010	31/12/2009
Discount rate	4.70%	4.70%
Expected increase in salaries	2.00%	2.00%
Expected underlying rate of inflation	1.50%	1.50%
Underlying rate of pension increases	1.50%	1.50%

### 12.3.6. Comparative information

The amount of the fund increases by € 2.547 million, +3.41%, while payments amount to € 3.273 million on € 3.199 million. The contributions paid by the employees totalled € 0.276 million (€ 0.311 million in the prior year).



## 12.4 Provisions for risks and charges – other provisions

These comprise:

	31/12/2010	31/12/2009
Provision for legal disputes	31,571	33,000
Provision for personnel expenses	5,323	4,625
Provision for charitable donations	679	246
<b>Total</b>	<b>37,573</b>	<b>37,871</b>

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The bank makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit. The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice. The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2010 as the discount rate. They decrease by € 1.429 million for the difference between the provisions for the year of € 5.088 million and the release of prior year provisions of € 6.517 million. The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. The total increase came to € 0.698 million, + 15.09%. The provision for charitable donations comprises an allocation from net profits authorised by the shareholders which is used to make approved payments. The increase of € 0.700 million reflects the allocation of 2009 net profit, while the reduction of € 0.267 million was a consequence of payments made during the year.

### **Section 14** *Equity - items 130, 150, 160, 170, 180, 190 and 200*

#### **14.1 «Share capital» and «Treasury shares»: breakdown**

Share capital comprises 308,147,985 issued and fully-paid ordinary shares, par value € 3 each, totalling € 924.444 million. Shares in circulation have dividend and voting rights from 1/1/2010. At the year-end, the Bank held treasury shares with a carrying value of € 32.821 million.

## 14.2 Share capital – Number of shares: change in year

Items/Type	Ordinary	Others
<b>A. Shares in existence at the start of the year</b>	<b>308,147,985</b>	-
- fully paid	308,147,985	-
- not fully paid	-	-
A.1 Treasury shares (-)	4,622,577	-
A.2 Shares in circulation: opening balance	303,525,408	-
<b>B. Additions</b>	<b>1,149,893</b>	-
B.1 New issues	-	-
- for payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- others	-	-
- free of charge	-	-
- to employees	-	-
- to directors	-	-
- others	-	-
B.2 Sales of treasury shares	1,149,893	-
B.3 Other changes	-	-
<b>C. Decreases</b>	<b>377,316</b>	-
C.1 Cancellation	-	-
C.2 Purchases of treasury shares	377,316	-
C.3 Business disposals	-	-
C.4 Other changes	-	-
<b>D. Shares in circulation: closing balance</b>	<b>304,297,985</b>	-
D.1 Treasury shares (+)	3,850,000	-
D.2 Shares in existence at the end of the year	308,147,985	-
- fully paid	308,147,985	-
- not fully paid	-	-

## 14.3 Share capital: other information

### Share premium reserve

This amounts to € 174.315 million with a decrease of € 1.770 million , - 1% due to the allocation of the loss deriving from the sale of treasury Shares in portfolio.



#### **14.4 Revenue reserves: other information**

Revenue reserves contribute to the capital adequacy of the Bank, considering both current and future operations. They amount to € 522.958 million and comprise:

Legal reserve, consisting of profits allocated pursuant to art. 2430 of the Italian Civil Code and art. 60 of the Articles of Association, which amounts to € 115.001 million, +19,90%, following the allocation of € 19.083 million from 2009 net profit.

Statutory reserve, required by art. 60 of the Articles of Association, which amounts to € 311.265 million (+23.21%), following the allocation of € 57.202 million out of the 2009 net profit, dividends on treasury shares of € 1,409 million and dividends in prescription of € 0.027 million.

Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to € 73.000 million (it has been used for € 32.821 million) and has increased by € 12.000 million for the provision made during the year on allocation of the 2009 net profit.

Reserve pursuant to art. 13 of Decree 124/93, € 0.142 million.

Other reserves of € 23.550 million from the reclassification of pre-existing reserves set up under specific legal requirements. Unchanged compared with the previous year.

We inform you that the individual equity items are freely available and distributable, except for the valuation reserves which are only distributable under the circumstances laid down in art. 6 of Decree 38/2005, the portion of the «share premium reserve» that can only be distributed in its entirety if the legal reserve has reached one-fifth of the share capital (art. 2431 of the Civil Code) and the legal reserve, which is lower than 20% of the share capital.

#### **14.5 Equity instruments: breakdown and change in year**

No equity instruments have been issued.

## Other information

### 1. Guarantees given and commitments

Operations	31/12/2010	31/12/2009
<b>1) Financial guarantees</b>	<b>701,980</b>	<b>628,833</b>
a) Banks	157,723	136,029
b) Customers	544,257	492,804
<b>2) Commercial guarantees</b>	<b>2,698,146</b>	<b>2,253,740</b>
a) Banks	29,353	20,913
b) Customers	2,668,793	2,232,827
<b>3) Irrevocable commitments to make loans</b>	<b>1,567,564</b>	<b>1,396,573</b>
a) Banks	26,837	59,679
i) certain to be called on	26,837	59,679
ii) not certain to be called on	-	-
b) Customers	1,540,727	1,336,894
i) certain to be called on	61,765	68,385
ii) not certain to be called on	1,478,962	1,268,509
<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>20,600</b>	<b>16,600</b>
<b>6) Other commitments</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>4,988,290</b>	<b>4,295,746</b>

### 2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2010	31/12/2009
1. Financial assets held for trading	2,166,413	1,154,399
2. Financial assets carried at fair value	28,757	30,356
3. Financial assets available for sale	-	-
4. Financial assets held to maturity	-	53,099
5. Due from banks	-	-
6. Due from customers	-	-
7. Property, plant and equipment	-	-
<b>Total</b>	<b>2,195,170</b>	<b>1,237,854</b>

Assets held for trading comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances; financial assets measured at fair value comprise the guarantee deposit paid in relation to the issue of bankers' drafts.

The financial assets held to maturity are to guarantee the advances received from the Bank of Italy.



#### 4. Management and intermediation for third parties

Type of service	31/12/2010
<b>1. Execution of orders on behalf of customers</b>	-
a) Purchases	-
1. settled	-
2. not settled	-
b) Sales	-
1. settled	-
2. not settled	-
<b>2. Portfolio management</b>	<b>1,544,805</b>
a) Individual	1,544,805
b) Collective	-
<b>3. Custody and administration of securities</b>	<b>39,103,225</b>
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	4,570,605
1. Securities issued by the reporting bank	-
2. Other securities	4,570,605
b) Other third-party securities on deposit (excluding portfolio management): other	13,648,273
1. Securities issued by the reporting bank	2,448,999
2. Other securities	11,199,274
c) Third-party securities on deposit with third parties	17,453,609
d) own securities on deposit with third parties	3,430,738
<b>4. Other transactions</b>	-
<b>Total</b>	<b>40,648,030</b>

## **PART C** *Information on the income statement*

### **Section 1** *Interest - line items 10 and 20*

#### **1.1 Interest and similar income: breakdown**

Items/technical forms	Fixed-yield securities	Loans	Other transactions	Total 31/12/2010	Total 31/12/2009
1. Financial assets held for trading	34,317	-	-	34,317	62,301
2. Financial assets carried at fair value	500	-	-	500	853
3. Financial assets available for sale	399	-	-	399	682
4. Financial assets held to maturity	4,291	-	-	4,291	6,715
5. Due from banks	-	12,188	-	12,188	22,714
6. Due from customers	-	519,968	-	519,968	598,612
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	-
<b>Total</b>	<b>39,507</b>	<b>532,156</b>	<b>-</b>	<b>571,663</b>	<b>691,877</b>

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

Interest income has gone from € 691.877 million to € 571.663 million, -17.38% with a decrease of € 120.214 million due to the strong downward trend in interest rates, which reached all-time lows.

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

	31/12/2010	31/12/2009
Interest income and similar revenue on foreign currency assets	30,167	34,742

#### **1.4 Interest expense and similar charges: breakdown**

Items/Technical forms	Payables	Securities	Other transactions	Total 31/12/2010	Total 31/12/2009
1. Due to central banks	(78)	-	-	(78)	-
2. Due to banks	(13,722)	-	-	(13,722)	(23,071)
3. Customer deposits	(110,254)	-	-	(110,254)	(172,990)
4. Debt securities in issue	-	(54,242)	-	(54,242)	(49,454)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities measured at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
<b>Total</b>	<b>(124,054)</b>	<b>(54,242)</b>	<b>-</b>	<b>(178,296)</b>	<b>(245,515)</b>



### **1.5 Interest expense and similar charges: other information**

Interest expense goes from € 245.515 million to € 178.296 million, -27.38%, with a decrease of € 67.219 also linked to the reduction in interest rates. This decrease, together with that of interest income, led to a reduction in the interest spread.

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

	<b>31/12/2010</b>	<b>31/12/2009</b>
Interest expense and similar charges on foreign currency liabilities	(8,467)	(10,757)

#### **1.5.2 Interest expense on finance lease transactions**

	<b>31/12/2010</b>	<b>31/12/2009</b>
Interest expense on finance lease transactions	(251)	(521)



## Section 2 Commissions - line items 40 and 50

### 2.1 Commission income: breakdown

Type of service/Amounts	31/12/2010	31/12/2009
<b>a) guarantees given</b>	<b>14,629</b>	<b>11,474</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, intermediation and consultancy services:</b>	<b>57,449</b>	<b>51,048</b>
1. trading in financial instruments	-	-
2. trading in foreign currencies	6,190	5,924
3. portfolio management	6,701	6,014
3.1 individual	6,701	6,014
3.2 collective	-	-
4. custody and administration of securities	2,174	2,095
5. custodian bank	4,092	2,566
6. placement of securities	13,829	11,627
7. order receipt and transmission	13,453	13,755
8. consultancy	37	47
8.1 investments	-	-
8.2 corporate finance	37	47
9. distribution of third party services	10,973	9,020
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	6,679	5,704
9.3 other products	4,294	3,316
<b>d) collection and payment services</b>	<b>51,302</b>	<b>48,452</b>
<b>e) services for securitisation transactions</b>	-	-
<b>f) services for factoring transactions</b>	-	-
<b>g) tax collection services</b>	-	-
<b>h) management of multilateral trading systems</b>	-	-
<b>i) management of current accounts</b>	-	-
<b>j) other services</b>	<b>95,221</b>	<b>74,200</b>
<b>Total</b>	<b>218,601</b>	<b>185,174</b>

This item increases by € 33.427 million, +18.05%, essentially due to the rise in other services: loan commissions, which have gone from € 33.474 million to € 56.245 million, being mainly fees charged on agreed overdrafts and loans overdrawn without authorisation; other relevant elements consist of commissions on collection and payment services which have risen by € 2.850 million from € 48.452 million to € 51.302 million, commissions on security placement which have gone from € 11.627 million to € 13.829 million, commissions on the custodian bank service which have gone from € 2.566 million to € 4.092 million and commissions on guarantees and commitments which have risen from € 11.474 million to € 14.629 million.



## 2.2 Commission income: distribution channels for products and services

Channels/Amounts	31/12/2010	31/12/2009
<b>a) bank branches:</b>	<b>31,503</b>	<b>26,661</b>
1. asset management	6,701	6,014
2. placement of securities	13,829	11,627
3. third-party products and services	10,973	9,020
<b>b) door-to-door sales:</b>	-	-
1. asset management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-
<b>c) other distribution channels:</b>	-	-
1. asset management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-

## 2.3 Commission expense: breakdown

Services/Amounts	31/12/2010	31/12/2009
<b>a) guarantees received</b>	<b>(92)</b>	<b>(91)</b>
<b>b) credit derivatives</b>	-	-
<b>c) management and intermediation services:</b>	<b>(1,689)</b>	<b>(1,437)</b>
1. trading in financial instruments	-	-
2. trading in foreign currencies	-	-
3. portfolio management	-	-
3.1. own	-	-
3.2. delegated by third parties	-	-
4. custody and administration of securities	(1,689)	(1,437)
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
<b>d) collection and payment services</b>	<b>(7,367)</b>	<b>(7,178)</b>
<b>e) other services</b>	<b>(3,081)</b>	<b>(3,018)</b>
<b>Total</b>	<b>(12,229)</b>	<b>(11,724)</b>

«Other services» mainly include commissions on securities transactions.

## Section 3 Dividends and similar income - line item 70

### 3.1 Dividends and similar income: breakdown

Services/Amounts	31/12/2010		31/12/2009	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,350	39	910	70
B. Financial assets available for sale	1,906	17	2,007	96
C. Financial assets measured at fair value	-	61	-	109
D. Equity investments	2,995	-	-	-
<b>Total</b>	<b>6,251</b>	<b>117</b>	<b>2,917</b>	<b>275</b>

This item increases by € 3.176 million, + 99.48%, mainly due to the dividend distributed by Arca Vita spa.

## Section 4 Net trading income - line item 80

### 4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B)-(C+D)]
<b>1. Financial assets held for trading</b>	<b>9,959</b>	<b>25,206</b>	<b>(73,333)</b>	<b>(5,265)</b>	<b>(43,433)</b>
1.1 Fixed-yield securities	8,854	9,072	(63,576)	(5,229)	(50,879)
1.2 Variable-yield securities	44	1,423	(9,648)	(35)	(8,216)
1.3 Mutual funds	-	271	(109)	(1)	161
1.4 Loans	-	-	-	-	-
1.5 Others	1,061	14,440	-	-	15,501
<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 Others	-	-	-	-	-
<b>3. Other assets and liabilities: exchange differences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>851</b>
<b>4. Derivatives</b>	<b>14,429</b>	<b>24,781</b>	<b>(12,201)</b>	<b>(21,212)</b>	<b>5,906</b>
4.1 Financial derivatives:	14,429	24,781	(12,201)	(21,212)	5,906
- On debt securities and interest rates	13,744	21,015	(11,527)	(19,728)	3,504
- On equities and equity indices	-	2,255	-	(23)	2,232
- On currency and gold	-	-	-	-	109
- Other	685	1,511	(674)	(1,461)	61
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>24,388</b>	<b>49,987</b>	<b>(85,534)</b>	<b>(26,477)</b>	<b>(36,676)</b>

Net trading income has been heavily influenced by significant losses on fixed-yield securities, government securities in particular. This compares with a situation last year that was almost exactly the opposite. Trading income on other financial assets of € 15.501 million is made up of exchange gains.

This table does not include the result of the securities in the post-employment fund, which is shown under another item.



## Section 6 Gains (losses) on disposals/repurchases - line item 100

### 6.1 Gains (losses) on disposals/repurchases - breakdown

Items/income items	31/12/2010			31/12/2009		
	Profits	Losses	Net profit (loss)	Profits	Losses	Net profit (loss)
<b>Financial assets</b>						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	-	-	-	-	-	-
3. Financial assets available for sale	-	(327)	(327)	-	(1,062)	(1,062)
3.1 Fixed-yield securities	-	-	-	-	-	-
3.2 Variable-yield securities	-	(327)	(327)	-	(1,062)	(1,062)
3.3 Mutual funds	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	43	-	43
<b>Total assets</b>	-	(327)	(327)	43	(1,062)	(1,019)
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	244	(277)	(33)	168	(608)	(440)
<b>Total liabilities</b>	244	(277)	(33)	168	(608)	(440)

## Section 7 Net change in value of financial assets and liabilities at fair value - line item 110

### 7.1 Net change in value of financial assets/liabilities at fair value: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Net profit (loss) [(A+B)-(C+D)]
<b>1. Financial assets</b>	<b>2.277</b>	<b>33</b>	<b>(1,808)</b>	<b>(60)</b>	<b>442</b>
1.1 Fixed-yield securities	-	4	(1,759)	-	(1,755)
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	2.277	29	(49)	(60)	2.197
1.4 Loans	-	-	-	-	-
<b>2. Financial liabilities</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>364</b>
<b>4. Credit and financial derivatives</b>	-	-	-	-	-
<b>Total</b>	<b>2.277</b>	<b>33</b>	<b>(1,808)</b>	<b>(60)</b>	<b>806</b>

The losses mainly concern mutual funds and on Italian Government securities.

## Section 8 Net impairment adjustments - line item 130

### 8.1 Net impairment adjustments to loans: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)				Total 31/12/2010	Total 31/12/2009
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
<b>A. Due from banks</b>	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
<b>B. Due from customers</b>	<b>(65,740)</b>	<b>(79,138)</b>	<b>(26,156)</b>	<b>837</b>	<b>29,306</b>	-	<b>24,245</b>	<b>(116,646)</b>	<b>(141,276)</b>
- Loans	(65,740)	(79,138)	(26,156)	837	29,306	-	24,245	(116,646)	(141,276)
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
<b>C. Total</b>	<b>(65,740)</b>	<b>(79,138)</b>	<b>(26,156)</b>	<b>837</b>	<b>29,306</b>	-	<b>24,245</b>	<b>(116,646)</b>	<b>(141,276)</b>

Key :

A = Interest

B = Other write-backs

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

Transactions/Income items	Adjustments (1)		Write-backs (2)		Total 31/12/2010	Total 31/12/2009
	Specific		Specific			
	Write-offs	Other	A	B		
A. Fixed-yield securities	-	-	-	-	-	-
B. Variable-yield securities	-	(4,865)	-	-	(4,865)	(2,246)
C. Mutual funds	-	(241)	-	-	(241)	(2,120)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
<b>F. Total</b>	-	<b>(5,106)</b>	-	-	<b>(5,106)</b>	<b>(4,366)</b>

Key :

A = Interest

B = Other write-backs

Adjustments relate to certain listed equities and property funds for which the bank carried out writedown with respect to the original cost.

### 8.4 Net impairment adjustments on other financial transactions: composition

Transactions/ Income items	Adjustments			Write-backs				Total 31/12/2010	Total 31/12/2009
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Guarantees given	-	(2,000)	-	-	-	-	-	(2,000)	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to make loans	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>(2,000)</b>	-	-	-	-	-	<b>(2,000)</b>	-

Key:

A = Interest

B = from write-back



## Section 9 Administrative expenses - line item 150

### 9.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2010	31/12/2009
<b>1) Employees</b>	<b>(158,574)</b>	<b>(150,256)</b>
a) wages and salaries	(103,590)	(101,270)
b) social security contributions	(27,569)	(28,265)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for employee termination indemnities	(8,294)	(7,527)
f) provision for post-employment benefits and similar commitments:	(5,984)	(9,007)
- defined contribution	-	-
- defined benefits	(5,984)	(9,007)
g) payments to external supplementary pension funds:	(2,223)	(1,680)
- defined contribution	(2,223)	(1,680)
- defined benefits	-	-
h) costs deriving from payment agreements based on own capital instruments	-	-
i) other personnel benefits	(10,914)	(2,507)
<b>2) Other working personnel</b>	<b>(4,302)</b>	<b>(4,887)</b>
<b>3) Directors and Statutory auditors</b>	<b>(1,982)</b>	<b>(1,715)</b>
<b>4) Retired personnel</b>	<b>-</b>	<b>-</b>
<b>5. Recovery of expenses for personnel on secondment to other firms</b>	<b>18</b>	<b>-</b>
<b>6. Reimbursement of expenses for personnel on secondment to the company</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>(164,840)</b>	<b>(156,858)</b>

### 9.2 Average number of employees by category

	31/12/2010	31/12/2009
<b>Employees</b>	<b>2,467</b>	<b>2,415</b>
a) managers	18	19
b) officials	498	476
c) other employees	1,951	1,920
<b>Other personnel</b>	<b>111</b>	<b>124</b>

	31/12/2010	31/12/2009
<b>Actual number of employees</b>		
- Employees	2,487	2,454
- Other personnel	115	115

### 9.3 Defined-benefit pension plans: total costs

The charge to the income statement for the year is summarised as follows:

	31/12/2010	31/12/2009
Service cost	1,523	1,855
Interest cost	3,509	3,712
Actuarial gains/losses	788	3,296
Contributions from employees	(276)	(312)
Reductions and payments	440	456
<b>Total charge to income statement (A)</b>	<b>5,984</b>	<b>9,007</b>
Yield from assets servicing the fund (B)	3,915	4,710
<b>Total charge (A-B)</b>	<b>2,069</b>	<b>4,297</b>

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and related changes during the year, and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements.

The Bank has not adopted the «corridor» method for the recognition of actuarial gains/losses; accordingly, there are no unrecorded gains/losses of this type.

### 9.4 Other employee benefits

This item essentially comprises the reimbursement of travel, scholarship and accommodation expenses, insurance costs, long-service bonuses and other benefits.

### 9.5 Other administrative expenses: breakdown

	31/12/2010	31/12/2009
telephone, post and data transmission	(14,044)	(14,572)
maintenance of property, plant and equipment	(7,313)	(7,312)
rent of buildings	(21,497)	(19,535)
security	(5,697)	(5,179)
transportation	(2,118)	(2,010)
professional fees	(9,662)	(10,253)
office materials	(2,074)	(1,906)
electricity, heating and water	(4,395)	(4,411)
advertising and entertainment	(2,981)	(3,463)
legal	(6,148)	(5,501)
insurance	(1,270)	(1,335)
company searches and information	(4,180)	(4,175)
indirect taxes and dues	(31,155)	(30,460)
software and hardware rental and maintenance	(7,740)	(6,586)
data entry by third parties	(936)	(1,025)
cleaning	(4,404)	(4,230)
membership fees	(1,833)	(1,656)
services received from third parties	(2,894)	(2,755)
outsourced activities	(18,289)	(16,621)
deferred charges	(5,325)	(6,111)
others	(8,719)	(12,389)
<b>Total</b>	<b>(162,674)</b>	<b>(161,485)</b>

## **Section 10** *Net provisions for risks and charges - line item 160*

### **10.1 Net provisions for risks and charges: breakdown**

This line item amounts to € 1.429 million made up of the net balance of allowances made during the year to the provision for legal disputes of € 5.088 million and the use or release of provisions set aside in previous years of € 6.517 million.

## **Section 11** *Net adjustments to property, plant and equipment - line item 170*

### **11.1 Net adjustments to property, plant and equipment: breakdown**

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
<b>A. Property, plant and equipment</b>				
A.1 Owned	(11,108)	-	-	(11,108)
- For business purposes	(11,108)	-	-	(11,108)
- For investment purposes	-	-	-	-
A.2 Acquired under finance leases	(998)	-	-	(998)
- For business purposes	(998)	-	-	(998)
- For investment purposes	-	-	-	-
<b>Total</b>	<b>(12,106)</b>	<b>-</b>	<b>-</b>	<b>(12,106)</b>

The finance lease charges paid during the year amounted to € 2.939 million, compared with € 3.670 million in the prior year.

## **Section 12** *Net adjustments to intangible assets - line item 180*

### **12.1 Net adjustments to intangible assets: breakdown**

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
<b>A. Intangible assets</b>				
A.1 Owned	(8,419)	-	-	(8,419)
- Internally generated	-	-	-	-
- Other	(8,419)	-	-	(8,419)
A.2 Acquired under finance leases	-	-	-	-
<b>Total</b>	<b>(8,419)</b>	<b>-</b>	<b>-</b>	<b>(8,419)</b>

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year, accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

## **Section 13** *Other operating income and expense - Line item 190*

This caption amounts to € 34.367 million and comprises other operating income of € 38.502 million, net of other operating expenses of € 4.135 million.



### 13.1 Other operating expenses: breakdown

	31/12/2010	31/12/2009
Out-of-period expense	(2,347)	(922)
Other	(1,788)	(1,914)
<b>Total</b>	<b>(4,135)</b>	<b>(2,836)</b>

### 13.2 Other operating income: breakdown

	31/12/2010	31/12/2009
Recovery of charges on deposits and overdrafts	82	682
Rental income from buildings	870	848
Recovery of taxes	27,954	27,401
Financial income of post-employment benefits plan	3,915	4,710
Out-of-period income - other	862	811
Out-of-period income - overprovisions	1	-
Other	4,818	6,720
<b>Total</b>	<b>38,502</b>	<b>41,172</b>

## Section 14 Share of profit (loss) of equity investments - line item 210

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

Income item/amount	31/12/2010	31/12/2009
<b>A. Income</b>	<b>58,404</b>	<b>-</b>
1. Revaluations	-	-
2. Profit from disposals	58,404	-
3. Write-backs	-	-
4. Other income	-	-
<b>B. Charges</b>	<b>(416)</b>	<b>(7,233)</b>
1. Write-downs	(416)	(394)
2. Impairment write-downs	-	(2,139)
3. Loss from disposals	-	(4,700)
4. Other charges	-	-
<b>Net profit (loss)</b>	<b>57,988</b>	<b>(7,233)</b>

Profit from disposals derives from the partial sale of the interest in Arca Vita spa for € 47.450 million and of the entire investment in Arca Assicurazioni spa for € 10.954 million. Writedowns concern the subsidiary Pirovano Stelvio spa.

## Section 17 Profit (loss) from disposal of investments - line item 240

### 17.1 Profit (loss) from disposal of investments: breakdown

Income item/amount	31/12/2010	31/12/2009
<b>A. Buildings</b>	<b>(108)</b>	<b>(304)</b>
- Profit from disposals	-	10
- Loss from disposals	(108)	(314)
<b>B. Other assets</b>	<b>(84)</b>	<b>29</b>
- Profit from disposals	27	33
- Loss from disposals	(111)	(4)
<b>Net profit (loss)</b>	<b>(192)</b>	<b>(275)</b>

## Section 18 *Income taxes on current operations - line item 260*

### 18.1 Income taxes on current operations: breakdown

Income items/Amounts	31/12/2010	31/12/2009
1. Current taxes (-)	(64,000)	(133,583)
2. Change in prior period income taxes (+/-)	340	-
3. Reduction in current taxes (+)	-	-
4. Change in deferred tax assets (+/-)	5,044	15,465
5. Change in deferred tax liabilities (+/-)	258	118
6. Income taxes for the year (-) (-1+/-2+3+/-4+/-5)	(58,358)	(118,000)

### 18.2 Reconciliation between the theoretical and current tax burden

INCOME TAXES	Tax base	Tax
Theoretical tax burden	191,677	(52,711)
Increases	38,734	(11,187)
Decreases	(66,902)	18,398
<b>Effective tax burden</b>	<b>163,509</b>	<b>(45,500)</b>

IRAP	Tax base	Tax
Theoretical tax burden	191,677	(9,239)
Increases	313,435	(15,286)
Decreases	(125,001)	6,025
<b>Effective tax burden</b>	<b>380,111</b>	<b>(18,500)</b>
<b>Total effective tax burden</b>	<b>-</b>	<b>(64,000)</b>

Income taxes are calculated at 27.5% for IRES and 4.82% for IRAP.

The total tax charge for the year is reconciled with the net profit for the year as indicated in the table below.

#### IRES (corporate income taxes)

The main increases relate to the writedowns of equity investments classified as PEX (tax-exempt), interest expense and the adjustment to non-loans.

The principal decreases relate to the reduced taxation of gains on the sale of investments under the so-called «PEX or Exempt Participations regime», the non-taxable portion of dividends received and the deductible portion of IRAP.

#### IRAP

The main increases concern personnel expenses, writedowns of loans and equity investments, interest expense, non-deductible amortisation and depreciation and other administrative expenses.

The principal decreases relate to the deductible portion of personnel expenses and other non-taxable income.

During the year an IRES credit was booked for € 2.007 million deriving from the request for reimbursement of income taxes paid in excess in the years from 2004 to 2007 following the change in the rules governing the deductibility of IRAP introduced by art. 6 D.L. 185 of 29 November 2008 converted into Law 2 of 28/1/2009.

## **Section 21** *Earnings per share*

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

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in net profit is 308,147,985. The number of shares shown in the table below is the weighted average for the year.

	<b>31/12/2010</b>	<b>31/12/2009</b>
number of shares	308,147,985	308,147,985

This is the weighted average used as the denominator in the calculation of basic earnings per share.

### **21.2 Other information**

IAS 33 requires that earnings per share (EPS) be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the net profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

There are no circumstances under which earnings can be diluted; there are no activities to be sold for which basic and diluted EPS must be stated separately.

	<b>31/12/2010</b>	<b>31/12/2009</b>
earnings per share - €	0.433	0.619



## **PART D** *Comprehensive income*

### **Statement of comprehensive income**

Items/Amounts	Gross amount	Income taxes	Net amount
10. <b>Net profit (loss) for the year</b>	-	-	<b>133,320</b>
Other income items			
20. <b>Financial assets available for sale:</b>	<b>1,173</b>	<b>(46)</b>	<b>1,127</b>
a) changes in fair value	1,173	(46)	1,127
b) transfer to income statement	-	-	-
- adjustments for impairment	-	-	-
- gains/losses on disposals	-	-	-
c) other changes	-	-	-
30. <b>Property, plant and equipment</b>	-	-	-
40. <b>Intangible assets</b>	-	-	-
50. <b>Hedges of foreign investments:</b>	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
60. <b>Cash-flow hedges:</b>	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
70. <b>Exchange differences:</b>	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
80. <b>Non-current assets held for sale and discontinued operations</b>	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
90. <b>Actuarial profits (losses) on defined-benefit plans:</b>	-	-	-
100. <b>Share of valuation reserves of equity investments valued at net equity:</b>	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
- adjustments for impairment	-	-	-
- gains/losses on disposals	-	-	-
c) other changes	-	-	-
110. <b>Total other income items net of income taxes</b>	<b>1,173</b>	<b>(46)</b>	<b>1,127</b>
120. <b>Comprehensive income (item 10+110)</b>	-	-	<b>134,447</b>

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

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Section IV, Chapter 1 of the New Supervisory instructions for Banks is provided by the required deadlines in the «Corporate Information» section of the Bank's website.

### **Section 1** *Credit risk*

#### **QUALITATIVE INFORMATION**

##### **1. General matters**

Consistent with its mission as a cooperative, the Bank's lending policy is directed towards providing support to local economies in the areas that we serve, by granting financial resources to applicants that are pursuing admirable objectives and who meet suitable parameters of credit-worthiness.

The size and composition of the loan portfolio reflect the financial needs of the two specific customer segments: the entrepreneurial spirit of small and medium-sized business owners, mainly located in territory of the Bank, and households.

The Bank prefers to lend to SMEs since they do not move in broader financial circles and, consequently, need a point of reference that can understand their requirements and meet them with skill, efficiency and speed, following the evolution of the business over time.

However, the needs of bigger counterparties, such as large enterprises and public entities, are not overlooked, providing their credit rating following a rigorous preliminary investigation shows that they are solid and reliable. In this context, the lending activity is based on principles of healthy and prudent management, fair remuneration of risk and professional, efficient operational conduct, with a view to establishing two-way communications with borrowers based on reciprocal trust and transparency; this in order to enhance the Bank's particular aptitude for building long-term customised relationships with local business owners.

In consideration of the Bank's strategic objectives and approach to operations, its lending strategy is based on a low propensity for risk and full awareness of the risks that are taken on; this involves:

- measurement of the current and prospective risk inherent in the loan portfolio, both as a whole and at various levels of disaggregation;
- diversifying the exposure, so as to reduce concentration;
- refusing to get involved in operations that could jeopardise the Bank's profitability and solidity.

These strategies and policies have not changed since last year.

##### **2. Credit risk management policies**

###### **2.1 Organisational aspects**

The Bank's approach to credit risk management is based on maximum involvement at all levels of the organisation to ensure timely processing of customers' applications, combined with an analytical assessment of the risk involved in lending money to them. The various stages that make up the lending process include the planning of credit policies, the preliminary investigation, disbursement of the loan, periodic review, monitoring and management of impaired loans.

Implementing the lines of strategy laid down by the Corporate Bodies during the planning process and in compliance with the limits of the risk profile taken on, the lending policy defines the composition of the loan book, the technical forms and their geographical distribution. These official guidelines are passed down to the organisational units involved in managing credit risk and, as a result, they reflect the operational aspects of each phase of the process.

The procedures and organisational structure set up for this purpose have been formalised, clearly specifying activities, roles and responsibilities.

In order to avoid potential conflicts of interest, we ensure that operating functions and control functions are kept separate.

The system of decision-making powers approved by the Board of Directors is based on the principle of «cascade delegation», which means assigning limited powers to the branches, giving preference to control by specialist central units.

The following is an explanation of the bodies and the main corporate functions that are involved in supervising the lending process, also specifying their principal duties.

- *Board of Directors.* The Board of Directors supervises and oversees the proper allocation of financial resources and, in particular:
  - establishes the strategic direction and lending policies;
  - establishes criteria for the recognition, management and assessment of risks;
  - approves the decision-making and signature powers attributable to the other corporate bodies and organisational units for the granting and revision of lines of credit;
  - ensures that the structure of the control functions is defined in a way that is consistent with the Bank's strategies, that they have an appropriate level of decision-making autonomy and that they have adequate resources in terms of both quality and quantity;
  - gains a general knowledge of rating systems, proposes their application during the various stages of the process and assesses how effective they are with the help of the internal control and internal audit functions.
  
- *General Management.* General Management implements the strategies and policies established by the Board of Directors and, in particular:
  - prepares regulations, activities, procedures and organisational structures for the adoption and application of an efficient lending process, of an adequate rating system and of a solid system for the control of the related risks;
  - verifies the adequacy and functional capacity of these various elements, also in light of the internal and external changes that are affecting the bank;
  - takes the necessary action to eliminate any weaknesses and inefficiencies that are identified.In addition, General Management adopts resolutions to the extent of the autonomy granted.
  
- *Branches.* The Branches are assigned the fundamental task of handling the relationship with the customer who is borrowing or who would like to borrow money from the bank. They acquire the documentation, make an initial selection of the applications and directly approve those within the scope of their powers, and monitor the credit report on a day-to-day basis, checking for potentially anomalous situations.
  
- *Coordination functions.* The Coordination Functions give the branches fundamental support in handling more complex loan positions and/or those that are looking critical. They examine requests for loans to be presented to the central functions and express an opinion, while approving directly those within the scope of their powers.
  
- *Central Loans Department.* The Credit Assessment office supports the work of the central

committees by receiving applications from branches, checking their completeness and accuracy, and completing the assessment.

The Medium-term and Special Loans Office assesses mortgages, leases, factoring arrangements, artisan and agricultural loans, loans under framework agreements and personal loans from a technical and legal point of view. Through the Risk Office, it finalises the guarantees and then activates the loan.

- *Corporate Finance Department.* The Corporate Finance Department analyses, structures and coordinates corporate finance operations and identifies the best types of financing for complex investment projects.

It makes a preliminary evaluation of project financing transactions, directly structuring the intervention or proposing the Bank's participation in a lending syndicate.

- *Watchlist and Lending Control Department.* The Watchlist and Lending Control Department reviews outstanding loans and identifies those that show signs of anomalies; depending on how serious these are, the department monitors them more closely, proposes a restructuring, or classifies them on the watchlist or as non-performing loans.

This department also administers all watchlist, restructured and past due loans.

- *Legal and Claims Department.* The Legal and Claims Department works to safeguard the interests of the bank with regard to disputed assets and liabilities. In particular, with regard to «non-performing» loans, the department takes the legal action needed to recover the outstanding amounts and also takes out-of-court action together with the Watchlist Department.

- *Planning and Control Department.* The Planning and Control Department defines, develops and maintains, through the Risk Control office, the models underlying the rating system; it checks the reliability and effectiveness of the estimates produced by them and, where necessary, takes steps to update them.

It analyses, according to various analysis dimensions, the riskiness of the loan portfolio, produces the related information flows and makes them available to the competent bodies and operating functions.

- *Internal Audit Department.* The Internal Audit Department checks the proper functioning of controls and compliance with rules and procedures.

In particular, this department checks that the criteria for the proper classification of loans are correctly applied.

## 2.2 Systems for managing, measuring and monitoring

Control over credit risk has the support of rating models that have been specifically developed by the Bank.

The Bank has models for the following segments: Private Customers (resident and non-resident consumer households), Small Businesses (one-man firms, partnerships and companies with sales lower than € 1.5 million and credit lines of less than € 75,000), Micro-Enterprises (partnerships and companies with sales lower than € 1.5 million and credit lines of over € 75,000), SMEs (partnerships and companies with sales between € 1.5 million and 50 million), Large Enterprises (non-financial partnerships and companies with sales higher than € 50 million) and Public Enterprises.

These models are designed to create a counterparty rating and an associated probability of default (PD), representing the estimated likelihood that the borrower will become insolvent within one year. The rating depends solely on the characteristics of the counterparty and is not influenced by any guarantees that the Bank has acquired. The rating assessments are produced by qualitative statistical models that are prudently integrated by automatic

downgrades if further negative elements not handled by the models are identified. These assessments are split into 13 categories for «performing» counterparties and one for those that are insolvent. They are then summarised in seven risk ratings: «Excellent», «Good», «Medium», «Uncertain», «Bad», «Very bad» and «Insolvent». Together, the sub-portfolios that are subject to these rating systems at the end of December 2010 account for 94.8% of customers with credit limits, which in turn accounts for 88.9% of the cash loans made to customers.

Ratings are used in the credit process all the way from policy planning through to performance control. For monitoring purposes, the rating is calculated monthly with reference to the entire population of interest (excluding the rating for Large Enterprises and Public Enterprises), whereas it is determined on an ad hoc basis when considering new loans or reviewing existing loans. Estimates of two other important risk factors complete the rating system described above: The rate of the Loss Given Default (LGD) and the estimated Exposure at Default (EAD). These estimates, which are specific for each counterparty, also derive from internal models that have been revised during the year, and unlike the probability of default, they are heavily influenced by the presence and type of guarantees acquired by the Bank and by the technical form by which the loan is granted. Having input on such risk factors, updated on a monthly basis, contributes towards a complete assessment of the risk profile, helping to improve the amount of information available to support the lending process.

The PD, LGD and EAD results also make it possible to determine the Expected Loss, which is an estimate of the potential loss associated with a particular loan exposure; and as an element of cost, it also provides useful input for determining prudent loan loss provisions.

The concept of insolvency used when developing, calibrating and applying the new rating models includes: non-performing loans, watchlist loans, restructured loans and past due loans and/or those over the credit limit. For prudence sake, it has also been extended to the external concept of «adjusted non-performing loan».

Together with the valuations obtained through internal models, the ratings granted by leading international agencies are gathered automatically. They are used in determining the minimum capital requirements for credit and counterparty risk, for which the Bank adopts the so-called «standardised approach»; this involves weighting the exposures on the basis of ratings, where available, assigned to each counterparty by a specialist company (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, Cerved Group). With regard to the exposures to Italian and foreign banks, the ratings given by leading agencies are used wherever available. Otherwise, an internal rating, based on the application of a simplified model, is used. More specifically, this model involves the examination of a series of quantitative and qualitative indicators and information, which produce values for the determination of a final score. This score is positioned on a scale of ten classes, the first of which represents a counterpart/issuer with minimal risk, while the ninth highlights maximum risk and the tenth represents a state of insolvency. These ten classes are then grouped into four macro classes for comparison with the ratings given by international agencies. As regards counterparty risk, in addition to continuously monitoring the main banking groups with credit lines, we periodically carry out a specific analysis of each position that has been taken on. This is performed by taking various indicators into consideration, such as their rating, accounting information and market data.

Analyses are carried out periodically on the loan portfolio using various methods, including observation of the trend in distribution of counterparties by rating class. These assessments support the formulation of policy guidelines for lending, help adopt suitable operational measures and provide operational guidelines to the central and branch functions concerned.

The lending process provides for a series of checks aimed at mitigating risk during the various phases that make it up.

The preliminary investigation, which aims to establish whether applicants satisfy certain conditions for credit-worthiness, includes consideration of whether the characteristics of the



loan are consistent with its purpose, a check on whether any guarantees being provided are suitable to cover the risk of non-repayment, and a review of the economic aspects of the loan. In this context, the opinion expressed by the internal rating system, if available, and the associated estimates of default are taken into maximum consideration as essential elements for an overall evaluation of the customer. The decision whether to grant a loan or not is taken by the competent decision-making bodies prior to disbursement, carefully assessing all of the information that emerged during the preliminary investigation, as well as any other element that might be available. In order to ensure maximum control over credit risk, the mechanism for establishing decision-making powers for the bodies at the lower end of the hierarchical ladder now operates alongside the nominal value of the operation with another system of powers that also takes into account an objective assessment of the counterparty risk which is reflected in the internal rating.

Credit lines are then made operative and the funds made available to the borrower, but only after all matters foreseen in the approval have been dealt with, particular emphasis being put on the acquisition of guarantees and their verification and assessment in terms of being suitable to lower the credit risk.

After disbursement, loans of whatever amount are reviewed periodically to check whether all of the conditions established during the preliminary investigation and taken into consideration when granting the loan still exist. Particular attention is paid to reviewing the reasons that led to changes in ratings. Lines of credit can also be reviewed automatically in the case of positions with low levels of risk, ascertained through a rigorous examination of suitable indicators that are established in advance, where the rating takes on a great deal of importance.

Outstanding loans and guarantees are constantly monitored to ensure that the borrower and any guarantors remain solvent and that the general and specific requisites still apply and that the guarantees are still valid, to ensure that they can be fully and effectively enforced in the event of the debtor's insolvency. This monitoring, which is carried out in accordance with formal company procedures, is designed to spot any negative symptoms as early as possible and to take rapid and effective action to avoid any further deterioration. In this regard, the home branches of the loans concerned play an important role since, by maintaining direct customer relations, they are able to identify any signs of impairment immediately.

The Watchlist and Lending Control Department makes use of performance measurement and control methodologies that take into consideration internal and industry data, together with the opinion given by the rating system, if available, to build up a monthly summary risk indicator. The positions identified by this indicator as being at risk are analysed appropriately and, where there are clear signs of difficulty, they are placed under observation or classified as «impaired», depending on how serious the situation is.

The task of managing problem loans is given to specific central offices, which carry on their activity with a view to returning the position to «performing», if this is possible; otherwise, with a view to recovering the loan in the event of insolvency, operating in close collaboration with the home branches of the problem loans concerned.

Checks are performed during the initial assessment, payout, review and monitoring stages with regard to the concentration of risk in relation to individual counterparties or groups of counterparties that are linked by legal or economic relationships.

### **2.3 Credit risk mitigation techniques**

The Bank obtains the guarantees considered usual for banking activities in order to reduce credit risk: these principally comprise mortgages on buildings, pledges on financial instruments and unsecured guarantees. Unsecured guarantees principally comprise limited, general guarantees given by individuals and companies whose creditworthiness is considered adequate following a specific assessment.

The presence of guarantees is taken into consideration when weighting the overall credit lines to be granted to a customer or to the legal or economic group to which it might belong.

The estimated value of the security offered by counterparties is «discounted» on a prudent basis, having regard for the nature of the instrument made available (mortgages on buildings, pledges of cash or other financial instruments). The Bank has a procedure that is able to ensure efficient management and timely assessment of properties that are subject to real encumbrances, by taking a census of the assets and filing the expert appraisals in a specific IT application. Moreover, certain buildings are reassessed at least once a year, also with a view to complying with the supervisory instructions.

The value of security given in the form of financial instruments listed on regulated markets is automatically revised each day with reference to the quoted prices, in order to check that the cover remains within the agreed line of credit or, otherwise, to report the situation to the account managers on a timely basis.

The Bank is not party to settlement agreements regarding on- and off-balance sheet transactions.

Suitable arrangements are made when obtaining, assessing and verifying guarantees to ensure that they will prevail over third parties and can be enforced, both at the time and in the future. At this time, there are no contractual restrictions threatening the legal validity of guarantees received.

The central functions that perform the above checks are different to the functions that grant and review lending; the Internal Audit Department carries out periodic checks to ensure that these activities are performed properly and on a prudent basis.

## 2.4 Impaired financial assets

Credit risk management is carried out during all stages of lending by means of effective surveillance and monitoring, so that timely assessments can be made as soon as any anomalies arise. Loans are classified as «impaired» if there are serious signs of tension and, depending on the nature and gravity of the anomaly, they are split into the following categories:

- *Non-performing*, covering the entire exposure to borrowers that are insolvent or in an equivalent state, regardless of the guarantees given and/or any loss forecasts made;
- *Watchlist*, covering the entire exposure to borrowers that are experiencing temporary objective difficulties that are likely to be resolved within a reasonable period of time;
- *Restructured*, covering loans subject to the revision of the originally agreed terms, due to a deterioration in the economic and financial requisites of the borrower, leading to a loss for the bank;
- *Past due*, unpaid exposures and/or those permanently over their credit limit according to parameters of amount and duration laid down by current supervisory instructions.

The loans not allocated to the above categories are deemed to be performing loans.

The management of «impaired» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

More precisely, in the event of positions that are:

- *non-performing*, suitable procedures are implemented to recover the loans; if circumstances permit, recovery plans are drawn up and/or settlements are proposed on an amicable basis in order to terminate the relationship;
- *watchlist*, efforts are made to re-establish the original conditions of credit-worthiness and profitability within a reasonable period of time; if this is deemed to be impossible, the loans concerned are reclassified as doubtful;

- *restructured*, compliance with the agreed conditions is monitored. The position remains classified as «restructured» till the period of time foreseen under current regulations has passed and until the borrower has completely recovered their solvency, without any of their lines of credit going past due. At this stage, the customer can return to the classification of «performing». On the first occasion that the borrower fails to pay, they are transferred to the watchlist or to non-performing loans;
- *past due*, developments are monitored and timely attempts are made to get the situation back to normal; if it is seen that the borrower really is in financial difficulty, the necessary steps are taken to transfer the loan to the watchlist or to non-performing loans, depending on the circumstances.

Adjustments are made in strict compliance with both the primary and secondary regulations and on a highly prudent basis. In particular, having regard for non-performing, watchlist and restructured loans, the bank carries out an analysis of each position, which also takes into account the discounting effects of expected recovery. As for past due loans, they are written down on the basis of historical data of losses on the same type of loans.



## QUANTITATIVE INFORMATION

### A. Asset quality

#### A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

##### A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/Quality	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures	Country risk	Other assets	<b>Total 31/12/2010</b>
1. Financial assets held for trading		5,527	4	-	-	2,739,931	2,745,462
2. Financial assets available for sale		-	-	-	-	30,709	30,709
3. Financial assets held to maturity		587	-	-	-	248,717	249,304
4. Due from banks		-	-	-	-	1,465,507	1,465,507
5. Due from customers		192,793	218,742	63,053	204,694	17,568,579	18,247,861
6. Financial assets measured at fair value		-	-	-	-	29,224	29,224
7. Financial assets being sold		-	-	-	-	-	-
8. Hedging derivatives		-	-	-	-	-	-
<b>Total 31/12/2010</b>		<b>198,907</b>	<b>218,746</b>	<b>63,053</b>	<b>204,694</b>	<b>22,082,667</b>	<b>22,768,067</b>
<b>Total 31/12/2009</b>		<b>155,166</b>	<b>169,557</b>	<b>39,726</b>	<b>196,975</b>	<b>20,608,998</b>	<b>21,170,422</b>

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

##### A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/Quality	Impaired assets			Performing			<b>Total net exposure</b>
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
1. Financial assets held for trading	5,531	-	5,531	2,739,931	-	2,739,931	2,745,462
2. Financial assets available for sale	-	-	-	30,709	-	30,709	30,709
3. Financial assets held to maturity	3,696	3,109	587	248,717	-	248,717	249,304
4. Due from banks	-	-	-	1,465,507	-	1,465,507	1,465,507
5. Due from customers	931,348	252,066	679,282	17,665,740	97,161	17,568,579	18,247,861
6. Financial assets measured at fair value	-	-	-	29,224	-	29,224	29,224
7. Financial assets being sold	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
<b>Total 31/12/2010</b>	<b>940,575</b>	<b>255,175</b>	<b>685,400</b>	<b>22,179,828</b>	<b>97,161</b>	<b>22,082,667</b>	<b>22,768,067</b>
<b>Total 31/12/2009</b>	<b>790,857</b>	<b>229,433</b>	<b>561,424</b>	<b>20,698,325</b>	<b>89,327</b>	<b>20,608,998</b>	<b>21,170,422</b>

With reference to financial assets held for trading and those at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

The following table shows, for the aggregate «Performing loans to customers», the figures for loans subject to renegotiation under collective agreements (such as the ABI-MEF Framework Agreement) and other exposures, with an ageing of any repayments that are past due.

Due from customers - Gross exposure	Exposure	Repayments past due up to 3 months	Repayments past due from 3 to 6 months	Repayments past due for over 3 months	Repayments past due for over 1 year
Subject to renegotiation under collective agreements	214,017	67	10	-	-
Other exposure	17,451,723	11,074	1,602	483	170

### A.1.3 Cash and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
<b>A. Cash exposures</b>				
a) Non-performing loans	-	-	-	-
b) Watchlist loans	-	-	-	-
c) Restructured exposures	-	-	-	-
d) Past due exposures	-	-	-	-
e) Other assets	1,828,788	-	-	1,828,788
<b>Total A</b>	<b>1,828,788</b>	<b>-</b>	<b>-</b>	<b>1,828,788</b>
<b>B. Off-balance sheet exposures</b>				
a) Impaired	-	-	-	-
b) Other	274,557	-	-	274,557
<b>Total B</b>	<b>274,557</b>	<b>-</b>	<b>-</b>	<b>274,557</b>
<b>Total (A+B)</b>	<b>2,103,345</b>	<b>-</b>	<b>-</b>	<b>2,103,345</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.

### A.1.6 Cash and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
<b>A. Cash exposures</b>				
a) Non-performing loans	406,223	207,316	-	198,907
b) Watchlist loans	252,182	33,440	-	218,742
c) Restructured exposures	65,995	2,942	-	63,053
d) Past due exposures	216,171	11,477	-	204,694
e) Other assets	20,252,943	-	97,161	20,155,782
<b>Total A</b>	<b>21,193,514</b>	<b>255,175</b>	<b>97,161</b>	<b>20,841,178</b>
<b>B. Off-balance sheet exposures</b>				
a) Impaired	37,790	4,987	-	32,803
b) Other	4,780,044	-	1,013	4,779,031
<b>Total B</b>	<b>4,817,834</b>	<b>4,987</b>	<b>1,013</b>	<b>4,811,834</b>
<b>Total (A+B)</b>	<b>26,011,348</b>	<b>260,162</b>	<b>98,174</b>	<b>25,653,012</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.



### A.1.7 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>341,595</b>	<b>199,915</b>	<b>41,659</b>	<b>207,681</b>
- of which: sold but not eliminated from the balance sheet	-	-	-	-
<b>B. Increases</b>	<b>197,112</b>	<b>159,440</b>	<b>32,006</b>	<b>177,477</b>
B.1 Transfer from performing exposures	104,582	104,215	17,126	148,582
B.2 transfers from other categories of impaired exposure	76,047	33,465	13,253	1,291
B.3 Other increases	16,483	21,760	1,627	27,604
<b>C. Decreases</b>	<b>132,484</b>	<b>107,173</b>	<b>7,670</b>	<b>168,987</b>
C.1 transfers to performing loans	-	14,716	1,951	88,526
C.2 write-offs	101,304	-	-	-
C.3 collections	31,180	24,188	2,409	27,984
C.4 proceeds from disposals	-	-	-	-
C.5 transfers to other categories of impaired exposure	-	68,269	3,310	52,477
C.6 other decreases	-	-	-	-
<b>D. Closing gross exposure</b>	<b>406,223</b>	<b>252,182</b>	<b>65,995</b>	<b>216,171</b>
- of which: sold but not eliminated from the balance sheet	-	-	-	-

### A.1.8 Cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures
<b>A. Total opening adjustments</b>	<b>186,429</b>	<b>30,365</b>	<b>1,933</b>	<b>10,706</b>
- of which: sold but not eliminated from the balance sheet	-	-	-	-
<b>B. Increases</b>	<b>131,680</b>	<b>18,117</b>	<b>4,567</b>	<b>4,435</b>
B.1 adjustments	119,779	16,286	3,501	4,361
B.2 transfers from other categories of impaired exposure	11,901	1,831	1,066	74
B.3 other increases	-	-	-	-
<b>C. Decreases</b>	<b>110,793</b>	<b>15,042</b>	<b>3,558</b>	<b>3,664</b>
C.1 write-backs on valuation	4,695	2,033	3,291	251
C.2 write-backs due to collections	4,794	1,098	43	676
C.3 write-offs	101,304	-	-	-
C.4 transfers to other categories of impaired exposure	-	11,911	224	2,737
C.5 other decreases	-	-	-	-
<b>D. Total closing adjustments</b>	<b>207,316</b>	<b>33,440</b>	<b>2,942</b>	<b>11,477</b>
- of which: sold but not eliminated from the balance sheet	-	-	-	-

## A.2 Classification of exposures based on external and internal ratings

### A.2.1 Distribution of cash loans and off-balance sheet items by external rating class

Type of exposure	External rating classes							Unrated	Total 31/12/2009
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6			
<b>A. Cash exposures</b>	<b>2,511,732</b>	<b>1,681,378</b>	<b>862,254</b>	<b>2,831,787</b>	<b>1,152,986</b>	<b>1,914,553</b>	<b>11,715,276</b>	<b>22,669,966</b>	
<b>B. Derivatives</b>	<b>11,074</b>	<b>30,438</b>	<b>2,149</b>	<b>5,365</b>	<b>1,704</b>	<b>2,390</b>	<b>44,980</b>	<b>98,100</b>	
B.1 Financial derivatives	11,074	30,438	2,149	5,365	1,704	2,390	44,980	98,100	
B.2 Credit derivatives	-	-	-	-	-	-	-	-	
<b>C. Guarantees given</b>	<b>4,118</b>	<b>1,171,295</b>	<b>227,293</b>	<b>487,901</b>	<b>69,214</b>	<b>160,404</b>	<b>1,300,501</b>	<b>3,420,726</b>	
<b>D. Commitments to make loans</b>	<b>33,410</b>	<b>276,572</b>	<b>52,615</b>	<b>167,555</b>	<b>91,735</b>	<b>323,896</b>	<b>621,782</b>	<b>1,567,565</b>	
<b>Total</b>	<b>2,560,334</b>	<b>3,159,683</b>	<b>1,144,311</b>	<b>3,492,608</b>	<b>1,315,639</b>	<b>2,401,243</b>	<b>13,682,539</b>	<b>27,756,357</b>	

The distribution of loans to banks and customers is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Bank's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations (see Circular no. 263 of 27.12.2006 «New supervisory instructions for banks»).

The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
FitchRatings	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	below to B-
Standard & Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	below B-
Cerved Group	-	from Aa.1 to Baa.7	Baa.8	from Baa.9 to B.13	from B.14 to B.15	from B.16 to C.19

Note that from 31 December 2010 the Bank of Italy changed the method of linking the ratings issued by Cerved Group (formerly Lince Spa), using greater prudence in associating them with the various rating classes: the related table takes into account those changes.



## A.2.2 Distribution of cash loans by internal rating class

PRIVATE CUSTOMERS - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
<b>A. Cash exposures</b>	<b>356,855</b>	<b>38,675</b>	<b>73,454</b>	<b>481,094</b>	<b>819,073</b>	<b>509,574</b>	<b>201,900</b>
<b>B. Derivatives</b>	<b>99</b>	<b>28</b>	<b>37</b>	<b>228</b>	<b>830</b>	<b>670</b>	<b>164</b>
B.1 Financial derivatives	99	28	37	228	830	670	164
B.2 Credit derivatives	-	-	-	-	-	-	-
<b>C. Guarantees given</b>	<b>6,034</b>	<b>114</b>	<b>4,782</b>	<b>14,232</b>	<b>24,266</b>	<b>20,313</b>	<b>2,391</b>
<b>D. Commitments to make loans</b>	<b>105</b>	<b>527</b>	<b>114</b>	<b>9,424</b>	<b>14,547</b>	<b>6,459</b>	<b>2,437</b>
<b>Total</b>	<b>363,093</b>	<b>39,344</b>	<b>78,387</b>	<b>504,978</b>	<b>858,716</b>	<b>537,016</b>	<b>206,892</b>

SMALL BUSINESS - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
<b>A. Cash exposures</b>	<b>12,121</b>	<b>285,927</b>	<b>94,639</b>	<b>216,942</b>	<b>1,088,228</b>	<b>310,833</b>	<b>137,683</b>
<b>B. Derivatives</b>	<b>1</b>	<b>99</b>	<b>37</b>	<b>26</b>	<b>238</b>	<b>18</b>	<b>28</b>
B.1 Financial derivatives	1	99	37	26	238	18	28
B.2 Credit derivatives	-	-	-	-	-	-	-
<b>C. Guarantees given</b>	<b>1,958</b>	<b>7,011</b>	<b>5,346</b>	<b>11,928</b>	<b>31,924</b>	<b>36,117</b>	<b>4,371</b>
<b>D. Commitments to make loans</b>	<b>1</b>	<b>4,310</b>	<b>2,755</b>	<b>1,308</b>	<b>19,467</b>	<b>5,477</b>	<b>1,240</b>
<b>Total</b>	<b>14,081</b>	<b>297,347</b>	<b>102,777</b>	<b>230,204</b>	<b>1,139,857</b>	<b>352,445</b>	<b>143,322</b>

MICRO-ENTERPRISES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
<b>A. Cash exposures</b>	<b>34,225</b>	<b>73,403</b>	<b>171,215</b>	<b>338,564</b>	<b>546,524</b>	<b>717,319</b>	<b>636,383</b>
<b>B. Derivatives</b>	<b>106</b>	<b>659</b>	<b>337</b>	<b>280</b>	<b>486</b>	<b>229</b>	<b>312</b>
B.1 Financial derivatives	106	659	337	280	486	229	312
B.2 Credit derivatives	-	-	-	-	-	-	-
<b>C. Guarantees given</b>	<b>5,717</b>	<b>8,678</b>	<b>24,132</b>	<b>42,835</b>	<b>39,151</b>	<b>70,116</b>	<b>32,025</b>
<b>D. Commitments to make loans</b>	<b>3,778</b>	<b>12,073</b>	<b>13,435</b>	<b>43,284</b>	<b>75,748</b>	<b>111,458</b>	<b>73,945</b>
<b>Total</b>	<b>43,826</b>	<b>94,813</b>	<b>209,119</b>	<b>424,963</b>	<b>661,909</b>	<b>899,122</b>	<b>742,665</b>



08	09	10	11	12	13	Insolvent	Total 31/12/2010
<b>127,253</b>	<b>85,740</b>	<b>47,747</b>	<b>36,931</b>	<b>19,094</b>	<b>82,245</b>	<b>123,950</b>	<b>3,003,585</b>
<b>19</b>	<b>7</b>	<b>43</b>	<b>2</b>	<b>3</b>	<b>6</b>	<b>3</b>	<b>2,139</b>
19	7	43	2	3	6	3	2,139
-	-	-	-	-	-	-	-
<b>2,341</b>	<b>1,838</b>	<b>292</b>	<b>642</b>	<b>758</b>	<b>574</b>	<b>582</b>	<b>79,159</b>
<b>1,772</b>	<b>577</b>	<b>118</b>	<b>85</b>	<b>17</b>	<b>225</b>	<b>181</b>	<b>36,588</b>
<b>131,385</b>	<b>88,162</b>	<b>48,200</b>	<b>37,660</b>	<b>19,872</b>	<b>83,050</b>	<b>124,716</b>	<b>3,121,471</b>

08	09	10	11	12	13	Insolvent	Total 31/12/2010
<b>135,889</b>	<b>66,960</b>	<b>42,728</b>	<b>34,824</b>	<b>23,696</b>	<b>60,912</b>	<b>98,724</b>	<b>2,610,106</b>
<b>137</b>	<b>1</b>	<b>5</b>	<b>2</b>	-	<b>1</b>	-	<b>593</b>
137	1	5	2	-	1	-	593
-	-	-	-	-	-	-	-
<b>4,112</b>	<b>1,532</b>	<b>3,240</b>	<b>1,164</b>	<b>500</b>	<b>1,771</b>	<b>1,814</b>	<b>112,788</b>
<b>1,393</b>	<b>672</b>	<b>251</b>	<b>763</b>	<b>252</b>	<b>427</b>	<b>1,481</b>	<b>39,797</b>
<b>141,531</b>	<b>69,165</b>	<b>46,224</b>	<b>36,753</b>	<b>24,448</b>	<b>63,111</b>	<b>102,019</b>	<b>2,763,284</b>

08	09	10	11	12	13	Insolvent	Total 31/12/2010
<b>512,914</b>	<b>200,341</b>	<b>102,055</b>	<b>54,908</b>	<b>37,308</b>	<b>75,995</b>	<b>199,400</b>	<b>3,700,554</b>
<b>195</b>	<b>80</b>	<b>152</b>	<b>529</b>	<b>2</b>	<b>20</b>	-	<b>3,387</b>
195	80	152	529	2	20	-	3,387
-	-	-	-	-	-	-	-
<b>22,276</b>	<b>3,693</b>	<b>2,321</b>	<b>1,443</b>	<b>1,827</b>	<b>3,082</b>	<b>3,286</b>	<b>260,582</b>
<b>80,072</b>	<b>10,851</b>	<b>2,357</b>	<b>5,398</b>	<b>1,049</b>	<b>1,136</b>	<b>4,460</b>	<b>439,044</b>
<b>615,457</b>	<b>214,965</b>	<b>106,885</b>	<b>62,278</b>	<b>40,186</b>	<b>80,233</b>	<b>207,146</b>	<b>4,403,567</b>



SMEs - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
<b>A. Cash exposures</b>	<b>28,190</b>	<b>54,225</b>	<b>247,853</b>	<b>439,956</b>	<b>744,151</b>	<b>769,686</b>	<b>428,665</b>
<b>B. Derivatives</b>	<b>21</b>	<b>92</b>	<b>1,200</b>	<b>1,241</b>	<b>1,489</b>	<b>1,683</b>	<b>120</b>
B.1 Financial derivatives	21	92	1,200	1,241	1,489	1,683	120
B.2 Credit derivatives	-	-	-	-	-	-	-
<b>C. Guarantees given</b>	<b>21,351</b>	<b>19,778</b>	<b>45,552</b>	<b>105,084</b>	<b>110,052</b>	<b>98,887</b>	<b>56,768</b>
<b>D. Commitments to make loans</b>	<b>5,242</b>	<b>1,323</b>	<b>20,156</b>	<b>13,747</b>	<b>47,147</b>	<b>34,822</b>	<b>15,708</b>
<b>Total</b>	<b>54,804</b>	<b>75,418</b>	<b>314,761</b>	<b>560,028</b>	<b>902,839</b>	<b>905,078</b>	<b>501,261</b>

LARGE AND PUBLIC ENTERPRISES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
<b>A. Cash exposures</b>	<b>87,419</b>	<b>388,700</b>	<b>173,758</b>	<b>415,237</b>	<b>276,178</b>	<b>90,703</b>	<b>128,045</b>
<b>B. Derivatives</b>	<b>5,938</b>	<b>174</b>	<b>1,085</b>	<b>638</b>	<b>814</b>	<b>9</b>	<b>847</b>
B.1 Financial derivatives	5,938	174	1,085	638	814	9	847
B.2 Credit derivatives	-	-	-	-	-	-	-
<b>C. Guarantees given</b>	<b>78,171</b>	<b>510,923</b>	<b>181,787</b>	<b>240,838</b>	<b>368,752</b>	<b>21,395</b>	<b>43,448</b>
<b>D. Commitments to make loans</b>	<b>20,000</b>	<b>86,862</b>	<b>107,603</b>	<b>20,387</b>	<b>13,818</b>	<b>41,831</b>	<b>5,355</b>
<b>Total</b>	<b>191,528</b>	<b>986,659</b>	<b>464,233</b>	<b>677,100</b>	<b>659,562</b>	<b>153,938</b>	<b>177,695</b>

BANKS - Exposure	Internal rating classes			
	01	02	03	04
<b>A. Cash exposures</b>	-	-	<b>629,577</b>	<b>16,086</b>
<b>B. Derivatives</b>	-	-	<b>27,796</b>	<b>85</b>
B.1 Financial derivatives	-	-	27,796	85
B.2 Credit derivatives	-	-	-	-
<b>C. Guarantees given</b>	-	-	<b>153,267</b>	<b>2,115</b>
<b>D. Commitments to make loans</b>	-	-	<b>818</b>	-
<b>Total</b>	-	-	<b>811,458</b>	<b>18,286</b>

The table shows, in rising order of risk, the distribution by rating class of exposures in the Customers portfolio for which the internal rating models are operative.

As regards «Customers», the ratings are split into thirteen classes for performing counterparties and one for those that are insolvent. The 1st class identifies customers with the lowest risk, while the 13th class highlights the maximum risk, which is only exceeded by a state of insolvency.

The «Banks» segment presents the ten classes used by the internal system to classify counterparties. The first class identifies customers with the lowest risk, while the ninth class highlights the maximum risk, which is only exceeded by a state of insolvency, class 10. The model is applied to those borrowers who do not have a merit assessment issued by a rating agency. Note that the Bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

08	09	10	11	12	13	Insolvent	Total 31/12/2010
<b>313,400</b>	<b>334,580</b>	<b>124,544</b>	<b>107,173</b>	<b>28,143</b>	<b>83,305</b>	<b>138,651</b>	<b>3,842,522</b>
<b>51</b>	<b>344</b>	<b>14</b>	<b>111</b>	-	-	-	<b>6,366</b>
51	344	14	111	-	-	-	6,366
-	-	-	-	-	-	-	-
<b>17,317</b>	<b>9,486</b>	<b>5,135</b>	<b>4,995</b>	<b>2,491</b>	<b>3,052</b>	<b>6,135</b>	<b>506,083</b>
<b>29,119</b>	<b>23,258</b>	<b>7,358</b>	<b>5,388</b>	<b>84</b>	<b>325</b>	<b>255</b>	<b>203,932</b>
<b>359,887</b>	<b>367,668</b>	<b>137,051</b>	<b>117,667</b>	<b>30,718</b>	<b>86,682</b>	<b>145,041</b>	<b>4,558,903</b>

08	09	10	11	12	13	Insolvent	Total 31/12/2010
<b>56,370</b>	<b>41,451</b>	<b>46,517</b>	<b>34,048</b>	-	<b>1,487</b>	<b>28,131</b>	<b>1,768,044</b>
-	<b>46</b>	-	-	-	-	-	<b>9,551</b>
-	46	-	-	-	-	-	9,551
-	-	-	-	-	-	-	-
<b>6,297</b>	<b>21,896</b>	<b>250</b>	<b>386</b>	-	<b>364</b>	<b>14,055</b>	<b>1,488,562</b>
<b>9,277</b>	<b>9,690</b>	-	-	-	-	<b>44</b>	<b>314,867</b>
<b>71,944</b>	<b>73,083</b>	<b>46,767</b>	<b>34,434</b>	-	<b>1,851</b>	<b>42,230</b>	<b>3,581,024</b>

Internal rating classes							Total
05	06	07	08	09	Insolvent	31/12/2010	
<b>87,605</b>	<b>1,374</b>	<b>5,008</b>	-	<b>623</b>	-	<b>740,273</b>	
<b>277</b>	<b>40</b>	-	-	-	-	<b>28,198</b>	
277	40	-	-	-	-	28,198	
-	-	-	-	-	-	-	
<b>8,426</b>	<b>4,541</b>	<b>106</b>	-	<b>1,626</b>	-	<b>170,081</b>	
-	-	<b>2,399</b>	-	<b>17</b>	-	<b>3,234</b>	
<b>96,308</b>	<b>5,955</b>	<b>7,513</b>	-	<b>2,266</b>	-	<b>941,786</b>	



### A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Exposure» column are stated net of specific and portfolio adjustments. The guarantees are split on the basis of this exposure.

The amounts shown in the «guarantees» columns relate to the exposure covered. This means that the real value of the guarantees may exceed that shown.

#### A.3.1 Guaranteed exposures to banks

	Net exposure	Secured guarantees (1)		Other secured guarantees
		Buildings	Securities	
<b>1. Guaranteed cash exposures:</b>				
1.1 fully guaranteed	208	-	-	-
- of which: impaired	-	-	-	-
1.2 fully guaranteed	567	-	343	-
- of which: impaired	-	-	-	-
<b>2. Guaranteed off-balance sheet exposures:</b>				
2.1 fully guaranteed	-	-	-	-
- of which: impaired	-	-	-	-
2.2 fully guaranteed	-	-	-	-
- of which: impaired	-	-	-	-

#### A.3.2 Guaranteed exposures to customers

	Net exposure	Secured guarantees (1)		Other secured guarantees
		Buildings	Securities	
<b>1. Guaranteed cash exposures:</b>				
1.1 fully guaranteed	11,139,370	8,447,918	189,678	71,568
- of which: impaired	521,550	451,912	5,450	2,505
1.2 fully guaranteed	852,640	9,074	65,028	47,701
- of which: impaired	53,528	675	5,431	317
<b>2. Guaranteed off-balance sheet exposures:</b>				
2.1 fully guaranteed	1,459,063	724,808	27,040	18,251
- of which: impaired	15,884	7,585	2,692	614
2.2 fully guaranteed	425,915	19,588	15,804	7,295
- of which: impaired	1,222	-	162	9

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2010
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	-	-	-	208	-	208
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	343
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2010
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	-	12,856	34,207	2,383,143	-	11,139,370
-	-	-	-	-	-	161	275	61,247	-	521,550
-	-	-	-	-	-	10,521	2,819	436,515	-	571,658
-	-	-	-	-	-	135	-	18,571	-	25,129
-	-	-	-	-	-	151	3,856	684,957	-	1,459,063
-	-	-	-	-	-	-	-	4,993	-	15,884
-	-	-	-	-	-	-	244	299,452	-	342,383
-	-	-	-	-	-	-	-	890	-	1,061



## B. Distribution and concentration of exposure

### B.1 Territorial distribution of the cash and off-balance sheet exposures to customers (book value)

Exposures/Counterparties	Government			Other public entities		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
<b>A. Cash exposures</b>						
A.1 Non-performing loans	-	-	-	-	-	-
A.2 Watchlist loans	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-
A.4 Exposure past due	-	-	-	-	-	-
A.5 Other exposures	2,365,701	-	-	64,458	-	-
<b>Total A</b>	<b>2,365,701</b>	<b>-</b>	<b>-</b>	<b>64,458</b>	<b>-</b>	<b>-</b>
<b>B. Off-balance sheet exposures</b>						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 Watchlist loans	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	48,350	-	5	26,222	-	-
<b>Total B</b>	<b>48,350</b>	<b>-</b>	<b>5</b>	<b>26,222</b>	<b>-</b>	<b>-</b>
<b>Total 31/12/2010</b>	<b>2,414,051</b>	<b>-</b>	<b>5</b>	<b>90,680</b>	<b>-</b>	<b>-</b>
<b>Total 31/12/2009</b>	<b>2,546,978</b>	<b>-</b>	<b>-</b>	<b>108,868</b>	<b>-</b>	<b>-</b>

### B.2 Territorial distribution of the cash and off-balance sheet exposures to customers (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total adjustments	Net exposure	Total adjustments
<b>A. Cash exposures</b>				
A.1 Non-performing loans	191,408	200,577	1,390	3,620
A.2 Watchlist loans	217,586	33,281	1,153	159
A.3 Restructured exposures	63,053	2,942	-	-
A.4 Exposure past due	202,227	11,357	2,456	120
A.5 Other exposures	19,808,476	95,676	155,139	793
<b>Total A</b>	<b>20,482,750</b>	<b>343,833</b>	<b>160,138</b>	<b>4,692</b>
<b>B. Off-balance sheet exposures</b>				
B.1 Non-performing loans	4,820	4,938	-	-
B.2 Watchlist loans	12,479	49	-	-
B.3 Other impaired assets	15,482	-	22	-
B.4 Other exposures	4,418,992	924	341,056	83
<b>Total B</b>	<b>4,451,773</b>	<b>5,911</b>	<b>341,078</b>	<b>83</b>
<b>Total 31/12/2010</b>	<b>24,934,523</b>	<b>349,744</b>	<b>501,216</b>	<b>4,775</b>
<b>Total 31/12/2009</b>	<b>23,100,746</b>	<b>314,624</b>	<b>252,976</b>	<b>4,427</b>

As regards the geographical distribution of exposures to customers resident in Italy, amounts «Due from customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West (83%) and Centre (12%), followed by the North East (4%) and the South and Islands (1%).

Financial companies			Insurance companies			Non-financial companies			Other parties		
Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
10,509	10,110	-	-	-	-	148,998	155,731	-	39,400	41,475	-
4,099	1,719	-	343	1,881	-	158,982	24,101	-	55,318	5,739	-
7,414	43	-	-	-	-	54,426	2,892	-	1,213	7	-
1	-	-	-	-	-	160,145	8,827	-	44,548	2,650	-
1,792,132	-	5,064	21,344	-	13	12,401,985	-	71,563	3,510,162	-	20,521
<b>1,814,155</b>	<b>11,872</b>	<b>5,064</b>	<b>21,687</b>	<b>1,881</b>	<b>13</b>	<b>12,924,536</b>	<b>191,551</b>	<b>71,563</b>	<b>3,650,641</b>	<b>49,871</b>	<b>20,521</b>
-	-	-	-	-	-	4,740	4,925	-	80	13	-
-	-	-	23	19	-	12,267	22	-	189	8	-
394	-	-	-	-	-	14,853	-	-	257	-	-
231,146	-	20	37	-	-	4,130,109	-	904	343,167	-	84
<b>231,540</b>	<b>-</b>	<b>20</b>	<b>60</b>	<b>19</b>	<b>-</b>	<b>4,161,969</b>	<b>4,947</b>	<b>904</b>	<b>343,693</b>	<b>21</b>	<b>84</b>
<b>2,045,695</b>	<b>11,872</b>	<b>5,084</b>	<b>21,747</b>	<b>1,900</b>	<b>13</b>	<b>17,086,505</b>	<b>196,498</b>	<b>72,467</b>	<b>3,994,334</b>	<b>49,892</b>	<b>20,605</b>
<b>1,634,233</b>	<b>8,980</b>	<b>5,267</b>	<b>25,750</b>	<b>-</b>	<b>27</b>	<b>15,344,984</b>	<b>179,529</b>	<b>66,946</b>	<b>3,861,419</b>	<b>44,851</b>	<b>17,160</b>

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
6,109	3,119	-	-	-	-
3	-	-	-	-	-
-	-	-	-	-	-
4	-	3	-	4	-
163,525	666	27,900	22	742	4
<b>169,641</b>	<b>3,785</b>	<b>27,903</b>	<b>22</b>	<b>746</b>	<b>4</b>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
39	-	2,806	1	16,138	5
<b>39</b>	<b>-</b>	<b>2,806</b>	<b>1</b>	<b>16,138</b>	<b>5</b>
<b>169,680</b>	<b>3,785</b>	<b>30,709</b>	<b>23</b>	<b>16,884</b>	<b>9</b>
<b>148,789</b>	<b>3,689</b>	<b>5,469</b>	<b>16</b>	<b>14,252</b>	<b>4</b>



### B.3 Territorial distribution of the cash and off-balance sheet exposures to banks (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total adjustments	Net exposure	Total adjustments
<b>A. Cash exposures</b>				
A.1 Non-performing loans	-	-	-	-
A.2 Watchlist loans	-	-	-	-
A.3 Restructured exposures	-	-	-	-
A.4 Exposure past due	-	-	-	-
A.5 Other exposures	1,139,337	-	641,800	-
<b>Total A</b>	<b>1,139,337</b>	<b>-</b>	<b>641,800</b>	<b>-</b>
<b>B. Off-balance sheet exposures</b>				
B.1 Non-performing loans	-	-	-	-
B.2 Watchlist loans	-	-	-	-
B.3 Other impaired assets	-	-	-	-
B.4 Other exposures	49,886	-	213,518	-
<b>Total B</b>	<b>49,886</b>	<b>-</b>	<b>213,518</b>	<b>-</b>
<b>Total 31/12/2010</b>	<b>1,189,223</b>	<b>-</b>	<b>855,318</b>	<b>-</b>
<b>Total 31/12/2009</b>	<b>1,336,578</b>	<b>-</b>	<b>548,198</b>	<b>-</b>

### B.4 Significant risks

	31/12/2010	31/12/2009
a) Amount	3,238,103	2,160,262
b) Number	21	9

With the 6th update on 27 December 2010 of its Circular Letter 263 of 27 December 2006, the Bank of Italy radically revised the rules on risk concentration. It follows that the comparison figures at 31/12/2009 shown in the table are not consistent and therefore not comparable with those at the end of 2010. For example, the exposure limit of 10% of capital for supervisory purposes - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «sum of the cash risk assets and off-balance sheet transactions with a customer or a related group of customers» and no longer in terms of the so-called «risk position», which is the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained. In this way, the definition of «significant risk» changes considerably. In accordance with these instructions, the above table shows on the «Number» line, the number of counterparties whose exposure exceeds the stated limit, and on the «Amount» line, their total risk position.

This «risk position» comes from the weighting of exposures in relation to the short-term portfolio (essentially government securities and repurchase agreements) for a total of € 3,429 million, cash risk assets (amounts due from banks and customers and securities held in the bank book) for a total of € 3,212 million, off-balance sheet risk assets (guarantees given and available margins on lines of credit) for a total of € 3,671 million.

### C. Securitisation transactions and disposal of assets

#### C.1 Securitisation transactions

#### QUALITATIVE INFORMATION

The Bank has not entered into any direct securitisation transactions and has not been involved in such transactions organised by third parties.



AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
43,719	-	3,509	-	423	-
<b>43,719</b>	-	<b>3,509</b>	-	<b>423</b>	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
6,838	-	3,126	-	1,189	-
<b>6,838</b>	-	<b>3,126</b>	-	<b>1,189</b>	-
<b>50,557</b>	-	<b>6,635</b>	-	<b>1,612</b>	-
<b>44,521</b>	-	<b>6,898</b>	-	<b>3,742</b>	-



## C.2 Disposals

### C.2.1 Financial assets sold and not eliminated from the balance sheet

Technical forms/Portfolio	Financial assets held for trading			Financial assets at fair value			Financial assets available for sale		
	A	B	C	A	B	C	A	B	C
<b>A. Cash assets</b>	<b>1,732,379</b>	-	-	-	-	-	-	-	-
1. Fixed-yield securities	1,732,379	-	-	-	-	-	-	-	-
2. Variable-yield securities	-	-	-	-	-	-	-	-	-
3. Mutual funds	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	-	-	-	-	-	-	-	-	-
<b>Total 31/12/2010</b>	<b>1,732,379</b>	-	-	-	-	-	-	-	-
of which: impaired	-	-	-	-	-	-	-	-	-
<b>Total 31/12/2009</b>	<b>1,035,136</b>	-	-	-	-	-	-	-	-
of which: impaired	-	-	-	-	-	-	-	-	-

Key:

A = financial assets sold and recognised in full (book value)

B = financial assets sold and recognised in part (book value)

C = financial assets sold and recognised in part (full value)

These are securities sold under repurchase agreements.

### C.2.2 Financial liabilities associated with assets sold and not eliminated from the balance sheet

	Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Financial assets held to maturity	Due from other banks	Due from customers	<b>Total 31/12/2010</b>
<b>1. Due to customers</b>	<b>1,747,431</b>	-	-	-	-	-	<b>1,747,431</b>
a) for assets recognised in full	1,747,431	-	-	-	-	-	1,747,431
b) for assets recognised in part	-	-	-	-	-	-	-
<b>2. Due to banks</b>	-	-	-	-	-	-	-
a) for assets recognised in full	-	-	-	-	-	-	-
b) for assets recognised in part	-	-	-	-	-	-	-
<b>Total 31/12/2010</b>	<b>1,747,431</b>	-	-	-	-	-	<b>1,747,431</b>
<b>Total 31/12/2009</b>	<b>1,034,859</b>	-	-	-	-	-	<b>1,034,859</b>



Financial assets held to maturity			Due from other banks			Due from customers			Total	Total
A	B	C	A	B	C	A	B	C	31/12/2010	31/12/2009
-	-	-	-	-	-	-	-	-	<b>1,732,379</b>	<b>1,035,136</b>
-	-	-	-	-	-	-	-	-	1,732,379	1,035,136
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	<b>1,732,379</b>	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	<b>1,035,136</b>
-	-	-	-	-	-	-	-	-	-	-

## **Section 2** *Market risks*

### **2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes**

#### **QUALITATIVE INFORMATION**

##### **A. General aspects**

The principal source of interest rate risk consists of the fixed-yield securities classified under «financial assets held for trading». The objectives and strategies for trading activities involving the securities portfolio are designed to maximise its profitability by taking investment opportunities, while working to contain the level of risk. This means that the duration of the bond portfolio is very short.

The bank's role in trading activities essentially consists of arbitrage in securities to benefit from short-term trading opportunities, rather than of taking long-term risk positions.

This strategy is consistent with the general approach adopted by the bank, based on the prudent management of all risks.

With regard to the treatment of derivative instruments, the offices deal in untraded options on fixed-yield government securities, while activity regarding other innovative or complex instruments is negligible.

The nature of trading activities did not change significantly over the year. The main source of price risk consists of variable-yield securities and units in mutual funds classified as «financial assets held for trading», including the investments that service employees' post-employment benefits.

As with regard to interest rate risk, the strategy for containing price risk as part of the bank's overall risk management strategy is to take a prudent approach.

This is evidenced by the low weighting of variable-yield securities within the entire securities portfolio (excluding those servicing the post-employment benefits of employees), which represent just 1.65% of the overall total of 44.330 million.

Furthermore, variable-yield securities comprise holdings in leading companies with a liquid market and a good dividend yield. Once again, trading activity concentrates on benefiting from short-term opportunities while, with regard to innovative instruments, the transactions in equity options have been both limited and perfectly matched.

There were no significant changes during the year.

##### **B. Management and measurement of interest rate risk and price risk**

The internal processes for control and management of the interest rate risk associated with the trading portfolio have the following characteristics. The organisational structure comprises: the Board of Directors, which establishes guidelines and the maximum degree of acceptable risk; General Management, which carries out supervision and, in turn, sets limits on risk that are consistent with those established by the Board; the «central and branch internal auditors», part of the Internal Audit function, who check on compliance with established limits; the «Risk control» office, within the Planning and management control department, measures risk and produces the related reports; the «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets. The system for the limitation of risk, especially market risk (exchange rate, share price), is governed by the Board resolution on «Operational and managerial limits for financial activities» adopted on 29 November 2001, as amendment with resolution dated 27 April 2009. This system is organised on the basis described below. As part of its governance functions, the Board of Directors quantifies the maximum acceptable loss for the period, consistent with the bank's volume of business. At operational level, General Management allocates this Maximum Acceptable Loss between market risks and credit risks. Suitable limits on the potential exposure to financial risk are established in terms of Value at Risk.

The characteristics of the internal management and control of price risk in relation to the

trading portfolio are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk.

The procedures for the control and management of risk described above have not changed significantly during the year. The methodology used for the analysis of sensitivity to interest rate risk essentially comprises application of the internal model for strategic Asset & Liability Management (ALM), described in section 2.2 below (interest rate risk inherent in the bank's portfolio), and an internal model for the daily calculation of Value at Risk (VaR) also used for the analysis of sensitivity to price risk - limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties - with the characteristics described below. With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with the famous JP Morgan Riskmetrics methodology. It covers the activity in financial instruments exposed to interest rate risk included in the trading portfolios held for supervisory purposes: as for interest rate risk, debt securities, repurchase agreements, forward contracts on fixed-yield securities and forward contracts on exchange rates, in addition to, and limited to the year-end figures, other financial derivatives (derivatives in a strict sense) traded by the Exchange Centre (options on exchange rates, forward contracts on goods, options on interest rates, interest rate swaps); as regards price risk, variable-yield securities and warrants, excluding derivatives on stock indices. Apart from the instruments shown in table 2 below, the VaR model also covers mutual funds and the commodity options and forward contracts traded by the Exchange Centre. The price risk on foreign currency mutual funds also includes exchange risk.

The options have been treated using delta-gamma methodology, while the warrants have been treated as variable-yield securities of the same value.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

The policies and procedures for comparison of the model's results with actual results («back-testing») regarding the trading portfolio for supervisory purposes, limited to debt securities on the one hand, and variable-yield securities and mutual funds on the other, consist of a comparison between the daily VaR and the change in market value on the following day for the same positions used to calculate the VaR (theoretical loss) and the difference between capital gains, write-backs, capital losses, and the realised gains and losses on transactions in the shares held in the portfolio, as reported by the securities procedure (actual loss). For back-testing purposes, the VaR information and the theoretical and actual losses include both the price risk and the exchange risk element deriving from shares, funds and sicavs denominated in foreign currencies.

As for the changes that have taken place in the risk exposure, measured in terms of VaR, compared with the previous year, based on interest rate risk the total average VaR has gone up from 0.458 million to 1.139 mainly because of fixed-yield securities (from 0.430 million to 1.075). on the Price risk the global VaR at period end increased from 1.485 million to 1.590; on the interest rate and price risk global VaR at period end has also increased from 1.496 million to 2.203.

We would also like to comment on the year-end figures generated by the ALM procedure, limited to the debt securities in the trading portfolio for supervisory purposes as well as lending and funding repurchase agreements; the effect of a change in interest rates of +100 basis points over twelve months on the future interest margin - the difference between the future interest income on fixed-yield securities held in the trading portfolio for supervisory purposes and on lending repos and the future interest expense on funding repos - has gone



from an increase of 25.515 million to one of 24.617 million; the effect of an instantaneous change in interest rates by +100 basis points on equity - the difference between the present value of fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos with respect to that of funding repos - has passed from a loss of 11.874 million to one of 12.274 million; the difference between the future income margin for the following twelve months under the most favourable scenario and that under the worst outcome has decreased from 10.227 million to 9.374 million.

The internal model is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank for Italy. The Standardised approach is used in this case.

## QUANTITATIVE INFORMATION

### 1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>1. Cash assets</b>	<b>520</b>	<b>1,654,328</b>	<b>800,701</b>	<b>-</b>	<b>97,288</b>	<b>6,585</b>	<b>41,347</b>	<b>-</b>
1.1 Fixed-yield securities	520	1,647,860	800,701	-	97,288	6,585	41,347	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	520	1,647,860	800,701	-	97,288	6,585	41,347	-
1.2 Other assets	-	6,468	-	-	-	-	-	-
<b>2. Cash liabilities</b>	<b>1,683</b>	<b>1,561,573</b>	<b>181,175</b>	<b>3,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Repurchase agreements	1,683	1,561,573	181,175	3,000	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	<b>-</b>	<b>5,417,613</b>	<b>981,253</b>	<b>223,870</b>	<b>424,062</b>	<b>91,891</b>	<b>24,346</b>	<b>-</b>
3.1 With underlying security	-	67,211	31,443	10,097	16,737	101	13,836	-
- Options	-	8,323	4,149	10,097	6,004	-	-	-
+ Long positions	-	4,165	2,077	5,054	3,006	-	-	-
+ Short positions	-	4,158	2,072	5,043	2,998	-	-	-
- Other derivatives	-	58,888	27,294	-	10,733	101	13,836	-
+ Long positions	-	23,776	16,932	-	5,360	50	9,186	-
+ Short positions	-	35,112	10,362	-	5,373	51	4,650	-
3.2 Without underlying security	-	5,350,402	949,810	213,773	407,325	91,790	10,510	-
- Options	-	56,874	16,332	-	53,798	19,406	-	-
+ Long positions	-	28,437	8,166	-	26,899	9,703	-	-
+ Short positions	-	28,437	8,166	-	26,899	9,703	-	-
- Other derivatives	-	5,293,528	933,478	213,773	353,527	72,384	10,510	-
+ Long positions	-	2,650,206	477,155	108,827	176,770	36,192	5,255	-
+ Short positions	-	2,643,322	456,323	104,946	176,757	36,192	5,255	-

**Currency: USD**

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>1. Cash assets</b>	-	-	-	-	-	<b>10</b>	-	-
1.1 Fixed-yield securities	-	-	-	-	-	10	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	10	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	<b>4,153,279</b>	<b>346,390</b>	<b>151,547</b>	<b>169,580</b>	-	-	-
3.1 With underlying security	-	6,584	4,186	10,050	5,778	-	-	-
- Options	-	6,584	4,186	10,050	5,778	-	-	-
+ Long positions	-	3,292	2,093	5,025	2,889	-	-	-
+ Short positions	-	3,292	2,093	5,025	2,889	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	4,146,695	342,204	141,497	163,802	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	4,146,695	342,204	141,497	163,802	-	-	-
+ Long positions	-	2,071,575	173,008	68,812	81,901	-	-	-
+ Short positions	-	2,075,120	169,196	72,685	81,901	-	-	-



**Currency: CHF**

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>1. Cash assets</b>	-	-	-	-	-	-	-	-
1.1 Fixed-yield securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	<b>864,568</b>	<b>1,081,110</b>	<b>48,095</b>	<b>1,189,488</b>	<b>459,532</b>	-	-
3.1 With underlying security	-	1,606	-	-	-	-	-	-
- Options	-	1,606	-	-	-	-	-	-
+ Long positions	-	803	-	-	-	-	-	-
+ Short positions	-	803	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	862,962	1,081,110	48,095	1,189,488	459,532	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	862,962	1,081,110	48,095	1,189,488	459,532	-	-
+ Long positions	-	431,524	540,387	24,095	594,771	229,766	-	-
+ Short positions	-	431,438	540,723	24,000	594,717	229,766	-	-

**Currency: JAPANESE YEN**

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>1. Cash assets</b>	-	-	<b>24,197</b>	-	-	-	-	-
1.1 Fixed-yield securities	-	-	24,197	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	24,197	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	<b>143,877</b>	<b>55,943</b>	<b>994</b>	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	143,877	55,943	994	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	143,877	55,943	994	-	-	-	-
+ Long positions	-	71,987	15,867	497	-	-	-	-
+ Short positions	-	71,890	40,076	497	-	-	-	-



**Currency: OTHER CURRENCIES**

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>1. Cash assets</b>	-	-	-	-	-	-	-	-
1.1 Fixed-yield securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	<b>452,452</b>	<b>9,320</b>	<b>2,672</b>	-	-	-	-
3.1 With underlying security	-	464	-	-	-	-	-	-
- Options	-	464	-	-	-	-	-	-
+ Long positions	-	232	-	-	-	-	-	-
+ Short positions	-	232	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	451,988	9,320	2,672	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	451,988	9,320	2,672	-	-	-	-
+ Long positions	-	224,540	4,660	1,336	-	-	-	-
+ Short positions	-	227,448	4,660	1,336	-	-	-	-

**2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation**

Type of transaction/ Listing index	Listed						Unlisted
	Italy	United States	United Kingdom	Japan	Germany	Other	
<b>A. Equities</b>	<b>39,552</b>	-	-	-	<b>2,492</b>	<b>1,022</b>	<b>1,754</b>
- long positions	39,552	-	-	-	2,492	1,022	1,754
- short positions	-	-	-	-	-	-	-
<b>B. Purchase/sale transactions not yet settled in variable-yield securities</b>	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
<b>C. Other derivatives on variable-yield securities</b>	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
<b>D. Derivatives on stock indices</b>	-	-	-	-	-	-	<b>784</b>
- long positions	-	-	-	-	-	-	392
- short positions	-	-	-	-	-	-	392



### 3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in table 2 above and other transactions for which the calculation is carried out in any case.

#### Value at Risk (VaR), end of year (new definition)

	(in thousands of euro)
<b>1. Cash assets</b>	<b>1.075</b>
1.1 Fixed-yield securities	1.075
1.2 Other assets	0.0
<b>2. Cash liabilities</b>	<b>16.5</b>
2.1 Repurchase agreements	16.5
2.2 Other liabilities	-
<b>3. Financial derivatives</b>	<b>66.3</b>
3.1 With underlying security	63.3
- Options	-
+ Long positions	-
+ Short positions	-
- Other derivatives	63.3
+ Long positions	153.3
+ Short positions	90.5
3.2 Without underlying security	10.4
- Options	0.0
- Other derivatives	10.4
+ Long positions	3,936.0
+ short positions	3,925.8
<b>Total interest rate risk</b>	<b>1,139.0</b>
<b>A. Equities</b>	<b>1,446.9</b>
- long positions	1,446.9
- short positions	-
<b>B. Purchase/sale transactions not yet settled in variable-yield securities</b>	<b>-</b>
- long positions	-
- short positions	-
<b>C. Other derivatives on variable-yield securities</b>	<b>0.5</b>
- long positions	0.5
- short positions	-
<b>D. Derivatives on stock indices</b>	<b>n.d.</b>
- long positions	n.d.
- short positions	n.d.
<b>Total Price risk transactions tab.2</b>	<b>1,447.4</b>
<b>Mutual funds</b>	<b>168.8</b>
<b>Forward contracts on other instruments (goods)</b>	<b>-</b>
- long positions	206.0
- short positions	206.0
<b>Options on other instruments (goods)</b>	<b>-</b>
- long positions	-
- short positions	-
<b>Total Price risk</b>	<b>1,589.7</b>
<b>Total Interest rate risk and price risk</b>	<b>2,203.2</b>

## Interest rate risk

Information on average, minimum and maximum VaR is provided below.

### Total Value at Risk (VaR)

	(in thousands of euro)
average	502.0
minimum	123.0
maximum	1,305.1

With regard to the distribution of VaR during the year, the average VaR for each month in 2010 is presented below.

January	455.5
February	443.1
March	302.6
April	290.6
May	864.6
June	800.8
July	541.0
August	298.2
September	232.6
October	188.1
November	490.9
December	1,075.4

With reference to debt securities forming part of the trading portfolio for supervisory purposes, the number of days on which actual losses exceeded VaR was 105 out of 252 observations, the number of days on which theoretical losses exceeded VaR was 106 out of 252 observations.

## Price risk

Information on average, minimum and maximum VaR is provided below.

### Total Value at Risk (VaR)

	(in thousands of euro)
average	2,013.6
minimum	1,120.3
maximum	3,973.4

With regard to the distribution of VaR during the year, the average VaR for each month in 2010 is presented below.

January	1,249.6
February	1,675.2
March	1,562.5
April	1,372.9
May	3,188.3
June	3,106.1
July	2,838.3
August	2,331.7
September	1,863.3
October	1,546.0
November	1,467.8
December	1,792.8



With reference to variable-yield securities and mutual funds forming part of the trading portfolio for supervisory purposes, neither the effective loss nor the theoretical loss exceeded the VaR on any of the 252 days subject to observation.

### Interest rate risk and price risk

Information on average, minimum and maximum VaR is provided below.

#### Total Value at Risk (VaR)

	(in thousands of euro)
average	2,183.1
minimum	1,079.1
maximum	4,932.4

With regard to the distribution of VaR during the year, the average VaR for each month in 2010 is presented below.

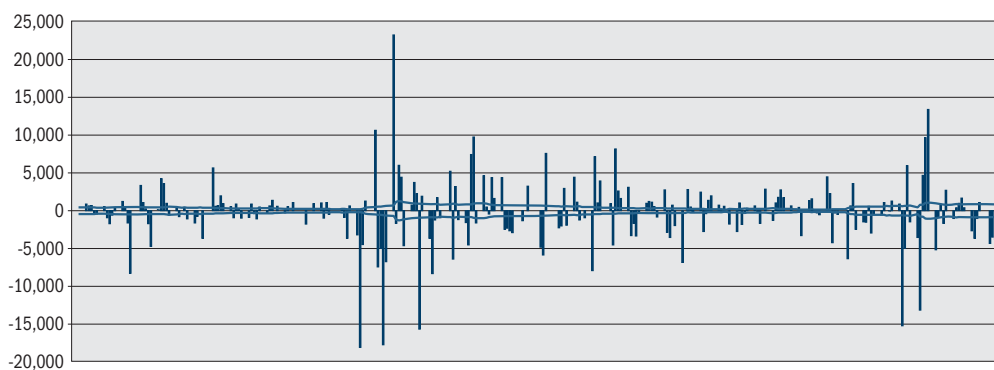
January	1,255.3
February	1,705.4
March	1,597.0
April	1,432.4
May	3,813.7
June	3,501.6
July	2,920.7
August	2,373.7
September	1,883.2
October	1,559.8
November	1,466.0
December	2,451.9

With reference to variable-yield securities and mutual funds forming part of the trading portfolio for supervisory purposes, the number of days on which actual losses exceeded VaR was 55 out of 252 observations, the number of days on which theoretical losses exceeded VaR was 55 out of 252 observations.

The following graphs compare VaR with the daily results.

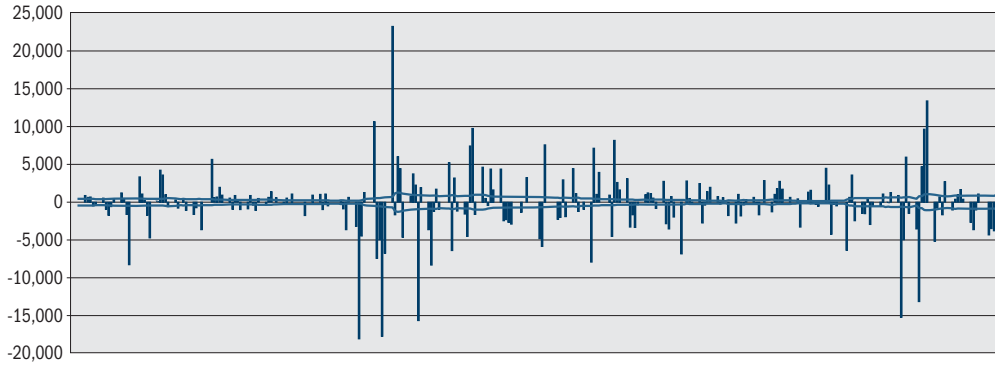
#### Fixed-yield securities: VaR and actual profits/losses

(in thousands of euro)



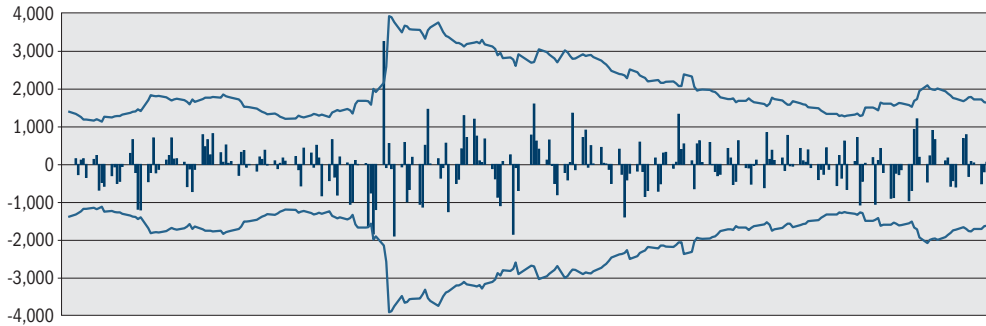
### Fixed-yield securities: VaR and theoretical profits/losses

(in thousands of euro)



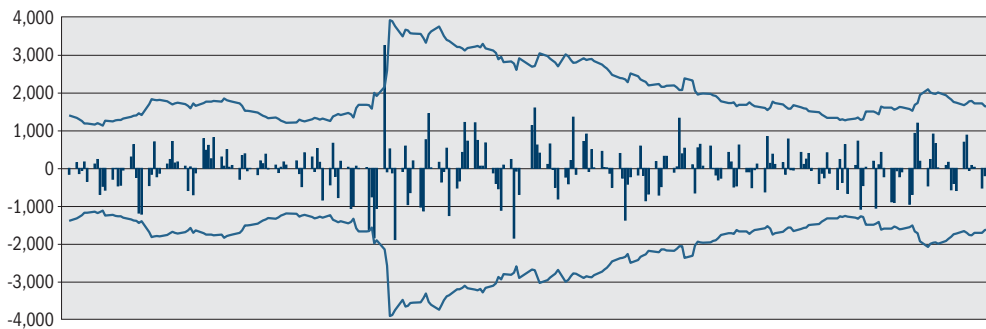
### Variable-yield securities and mutual funds: VaR and actual profits/losses

(in thousands of euro)



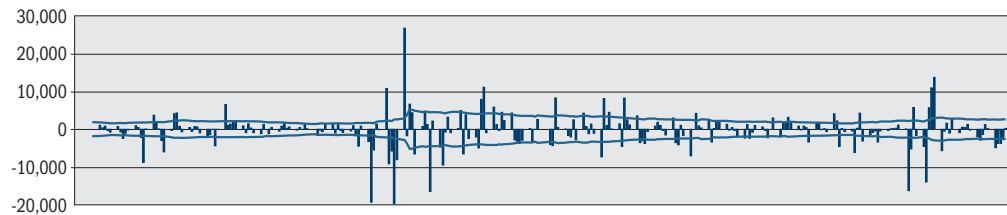
### Variable-yield securities and mutual funds: VaR and theoretical profits/losses

(in thousands of euro)



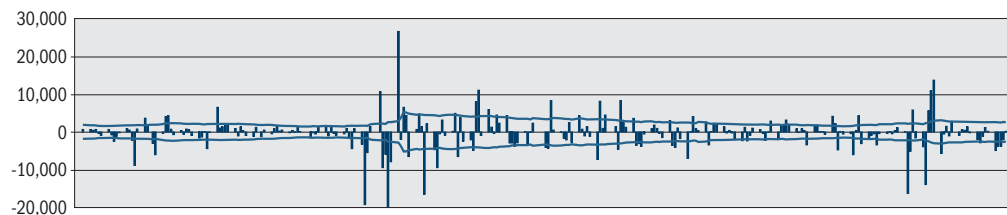
### Fixed-yield securities, equities and mutual funds: VaR and actual profits/losses

(in thousands of euro)



### Fixed-yield securities, equities and mutual funds: VaR and theoretical profits/losses

(in thousands of euro)



With regard only to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos, the following information is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to the bank book.

Effects of a change in interest rates by +100 basis points over a twelve-month period on the future interest margin.

For a change of -100 basis points, the sign of the amounts should be reversed.

The future interest margin is understood as being the difference between the future interest income on interest-earning fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos calculated on the transactions outstanding at the reference date.

#### Exposure to risk

	(in thousands of euro)
at period end	24,617
average	25,284
minimum	24,606
maximum	25,710

Effects of an instant change in interest rates of +100 basis points on equity.

For a change of -100 basis points, the sign of the amounts should be reversed.

Equity is defined as the difference between the present value of fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos, and that of funding repos.



### Exposure to risk

	(in thousands of euro)
at period end	-12,274
average	-10,494
minimum	-7,507
maximum	-13,646

Analysis of scenario: difference between the future interest margin for the following twelve months under the worst scenario and that under the most favourable outcome.

The scenarios considered are that with constant market rates and the three referred to in the qualitative information provided in section 2.2 on the interest rate risk of the bank book.

### Exposure to risk

	(in thousands of euro)
at period end	-9,374
average	-10,294
minimum	-8,821
maximum	-12,012

## 2.2 Interest rate risk and price risk - Bank portfolio

### QUALITATIVE INFORMATION

#### A. General aspects, management and measurement of interest rate risk and price risk

The principal sources of interest rate risk deriving from fair value are associated with funding transactions (especially the issue of bonds) and lending transactions (principally long-term loans) at a fixed rate; the interest rate risk deriving from cash flows is originated by other sight of indexed rate assets and liabilities, which represent the majority of the total.

The internal management and control of interest rate risk is centralised within General Management, which periodically checks the ALM situation (integrated asset and liability management) prepared each month and takes the necessary operational decisions. There were no significant changes during the year in the risk management and control procedures described.

The measurement and control of interest rate essentially consists of the methodology for the «control of exposure to interest rate risk» defined by the Bank of Italy in Attachment C - Section III, Chapter 1 of the «New Supervisory instructions for banks» Circular Letter 263 of 27 December 2006), and in an internal model for strategic Asset & Liability Management (ALM) with the characteristics described below. With regard to the principal assumptions and underlying parameters, the model used supports «gap analysis» for analysing the sensitivity of net interest income and «duration analysis» for analysing the sensitivity of equity, only from a static standpoint, considering the transactions outstanding at the reference date, based on three alternative scenarios for rate changes provided by external consultants using their own econometric model. the gap analysis and the related scenario analysis take account of the introduction of a stickiness model for asset and liability current accounts and deposits accounts.

The system covers the following assets in terms of financial instruments exposed to interest rate risk included in the trading portfolio or in the Bank's own portfolio. The first includes interest-earning assets and interest-bearing liabilities (excluding «sight deposits» and «overnight» and «other deposits», the latter is not present at the date of the financial statements), as defined in the balance sheet format prepared by the National Association of Cooperative Banks, based on the supervisory matrix, excluding all securities held apart from fixed-yield securities. (Note that the securities classified as non-performing in the supervisory matrix are excluded from interest-earning assets in the table).

The second includes the same instruments, except for the fixed-yield securities held in the trading portfolio for supervisory purposes and lending and funding repos, as the information on these is disclosed in section 2.1 above on the trading portfolio for supervisory purposes. The various risk profiles are aggregated by simple summation.

The internal policies and procedures for the analysis of scenarios involve calculating all the results under the three, more or less favourable, alternative scenarios mentioned for possible changes in interest rates.

The source of price risk lies in the variable-yield securities and mutual funds not included in the trading portfolio for supervisory purposes, excluding treasury shares. It therefore includes the variable-yield securities classified as equity investments and the variable-yield securities and mutual funds classified as «financial assets available for sale» or «Financial assets carried at fair value».

The equity investments held by the bank essentially relate to companies that supply the goods and services which complete the bank's range of commercial services and, therefore, are necessary for the achievement and maintenance of an effective competitive position. These are stable investments and reflect the established strategy of concentrating the bank's activities on ordinary operations, while also making recourse – for certain, important near-banking activities (mutual funds, insurance, leasing, factoring, stockbroking, trust management etc.) – to specialist operators. Banca Popolare di Sondrio (Suisse) SA, a wholly owned Swiss bank that is part of the banking group, does not strictly adhere to these principles; Factorit spa, which was acquired for the strategic intention of reinforcing the commercial services that the Banking Group could offer its corporate customers, especially in the management of domestic and international receivables. In addition, Pirovano Stelvio spa and Sinergia Seconda srl.

The Bank understands these companies well and participates in their management; accordingly, the risk – which is more strategic than market related – is well monitored.

We would reiterate that «financial assets available for sale» include non derivative financial assets not classified as «loans», «financial assets held for trading» or «assets held to maturity», while the portfolio of «Financial assets carried at fair value» includes those securities to which the Bank decided to apply the fair value option».

The measurement and control of price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties – essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below. With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known Riskmetrics methodology. It covers the activity in financial instruments exposed to interest rate risk included in the bank book, which no longer has a specific table in these notes: variable-yield securities (including equity investments) and mutual funds. The price risk on foreign currency mutual funds also includes exchange risk. The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

## **B. Fair value hedges**

The bank has not arranged any macro hedges. nor has hedging operations outstanding.

## **C. Cash flow hedges**

The Bank has not arranged any cash-flow hedges.

## D. Hedges of foreign investments

The bank did not carry out any hedges of foreign investments.

## QUANTITATIVE INFORMATION

### 1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>3. Financial derivatives</b>	<b>1,196</b>	<b>1,906</b>	<b>2,192</b>	<b>4,852</b>	<b>39,608</b>	<b>52,610</b>	<b>86,394</b>	-
3.1 With underlying security	-	-	-	-	-	-	-	-
+ Options	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-
+ Other derivatives	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	1,196	1,906	2,192	4,852	39,608	52,610	86,394	-
+ Options	1,196	1,906	2,192	4,852	39,608	52,610	86,394	-
- long positions	598	953	1,096	2,426	19,804	26,305	43,197	-
- short positions	598	953	1,096	2,426	19,804	26,305	43,197	-
+ Other derivatives	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-

This table only shows financial derivatives as a price risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

### 2. Bank book - internal models and other methodologies for the analysis of sensitivity

#### Interest rate risk

With reference to the interest-earning assets and interest-bearing liabilities - except for the fixed-yield securities held in the trading portfolio for supervisory purposes and lending and funding repos, as the information on these is disclosed in the section on the trading portfolio for supervisory purposes - as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

Effects of a change in interest rates by +100 basis points over a twelve-month period on the future interest margin.

The future interest margin is understood as being the difference between the future interest income on interest-earning assets (excluding fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos) and the future interest expense on interest-bearing liabilities (excluding funding repos), based solely on transaction outstanding at the reference date.

**Exposure to risk**

	(in thousands of euro)
at period end	6,605
average	383
minimum	1,039
maximum	-8,021

Effects of a change in interest rates by -100 basis points over a twelve-month period on the future interest margin.

**Exposure to risk**

	(in thousands of euro)
at period end	10,670
average	21,586
minimum	10,670
maximum	31,613

Effects of an instant change in interest rates of +100 basis points on equity.

For a change of -100 basis points, the sign of the amounts should be reversed.

Equity is understood as being the difference between the present value of interest-earning assets (excluding fixed-yield securities held in the trading portfolio for supervisory purposes and lending repos) and that of interest-bearing liabilities (excluding funding repos).

**Exposure to risk**

	(in thousands of euro)
at period end	-45,642
average	-45,037
minimum	-37,408
maximum	-63,966

Analysis of scenario: difference between the future interest margin for the following twelve months under the worst scenario and that under the most favourable outcome.

The scenarios considered are that with constant market rates and the three referred to in the qualitative information provided in this section.

**Exposure to risk**

	(in thousands of euro)
at period end	-24,177
average	-21,842
minimum	-11,354
maximum	-31,122

## Price risk

With reference to the closing date, we report above all the VaR figures specifying that: they refer to transactions that are no longer explicitly foreseen in the standard tables of the notes, but on which we still carry out the calculation; they are consistent with those published last year, also in terms of presentation.

### Value at Risk (VaR), end of year

	(in thousands of euro)
Variable-yield securities	9,998.2
- of which equity investments	8,132.6
Mutual funds	779.2
<b>Total</b>	<b>10,459.1</b>

Information on average, minimum and maximum VaR is provided below.

### Total Value at Risk (VaR)

	(in thousands of euro)
average	11,173.8
minimum	5,911.3
maximum	21,502.7

With regard to the distribution of VaR during the year, the average VaR for each month in 2010 is presented below.

January	6,634.6
February	8,947.4
March	7,867.7
April	7,641.4
May	18,223.2
June	15,768.5
July	10,743.0
August	13,415.4
September	12,874.0
October	10,412.2
November	9,638.3
December	10,754.9

## 2.3 Exchange risk

### QUALITATIVE INFORMATION

#### A. General aspects, management and measurement of exchange risk

The principal sources of exchange risk consist in: the investment in Banca Popolare di Sondrio (Suisse) SA, denominated in Swiss francs, certain other equities, variable-yield securities and mutual funds denominated in foreign currencies and the net foreign currency position managed by the «Exchange Centre», deriving principally from intermediation in repos with private customers and on the interbank market, as well as the implications of the Bank's foreign exchange position deriving from trading in other financial products (difference between premiums on currency options, interest on foreign currency deposits. etc.). Excluding securities, the Bank's role in foreign currency transactions is largely commercial, with a view to meeting customers' needs. The characteristics of the internal management and control of exchange risk are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk in section 2.1, to which

reference is made. There were no significant changes during the year in the risk management and control procedures described.

The measurement and control of exchange risk essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below.

With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known riskmetrics methodology. It covers the following assets in terms of financial instruments exposed to exchange rate risk at the balance sheet date: all of the foreign currency assets and liabilities (excluding gold, the African Financial Community franc, the Latvian lat, the Lithuanian litas and the Qatar riyal) shown in table 1 below, excluding mutual funds in foreign currency where the exchange risk is included in price risk, and items classified as settled. moreover, the balances used by the internal model do not include accrued income and prepaid expenses, accrued expenses and deferred income, the interest portion of unpaid instalments, the differentials on adoption of the amortised cost principle and loan write-downs. In addition to those shown in table 1 above (options on exchange rates, options and forward contracts on commodities), the financial derivatives (in a strict sense) traded by the Exchange Centre also include interest rate swaps. The forward contracts on exchange rates and variable-yield securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank for Italy. The standard methodology is used in this case.

## **B. Hedging of exchange risk**

The Bank has not arranged any specific hedges of exchange risk.

The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above.

Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations and the tighter limits on VaR established by General Management.

## QUANTITATIVE INFORMATION

### 1. Distribution of assets, liabilities and derivatives by foreign currency

Items	Currency					
	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
<b>A. Financial assets</b>	<b>836,522</b>	<b>24,039</b>	<b>85,378</b>	<b>718,854</b>	<b>93,796</b>	<b>29,597</b>
A.1 Fixed-yield securities	10	-	24,206	-	-	-
A.2 Variable-yield securities	-	1,670	1,933	67,695	-	-
A.3 Loans to banks	50,241	6,789	30,565	81,050	435	12,733
A.4 Loans to customers	786,271	15,580	28,674	570,109	93,361	16,864
A.5 Other financial assets	-	-	-	-	-	-
<b>B. Other assets</b>	<b>1,982</b>	<b>598</b>	<b>78</b>	<b>5,700</b>	<b>119</b>	<b>261</b>
<b>C. Financial liabilities</b>	<b>839,282</b>	<b>23,050</b>	<b>59,541</b>	<b>662,423</b>	<b>94,461</b>	<b>25,990</b>
C.1 Due to banks	460,812	2,523	55,237	574,041	92,353	13,534
C.2 Due to customers	378,470	20,527	4,304	88,382	2,108	12,456
C.3 Fixed-yield securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
<b>D. Other liabilities</b>	<b>356</b>	<b>158</b>	<b>598</b>	<b>167</b>	-	-
<b>E. Financial derivatives</b>	<b>4,825,380</b>	<b>207,936</b>	<b>200,815</b>	<b>186,141</b>	<b>149,352</b>	<b>107,152</b>
- Options	26,599	464	-	1,606	-	-
+ long positions	13,299	232	-	803	-	-
+ short positions	13,300	232	-	803	-	-
- Other derivatives	4,798,781	207,472	200,815	184,535	149,352	107,152
+ long positions	2,397,587	103,770	88,351	92,216	74,732	52,033
+ short positions	2,401,194	103,702	112,464	92,319	74,620	55,119
<b>Total assets</b>	<b>3,249,390</b>	<b>128,639</b>	<b>173,807</b>	<b>817,573</b>	<b>168,647</b>	<b>81,891</b>
<b>Total liabilities</b>	<b>3,254,132</b>	<b>127,142</b>	<b>172,603</b>	<b>755,712</b>	<b>169,081</b>	<b>81,109</b>
<b>Net balance (+/-)</b>	<b>(4,742)</b>	<b>1,497</b>	<b>1,204</b>	<b>61,861</b>	<b>(434)</b>	<b>782</b>

### 2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

#### Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities	361.6
Variable-yield securities	1,006.6
Net balance between other assets and liabilities	47.6
financial derivatives	404.6
- Options	0.0
- Other derivatives	404.6
+ Long positions	46,218.1
+ Short positions	46,511.6
<b>Total transactions tab. 1</b>	<b>962.5</b>
- Interest Rate Swaps	63.2
+ Long positions	26,101.9
+ Short positions	26,038.7
<b>Total</b>	<b>1,025.7</b>

**Details of the principal currencies**

US Dollars	29.1
Sterling	20.4
Japanese Yen	8.9
Swiss Francs	1,034.3
Canadian Dollars	1.7
Other currencies	6.5
<b>Total</b>	<b>1,025.7</b>

Information on average, minimum and maximum VaR is provided below.

**Total Value at Risk (VaR)**

	(in thousands of euro)
average	776.3
minimum	91.6
maximum	1,396.7

With regard to the distribution of VaR during the year, the average VaR for each month in 2010 is presented below.

January	180.3
February	162.9
March	149.7
April	386.5
May	839.4
June	962.3
July	998.8
August	1,161.2
September	1,163.2
October	1,020.6
November	993.5
December	1,099.3



## 2.4 Derivative instruments

### A. Financial derivatives

#### A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

Underlying assets /Type of derivative	Total 31/12/2010		Total 31/12/2009	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>1. Fixed-yield securities and interest rates</b>	<b>2,682,108</b>	-	<b>2,050,415</b>	-
a) Options	264,576	-	275,568	-
b) Swaps	2,417,532	-	1,774,847	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Variable-yield securities and stock indices</b>	<b>20,880</b>	-	<b>20,906</b>	-
a) Options	20,880	-	20,906	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currency and gold</b>	<b>5,041,512</b>	-	<b>5,041,033</b>	-
a) Options	55,185	-	98,427	-
b) Swaps	-	-	-	-
c) Forwards	4,986,327	-	4,942,606	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	<b>12,974</b>	-	<b>14,120</b>	-
<b>5. Other underlying assets</b>	-	-	-	-
<b>Total</b>	<b>7,757,474</b>	-	<b>7,126,474</b>	-
<b>Averages</b>	<b>7,441,974</b>	-	<b>7,610,537</b>	-

As foreseen in the Bank of Italy's Circular 262/05, the tables in this section do not include trades in securities, commodities or foreign currencies with settlement by a date in line with market practice for transactions of the same kind or within five working days of the transaction date.



### A.3 Financial derivatives: gross positive fair value - breakdown by product

Portfolio/Type of derivatives	POSITIVE FAIR VALUES			
	Total 31/12/2010		Total 31/12/2009	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>A. Trading portfolio for supervisory purposes</b>	<b>98,076</b>	-	<b>76,665</b>	-
a) Options	2,670	-	3,986	-
b) Interest rate swap	44,081	-	28,394	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	50,010	-	43,765	-
f) Futures	-	-	-	-
g) Other	1,315	-	520	-
<b>B. Bank book - for hedging purposes</b>	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Bank book - other derivatives</b>	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>98,076</b>	-	<b>76,665</b>	-

The positive fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

#### A.4 Financial derivatives: gross negative fair value - breakdown by product

Portfolio/Type of derivatives	NEGATIVE FAIR VALUES			
	Totale 31/12/2010		Totale 31/12/2009	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>A. Trading portfolio for supervisory purposes</b>	<b>90,650</b>	<b>-</b>	<b>73,959</b>	<b>-</b>
a) Options	2,638	-	3,933	-
b) Interest rate swap	37,664	-	24,372	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	49,050	-	45,140	-
f) Futures	-	-	-	-
g) Other	1,298	-	514	-
<b>B. Bank book - for hedging purposes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swaps	-	-	-	-
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 swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>90,650</b>	<b>-</b>	<b>73,959</b>	<b>-</b>

The negative fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currencies.



## A.5 Over the Counter financial derivatives - trading portfolio for supervisory purposes: notional values, gross positive and negative fair value by counterparty - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
<b>1) Fixed-yield securities and interest rates</b>							
- notional value	-	17,877	2,205,138	87,351	225	350,084	21,433
- positive fair value	-	279	32,358	596	-	11,732	376
- negative fair value	-	55	36,204	260	-	2,337	67
- future exposure	-	134	14,516	70	-	812	167
<b>2) Variable-yield securities and stock indices</b>							
- notional value	-	-	10,440	4,940	5,500	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	835	-	-	-	-
<b>3) Currency and gold</b>							
- notional value	-	1,281	2,528,207	1,296,298	-	903,798	311,928
- positive fair value	-	-	29,182	7,875	-	10,111	4,252
- negative fair value	-	126	21,637	8,368	-	15,399	4,899
- future exposure	-	13	28,606	12,963	-	12,209	3,142
<b>4) Other assets</b>							
- notional value	-	-	6,487	-	-	6,487	-
- positive fair value	-	-	944	-	-	371	-
- negative fair value	-	-	369	-	-	929	-
- future exposure	-	-	680	-	-	680	-

## A.9 Residual life of over the counter financial derivatives: notional values

Underlyings/Residual value	Within 12 months	1 to 5 years	Over 5 years	Total
<b>A. Trading portfolio for supervisory purposes</b>				
	<b>5,390,289</b>	<b>1,789,983</b>	<b>577,202</b>	<b>7,757,474</b>
A.1 Financial derivatives on fixed-yield securities and interest rates	515,522	1,589,384	577,202	2,682,108
A.2 Financial derivatives on variable-yield securities and stock indices	-	20,880	-	20,880
A.3 Financial derivatives on exchange rates and gold	4,864,887	176,625	-	5,041,512
A.4 Financial derivatives on other instruments	9,880	3,094	-	12,974
<b>B. Bank book</b>				
B.1 Financial derivatives on fixed-yield securities and interest rates	-	-	-	-
B.2 Financial derivatives on variable-yield securities and stock indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other instruments	-	-	-	-
<b>Total 31/12/2010</b>	<b>5,390,289</b>	<b>1,789,983</b>	<b>577,202</b>	<b>7,757,474</b>
<b>Total 31/12/2009</b>	<b>5,378,750</b>	<b>1,323,063</b>	<b>424,661</b>	<b>7,126,474</b>

## Section 3 *Liquidity risk*

### QUALITATIVE INFORMATION

#### A. General aspects, management and measurement of liquidity risk

Liquidity risk typically reveals itself in the form of an inability to meet payment commitments or an incapacity to finance assets with the necessary punctuality on a cost/effective basis. These negative circumstances can occur as the company finds it impossible:

- to raise funds or obtain them at a reasonable cost (funding liquidity risk);
- to sell or reduce its position without severely affecting the price, due to low efficiency or malfunctioning on the part of the market (market liquidity risk).

The Bank's overall strategy for managing liquidity risk, with its low propensity for risk, consists above all of giving priority to matching assets and liabilities, taking a prudent approach, while at the same time pursuing reasonable levels of profitability.

This preference for limited exposure to liquidity risk also manifests itself in the adoption of specific operating guidelines that make it possible to reduce the likelihood of such problems arising. In particular, as regards the first of these sources of risk, the Bank makes considerable efforts to avoid a concentration of funding; its very nature as a cooperative bank is to be close to households and small businesses and this makes it possible to enjoy a wide and stable retail funding base, which by definition is widely diversified. Another source of funding is the interbank market, on which the Bank does not have particular problems raising money at market conditions, given its high standing among potential counterparties, both nationally and internationally. As regard the potential liquidity risk deriving from difficulties in selling its own positions, it is worth mentioning above all that the Bank maintains a high quality security portfolio. Most of this portfolio consists of government securities and, to a lesser extent, of other corporate bonds that are highly liquid as they easily be sold on the market or used, when liquidity is needed, in repurchase agreements with banks or in refinancing auctions held by the European Central Bank as most of them are eligible.

Control over liquidity risk is carried out by various units: The first level control is performed by the operating functions that provide for a timely check that they carry out their duties properly and report the results in summary form on a daily basis. Then there is systematic monitoring of the expected liquidity position by the Planning and Control Department: based on the data on treasury operations and the liquidity reserve made up of easily marketable securities and other assets, they are able to forecast potential liquidity mismatches up to three months into the future. This Department is also responsible for carrying out periodic stress tests: to this end, they make assumptions about possible negative scenarios, such as a drop in the market value of the securities in portfolio or a significant decline in retail or institutional deposits, so as to analyse the potential consequences of such events on the liquidity position. These tables are made available to the Bank of Italy on a weekly basis. We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5, complies with the requirements of IFRS 7.39.



## QUANTITATIVE INFORMATION

### 1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
<b>Cash assets</b>	<b>6,727,726</b>	<b>275,376</b>	<b>332,203</b>	<b>594,923</b>	<b>730,552</b>	<b>584,853</b>	<b>924,050</b>	<b>5,702,562</b>	<b>4,913,673</b>	<b>348,015</b>
A.1 Government securities	10,396	-	-	-	-	-	146,025	1,786,664	398,227	-
A.2 Other fixed-yield securities	5,142	-	1,170	6,395	5,090	4,013	13,290	316,777	233,078	6,114
A.3 Mutual funds	82,734	-	-	-	-	-	-	-	-	-
A.4 Loans	6,629,454	275,376	331,033	588,528	725,462	580,840	764,735	3,599,121	4,282,368	341,901
- Banks	56,961	163,854	123,165	233,331	178,944	143,892	41,646	-	-	341,901
- Customers	6,572,493	111,522	207,868	355,197	546,518	436,948	723,089	3,599,121	4,282,368	-
<b>Cash liabilities</b>	<b>14,425,620</b>	<b>974,877</b>	<b>483,465</b>	<b>706,310</b>	<b>740,879</b>	<b>317,761</b>	<b>225,605</b>	<b>1,156,133</b>	<b>432,312</b>	<b>-</b>
B.1 Deposits and current accounts	14,404,601	974,612	475,015	704,485	653,019	230,326	15,695	60,822	88,076	-
- Banks	378,097	417,864	8,037	5,581	89,568	23,274	8,048	59,267	88,059	-
- Customers	14,026,504	556,748	466,978	698,904	563,451	207,052	7,647	1,555	17	-
B.2 Fixed-yield securities	21,019	265	8,450	1,825	87,860	87,435	209,910	1,095,311	344,236	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	<b>1,537,137</b>	<b>800,307</b>	<b>906,967</b>	<b>2,430,638</b>	<b>855,621</b>	<b>631,271</b>	<b>400,469</b>	<b>382,011</b>	<b>669,331</b>	<b>8,414</b>
C.1 Financial derivatives with exchange of capital	-	710,298	906,586	2,379,084	844,891	432,954	157,392	180,304	26,703	-
- long positions	-	353,007	450,303	1,195,748	419,092	230,220	80,643	90,199	15,595	-
- short positions	-	357,291	456,283	1,183,336	425,799	202,734	76,749	90,105	11,108	-
C.2 Financial derivatives without exchange of capital	33,842	-	-	-	-	-	-	-	-	-
- long positions	18,014	-	-	-	-	-	-	-	-	-
- short positions	15,828	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	1,502,498	90,009	381	51,499	10,658	198,049	242,557	197,103	642,586	8,414
- long positions	30,621	90,009	381	51,499	10,658	198,049	242,557	197,103	642,586	8,414
- short positions	1,471,877	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	797	-	-	55	72	268	520	4,604	42	-

Line item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «sight» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under amounts due from banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Bank for financial statement purposes. Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

**Currency: USD**

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
<b>Cash assets</b>	<b>15,000</b>	<b>67,495</b>	<b>72,577</b>	<b>218,508</b>	<b>338,789</b>	<b>83,270</b>	<b>32,809</b>	<b>7,314</b>	<b>5,194</b>	-
A.1 Government securities	-	-	-	-	-	-	-	-	10	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	15,000	67,495	72,577	218,508	338,789	83,270	32,809	7,314	5,184	-
- Banks	5,791	16,639	46	12,286	12,000	2,969	3	-	507	-
- Customers	9,209	50,856	72,531	206,222	326,789	80,301	32,806	7,314	4,677	-
<b>Cash liabilities</b>	<b>169,569</b>	<b>304,345</b>	<b>16,037</b>	<b>45,269</b>	<b>228,547</b>	<b>64,528</b>	<b>10,429</b>	<b>561</b>	-	-
B.1 Deposits and current accounts	169,569	304,345	16,037	45,269	228,547	64,528	10,429	561	-	-
- Banks	11,056	275,947	2,709	20,586	144,187	5,154	1,175	-	-	-
- Customers	158,513	28,398	13,328	24,683	84,360	59,374	9,254	561	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	<b>55,616</b>	<b>540,119</b>	<b>679,265</b>	<b>2,164,518</b>	<b>819,020</b>	<b>350,372</b>	<b>152,744</b>	<b>169,634</b>	-	-
C.1 Financial derivatives with exchange of capital	-	510,183	678,971	2,164,092	800,027	346,389	151,548	169,579	-	-
- long positions	-	253,055	342,512	1,075,869	403,430	175,101	73,837	84,790	-	-
- short positions	-	257,128	336,459	1,088,223	396,597	171,288	77,711	84,789	-	-
C.2 Financial derivatives without exchange of capital	732	-	-	-	-	-	-	-	-	-
- long positions	367	-	-	-	-	-	-	-	-	-
- short positions	365	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	30,198	29,936	225	-	-	-	37	-	-	-
- long positions	30,198	-	-	-	-	-	-	-	-	-
- short positions	-	29,936	225	-	-	-	37	-	-	-
C.4 Irrevocable commitments to make loans	24,686	-	69	426	18,993	3,983	1,159	55	-	-
- long positions	-	-	69	426	18,993	3,983	1,159	55	-	-
- short positions	24,686	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

**Currency: CHF**

Items/time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
<b>Cash assets</b>	<b>8,036</b>	<b>4,308</b>	<b>20,704</b>	<b>45,885</b>	<b>163,778</b>	<b>26,107</b>	<b>32,044</b>	<b>110,998</b>	<b>243,170</b>	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	8,036	4,308	20,704	45,885	163,778	26,107	32,044	110,998	243,170	-
- Banks	2,915	441	2,929	9,178	65,094	492	-	-	-	-
- Customers	5,121	3,867	17,775	36,707	98,684	25,615	32,044	110,998	243,170	-
<b>Cash liabilities</b>	<b>89,191</b>	<b>253,036</b>	<b>160,709</b>	<b>137,103</b>	<b>22,329</b>	<b>56</b>	-	-	-	-
B.1 Deposits and current accounts	89,191	253,036	160,709	137,103	22,329	56	-	-	-	-
- Banks	1,481	253,036	160,709	136,983	21,833	-	-	-	-	-
- Customers	87,710	-	-	120	496	56	-	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	<b>192,465</b>	<b>121,547</b>	<b>76,963</b>	<b>85,670</b>	<b>16,970</b>	<b>22,760</b>	<b>1,229</b>	<b>1,166</b>	-	-
C.1 Financial derivatives with exchange of capital	-	23,979	34,576	85,670	16,810	22,729	1,229	1,149	-	-
- long positions	-	11,764	17,358	42,919	8,519	11,196	662	601	-	-
- short positions	-	12,215	17,218	42,751	8,291	11,533	567	548	-	-
C.2 Financial derivatives without exchange of capital	52,303	-	-	-	-	-	-	-	-	-
- long positions	28,275	-	-	-	-	-	-	-	-	-
- short positions	24,028	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	137,555	97,568	39,987	-	-	-	-	-	-	-
- long positions	137,555	-	-	-	-	-	-	-	-	-
- short positions	-	97,568	39,987	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	2,607	-	2,400	-	160	31	-	17	-	-
- long positions	-	-	2,400	-	160	31	-	17	-	-
- short positions	2,607	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-





**Currency: JPY**

Items/time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
<b>Cash assets</b>	<b>4,409</b>	<b>7,037</b>	<b>7,742</b>	<b>16,675</b>	<b>21,195</b>	<b>27,878</b>	<b>419</b>	<b>83</b>	<b>109</b>	<b>-</b>
A.1 Government securities	10	-	-	-	-	24,197	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	1,933	-	-	-	-	-	-	-	-	-
A.4 Loans	2,466	7,037	7,742	16,675	21,195	3,681	419	83	109	-
- Banks	1,842	6,441	3,277	13,204	4,681	1,121	-	-	-	-
- Customers	624	596	4,465	3,471	16,514	2,560	419	83	109	-
<b>Cash liabilities</b>	<b>4,318</b>	<b>55,223</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
B.1 Deposits and current accounts	4,318	55,223	-	-	-	-	-	-	-	-
- Banks	14	55,223	-	-	-	-	-	-	-	-
- Customers	4,304	-	-	-	-	-	-	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	<b>51,674</b>	<b>52,825</b>	<b>34,558</b>	<b>26,123</b>	<b>82,021</b>	<b>55,968</b>	<b>994</b>	<b>-</b>	<b>-</b>	<b>-</b>
C.1 Financial derivatives with exchange of capital	-	1,283	34,558	26,123	81,914	55,943	994	-	-	-
- long positions	-	709	17,264	13,009	41,005	15,867	497	-	-	-
- short positions	-	574	17,294	13,114	40,909	40,076	497	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	51,542	51,542	-	-	-	-	-	-	-	-
- long positions	51,542	-	-	-	-	-	-	-	-	-
- short positions	-	51,542	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	132	-	-	-	107	25	-	-	-	-
- long positions	-	-	-	-	107	25	-	-	-	-
- short positions	132	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

**Currency: OTHER CURRENCIES**

Items/time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
<b>Cash assets</b>	<b>12,873</b>	<b>99,124</b>	<b>477</b>	<b>804</b>	<b>20,601</b>	<b>3,085</b>	<b>51</b>	<b>9,362</b>	-	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	12,873	99,124	477	804	20,601	3,085	51	9,362	-	-
- Banks	12,721	4,999	232	536	974	494	-	-	-	-
- Customers	152	94,125	245	268	19,627	2,591	51	9,362	-	-
<b>Cash liabilities</b>	<b>26,059</b>	<b>105,218</b>	<b>117</b>	<b>8,990</b>	<b>2,095</b>	<b>842</b>	<b>177</b>	-	-	-
B.1 Deposits and current accounts	26,059	105,218	117	8,990	2,095	842	177	-	-	-
- Banks	413	105,218	117	-	2,095	388	177	-	-	-
- Customers	25,646	-	-	8,990	-	454	-	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	<b>2,666</b>	<b>121,077</b>	<b>162,528</b>	<b>133,079</b>	<b>38,438</b>	<b>9,320</b>	<b>2,672</b>	-	-	-
C.1 Financial derivatives with exchange of capital	-	118,411	162,528	133,079	38,438	9,320	2,672	-	-	-
- long positions	-	57,758	81,246	66,549	19,220	4,660	1,336	-	-	-
- short positions	-	60,653	81,282	66,530	19,218	4,660	1,336	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	1,848	1,848	-	-	-	-	-	-	-	-
- long positions	1,848	-	-	-	-	-	-	-	-	-
- short positions	-	1,848	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	818	818	-	-	-	-	-	-	-	-
- long positions	-	818	-	-	-	-	-	-	-	-
- short positions	818	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

## **Section 4** *Operational risks*

### **QUALITATIVE INFORMATION**

#### **A. General aspects, management and measurement of operational risk**

Operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events. This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes. Operational risk includes legal risk, whereas strategic and reputational risks are excluded.

The Bank is fully aware that in addition to the unfavourable economic effects, loss events could also give rise to considerable damage to its image and reputation. It has therefore adopted a suitable management system, which is being constantly refined, to minimise the impact.

This system is based on an approach that involves identification, measurement and mitigation of both a quantitative and qualitative nature. This makes it possible to recognise the risk not only in terms of any losses already incurred, but also in terms of potential risk in the future. As regards the first aspect, which essentially involves identifying the risk situations that have led to operating losses, even small ones, and/or arrangements of potential negative events, as in the past, we systematically gathered information on loss events during the year that affected the Bank.

The creation of a detailed historical series of information also helps the introduction of loss control and monitoring logic and tools and allows the improvement of internal observations on risks. This area also includes the identification, analysis and assessment of corporate processes, focusing principally on potentially risky activities and on their integration with suitable risk indicators and correct application of controls. The system for gathering and recording such data is also useful for benchmarking purposes with DIPO, the database of operating losses of which the Bank is a member, the aim being to identify areas where ones own organisation can be improved.

### **QUANTITATIVE INFORMATION**

Recurring errors and those with the greatest individual impact in terms of amount are principally due to the execution of day-to-day transactions, mainly payments, and in trading transactions, and usually promptly corrected. Also involved are events of an external nature, such as bank robberies, cloning debit and credit cards, forging cheques, normally mitigated by stipulating insurance policies, as well as prudent provisions for legal disputes and settlements reached with customers.

The following table summarises losses for the last three years, showing the amount in absolute and percentage terms, both gross and net of recoveries and insurance reimbursements, split according to the various sources and suitably aggregated. The extent of recoveries, amounting to about 72% of the total, demonstrates the effectiveness of the action taken to minimise or transfer the losses incurred.



### Sources of losses from 01/01/2008 to 31/12/2010

	No. of events	% of events	Gross loss	% of total	Net loss	% of total	% recovered
Fraud	171	29.33%	1,735,943	17.44%	689,842	24.94%	60.26%
Settlements and legal disputes	85	14.58%	1,342,199	13.49%	1,235,360	44.67%	7.96%
Damage to fixed assets	89	15.27%	306,924	3.08%	59,308	2.15%	80.68%
Errors in carrying out transactions	209	35.85%	6,245,890	62.75%	458,645	16.58%	92.66%
Other	29	4.97%	322,485	3.24%	322,485	11.66%	0.00%
<b>Total</b>	<b>583</b>	<b>100.00%</b>	<b>9,953,440</b>	<b>100.00%</b>	<b>2,765,639</b>	<b>100.00%</b>	<b>72.21%</b>

(Amounts in euro)

Key:

**Fraud** = bank robberies, theft, false instructions, cloning debit and credit cards, forging cheques, disloyalty.

**Settlements and legal disputes** = settlements reached with customers, transactions contrary to the rules of proper conduct and prudent provisions for legal disputes.

**Errors in carrying out transactions** = errors in day-to-day operations, in the execution of processes, in relations with vendors or suppliers.

**Damage to fixed assets** = accidents, damage caused to third parties, structural failures and breakdowns.

**Other** = violations of the regulations on lending, safety in the workplace and system breakdowns.

## **PART F** *Information on equity*

### **Section 1** *Capital*

#### **QUALITATIVE INFORMATION**

The Bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases - the latest dating back to 2007 - have always been taken up *en masse*, as reflected in the total number of shareholders that we have reached.

the financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the bank to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity. The particular responsibilities that the Bank has accepted vis-à-vis the shareholders are also reflected in extremely prudent management of the company's assets.

#### **QUANTITATIVE INFORMATION**

The component parts and size of the Bank's capital and equity are described in Part B, Section 14 of these notes to the financial statements.



## B.1 Equity: breakdown

Items	31/12/2010	31/12/2009
<b>1. Share capital</b>	<b>924,444</b>	<b>924,444</b>
<b>2. Share premium reserve</b>	<b>174,315</b>	<b>176,085</b>
<b>3. Reserves</b>	<b>522,958</b>	<b>433,237</b>
- retained earnings	-	-
a) legal	115,001	95,918
b) statutory	311,265	252,627
c) treasury shares	73,000	61,000
d) other	23,692	23,692
- others	-	-
<b>4. Equity instruments</b>	<b>-</b>	<b>-</b>
<b>5. Treasury shares (-)</b>	<b>(32,821)</b>	<b>(40,211)</b>
<b>6. Valuation reserves:</b>	<b>614</b>	<b>(513)</b>
- Financial assets available for sale	614	(513)
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash-flow hedges	-	-
- Exchange differences	-	-
- Non-current assets held for sale and discontinued operations	-	-
- Actuarial profits (losses) on defined-benefit plans	-	-
- Share of valuation reserves of equity investments valued at net equity	-	-
- Special revaluation regulations	-	-
<b>Net profit (loss) for the year</b>	<b>133,320</b>	<b>190,674</b>
<b>Total</b>	<b>1,722,830</b>	<b>1,683,716</b>

## B.2 Valuation reserves for financial assets available for sale: breakdown

Assets/Values	Total 31/12/2010		Total 31/12/2009	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	-	(15)	-	-
2. Variable-yield securities	968	(310)	1,145	(1,466)
3. Mutual funds	203	(232)	5	(197)
4. Loans	-	-	-	-
<b>Total</b>	<b>1,171</b>	<b>(557)</b>	<b>1,150</b>	<b>(1,663)</b>

### B.3 Valuation reserves for financial assets available for sale: change in year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
<b>1. Opening balance</b>	-	<b>(321)</b>	<b>(192)</b>	-
<b>2. Positive changes</b>	<b>7</b>	<b>2,102</b>	<b>333</b>	-
2.1 Increases in fair value	7	2,102	333	-
2.2 Release to the income statement of negative reserves	-	-	-	-
- from impairment	-	-	-	-
- from disposals	-	-	-	-
2.3 Other changes	-	-	-	-
<b>3. Negative changes</b>	<b>22</b>	<b>1,123</b>	<b>170</b>	-
3.1 Reductions in fair value	22	1,123	170	-
3.2 Impairment write-downs	-	-	-	-
3.3 Transfer to income statement from positive reserves: from disposals	-	-	-	-
3.4 Other changes	-	-	-	-
<b>4. Closing balance</b>	<b>(15)</b>	<b>658</b>	<b>(29)</b>	-

## Section 2 Capital and capital adequacy ratios

### 2.1 Capital for supervisory purposes

#### QUALITATIVE INFORMATION

Capital for supervisory purposes is determined in accordance with the rules laid down by the Bank of Italy in its 13th update of Circular Letter 155 «Instructions for the reporting of capital and capital ratios». This is the main point of reference for the Supervisory Body when assessing the stability of the Bank and of the system. The principal prudent control mechanisms all make reference to capital for supervisory purposes: the requirements to cover market risk and the rules governing the concentration of risk. It consists of the sum of Tier 1 capital, which is included in the calculation without any limitation, and Tier 2 capital that is included up to the equivalent of the Tier 1 capital. The amounts foreseen in the regulations applicable at 31.12.2010 are then deducted from this aggregate.

#### 1. Tier 1 capital

The positive elements of Tier 1 capital comprise share capital, the share premium reserve, other reserves and part of the net profit for 2010, on the assumption that the shareholders will approve the proposed allocations to reserves; the negative elements, consisting of treasury shares (line item 190 of liabilities), intangible assets (line item 120 of assets) and other elements to be deducted in application of the «precautionary filters» made up of negative balances among valuation reserves and negative ones relating to fixed-yield securities classified in the «financial assets available for sale» portfolio.

From Tier 1 capital calculated in this way get deducted 50% of any equity investments in excess of 10% in non-consolidated banks and financial companies, the combination of any equity investments equal to or higher than 10% in banks and financial companies and subordinated instruments that exceed 10% of «Tier 1 and Tier 2 capital, both gross of the elements to be deducted».

On 18 May 2010 the Bank of Italy issued new supervisory rules on the reserves linked to the valuation of debt securities issued by EU governments and allocated to «Assets available



for sale». This provision makes it possible to completely neutralise the gains and losses booked to these reserves from 1/1/2010 onwards as an alternative to deducting all of the losses and partial inclusion of the gains as previously envisaged. The Bank took advantage of this faculty even though it did not have this kind of securities in its portfolio of «assets available for sale» .

## **2. Tier 2 capital**

Tier 2 capital is made up of positive reserves on the measurement of shareholdings classified as «assets available for sale» and subordinated loans net of negative elements consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

The subordinated bonds consist of the Lower Tier II bond loan of par value € 350 million with «step up» from 26/2/2010 to 26/2/2017. This bond loan has the characteristics required by the regulations for inclusion in capital for supervisory purposes. The subordination clause consists of the bond owner's right to be reimbursed in the event of liquidation after all the other creditors have been satisfied. The positive elements of Tier 2 capital are represented by after-tax gains on shareholdings classified as «assets available for sale». It is made up of the positive reserves deriving from after-tax gains on securities available for sale, cut by 50% for the application of the precautionary filters and reduced by the negative elements, consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

## **3. Tier 3 capital**

There are no elements of equity to be included in Tier 3 capital.



## QUANTITATIVE INFORMATION

	31/12/2010	31/12/2009
<b>A. Tier 1 before the application of precautionary filters</b>	<b>1,646,168</b>	<b>1,574,859</b>
<b>B. Precautionary filters of Tier 1 capital</b>	<b>(15)</b>	<b>(513)</b>
B.1 Positive IFRS precautionary filters (+)	-	-
B.2 Negative IFRS precautionary filters (-)	(15)	(513)
<b>C. Tier 1 capital gross of the elements to be deducted (A + B)</b>	<b>1,646,153</b>	<b>1,574,346</b>
<b>D. Elements to be deducted from tier 1 capital</b>	<b>(46,802)</b>	<b>(90,186)</b>
<b>E. Total Tier 1 capital (C-D)</b>	<b>1,599,351</b>	<b>1,484,160</b>
<b>F. Tier 2 capital before the application of precautionary filters</b>	<b>350,332</b>	<b>(245)</b>
<b>G. Precautionary filters for tier 2 capital:</b>	<b>(314)</b>	<b>-</b>
G.1 Positive IFRS precautionary filters (+)	-	-
G.2 Negative IFRS precautionary filters (-)	(314)	-
<b>H. Tier 2 capital gross of the elements to be deducted (F + G)</b>	<b>350,018</b>	<b>(245)</b>
<b>I. Elements to be deducted from tier 2 capital</b>	<b>(46,802)</b>	<b>-</b>
<b>L. Total tier 2 capital (H-I)</b>	<b>303,216</b>	<b>(245)</b>
<b>M. Items to be deducted from tier 1 and tier 2 capital</b>	<b>-</b>	<b>(56,826)</b>
<b>N. Capital for supervisory purposes</b>	<b>1,902,567</b>	<b>1,427,089</b>
<b>O. Tier 3 capital</b>	<b>-</b>	<b>-</b>
<b>P. Capital for supervisory purposes including tier 3 (N + O)</b>	<b>1,902,567</b>	<b>1,427,089</b>

## 2.2 Capital adequacy

### QUALITATIVE INFORMATION

The Bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and protect against risk. The Bank is subject to the capital adequacy requirements according to the rules adopted by the Bank of Italy. Based on these rules, at enterprise level the ratio between capital and total risk-weighted risk assets has to be at least 8%. On an individual basis, the minimum capital requirement is reduced by 25% as foreseen by the current rules of Basel II for banks forming part of banking groups. Compliance with these requirements is checked on a quarterly basis when preparing the periodic reports to be sent to the Supervisory Authority. The annual ICAAP report on the Group's capital adequacy sent to the Bank of Italy outlines the checks carried out on the degree of risk inherent in the various items. This requisite is expressed by the ratio between capital for supervisory purposes and total risk-weighted assets, which at the end of the year came to 13.17%, with an excess of 517 basis points compared with the minimum requirement of 8% mentioned above. In absolute terms, the excess capital compared with the minimum requirement - what is called «free capital» - amounts to € 746.6 million; this amount is considered adequate for the Bank's current needs and future growth plans. The following table provides information of a quantitative nature on risk assets and capital ratios, reflecting prudent management of the various types of risks with a limited absorption of capital. capital for supervisory purposes is absorbed for around 56% by credit risk, around 1% by market risks, around 4% by operational risks, while the other 39% is free capital). The good growth in capital for supervisory purposes compared with the end of 2009 is essentially due to the net profit allocated to reserves and the increase in Tier 2 capital thanks to the issue of the subordinated bond loan with a par value of € 350 million.



## QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
<b>A. Assets at risk</b>				
A.1 Credit and counterparty risk	23,530,561	21,355,733	17,796,113	14,304,989
1. Standardised approach	23,530,561	21,355,733	17,796,113	14,304,989
2. Approach based on internal ratings			-	-
2.1 Basic			-	-
2.2 Advanced			-	-
3. Securitisations			-	-
<b>B. Capital adequacy requirements</b>				
B.1 Credit and counterparty risk			1,423,689	1,144,399
B.2 Market risks			29,251	31,090
1. Standard methodology			29,251	31,090
2. Internal models			-	-
3. Concentration risk			-	-
B.3 Operational risk			88,388	86,213
1. Basic method			88,388	86,213
2. Standardised approach			-	-
3. Advanced method			-	-
B.4 Other precautionary requirements			-	-
B.5 Other calculation elements			(385,332)	(315,426)
B.6 Total precautionary requirements			1,155,996	946,276
<b>C. Risk assets and capital ratios</b>				
C.1 Risk-weighted assets			14,449,950	11,828,450
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			11.07	12.55
C.3 Capital for supervisory purposes including Tier 3/Risk-weighted assets (Total capital ratio)			13.17	12.06

The other calculation elements shown at line B.5 consist of the reduction of 25%, established by the regulation for banks belonging to banking groups.

## **PART G** *Operations of business divisions*

### **1. Operations realised during the year**

On 29 July 2010 the Bank purchased 60.50% of Factorit spa from Banco Popolare, acquiring control over it. The agreed cash payment was of € 102.850 million for 51,425,001 shares. The operation took place in agreement with Banca Popolare di Milano, which purchased 30%, while Banco Popolare kept the residual interest of 9.50%. The price paid is substantially in line with its book net equity at the acquisition date (1.1 times). On first-time booking of the equity investment, a difference of € 7.8 million arose, which has been temporarily booked as goodwill in the consolidated financial statements.

The purpose of the acquisition is further expansion in a sector (factoring) where Factorit spa is one of the main players at a national level.

Factorit spa closed 2010 with a net profit of € 10.014 million and revenues of € 82.209 million.

The operation comes under the definition of a business combination governed by IFRS 3. This standard requires combinations of whole businesses or of certain activities in a single entity or the acquisition of control of an entity to be accounted for according to the purchase method.

### **Section 2** *Operations carried out after the year-end*

No business combinations were carried out after the end of the year.



## **PART H** *Related party transactions*

### **1. Information on the remuneration of directors and managers**

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in office	Expiry of office	Emoluments for the office held in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
PIERO MELAZZINI	Chairman	1/1/2010-31/12/2010	31-12-2010	952	-	-	112
MILES EMILIO NEGRI	Deputy Chairman*	1/1/2010-31/12/2010	31-12-2010	148	-	-	-
CLAUDIO BENEDETTI	Director	1/1/2010-31/12/2010	31-12-2011	40	-	-	-
PAOLO BIGLIOLI	Director	1/1/2010-31/12/2010	31-12-2010	40	-	-	-
GIANLUIGI BONISOLO	Director	1/1/2010-31/12/2010	31-12-2010	60	-	-	-
FEDERICO FALCK	Director	1/1/2010-31/12/2010	31-12-2012	40	-	-	-
ATTILIO PIERO FERRARI	Director	1/1/2010-31/12/2010	31-12-2011	41	-	-	-
GIUSEPPE FONTANA	Director	1/1/2010-31/12/2010	31-12-2011	40	-	-	-
MARIO GALBUSERA	Director	1/1/2010-31/12/2010	31-12-2012	40	-	-	-
NICOLÒ MELZI DI CUSANO	Director	1/1/2010-31/12/2010	31-12-2012	40	-	-	-
ADRIANO PROPERSI	Director	1/1/2010-31/12/2010	31-12-2011	40	-	-	-
RENATO SOZZANI	Director	1/1/2010-31/12/2010	31-12-2011	77	-	-	3
LINO ENRICO STOPPANI	Director	1/1/2010-31/12/2010	31-12-2010	40	-	-	-
DOMENICO TRIACCA	Director	27/3/2010-31/12/2010	31-12-2012	46	-	-	-
BRUNO VANOSI	Director	1/1/2010-26/03/2010	26-03-2010	10	-	-	-
FRANCESCO VENOSTA	Director	1/1/2010-31/12/2010	31-12-2012	51	-	-	67
EGIDIO ALESSANDRI	Chairman of the Board of Statutory Auditors	1/1/2010-31/12/2010	31-12-2011	111	-	-	11
PIO BERSANI	Auditor	1/1/2010-31/12/2010	31-12-2011	60	-	-	8
PIERGIUSEPPE FORNI	Auditor	1/1/2010-31/12/2010	31-12-2011	55	-	-	8
MARIO ALBERTO PEDRANZINI	General Manager	1/1/2010-31/12/2010		-	-	-	898
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2010-31/12/2010		-	-	-	1.071

Of the compensation reported at the balance sheet date, emoluments for € 2.802 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 104 thousand for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries. The report on operations discloses the investments held by the directors, statutory auditors, the general manager and managers with strategic responsibilities and the related changes during the year.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager and managers with strategic responsibilities, note that there are no stock option plans or non-monetary benefits, nor bonuses or other incentives.

## 2. Related party disclosures

In accordance with CONSOB Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned CONSOB Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arms'-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. There are no profit-related incentive plans for managers or pension plans other than the post-employment benefits envisaged for participating employees of the Bank; there are no stock-option plans. For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

For information on the shares held directly or indirectly by members of the Board of Directors and Board of Statutory Auditors, by the general manager and by managers with strategic responsibilities in accordance with art. 79 of the Issuers' Regulations 11971, reference should be made to the report on operations.



	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	39	9,044	2	104	52	1,041
Statutory auditors	752	69	23	1	91	458
Management	101	3,689	2	47	45	119
Family members	2,673	15,444	101	136	174	8,825
Subsidiaries	1,041,259	620,723	29,397	5110	141,215	38,401
Associated companies	414,844	8,513	4,468	207	49,856	-
Other related parties	296,782	46,949	3,980	447	6,365	29,846

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, while loans to associated companies relate for € 335 million to a loan granted to Alba Leasing SpA and for € 67 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 211 million granted to the affiliate Release spa.

## **PART L** *Segment information*

Segment information has been prepared in compliance with IFRS 8, the introduction of which did not involve significant changes in the identification of operating segments or in management reporting methods compared with IAS 14.

Given that the Bank's benefits and risks are significantly influenced by differences in the various products and services and only marginally by the territorial distribution of the sales network, the primary segment comprises the Bank's business activities while the secondary segment relates to the geographical areas concerned.

Each sub-segment has been identified based on the nature of the products and services offered and on the type of customer concerned, so that the related risk profile and profitability are sufficiently similar. Even though this classification reflects the lines of business envisaged under the Standardised Approach for calculating the minimum capital requirement for operational risk, it is based substantially on internal practice for the subdivision of activities used to apply corporate policies and to evaluate their results.

Geographical information is based on the distribution of branches throughout Italy.

### **A. Primary format**

#### **A.1 Distribution by business segment: income statement**

The following sub-segments are discussed:

- *Businesses*: these comprise «non-financial companies» and «family »; the figures shown here relate to credit and loans, deposits, leasing and payment services. Revenues from currency transactions with resident and non-resident customers are also significant to this sub-segment.
- *Individuals and other customers*: these comprise «consumer households», «public administrations», «finance companies» and «non-profit organisations»; the results reported derive from routine transactions with these customers, including the taking of deposits, intermediation in savings transactions, the granting of long-term loans and consumer credit, the provision of collection and payment services, the issue of credit and debit cards and other ancillary functions.
- *Securities*: this sub-segment comprises the results of transactions with customers involving direct trading in, the acceptance of instructions, the placement of financial instruments, insurance and pension productions, and the management of portfolios.
- *Central functions*: this sub-segment reports the results deriving from the management of portfolio own securities and equity investments, currency transactions on own account, and treasury management activities. In addition, it includes certain residual activities not classified elsewhere since the revenues earned are not significant.

The following tables present the pre-tax results of the above sub-segments for 2010 and 2009.

Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment.

this aspect is managed by using a multiple internal transfer rate («treasury pool»), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the «central functions» sub-segment.

Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The «reconciliation» column is used for the tie-in to the financial statements.



Items	Enterprises	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/12/2010
Interest income	401,707	340,243	-	263,587	1,005,537	-433,874	571,663
Interest expense	-159,998	-215,933	-	-236,239	-612,170	433,874	-178,296
<b>Net interest income</b>	<b>241,709</b>	<b>124,310</b>	<b>-</b>	<b>27,348</b>	<b>393,367</b>	<b>-</b>	<b>393,367</b>
Commission income	106,962	56,426	50,259	7,267	220,914	-2,313	218,601
Commission expense	-4,034	-3,610	-3,280	-768	-11,692	-537	-12,229
Dividends and similar income	-	-	-	6,368	6,368	-	6,368
Net trading income	-	-	-	-39,445	-39,445	2,769	-36,676
Net hedging profit (loss)	-	-	-	-	-	-	-
Gains/losses on disposals or repurchases	-	-	-	-360	-360	-	-360
Net change in value of financial assets and liabilities at fair value	-	-	-	806	806	-	806
<b>Income from banking activities</b>	<b>344,637</b>	<b>177,126</b>	<b>46,979</b>	<b>1,216</b>	<b>569,958</b>	<b>-81</b>	<b>569,877</b>
Adjustments to the net value of financial assets	-100,167	-18,478	-	-5,107	-123,752	-	-123,752
<b>Balance of financial management</b>	<b>244,470</b>	<b>158,648</b>	<b>46,979</b>	<b>-3,891</b>	<b>446,206</b>	<b>-81</b>	<b>446,125</b>
Administrative expenses	-105,021	-98,002	-37,056	-54,593	-294,672	-32,842	-327,514
Provisions for risks and charges	1,480	-51	-	-	1,429	-	1,429
Net adjustments to property, plant and equipment	-4,686	-4,136	-1,476	-1,808	-12,106	-	-12,106
Net adjustments to intangible assets	-3,259	-2,877	-1,026	-1,257	-8,419	-	-8,419
Other operating income/expense	333	1,577	604	-1,070	1,444	32,923	34,367
Share of profit/loss of equity investments	-	-	-	57,987	57,987	-	57,987
Profit/loss from disposal of investments	-	-	-	-192	-192	-	-192
<b>Gross profit</b>	<b>133,317</b>	<b>55,159</b>	<b>8,025</b>	<b>-4,824</b>	<b>191,677</b>	<b>-</b>	<b>191,677</b>



Items	Enterprises	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/12/2008
Interest income	479,546	434,492	-	439,646	1,353,684	-661,807	691,877
Interest expense	-266,800	-301,404	-	-339,118	-907,322	661,807	-245,515
<b>Net interest income</b>	<b>212,746</b>	<b>133,088</b>	<b>-</b>	<b>100,528</b>	<b>446,362</b>	<b>-</b>	<b>446,362</b>
Commission income	82,521	53,328	45,915	6,977	188,741	-3,567	185,174
Commission expense	-3,950	-3,475	-3,137	-682	-11,244	-480	-11,724
Dividends and similar income	-	-	-	3,192	3,192	-	3,192
Net trading income	-	-	-	127,969	127,969	3,365	131,334
Net hedging profit (loss)	-	-	-	-	-	-	-
Gains/losses on disposals or repurchases	-	-	-	-1,459	-1,459	-	-1,459
Net change in value of financial assets and liabilities at fair value	-	-	-	7,477	7,477	-	7,477
<b>Income from banking activities</b>	<b>291,317</b>	<b>182,941</b>	<b>42,778</b>	<b>244,002</b>	<b>761,038</b>	<b>-682</b>	<b>760,356</b>
Adjustments to the net value of financial assets	-127,582	-13,694	-	-4,366	-145,642	-	-145,642
<b>Balance of financial management</b>	<b>163,735</b>	<b>169,247</b>	<b>42,778</b>	<b>239,636</b>	<b>615,396</b>	<b>-682</b>	<b>614,714</b>
Administrative expenses	-101,906	-95,814	-36,332	-51,226	-285,278	-33,065	-318,343
Provisions for risks and charges	1,509	-1,509	-	-	-	-	-
Net adjustments to property, plant and equipment	-4,715	-4,205	-1,492	-1,818	-12,230	-	-12,230
Net adjustments to intangible assets	-2,427	-2,164	-767	-936	-6,294	-	-6,294
Other operating income/expense	856	2,055	557	1,121	4,589	33,747	38,336
Share of profit/loss of equity investments	-	-	-	-7,234	-7,234	-	-7,234
Profit/loss from disposal of investments	-	-	-	-275	-275	-	-275
<b>Gross profit</b>	<b>57,052</b>	<b>67,610</b>	<b>4,744</b>	<b>179,268</b>	<b>308,674</b>	<b>-</b>	<b>308,674</b>

## A.2 Distribution by business segment: balance sheet

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2010
Financial assets	12,194,109	6,053,752	-	5,063,552	23,311,413
Other assets	-	-	-	323,931	323,931
Property, plant and equipment	50,961	44,984	16,049	19,662	131,656
Intangible assets	4,195	3,703	1,321	1,618	10,837
Financial liabilities	4,215,559	14,751,281	-	2,367,153	21,333,993
Other liabilities	4,960	1,040	-	564,490	570,490
Provisions	67,268	50,497	14,418	18,341	150,524
Guarantees given	2,807,689	425,961	-	187,076	3,420,726
Commitments	1,332,011	192,102	16,614	26,838	1,567,565



Items	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2009
Financial assets	11,429,933	5,281,148	-	4,839,763	21,550,844
Other assets	-	-	-	418,754	418,754
Property, plant and equipment	55,274	49,296	17,480	21,313	143,363
Intangible assets	2,691	2,400	851	1,039	6,981
Financial liabilities	3,986,770	13,532,711	-	2,334,322	19,853,803
Other liabilities	3,927	73	-	430,225	434,225
Provisions	67,287	49,560	14,015	17,336	148,198
Guarantees given	2,386,797	355,434	-	156,942	2,899,173
Commitments	718,015	600,432	18,448	59,678	1,396,573

### Summary discussion of results

The results of the various sub-segments are discussed below.

**Enterprises:** this sub-segment contributes 69.6% of overall results.

loans (financial assets) and direct deposits (financial liabilities) amount to € 12,194 million and € 4,216 million respectively.

with respect to income from banking activities, net adjustments for the impairment of financial assets represent 29.1% of the total, while administrative expenses absorb 30.5%.

Comparison with the prior year reflects a rise in profits by about 133.7%.

This was mainly due to a combination of the following factors:

- a significant increase in net interest income (+13.6%), principally due to the satisfactory growth in direct loans granted at a time when spreads have slightly increased;
- an increase in commission flows (+29.6%) attributable to the granting of loans and guarantees;
- a limited increase in administrative expenses (+3.1%, of which other costs +4.5%, personnel expenses +1.9%);
- a decrease in adjustments to financial assets (-21.5%, mainly attributable to significant writebacks of specific positions.

**Individuals and other customers:** this sub-segment contributes 28.8% of overall results.

loans (financial assets) and direct deposits (financial liabilities) amount to € 6,054 million and € 14,751 million respectively.

with respect to income from banking activities, net adjustments for the impairment of financial assets represent 10.4% of the total, while administrative expenses absorb 55.3%.

Compared with the previous year, this segment's result has gone down by 18.4%.

This was mainly due to a combination of the following factors:

- a significant increase in net interest income (+6.6%), principally due to the satisfactory growth in direct deposits at a time when spreads were significantly eroded;
- an increase in commission flows (+5.8%), mainly reflecting a good performance by the collections and payments sector and by loans on behalf of third parties;
- a limited increase in administrative expenses (+2.3%, of which other costs +3.8%, personnel expenses +0.8%);
- considerably higher adjustments of financial assets (+34.9%).

**Securities:** this sub-segment contributes 4.2% of overall results.

With respect to income from banking activities, administrative expenses absorb 78.9% of the total.

Comparison with the prior year reflects an 69.2% rise in profits, mainly due to the following factors:

- an increase in commission flows (+9.5%) attributable to the activity of custodian bank and to securities trading and the placement of insurance products;
- a limited increase in administrative expenses (+2.0%, of which other costs +0.8%, personnel expenses +3.0%).

**Central functions:** it contributes -2.5% to the overall result, recording a decrease of -102.7% compared with the previous year because of substantial losses on the financial assets held in portfolio.

## **B. Secondary format**

The following information refers to the location of branches.

An alternative analysis, based on the residence of counterparties, does not give significantly different results. Branches are aggregated into two geographical areas, «Northern Italy» and «Central Italy», since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same. In particular, in the North, the volume of business is principally generated by «non-financial companies» and «consumer households and family businesses», while in Central Italy the «public administrations» are especially significant.



## B.1 Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Total	Reconciliation	Total 31/12/2010
Interest income	887,493	118,044	1,005,537	-433,874	571,663
Interest expense	-533,560	-78,610	-612,170	433,874	-178,296
<b>Net interest income</b>	<b>353,933</b>	<b>39,434</b>	<b>393,367</b>	-	<b>393,367</b>
Commission income	186,855	34,059	220,914	-2,313	218,601
Commission expense	-8,068	-3,624	-11,692	-537	-12,229
Dividends and similar income	6,368	-	6,368	-	6,368
Net trading income	-39,445	-	-39,445	2,769	-36,676
Net hedging profit (loss)	-	-	-	-	-
Gains/losses on disposals or repurchases	-360	-	-360	-	-360
Net change in value of financial assets and liabilities at fair value	806	-	806	-	806
<b>Income from banking activities</b>	<b>500,089</b>	<b>69,869</b>	<b>569,958</b>	<b>-81</b>	<b>569,877</b>
Adjustments to the net value of financial assets	-117,994	-5,758	-123,752	-	-123,752
<b>Balance of financial management</b>	<b>382,095</b>	<b>64,111</b>	<b>446,206</b>	<b>-81</b>	<b>446,125</b>
Administrative expenses	-264,045	-30,627	-294,672	-32,842	-327,514
Provisions for risks and charges	-371	1,800	1,429	-	1,429
Net adjustments to property, plant and equipment	-10,770	-1,336	-12,106	-	-12,106
Net adjustments to intangible assets	-7,490	-929	-8,419	-	-8,419
Other operating income/expense	1,279	165	1,444	32,923	34,367
Share of profit/loss of equity investments	57,987	-	57,987	-	57,987
Profit/loss from disposal of investments	-192	-	-192	-	-192
<b>Gross profit</b>	<b>158,493</b>	<b>33,184</b>	<b>191,677</b>	-	<b>191,677</b>

Items	Northern Italy	Central Italy	Total	Reconciliation	Total 31/12/2009
Interest income	1,193,621	160,063	1,353,684	-661,807	691,877
Interest expense	-791,503	-115,819	-907,322	661,807	-245,515
<b>Net interest income</b>	<b>402,118</b>	<b>44,244</b>	<b>446,362</b>	<b>-</b>	<b>446,362</b>
Commission income	160,063	28,678	188,741	-3,567	185,174
Commission expense	-7,973	-3,271	-11,244	-480	-11,724
Dividends and similar income	3,192	-	3,192	-	3,192
Net trading income	127,969	-	127,969	3,365	131,334
Net hedging profit (loss)	-	-	-	-	-
Gains/losses on disposals or repurchases	-1,459	-	-1,459	-	-1,459
Net change in value of financial assets and liabilities at fair value	7,477	-	7,477	-	7,477
<b>Income from banking activities</b>	<b>691,387</b>	<b>69,651</b>	<b>761,038</b>	<b>-682</b>	<b>760,356</b>
Adjustments to the net value of financial assets	-142,015	-3,627	-145,642	-	-145,642
<b>Balance of financial management</b>	<b>549,372</b>	<b>66,024</b>	<b>615,396</b>	<b>-682</b>	<b>614,714</b>
Administrative expenses	-255,596	-29,682	-285,278	-33,065	-318,343
Provisions for risks and charges	384	-384	-	-	-
Net adjustments to property, plant and equipment	-10,885	-1,345	-12,230	-	-12,230
Net adjustments to intangible assets	-5,602	-692	-6,294	-	-6,294
Other operating income/expense	4,247	342	4,589	33,747	38,336
Share of profit/loss of equity investments	-7,234	-	-7,234	-	-7,234
Profit/loss from disposal of investments	-275	-	-275	-	-275
<b>Gross profit</b>	<b>274,411</b>	<b>34,263</b>	<b>308,674</b>	<b>-</b>	<b>308,674</b>



## B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	<b>Total</b> <b>31/12/2010</b>
Financial assets	21,420,846	1,890,567	23,311,413
Other assets	323,931	-	323,931
Property, plant and equipment	117,129	14,527	131,656
Intangible assets	9,641	1,196	10,837
Financial liabilities	16,101,571	5,232,422	21,333,993
Other liabilities	570,450	40	570,490
Provisions	137,010	13,514	150,524
Guarantees given	2,693,348	727,378	3,420,726
Commitments	1,281,168	286,397	1,567,565

Items	Northern Italy	Central Italy	<b>Total</b> <b>31/12/2009</b>
Financial assets	19,698,162	1,852,682	21,550,844
Other assets	418,754	-	418,754
Property, plant and equipment	127,596	15,767	143,363
Intangible assets	6,213	768	6,981
Financial liabilities	14,633,262	5,220,541	19,853,803
Other liabilities	434,138	87	434,225
Provisions	133,296	14,902	148,198
Guarantees given	2,329,996	569,177	2,899,173
Commitments	1,284,240	112,333	1,396,573

## **APPENDICES:**

The appendices listed below contain additional information with respect to the notes to the financial statements, of which they form an integral part:

- list of significant equity investments;
- list of revalued assets still owned by the Bank (article 10, Law 72/1983);
- schedule of the Independent Auditors' fees for the year (as per art. 149 duodecies of the Issuers' Regulations)
- financial statements of the subsidiaries Banca Popolare di Sondrio (Suisse) SA., Factorit spa, Pirovano Stelvio spa and Sinergia Seconda srl.





## LIST OF SIGNIFICANT EQUITY INVESTMENTS 31/12/2010

List of significant equity investments directly or indirectly held in unlisted companies by Banca Popolare di Sondrio s.c.p.a., in accordance with article 120 of Legislative Decree 58 dated 24 February 1998 and CONSOB regulation 11971 dated 14 May 1999 and subsequent amendments

Company name	Country	% held	Notes
- Acquedotto dello Stelvio srl	(I)	27.000%	held indirectly through Pirovano Stelvio spa
- Alba Leasing spa	(I)	20.950%	
- AMC Automotive Casting spa	(I)	30.000%	pledge
- Arca Vita spa	(I)	15.036%	
- B. & A. Broker spa	(I)	28.571%	
- Banca della Nuova Terra spa	(I)	19.500%	
- Banca Popolare di Sondrio (SUISSE) SA	(CH)	100.000%	
- Bormio Golf spa	(I)	14.764%	
- C.D.R. Pompe spa	(I)	100.000%	pledge
- Etica Sgr spa	(I)	11.100%	
- Factorit spa	(I)	60.500%	
- Gal del Lario scarl	(I)	17.333%	
- Gal Valtellina scarl	(I)	10.000%	
- Gruppo Operazioni Underwriting Banche Popolari srl	(I)	14.286%	
- Immobiliare Borgo Palazzo srl	(I)	100.000%	held indirectly through Sinergia Seconda srl
- Immobiliare S.Paolo srl	(I)	100.000%	held indirectly through Sinergia Seconda srl
- Inarcheck spa	(I)	12.000%	
- Pirovano Stelvio spa	(I)	100.000%	
- Rajna Immobiliare srl	(I)	50.000%	
- Sifas spa	(I)	21.614%	held indirectly through Pirovano Stelvio spa
- Sinergia Seconda srl	(I)	100.000%	
- Servizi Internazionali e Strutture Integrate 2000 srl	(I)	33.333%	
- Sofipo Fiduciaire SA	(CH)	30.000%	held indirectly through Banca Popolare di Sondrio (Suisse) SA
- Sofipo UF Trustee Limited	(CY)	10.000%	held indirectly through Banca Popolare di Sondrio (Suisse) SA
- Unione Fiduciaria spa	(I)	18.309%	



## LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)

(in euro)

PROPERTY	Investment	Amount of revaluation Law 576 of 2/12/75	Amount of revaluation Law 72 of 19/3/83	Amount of revaluation Law 413 of 30/12/91	Gross book value	Accumulated depreciation as of 31/12/2010	Net book value as of 31/12/2010
APRICA - Corso Roma 140	77,468	0	356,355	146,929	580,752	489,776	90,976
BERBENNO DI VALTELLINA - Via Raneè, 542	12,899,556	0	0	99,417	12,998,973	4,143,117	8,855,856
BERGAMO - Via Broseta, 64/B	3,525,780	0	0	0	3,525,780	394,677	3,131,103
BORMIO - Via Roma, 64	439,238	46,481	573,267	136,524	1,195,510	208,347	987,163
BORMIO - Via Roma Angolo Via Don Peccedi	2,966,334	0	361,520	301,774	3,629,628	1,218,418	2,411,210
BRENO - Piazza Ronchi, 4	836,826	0	0	87,467	924,293	523,718	400,575
CHIAVENNA - Via Dolzino, 67	1,200,579	46,481	1,149,057	1,066,173	3,462,290	1,908,231	1,554,059
CHIESA VALMALENCO - Via Roma, 138	334,817	17,560	664,795	133,250	1,150,422	483,778	666,644
COLICO - Piazza Cavour, 11	177,749	0	0	96,488	274,237	209,640	64,597
DELEBIO - Piazza S. Carpofofo, 7/9	844,205	23,241	645,773	688,773	2,201,992	1,201,550	1,000,442
DERVIO - Via Don Invernizzi, 2	1,270,219	0	0	329,276	1,599,495	758,705	840,790
DOMASO - Via Statale Regina, 71	111,038	0	0	53,817	164,855	111,801	53,054
DONGO - Piazza V. Matteri, 14	1,567,930	0	0	415,551	1,983,481	966,903	1,016,578
EDOLO - Piazza Martiri Della Libertà, 16	1,058,737	0	0	509,161	1,567,898	1,128,665	439,233
GENOA - Via Xxv Aprile, 7	7,559,724	0	0	0	7,559,724	775,096	6,784,628
GERA LARIO - Via Statale Regina, 14	292,667	0	131,677	227,733	652,077	304,883	347,194
GRAVEDONA - Piazza Garibaldi, 10/12	1,186,162	0	0	223,957	1,410,119	495,098	915,021
GROSIO - Via Roma, 67	26,372	7,230	229,791	51,484	314,877	213,023	101,854
GROSOTTO - Via Statale, 73	452,237	12,911	147,146	42,099	654,393	201,921	452,472
ISOLACCIA VALDIDENTRO - Via Nazionale, 31	403,788	0	290,229	272,602	966,619	544,729	421,890
LECCO - Corso Martiri della Liberazione, 63/65	9,574,332	0	351,191	2,124,557	12,050,080	5,785,403	6,264,677
LECCO - Via Galandra, 28	168,623	0	0	41,959	210,582	120,032	90,550
LIVIGNO - Via S. Antoni, 135 - Via Prestefan	5,946,629	0	345,487	358,828	6,650,944	1,072,709	5,578,235
MADESIMO - Via Carducci, 3	493,542	0	0	203,733	697,275	517,556	179,719
MARCHIROLO - Via Cav. Emilio Busetti, 7/A	1,089,018	0	0	0	1,089,018	335,894	753,124
MAZZO VALTELLINA - Via S. Stefano, 18	11,529	16,010	163,550	48,833	239,922	161,442	78,480
MILAN - Piazza Borromeo, 1	38,218	0	0	213,722	251,940	144,752	107,188
MILAN - Via A. Messina, 22	150,000	0	0	0	150,000	2,250	147,750
MILAN - Via Compagnoni, 9	51,141	0	0	6,842	57,983	50,445	7,538
MILAN - Via Lippi, 25	53,970	0	0	1,635	55,605	48,376	7,229
MILAN - Via Morigi, 2/A	73,590	0	0	123,930	197,520	142,215	55,305
MILAN - Via Porpora, 104	5,315,174	0	0	165,381	5,480,555	1,166,307	4,314,248
MILAN - Via S. Maria Fulcorina, 1	10,881,111	159,818	3,047,096	2,461,826	16,549,851	4,645,099	11,904,752
MILAN - Via S. Maria Fulcorina, 11	493,165	0	0	0	493,165	340,284	152,881
MILAN - Via Sangallo, 16	4,751	0	0	11,915	16,666	12,000	4,666
MILAN - Via Solari, 15	422,156	0	0	0	422,156	101,318	320,838

PROPERTY	Investment	Amount of revaluation Law 576 of 2/12/75	Amount of revaluation Law 72 of 19/3/83	Amount of revaluation Law 413 of 30/12/91	Gross book value	Accumulated depreciation as of 31/12/2010	Net book value as of 31/12/2010
MONTAGNA IN VALTELLINA - Via Stelvio, 30	472,051	0	328,458	398,008	1,198,517	661,763	536,754
MORBEGNO - Piazza Caduti Della Libertà, 6	1,892,539	0	1,088,606	704,283	3,685,428	1,883,736	1,801,692
MORBEGNO - Via Nani, 13	54,709	0	0	17,739	72,448	56,509	15,939
MORBEGNO - Via Garibaldi, 81	589,318	25,823	0	56,050	671,191	418,033	253,158
MOZZO - Via G. D'annunzio, 4	26,424	0	0	14,259	40,683	24,410	16,273
NOVATE MEZZOLA - Via Roma, 13	45,681	0	251,282	89,219	386,182	232,986	153,196
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	681,040	245,552
PONTE VALTELLINA - Piazza Della Vittoria, 1	51,496	12,911	258,098	86,540	409,045	223,212	185,833
REGOLEDO DI COSIO VALTELLINO - Via Roma, 7	134,617	0	0	78,405	213,022	129,824	83,198
ROME - Piazza Filippo Il Macedone, 75	2,400,000	0	0	0	2,400,000	468,000	1,932,000
ROME - Via della Farnesina, 154	928,169	0	0	0	928,169	69,613	858,556
ROME - Via di Propaganda Fide, 27	155,624	0	350,503	88,926	595,053	564,541	30,512
S. CASSIANO VALCHIAVENNA - Via Spluga, 108	397,672	0	0	103,093	500,765	273,187	227,578
S. PIETRO BERBENNO - Via Nazionale Ovest, 110	399,199	22,208	328,181	122,795	872,383	348,362	524,021
S. SIRO - Via Statale Regina	467,692	0	0	0	467,692	166,444	301,248
SEREGNO - Via Wagner, 137/A	123,950	0	0	13,282	137,232	94,690	42,542
SONDALO - Via Zubiani, 2/4/6/8/10	21,756	25,823	312,456	158,005	518,040	351,449	166,591
SONDRIO - Corso V. Veneto, 7	858,943	0	0	1,190,813	2,049,756	566,051	1,483,705
SONDRIO - Largo Pedrini, 8	200,617	0	0	22,527	223,144	157,285	65,859
SONDRIO - Lungo Mallero Cadorna, 24	1,429,634	0	196,254	451,249	2,077,137	858,209	1,218,928
SONDRIO - Piazza Garibaldi, 16	1,563,597	351,191	7,810,125	3,142,651	12,867,564	6,059,614	6,807,950
SONDRIO - Piazzale Tocalli - Via delle Prese	348,608	0	0	0	348,608	214,394	134,214
SONDRIO - Via Bernina, 1	181,930	0	82,385	45,795	310,110	137,143	172,967
SONDRIO - Via Caimi, 29	357,915	0	0	46,342	404,257	337,801	66,456
SONDRIO - Via Cesura, 4	156,991	0	0	64,149	221,140	99,167	121,973
SONDRIO - Via Lusardi, 53	247,506	0	0	0	247,506	141,078	106,428
SONDRIO - Via Tonale, 6	56,297	0	243,248	54,643	354,188	321,609	32,579
SONDRIO - Via Pio Rajna, 1	16,195	0	0	40,221	56,416	37,234	19,182
TALAMONA - Via Cusini, 29	223,476	0	313,640	203,691	740,807	583,509	157,298
TEGLIO - Piazza S. Eufemia, 2	40,150	13,944	546,700	148,165	748,959	422,411	326,548
TIRANO - Località Valchiosa	139,352	0	0	0	139,352	76,452	62,900
TIRANO - Piazza Cavour, 20	392,572	0	1,736,322	718,576	2,847,470	1,644,040	1,203,430
TRESENDA DI TEGLIO - Via Nazionale, 57	192,523	0	193,671	67,596	453,790	339,749	114,041
VILLA DI CHIAVENNA - Via Roma, 39	197,713	0	0	7,639	205,352	184,690	20,662
VILLA DI TIRANO - Traversa Foppa, 25	440,817	0	0	7,651	448,468	196,886	251,582
	<b>87,834,524</b>	<b>781,632</b>	<b>22,496,863</b>	<b>19,084,124</b>	<b>130,197,143</b>	<b>49,953,279</b>	<b>80,243,864</b>



**SCHEDULE OF THE INDEPENDENT AUDITORS' FEES FOR THE YEAR  
(AS PER ART. 149 DUODECIES OF THE ISSUERS' REGULATIONS)**

Type of services	Service provided by	Recipient	Fees (thousand euro)
Audit of the financial statements	KPMG spa	Banca Popolare di Sondrio	207
Other emoluments	KPMG spa	Banca Popolare di Sondrio	100
Other emoluments	KPMG Advisory spa	Banca Popolare di Sondrio	40
Audit of the financial statements	KPMG SA	Banca Popolare di Sondrio (SUISSE) SA	232
Other emoluments	KPMG SA	Banca Popolare di Sondrio (SUISSE) SA	139

These amounts do not include the reimbursement of out-of-pocket expenses and VAT.

## **FINANCIAL STATEMENTS:**

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FACTORIT SPA

PIROVANO STELVIO SPA

SINERGIA SECONDA SRL



## BANCA POPOLARE DI SONDRIO (SUISSE) SA

### FINANCIAL STATEMENTS AS OF 31 DECEMBER 2010

(in Swiss francs)

ASSETS	2010	2009
Liquid assets	58,588,960	61,787,821
Due from banks	706,189,117	529,873,762
Due from customers	586,834,327	587,553,494
Mortgage loans	1,925,748,466	1,568,582,184
Financial investments	40,999,305	44,908,750
Equity investments	653,138	653,138
Fixed assets	34,333,118	37,759,970
Accrued income and prepayments	9,324,524	14,137,706
Other assets	50,936,693	27,374,201
<b>Total assets</b>	<b>3,413,607,648</b>	<b>2,872,631,026</b>
Total amounts due from Group companies and holders of qualifying equity investments	554,463,829	497,161,083

LIABILITIES	2010	2009
Debt securities issued - money market	152	6,152
Due to banks	927,812,566	485,024,527
Due to customers - savings and investments	616,598,215	585,405,370
Due to customers - other	1,334,649,395	1,383,363,614
Treasury liabilities	178,829,000	152,610,000
Accrued liabilities and deferred income	14,345,795	15,771,277
Other liabilities	80,635,903	44,680,392
Adjustments and provisions	33,383,837	33,117,689
Reserve for general banking risks	15,000,000	15,000,000
Share capital	100,000,000	50,000,000
General legal reserve	107,652,005	98,055,235
Net profit for the year	4,700,780	9,596,770
<b>Total liabilities</b>	<b>3,413,607,648</b>	<b>2,872,631,026</b>
Total amounts due to Group companies and holders of qualifying equity investments	734,035,879	354,463,324

OFF-BALANCE SHEET TRANSACTIONS	2010	2009
Contingent liabilities	227,759,852	219,565,352
Irrevocable commitments	15,000,000	13,200,000
Derivative products	2,633,792,892	2,256,032,166
– Gross positive replacement value	16,843,497	4,047,409
– Gross negative replacement value	71,905,059	32,654,893
Fiduciary transactions	211,415,310	336,021,230



## INCOME STATEMENT

(in Swiss francs)

	2010	2009
Interest income:		
- Interest income and discounts	66,862,662	67,033,928
- Interest income and dividends from equity investments	947,964	1,358,877
Interest expense	-39,992,181	-39,419,075
<b>Net interest income</b>	<b>27,818,445</b>	<b>28,973,730</b>
Commission income:		
- on lending transactions	1,523,022	947,350
- on trading in securities and investments	41,491,496	46,945,592
- on services	5,583,186	6,618,302
Commission expense	-5,944,199	-5,073,089
<b>Net commission income and income from services</b>	<b>42,653,505</b>	<b>49,438,155</b>
<b>Profits from financial transactions</b>	<b>12,168,571</b>	<b>11,975,457</b>
Profit (loss) on disposal of financial investments	-406,895	224,354
Income from equity investments	25,000	25,000
Net proceeds from properties	168,752	154,427
Other ordinary income	1,087,567	1,099,518
Other ordinary charges	-3,790,382	-585,218
<b>Total other ordinary income</b>	<b>-2,915,958</b>	<b>918,081</b>
<b>Net income from ordinary banking operations</b>	<b>79,724,563</b>	<b>91,305,423</b>
Operating expenses:		
Personnel costs	44,679,233	44,476,518
Other operating expenses	23,112,586	23,511,892
<b>Operating expenses</b>	<b>67,791,819</b>	<b>67,988,410</b>
<b>Gross profit</b>	<b>11,932,744</b>	<b>23,317,013</b>



	2010	2009
Depreciation and amortisation	-7,788,765	-8,487,057
Adjustments, provisions and losses	-154,701	-3,217,984
<b>Result before tax</b>	<b>3,989,278</b>	<b>11,611,972</b>
Extraordinary income	929,502	1,016,798
Extraordinary charges	-	-10,000
Income taxes	-218,000	-3,022,000
<b>Net profit for the year</b>	<b>4,700,780</b>	<b>9,596,770</b>
ALLOCATION OF NET PROFIT		
Net profit for the year	4,700,780	9,596,770
Retained earnings	-	-
<b>Earnings available for allocation</b>	<b>4,700,780</b>	<b>9,596,770</b>
Proposal of the Board of Directors for the allocation of 2010 net profit of CHF 4,700,780 to general legal reserve,	4,700,780	9,596,770
<b>Balance carried forward</b>	<b>-</b>	<b>-</b>



## FACTORIT SPA

### FINANCIAL STATEMENTS AS OF 31 DECEMBER 2010 BALANCE SHEET

(in euro)

ASSET ITEMS	31/12/2010	31/12/2009
10. Cash and balances with central banks	3,117	2,502
60. Receivables	1,396,529,127	1,511,954,274
100. Property, plant and equipment	220,296	148,414
110. Intangible assets	1,146,431	1,152,051
120. Tax assets	36,866,664	16,901,179
a) current	16,294,927	3,643,025
b) deferred	20,571,737	13,258,154
140. Other assets	3,938,037	4,073,930
<b>TOTAL ASSETS</b>	<b>1,438,703,672</b>	<b>1,534,232,350</b>

<b>EQUITY AND LIABILITY ITEMS</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
10. Payables	1,153,369,550	1,294,132,112
70. Tax liabilities	16,809,276	18,606,843
a) current	14,741,619	16,539,186
b) deferred	2,067,657	2,067,657
90. Other liabilities	98,199,699	60,583,577
100. Reserve for termination indemnities	1,928,935	2,196,803
110. Provisions for risks and charges:	7,192,709	7,523,654
a) post-employment benefits		
b) other provisions	7,192,709	7,523,654
120. Share capital	85,000,002	85,000,002
150. Share premium reserve	11,030,364	11,030,364
160. Reserves	55,231,415	36,312,985
170. Valuation reserves	-72,420	-72,420
180. Net profit (loss) for the year	10,014,142	18,918,430
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,438,703,672</b>	<b>1,534,232,350</b>



INCOME STATEMENT	31/12/2010	31/12/2009
10. Interest income and similar revenues	38,036,066	55,607,736
20. Interest expense and similar charges	-11,132,597	-20,081,578
<b>NET INTEREST INCOME</b>	<b>26,903,469</b>	<b>35,526,158</b>
30. Commission income	38,204,788	38,822,814
40. Commission expense	-6,032,621	-6,333,281
<b>NET COMMISSION INCOME</b>	<b>32,172,167</b>	<b>32,489,533</b>
60. Net trading income	-245	30,911
<b>INCOME FROM BANKING ACTIVITIES</b>	<b>59,075,391</b>	<b>68,046,602</b>
100. Net impairment adjustments on:	-26,889,299	-21,931,375
a) Financial assets	-28,778,730	-19,465,017
b) other financial operations	1,889,431	-2,466,358
110. Administrative expenses:	-18,888,974	-18,668,816
a) personnel expenses	-10,378,770	-8,463,986
b) other administrative expenses	-8,510,204	-10,204,830
120. Net adjustments to property, plant and equipment	-73,063	-98,917
130. Net adjustments to intangible assets	-23,320	-19,799
150. Net provisions for risks and charges	350,800	-1,258,300
160. Other operating income and expenses	3,642,444	3,106,987
<b>OPERATING PROFIT (LOSS)</b>	<b>17,193,979</b>	<b>29,176,382</b>
180. Gains (losses) on disposal of investments	22,571	17,157
<b>PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES</b>	<b>17,216,550</b>	<b>29,193,539</b>
190. Income taxes on current operations	-7,202,408	-10,275,109
<b>NET PROFIT (LOSS) OF CURRENT OPERATIONS NET OF INCOME TAXES</b>	<b>10,014,142</b>	<b>18,918,430</b>
<b>NET PROFIT (LOSS) FOR THE</b>	<b>10,014,142</b>	<b>18,918,430</b>



# PIROVANO STELVIO SPA

## FINANCIAL STATEMENTS AS OF 31 DECEMBER 2010 BALANCE SHEET

(in euro)

ASSETS	31/12/2010	31/12/2009
<b>B) NON-CURRENT ASSETS</b>		
I Intangible assets		
03 Industrial patent rights and intellectual property rights	-	3,895
07 Other intangible assets	-	-
<b>Total I</b>	-	<b>3,895</b>
II Property, plant and equipment		
01 Land and buildings	3,119,471	3,190,126
02 Equipment and machinery	275,596	320,907
03 Industrial and commercial equipment	46,567	60,648
04 Other assets	2,193	416
05 Assets under construction and advances	7,676	7,676
<b>Total II</b>	<b>3,451,503</b>	<b>3,579,773</b>
III Financial assets		
01 Equity investments		
b) in associated companies	302,145	233,302
d) in other companies	2,199	2,199
<b>Total 01</b>	<b>304,344</b>	<b>235,501</b>
<b>Total III</b>	<b>304,344</b>	<b>235,501</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>3,755,847</b>	<b>3,819,169</b>
<b>C) CURRENT ASSETS</b>		
I Inventories		
04 Finished products and merchandise	59,432	74,914
<b>Total I</b>	<b>59,432</b>	<b>74,914</b>
II Receivables		
01 Due from customers		
a) within 12 months	27,276	17,949
<b>Total 01</b>	<b>27,276</b>	<b>17,949</b>
04 Due from parent companies		
a) within 12 months	171,583	165,758
<b>Total 04</b>	<b>171,583</b>	<b>165,758</b>
04-bis Due from tax authorities		
a) within 12 months	14,378	11,014
<b>Total 04-bis</b>	<b>14,378</b>	<b>11,014</b>
05 Due from others		
a) within 12 months	3,979	5,430
<b>Total 05</b>	<b>3,979</b>	<b>5,430</b>
<b>Total II</b>	<b>217,216</b>	<b>200,151</b>
IV Cash and banks		
03 Cash and cash equivalents on hand	356	107
<b>Total IV</b>	<b>356</b>	<b>107</b>
<b>TOTAL CURRENT ASSETS</b>	<b>277,004</b>	<b>275,172</b>
<b>D) ACCRUED INCOME AND PREPAYMENTS</b>		
01 Accrued income and prepayments	3,247	3,836
<b>TOTAL ACCRUED INCOME AND PREPAYMENTS</b>	<b>3,247</b>	<b>3,836</b>
<b>TOTAL ASSETS</b>	<b>4,036,098</b>	<b>4,098,177</b>

LIABILITIES AND EQUITY	31/12/2010	31/12/2009
<b>A) EQUITY</b>		
I Share capital	2,064,000	2,064,000
III Valuation reserves	192,104	192,104
IV Legal reserve	5,959	5,959
VII Other reserves		
10 Payments to cover losses	648,105	-
12 Translation reserve	1	2
<b>Total VII</b>	<b>648,106</b>	<b>2</b>
IX Loss for the year	(415,708)	(394,301)
<b>TOTAL EQUITY</b>	<b>2,494,461</b>	<b>1,867,764</b>
<b>C) TERMINATION INDEMNITIES</b>	<b>106,436</b>	<b>96,412</b>
<b>D) PAYABLES</b>		
06 Advance payments		
a) within 12 months	3,285	8,509
<b>Total 06</b>	<b>3,285</b>	<b>8,509</b>
07 Trade payables		
a) within 12 months	135,404	126,586
<b>Total 07</b>	<b>135,404</b>	<b>126,586</b>
10 Payables v/Associated companies		
a) within 12 months	43,373	14,766
<b>Total 10</b>	<b>43,373</b>	<b>14,766</b>
11 Due to parent companies		
a) within 12 months	1,213,055	1,948,189
<b>Total 11</b>	<b>1,213,055</b>	<b>1,948,189</b>
12 Taxes payable		
a) within 12 months	8,200	9,078
<b>Total 12</b>	<b>8,200</b>	<b>9,078</b>
13 Due to social security institutions		
a) within 12 months	7,940	6,761
<b>Total 13</b>	<b>7,940</b>	<b>6,761</b>
14 Other payables		
a) within 12 months	19,523	15,743
<b>Total 14</b>	<b>19,523</b>	<b>15,743</b>
<b>TOTAL PAYABLES</b>	<b>1,430,780</b>	<b>2,129,632</b>
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>		
01 Accrued expenses and deferred income	4,421	4,369
<b>TOTAL ACCRUED INCOME AND PREPAYMENTS</b>	<b>4,421</b>	<b>4,369</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>4,036,098</b>	<b>4,098,177</b>



<b>MEMORANDUM ACCOUNTS</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
01 PERSONAL GUARANTEES RECEIVED		
d) Sureties given on our behalf by the Parent Bank	6,733	6,733
<b>Total 1</b>	<b>6,733</b>	<b>6,733</b>
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>6,733</b>	<b>6,733</b>



INCOME STATEMENT	31/12/2010	31/12/2009
<b>A) PRODUCTION VALUE</b>		
01 Revenues from sales and services	1,296,269	1,283,767
05 Other revenues and income		
a) other revenues and income	38,205	49,365
<b>Total 05</b>	<b>38,205</b>	<b>49,365</b>
<b>TOTAL PRODUCTION VALUE</b>	<b>1,334,474</b>	<b>1,333,132</b>
<b>B) PRODUCTION COSTS</b>		
06 Raw materials, consumables and goods	(313,975)	(283,477)
07 Services	(797,061)	(686,563)
09 Personnel costs		
a) wages and salaries	(473,459)	(429,986)
b) social security contributions	(148,307)	(134,242)
c) termination indemnities	(26,923)	(23,667)
e) other costs	(532)	(315)
<b>Total 09</b>	<b>(649,221)</b>	<b>(588,210)</b>
10 Depreciation, amortisation and write-downs		
a) amortisation of intangible assets	(3,895)	(6,306)
b) depreciation of property, plant and equipment	(148,992)	(155,414)
<b>Total 10</b>	<b>(152,887)</b>	<b>(161,720)</b>
11 Change in raw materials, consumables and goods	(15,481)	(72,791)
14 Sundry operating costs	(45,954)	(46,814)
<b>TOTAL PRODUCTION COSTS</b>	<b>(1,974,579)</b>	<b>(1,839,575)</b>
<b>DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS</b>	<b>(640,105)</b>	<b>(506,443)</b>
<b>C) FINANCIAL INCOME AND CHARGES</b>		
16 other financial income		
d) other financial income		
d4) other enterprises	-	13
<b>Total 16d)</b>	-	13
<b>Total 16</b>	-	<b>13</b>
17 Interest and other financial charges		
c) versus parent companies	(15,014)	(21,279)
d) versus other companies	(302)	(201)
<b>Total 17</b>	<b>(15,316)</b>	<b>(21,480)</b>
<b>TOTAL FINANCIAL INCOME AND CHARGES</b>	<b>(15,316)</b>	<b>(21,467)</b>
<b>D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS</b>		
18 Revaluations		
a) of equity investments	68,843	-
<b>Total 18</b>	<b>68,843</b>	-
<b>TOTAL ADJUSTMENTS</b>	<b>68,843</b>	-
<b>E) EXTRAORDINARY ITEMS</b>		
20 income		
b) Other non-recurring income	1	-
<b>Total 20</b>	<b>1</b>	-
21 Charges		
c) other extraordinary charges	(714)	(201)
<b>Total 21</b>	<b>(714)</b>	<b>(201)</b>
<b>TOTAL EXTRAORDINARY ITEMS</b>	<b>(713)</b>	<b>(201)</b>
<b>PRE-TAX PROFIT (LOSS)</b>	<b>(587,291)</b>	<b>(528,111)</b>
22 Current income taxes and change in deferred tax assets and liabilities		
<b>Total 22</b>	<b>171,583</b>	<b>133,810</b>
<b>23 LOSS</b>	<b>(415,708)</b>	<b>(394,301)</b>



# SINERGIA SECONDA SRL

## FINANCIAL STATEMENTS AS OF 31 DECEMBER 2010 BALANCE SHEET

(in euro)

ASSETS	31/12/2010	31/12/2009
<b>A) AMOUNTS RECEIVABLE FROM SHAREHOLDERS</b>	-	-
Of which already called €		
<b>B) NON-CURRENT ASSETS</b>		
I - Intangible assets	-	-
II - Property, plant and equipment		
1) Land and buildings		
1 - owned	59,368,340	15,997,738
5) Assets under construction and advances		
1 - owned	529,664	308,160
<b>Total property, plant and equipment</b>	<b>59,898,004</b>	<b>16,305,898</b>
III - Financial assets		
1) equity investments in		
a) subsidiary companies	20,000	20,000
<b>Total financial assets</b>	<b>20,000</b>	<b>20,000</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>59,918,004</b>	<b>16,325,898</b>
<b>C) CURRENT ASSETS</b>		
I - Inventories	-	-
II - Receivables		
1) due from customers		
a) due within 12 months	45,859	45,293
2) due from subsidiary companies		
a) due within 12 months	10,695,489	10,667,712
4 bis) due from tax authorities		
a) due within 12 months	480,550	503,014
4 ter) deferred tax assets		
b) due beyond 12 months	359,594	359,594
5) due from others		
a) due within 12 months	2,401,501	3,179
<b>Total receivables</b>	<b>13,982,993</b>	<b>11,578,792</b>
III - Financial assets not held as non-current assets	-	-
IV - Cash and banks	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>13,982,993</b>	<b>11,578,792</b>
<b>D) ACCRUED INCOME AND PREPAYMENTS</b>		
1) Accrued income and prepayments	27,221	7,209
<b>TOTAL ACCRUED INCOME AND PREPAYMENTS</b>	<b>27,221</b>	<b>7,209</b>
<b>TOTAL ASSETS</b>	<b>73,928,218</b>	<b>27,911,899</b>



LIABILITIES AND EQUITY	31/12/2010	31/12/2009
<b>A) EQUITY</b>		
I - Share capital	50,000,000	10,200,000
II - Share premium reserve	-	-
III - Valuation reserves	-	-
IV - Legal reserve	2,040,000	2,040,000
V - Statutory reserves	-	-
VI - Reserve for treasury shares	-	-
VII - Other reserves		
d) rounding differences on conversion to euro	-1	-
VIII - Retained earnings	7,786,567	7,695,763
IX - Loss for the year	-362,883	90,804
<b>TOTAL EQUITY</b>	<b>59,463,683</b>	<b>20,026,567</b>
<b>B) RESERVES FOR RISKS AND CHARGES</b>		
2) for taxation; also deferred	1,545,384	2,318,076
<b>TOTAL RESERVES FOR RISKS AND CHARGES</b>	<b>1,545,384</b>	<b>2,318,076</b>
<b>C) RESERVE FOR TERMINATION INDEMNITIES</b>	-	-
<b>D) PAYABLES</b>		
7) due to suppliers		
a) due within 12 months	263,892	572,641
9) due to subsidiary companies		
a) due within 12 months	233,281	230,459
b) due beyond 12 months	359,594	359,594
11) due to parent companies		
a) due within 12 months	12,045,640	4,334,896
12) taxes payable		
a) due within 12 months	1,189	47,440
b) due beyond 12 months	13,220	17,627
14) other payables		
a) due within 12 months	-	3,399
<b>TOTAL PAYABLES</b>	<b>12,916,816</b>	<b>5,566,056</b>
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>		
1) Accrued income and prepayments	2,335	1,200
<b>TOTAL ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>2,335</b>	<b>1,200</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>73,928,218</b>	<b>27,911,899</b>



<b>LIABILITIES AND EQUITY</b>	<b>31/12/2010</b>	<b>31/12/2009</b>
b) Preliminary commitments for the purchase of property outstanding at 31.12	8,200,000	-
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>8,200,000</b>	<b>-</b>

INCOME STATEMENT	31/12/2010	31/12/2009
<b>A) PRODUCTION VALUE</b>		
1) revenues from sales and services		
e) office rents	876,515	527,438
g) office expense reimbursements	61,034	16,590
5) other revenues and income		
c) other revenues	-	-
<b>TOTAL PRODUCTION VALUE</b>	<b>937,549</b>	<b>544,028</b>
<b>B) PRODUCTION COSTS</b>		
7) for services	209,806	22,285
8) leases and rentals	-	20,809
10) depreciation, amortisation and write-downs		
b) Depreciation of property, plant and equipment	914,174	289,768
14) sundry operating costs		
a) other operating costs and charges	127,822	87,218
b) non-deductible charges	52,669	13,753
<b>TOTAL PRODUCTION COSTS</b>	<b>1,304,471</b>	<b>433,833</b>
<b>DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS</b>	<b>-366,922</b>	<b>110,195</b>
<b>C) FINANCIAL INCOME AND CHARGES</b>		
16) other financial income		
d) other financial income		
2) from parent companies	167	19,240
17) interest and other financial charges		
b) parent banks	146,004	18,808
c) third parties	280	4
<b>TOTAL FINANCIAL INCOME AND CHARGES</b>	<b>-146,117</b>	<b>428</b>
<b>D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS</b>		
19) Write-downs		
a) of equity investments	-	52,754
<b>TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS</b>	<b>-</b>	<b>-52,754</b>
<b>E) EXTRAORDINARY ITEMS</b>		
20) income		
b) other extraordinary income	20,979	5,892
c) rounding differences on conversion to euro	-	2
21) charges		
b) other charges	682	1,995
<b>TOTAL EXTRAORDINARY ITEMS</b>	<b>20,297</b>	<b>3,899</b>
<b>PRE-TAX PROFIT (LOSS)</b>	<b>-492,742</b>	<b>61,768</b>
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	642,833	738,492
b) IRAP (regional business tax)	-	5,164
c) Deferred taxes	-772,692	-772,692
<b>23) loss of the year</b>	<b>-362,883</b>	<b>90,804</b>



## Attestation pursuant to art. 154-bis, para. 5 of Decree 58/98 on the separate financial statements

The undersigned Piero Melazzini as Chairman and Chief Executive Officer and Maurizio Bertoletti, as Financial Reporting Officer of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Decree 58 of 24 February 1998, confirm:

- the adequacy in relation to the characteristics of the company and
- the effective application of the administrative and accounting procedures for the formation of the separate financial statements during the course of the period between 1 January 2010 and 31 December 2010.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the “Internal Control - Integrated Framework (CoSO)”, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

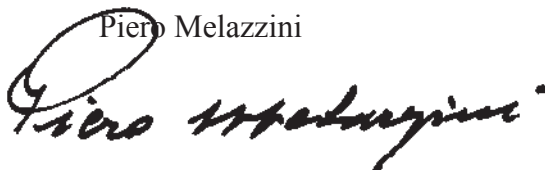
We also confirm that the separate financial statements at 31 December 2010:

- have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
- agree with the balances on the books of account and the accounting entries;
- are able to provide a true and fair view of the issuer’s assets and liabilities, results and financial position.

The report on operations contains a reliable analysis of the trend and results of operations, together with a description of the main risks and uncertainties to which the Bank is exposed.

Sondrio, 10 March 2011

The Chairman of the Board of Directors  
Piero Melazzini



The Financial Reporting Officer  
Maurizio Bertoletti



## **Relazione della società di revisione ai sensi degli artt. 14 e 16 del D.Lgs. 27 gennaio 2010, n. 39**

Ai Soci della  
Banca Popolare di Sondrio S.C.p.A.

- 1 Abbiamo svolto la revisione contabile del bilancio d'esercizio, costituito dallo stato patrimoniale, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario e dalla relativa nota integrativa, della Banca Popolare di Sondrio S.C.p.A. chiuso al 31 dicembre 2010. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05, compete agli amministratori della Banca Popolare di Sondrio S.C.p.A.. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.
- 2 Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla Consob. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio d'esercizio sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

Per il giudizio relativo al bilancio dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 11 marzo 2010.

- 3 A nostro giudizio, il bilancio d'esercizio della Banca Popolare di Sondrio S.C.p.A. al 31 dicembre 2010 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico e i flussi di cassa della Banca Popolare di Sondrio S.C.p.A. per l'esercizio chiuso a tale data.
- 4 La responsabilità della redazione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari, pubblicata nella sezione "informativa societaria" del sito internet della Banca Popolare di Sondrio S.C.p.A., in conformità a quanto previsto dalle norme di legge e dai regolamenti compete agli amministratori della



Banca Popolare di Sondrio S.C.p.A.. E' di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione e delle informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b), dell'art. 123-bis del D.Lgs. 58/98, presentate nella relazione sul governo societario e gli assetti proprietari, con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione n. 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione e le informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b), dell'art. 123-bis del D.Lgs. 58/98 presentate nella relazione sul governo societario e gli assetti proprietari sono coerenti con il bilancio d'esercizio della Banca Popolare di Sondrio S.C.p.A. al 31 dicembre 2010.

Milano, 24 marzo 2011

KPMG S.p.A.



Paolo Valsecchi  
Socio



# **Banca Popolare di Sondrio**

**CONSOLIDATED FINANCIAL  
STATEMENTS OF THE  
BANCA POPOLARE DI SONDRIO  
BANKING GROUP**



## REPORT ON OPERATIONS

Shareholders,

As parent bank of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements.

### COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

*Parent Bank:*

Banca Popolare di Sondrio s.c.p.a. – Sondrio;

*Group companies:*

Banca Popolare di Sondrio (Suisse) SA – Lugano (CH).

The Parent bank holds all the capital of Banca Popolare di Sondrio (Suisse) SA, 100,000,000 CHF, which is fully paid-up.

Factorit spa - Milan

The Parent Bank holds 60.5% of the share capital of Factorit spa, equal to € 85,000,002; the company became part of the Banking Group at the end of last July.

Equity investments are consolidated as follows:

### FULLY CONSOLIDATED SHAREHOLDINGS:

Name	Location	Share capital (in thousands)	% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 100,000	100
Factorit spa	Milan	85,000	60,5
Pirovano Stelvio spa	Sondrio	2,064	100
Sinergia Seconda srl	Milan	50,000	100
Immobiliare San Paolo srl	Tirano	10 *	100
Immobiliare Borgo Palazzo srl	Tirano	10 *	100

\* held by Sinergia Seconda srl.



## SHAREHOLDINGS CONSOLIDATED UNDER THE EQUITY METHOD:

Name	Location	Share capital (in thousands)	% held
Alba Leasing spa	Milan	255,000	20.950
Arca Vita spa	Verona	90,000	15.036
Banca della Nuova Terra spa	Milan	45,000	19.500
Rajna Immobiliare srl	Sondrio	20	50.000
B & A Broker spa	Milan	816	28.571
Sofipo Fiduciare SA	Lugano	(CHF) 2,000 *	30.000

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

## GENERAL ECONOMIC CONTEXT

The report on operations accompanying the parent bank's financial statements contains information on the international and Italian economic situation during the year 2010. We would, however, like to add a few comments about Switzerland, even if based on indices and information which are not yet final and official. Having managed to cope with the crisis better than other economies, Switzerland achieved growth of 2.6% during the year. This increase was not based so much on public spending (+0.2%) as on consumer spending (+1.8%) and capital investment (+4%). The differential between the growth in exports (+9.8%) and imports (+7.6%) was positive during the year, even if the situation has reversed since then due to a strengthening of the Swiss franc.

The unemployment rate has fallen from a record level - for that virtuous country - of 4.5% in January to 3.6% in November. Inflation returned above zero in the first few months of the year, rising to 1.4% in March, subsequently declining to just over zero (0.2% in November). The Swiss National Bank has not intervened on official interest rates.

Conditions in the cantons where Banca Popolare di Sondrio (Suisse) S.A. is active were much like in the rest of the country.

## TERRITORIAL EXPANSION

The Group again maintained its commitment in favour of business activities in the territories that it serves.

In particular, the Parent Bank has strengthened its distribution network with the inauguration of seven new branches in Lombardy, two in Trentino, and the other three split among Liguria, Veneto and Lazio.

Banca Popolare di Sondrio (Suisse) SA has been involved in consolidating its positions in the areas where it opened most recently, aiming to reinforce its relationships with local customers, both individuals and companies.

At the end of 2010, the Group could count on a total of 312 branches.

## GROUP PERFORMANCE

### Funding

In a year when markets continued to be conditioned by severe uncertainty and nervousness, with the rate on long positions at all-time lows, our Group managed not only to retain the trust of our customers, but also to increase it considerably.

This can be seen immediately in the figure for direct customer deposits, 20,847 million, an increase of 8.77% which is higher than the system average. This can be considered quite satisfactory given the difficult context in which it was achieved.

Deposits received from banks have risen by 41.32% to 2,541 million

Indirect customer deposits have risen by 11.70% to 25,023 million, while insurance deposits went up by 16.39% to 610 million. Indirect deposits from banks amounted to 4,078 million, +7.68%.

Total funding therefore amounted to 53,099 million, +13.67%.

Analysis of the individual items shows that there has been a very dynamic trend in current accounts: with an increase of 2.99% to 16,339 million, they account for 78.37% of the Group's entire direct deposits.

### DIRECT CUSTOMER DEPOSITS

(in thousands of euro)	2010	% of total	2009	% of total	% change
Savings deposits	684,017	3.28	665,941	3.47	2.71
Certificates of deposit	30,315	0.15	33,746	0.18	-10.17
Bonds	1,971,667	9.46	1,602,804	8.36	23.01
Repo transactions	1,747,431	8.38	908,367	4.74	92.37
Bank drafts and similar	74,380	0.36	90,639	0.47	-17.94
Current accounts	14,755,923	70.78	14,594,318	76.15	1.11
Current accounts in foreign currency	1,583,030	7.59	1,270,018	6.63	24.65
<b>Total</b>	<b>20,846,763</b>	<b>100.00</b>	<b>19,165,833</b>	<b>100.00</b>	<b>8.77</b>

### TOTAL FUNDING

(in thousands of euro)	2010	% of total	2009	% of total	% change
Total direct customer deposits	20,846,763	39.26	19,165,833	41.03	8.77
Total indirect customer deposits	25,022,949	47.12	22,402,205	47.96	11.70
Total insurance-related deposits	610,206	1.15	524,259	1.12	16.39
<b>Total</b>	<b>46,479,918</b>	<b>87.53</b>	<b>42,092,297</b>	<b>90.11</b>	<b>10.42</b>
Due to banks	2,540,918	4.79	1,797,939	3.85	41.32
Indirect funding from banks	4,077,835	7.68	2,820,992	6.04	44.55
<b>Grand total</b>	<b>53,098,671</b>	<b>100.00</b>	<b>46,711,228</b>	<b>100.00</b>	<b>13.67</b>



Repo transactions rose by far more: after collapsing the previous year, they bounced back to 1,747 million, +92.37%, helped by the recovery in interest rates in the latter part of the year. The bonds also increased by 23.01% to 1,981 million, largely due to the issue of a step-up subordinated lower tier II bond (a loan with increasing interest rates and suitable characteristics to be included in Tier 2 capital for supervisory purposes) for an amount of 350 million issued by the Parent Bank. Savings deposits rose to 684 million, +2.71%.

Assets under management reported 4,360 million, +6.04%.

## Loans

The Group's credit and loans activity aimed, on the one hand, to ensure adequate financial assistance for our main interlocutors: businesses and households, on the other, to protect the quality of credit in difficult economic conditions.

As regards the first aspect, we would highlight the growth in loans to 21,207 million, + 16.81%. A result that was certainly helped by Factorit spa joining the Group, though loans would have gone up considerably quite apart from this company's important contribution. An activity that we have directed above all in favour of the local economies that we serve, in line with our tradition. As regards protecting the quality of credit, every effort was made to improve the effectiveness of our risk management tools. This was accompanied by prudent evaluation of the loans granted, which led to substantial loan adjustments, even if less than the previous year. Current account overdrafts increased to 6,291 million, +6.81%. Mortgage loans, which rose to 7,298 million, +22.49%, are the main component of customer loans,

## DUE FROM CUSTOMERS

(in thousands of euro)	2010	% of total	2009	% of total	% change
Current accounts	6,291,307	29.66	5,890,082	32.44	6.81
Foreign currency loans	1,810,391	8.54	2,093,810	11.53	-13.54
Advances	357,055	1.68	364,463	2.01	-2.03
Advances with recourse	260,468	1.23	229,708	1.27	13.39
Discounted portfolio	14,679	0.07	10,584	0.06	38.69
Artisan loans	24,403	0.12	27,071	0.15	-9.86
Agricultural loans	31,820	0.15	32,201	0.18	-1.18
Personal loans	85,150	0.40	86,228	0.47	-1.25
Other unsecured loans	3,489,734	16.46	3,308,505	18.22	5.48
Mortgage loans	7,298,486	34.41	5,958,536	32.82	22.49
Net non-performing loans	207,572	0.98	154,657	0.85	34.21
Repo transactions	6,469	0.03	-	-	-
Factoring	1,329,623	6.27	-	-	-
<b>Total</b>	<b>21,207,157</b>	<b>100.00</b>	<b>18,155,845</b>	<b>100.00</b>	<b>16.81</b>



and represent 34.41%. The other unsecured loans come to 3,490 million, +5.48%. Factoring appears for the first time in our financial statements, for an amount of 1,330 million, which is naturally due to Factorit spa. Foreign currency loans are showing a negative trend, 1,810 million, -13.54%, as are advances, 357 million, -2.03%.

As regards credit quality: non-performing loans, net of write-downs, amounted to 208 million (+34.21%), corresponding to 0.98% of the total of customer loans, with respect to 0.85% of the previous year. Even though non-performing loans have gone up considerably in percentage terms due to the general economic context which is still difficult, they are still relatively low compared with the system, thanks to constant monitoring of credit risk.

Watchlist loans, being loans to borrowers in temporary difficulties that are expected to be resolved, amount to 253 million euro, +49.00%, or 1.19% of total loans to customers compared with 0.93% last year.

Restructured loans amount to 63 million, +58.72%, as companies have been making more use of loan restructuring procedures in accordance with arts. 67 and 182 of the Bankruptcy Law. Impaired past-due loans calculated according to the new rules issued by the Bank of Italy come to 230 million (+16.59%). Several different technical forms have contributed to varying degrees to the positive trend in loans. These items have been described above in more detail and with different criteria with respect to table 7.1 of the Notes to the financial statements, Section 7 Part B.

## **Portfolio of financial assets**

At 31 December 2010, the net interbank position showed a negative amount of 1,521 million; at the end of 2009 we had a negative balance of 721 million. This borrowing situation, which also reflects the consolidation of Factorit spa, was also the case during the year, having to cope with a money market conditioned by limited liquidity, though the Parent Bank managed to procure funds for itself without too much difficulty. Alongside our traditional operations on the e-MID (electronic deposits market), our volumes increased on the MIC (collateralised interbank market), which since October has been replaced by the New MIC. Like the old one, it is devoid of counterparty risk and therefore preferred for long maturities. The guarantee and central counterparty functions of the New MIC have been delegated to the Cassa di Compensazione e Garanzia (clearing house).

Together, the portfolios of financial assets at 31 December 2010 come to a total of 3,268 million, a decrease of 3.12%. The following table summarises the various amounts:

## FINANCIAL ASSETS

(in thousands of euro)	2010	2009	% change
Financial assets held for trading (HFT - Held For Trading)	2,818,721	2,896,989	-2.70%
<i>of which, derivatives</i>	83,101	65,074	27.70%
Financial assets at fair value (CFV - Carried at Fair Value)	91,888	98,822	-7.02%
Financial assets available for sale (AFS - Available For Sale)	106,969	113,447	-5.71%
Financial assets held to maturity (HTM - Held to Maturity)	249,304	263,654	-5.44%
Hedging derivatives	940	11	-
<b>Total</b>	<b>3,267,822</b>	<b>3,372,923</b>	<b>-3.12%</b>

The overall decline amounts to 106 million and concerns all portfolios, though to differing extents.

### Financial assets held for trading

Financial assets held for trading (HFT), amounting to 2,819 million as shown in the following table, have decreased by 2.70%:

(in thousands of euro)	2010	2009	% change
Floating-rate Italian government securities	2,184,758	2,312,247	-5.51%
Fixed-rate Italian government securities	121,242	131,559	-7.84%
Bank bonds	202,477	189,854	6.65%
Bonds of other issuers	67,951	39,158	73.53%
Securitisations	98,993	104,656	-5.41%
Variable-yield securities and shares of collective investment undertakings	60,199	54,441	10.58%
Net book value of derivative contracts	83,101	65,074	27.70%
<b>Total</b>	<b>2,818,721</b>	<b>2,896,989</b>	<b>-2.70%</b>

The HFT portfolio, which continued to be made up principally of CCTs, has been affected by the crisis that hit financial markets. The overall result is therefore negative for 59.54 million, compared with a positive one in 2009 for 112.32 million. «Net trading income» referred to total fixed-yield securities include net trading profits of 4.07 million, losses of 63.79 million and gains of 8.88 million. To these we have to add 1.07 million of variable-yield securities and shares of collective investment undertakings, gains of 0.04 million and net losses on these securities of 9.82 million. Last year, on the other hand, the portfolio included: gains of 64.48 million; net profits of 52.63 million and losses of 4.79 million.

The HFT portfolio continued to be made up principally of CCTs (being

77.51% of it). Floating-rate bonds amount to 270 million, + 18.08%, of which 202 million are bank bonds. Securities that are part of securitisations are all senior and have fallen to 99 million, because of partial reimbursements and sales. Of fixed-income Government securities, which amount to 121 million, consist of BTPs, down on last year mainly because of reimbursements on maturity. Equities and mutual funds have gone up to 60 million, though this is marginal, whereas derivatives rise to 27.70% to 83 million.

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

Financial assets carried at fair value (CFV) come to 92 million, -7.02%, mainly because of the disposal of units in a mutual fund.

They are made up of mutual funds and sicavs of various kinds for 63 million and CCTs for 29 million.

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

The portfolio of financial assets available for sale (AFS) amount to 107 million, down 6 million, -5.71%. They consist of fixed-yield securities for 31 million, mainly bank bonds, variable-yield securities for 64 million and mutual funds for 12 million.

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

The main changes are for the reclassification to equity investments of the interest held in Banca della Nuova Terra spa, 14.7 million, including the increase during the year for an outlay of 10.1 million, and impairment adjustments of 3.3 million, mainly on listed equities.

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

At the end of 2010 the HTM portfolio amounted to 249 million, with a decrease of 15 million, -5.44%.

As regards HTM financial assets, first of all it is worth mentioning again the fact that in 2008 the particularly negative performance of equity and bond markets induced the Bank to take advantage of the amendment to IAS 39 issued by the International Accounting Standards Board (IASB) on 13 October 2008 and ratified by the European Commission with EC Regulation 1004/2008 of 15 October 2008, which modified Regulation 1725/2003. This made it possible to derogate, in exceptional circumstances, from the ban on transferring financial assets (except for derivatives) from the category of those carried at fair value through profit and loss to another where they are accounted for at amortised cost. As a result, we transferred from the HFT portfolio to the HTM portfolio unlisted bonds that were illiquid and not expected to be sold. These had a par value of 243 million and were carried at 233 million, whereas

their fair value at 31 December 2008 was 193 million, generating a theoretical loss, prior to the tax effect, of 40 million.

At 31 December 2010, these securities amount to 199 million, with a decrease of 12.15% following reimbursements compared with 226 million in the previous year, and are valued at 190 million. The theoretical loss, prior to the tax effect, has therefore been reduced to 9 million.

The BPS stock, which is listed on the MTA, the screen-based market, Blue Chips segment, of the Italian Stock Exchange, saw its price fall by 14.05%.

Banca Popolare di Sondrio (Suisse) SA and Factorit spa did not carry out any transactions in their own shares or those of the Parent Bank. The other consolidated companies did not carry out any transactions in their own or the parent bank's shares either.

There are no cross-holdings among the companies included within the scope of consolidation.

## EQUITY INVESTMENTS

Equity investments amount to 121.731 million, with a rise of 10.77%. The reader is referred to the report accompanying the parent bank's financial statements and to the notes Part A, sections 3 and 10 for the related comments.

### Related party transactions

Related party transactions, as identified in accordance with IAS 24 and with the «Regulation on related party transactions», issued by CONSOB with resolution 17221 of 12 March 2010 and subsequent amendments, form part of the Group's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred.

As regards the provisions of the CONSOB Regulation, during the period 1 January to 31 December 2010, no transactions of greater or lesser relevance were carried out with related parties, which could have had a significant impact on the Group's balance sheet or results. In addition, there were no modifications and/or developments of transactions carried out in 2009, that had or could have a significant effect on the Group's balance sheet or results.

In relation to the contents of CONSOB Communication DEM/6064293 of 28 July 2006, we would like to point out that related party transactions or balances, as classified by IAS 24 and CONSOB Regulation, are not material to the Group's balance sheet, financial position, results and cash flow. In the notes to the financial statements, the paragraph entitled «Related party transactions» includes a table that summarises these figures. During 2010 and the current year, there have not been any positions or transactions deriving from atypical or unusual operations.

According to CONSOB Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are any that may raise doubts concerning the accuracy of the disclosures in the

financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the subject of the transaction, the methods in which the transfer price is set or the time at which the transaction is carried out.

## GOODWILL

Following the Parent Bank's acquisition of control of Factorit spa – accounted for in accordance with IFRS 3 – the measurement and recognition of goodwill was performed as required by IAS 36. This goodwill amounts to 8.959 million, of which 7.847 million relates to the acquisition of Factorit spa and 1.112 million to the absorption of InFactor spa by Factorit spa in 1999. This goodwill has been tested for impairment to identify any losses in value. The criteria used in the impairment test are explained in part B of the notes. The result of these valuation processes showed that there was no need to write down the goodwill shown in the balance sheet.

## TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

(in thousands of euro)

	Associated companies of the parent company	Associated companies of subsidiaries	Subsidiaries of associated companies	
	2010	2009	2010	2009
<b>ASSETS</b>				
Due from banks	67,000	180,641	-	-
Due from customers	335,763	-	242	279
Other financial assets	11,839	11,489	-	-
<b>LIABILITIES AND EQUITY</b>				
Due to banks	-	-	-	-
Due to customers	7,169	22,969	1,344	579
Other financial liabilities	-	14	-	-
<b>GUARANTEES AND COMMITMENTS</b>				
Guarantees given	48,202	-	1,654	1,421
Commitments	2,371	-	-	-

## HUMAN RESOURCES

At the end of 2010 the Group had 2,974 employees, an increase of 5.99% compared with 2,806 at the end of the previous year.

The increase is due to Factorit spa for 144 people, while the rest is due to the territorial expansion of the Parent Bank.

The personnel department has been heavily involved in selecting, training and managing the staff to ensure that the necessary professional resources are available for the Group's operational development and growth.

A breakdown of personnel by individual category is contained in the notes.

## CAPITAL AND RESERVES

Consolidated net equity, prior to net profit for the year, rose by 6.74% to 1,708.975 million 31 December 2010.

The share capital, consisting of 308,147,985 ordinary shares with par value of 3 euro, is unchanged at 924.444 million. The share premium reserve, 174.315 million, decreased by 1.01% because of the allocation of losses resulting from trading in treasury shares of 1.770 million. The reserves rose to 642,231 million (+18.70%) due to the allocation of part of the net profit for 2009. Valuation reserves have gone from a negative balance of 0.321 million to a positive one of 0.806 million.

As regards treasury shares, it is worth noting that at the end of 2009 the Parent Bank held 3,850,000 shares worth 32,821 million compared with 40,211 at the end of 2009. Purchases were made using the specific provision of 73 million shown in the financial statements under Reserves. During the year, trading aimed at favouring the circulation of our shares included purchases of 377,316 shares, for a total of 1,131,948 euro at par (0.122% of the share capital) and sales of 1,149,893 shares, for a total of 3,449,679 euro at par (0.373% of the share capital). The market value of purchases was 2.5 million; that of sales 8.1 million. These trades resulted in a loss of 1.770 million, which was booked to equity.

The relationship between equity and the principal financial parameters is summarised below:

- *capital/direct customer deposits*  
8.20%, with respect to 8.35%;
- *capital/customer loans*  
8.06%, with respect to 8.82%;
- *capital/financial assets*  
52.31%, with respect to 47.47%;
- *capital/total assets*  
6.50%, with respect to 6.83%;
- *net non-performing loans/equity*  
12.15%, with respect to 9.66%.

## RECONCILIATION BETWEEN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(in thousands of euro)

	Equity	of which: Net profit for the year
Equity of the parent bank as of 31.12.2010	1,722,831	133,320
Consolidation adjustments	-	-
Difference with respect to carrying values of equity investments in:		
- companies consolidated on a line-by-line basis	126,651	3,810
- companies valued using the equity method	(5,358)	(1,981)
<b>Balance as of 31.12.2010, as reported in the consolidated financial statements</b>	<b>1,844,124</b>	<b>135,149</b>

## INCOME STATEMENT

The year featured above all the Parent Bank's acquisition of Factorit spa, which had an important impact on both sides of the income statement. The Group result was conditioned by an ongoing general economic situation that has only seen weak signs of recovery, while financial markets have remained nervous. Net profit amounted to 135.149 million, -32.78%.

The trends in the various components of the income statement largely reflect those seen in the parent bank's own financial statements. Net interest income has fallen from 465.990 to 426.644 million, -8.44%, at a time when market rates were more or less stable at all-time low, while there was a further cut in customer spreads, though every effort was made to ensure that risk was remunerated correctly.

Net commission income is showing good growth: 253.663 million, +22.96%. Dividends collected amounted to 3.397 million, +5.37%. The results of financial activities were negative for 34.726 million, while the previous year it was positive for 138,183. This following the crisis on financial markets, which closed the year close to its lows, leading to a substantial rise in unrealized losses. The previous year, on the other hand, saw considerable

gains. Income from banking activities went down as a result from 813.690 to 648.978 million, -20.24%. Net interest income makes up 65.74% of this aggregate, while other banking income contributes the other 34.26%.

Net adjustments to loans and financial assets available for sale held to maturity show a balance of 141.061 million, -4.31%.

Loans due from customers showed adjustments of 135.147 million, -5.53%. Even though these adjustments have fallen slightly, they are still at quite a high level for our Bank. This is partly due to the ongoing effects of the economic cycle and partly due to our prudent valuations. The impairment losses on securities of 5.106 million, +16.95%, related to certain listed equities and to mutual funds shown under financial assets available for sale, for which an objective reduction in value was ascertained when the original book values were compared with their market prices. Adjustments to other financial transactions amounted to 0.808 million.

The ratio of net adjustments to customer loans/total customer loans - the so-called cost of credit - came to 0.64% compared with 0.79% the previous year.

The net balance of financial management was therefore 507.917 million, -23.77%.

Operating costs rose by 5.75% to 369,448 million, administrative expenses by 5.93% to 387.742 million. Of these, payroll costs have gone up by 8.75% to 203,279 million. In addition to the higher number of employees - especially after the entrance of Factorit into the Group - the rise is due to increases stated in labour contracts. Other administrative expenses increased by 2.99% to 184.463 million. The increase was more marked in the area of ICT and data processing costs, as well as indirect taxes. Net provisions for risks and charges amount to 2.430 million, this being the difference between the allowances made and the prior year provisions released during the year. Other operating income, net of other operating expenses, resulted in a positive balance of 41,868 million, +3.34%. The largest item in this figure is tax rebates.

Adjustments to property, plant and equipment and amortisation of software amounted to 26.004 million, +11.29%.

The ratio of operating costs/income from banking activities was 56.93%, compared with 42.93% the previous year. It benefited from the non-recurring positive result of trading activities, whereas last year it reflected an extraordinarily positive result. Operating profit came to 138.469 million, -56.31%.

The item «profit (loss) of equity investments and profit (loss) from disposal of investments» was positive for 59.318 million compared with the loss of 1.972 million. It derives for 58.404 million from the realised gains on the partial sale of the interest in Arca Vita Spa and of the total holding in Arca Assicurazioni spa; for 1.013 million to the positive contribution made by equity investments on consolidation, for 0.069 million to write-backs and for 0.168 million to losses on disposal of property, plant and equipment. Accordingly, the profit from ordinary operations was 197.787 million, -37.20%. After deducting income taxes of 60.988 million, down by 48.27% due to lower taxable income, also because of the reduced taxation to which the gains on



sale of equity investments are subject (thanks to the PEX regime), and the profit pertaining to minority interests of 1.650 million, the net profit pertaining to the Group comes to 135.149 million, -32.78%.

## SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	2010	2009	(+/-)	% change
Net interest income	426,644	465,990	-39,346	-8.44%
Dividends	3,397	3,224	173	5.37%
Net commission income	253,663	206,293	47,370	22.96%
Results of financial activities	-34,726	138,183	-172,909	-
<b>Income from banking activities</b>	<b>648,978</b>	<b>813,690</b>	<b>-164,712</b>	<b>-20.24%</b>
Net adjustments to loans and financial assets	-141,061	-147,417	6,356	-4.31%
<b>Balance of financial management</b>	<b>507,917</b>	<b>666,273</b>	<b>-158,356</b>	<b>-23.77%</b>
Personnel costs	-203,279	-186,929	-16,350	8.75%
Other administrative expenses	-184,463	-179,113	-5,350	2.99%
Other operating income/expense	41,868	40,516	1,352	3.34%
Net provisions for risks and charges	2,430	-461	2,891	-
Adjustments to property, plant and equipment and intangible assets	-26,004	-23,366	-2,638	11.29%
<b>Operating costs</b>	<b>-369,448</b>	<b>-349,353</b>	<b>-20,095</b>	<b>5.75%</b>
<b>Operating profit (loss)</b>	<b>138,469</b>	<b>316,920</b>	<b>-178,451</b>	<b>-56.31%</b>
Share of profit (loss) of equity investments and other investments	59,318	-1,972	61,290	-
<b>Profit (loss) before tax</b>	<b>197,787</b>	<b>314,948</b>	<b>-117,161</b>	<b>-37.20%</b>
Income taxes on current operations	-60,988	-117,892	56,904	-48.27%
Net profit (loss) of current operations	136,799	197,056	-60,257	-30.58%
Profit (loss) after tax on non-current assets held for sale	-	4,008	-4,008	-
<b>Net profit (loss)</b>	<b>136,799</b>	<b>201,064</b>	<b>-64,265</b>	<b>-31.96%</b>
Profit pertaining to minority interests	-1,650	-	-1,650	-
<b>Profit pertaining to the Parent Bank</b>	<b>135,149</b>	<b>201,064</b>	<b>-65,915</b>	<b>-32.78%</b>

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



## SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the parent bank's financial statements for information on events that took place after 31 December 2010. There are no matters to be reported for the subsidiaries Banca Popolare di Sondrio (Suisse) SA and Factorit spa.

As regards future prospects, the current events in certain Arab countries have stoked market tensions and the inflationary pressure linked, above all, to the energy sector.

For our Group, net interest income is expected to rise slightly, partly thanks to rising interest rates and partly thanks to a certain amount of growth in volumes.

Income from banking activities is expected to rise, thanks to an improvement in net commission income and, above all, financial profits.

Net adjustments to loans are likely to stay quite high, while costs are expected to increase in line with previous years.

The bottom line should therefore improve.

*Sondrio, 11 March 2011*

THE BOARD OF DIRECTORS

**CONSOLIDATED  
FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2010**



## CONSOLIDATED BALANCE SHEET

(thousands of euro)

ASSET ITEMS		31-12-2010	31-12-2009
10.	CASH AND BALANCES WITH CENTRAL BANKS	127,102	122,898
20.	FINANCIAL ASSETS HELD FOR TRADING	2,818,721	2,896,989
30.	FINANCIAL ASSETS CARRIED AT FAIR VALUE	91,888	98,822
40.	FINANCIAL ASSETS AVAILABLE FOR SALE	106,969	113,447
50.	FINANCIAL ASSETS HELD TO MATURITY	249,304	263,654
60.	DUE FROM BANKS	1,019,729	1,076,720
70.	DUE FROM CUSTOMERS	21,207,157	18,155,845
80.	HEDGING DERIVATIVES	940	11
100.	EQUITY INVESTMENTS	121,731	109,897
120.	PROPERTY, PLANT AND EQUIPMENT	219,294	185,282
130.	INTANGIBLE ASSETS	20,938	8,207
	of which:		
	- Goodwill	8,959	-
140.	TAX ASSETS	93,103	42,381
	a) current	22,074	-
	b) deferred	71,029	42,381
150.	NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	-	60,378
160.	OTHER ASSETS	205,508	320,024
<b>TOTAL ASSETS</b>		<b>26,282,384</b>	<b>23,454,555</b>

THE CHAIRMAN  
Piero Melazzini

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



<b>EQUITY AND LIABILITY ITEMS</b>		<b>31-12-2010</b>	<b>31-12-2009</b>
10.	DUE TO BANKS	<b>2,540,918</b>	<b>1,797,939</b>
20.	DUE TO CUSTOMERS	<b>18,770,401</b>	<b>17,438,644</b>
30.	DEBT SECURITIES IN ISSUE	<b>2,076,362</b>	<b>1,727,189</b>
40.	FINANCIAL LIABILITIES HELD FOR TRADING	<b>100,517</b>	<b>72,517</b>
60.	HEDGING DERIVATIVES	<b>23,601</b>	<b>11,330</b>
80.	TAX LIABILITIES	<b>23,319</b>	<b>107,594</b>
	a) current	-	87,699
	b) deferred	23,319	19,895
100.	OTHER LIABILITIES	<b>679,714</b>	<b>348,922</b>
110.	RESERVE FOR TERMINATION INDEMNITIES	<b>37,769</b>	<b>35,754</b>
120.	PROVISIONS FOR RISKS AND CHARGES	<b>121,982</b>	<b>112,540</b>
	a) post-employment benefits	77,216	74,669
	b) other provisions	44,766	37,871
140.	VALUATION RESERVES	<b>806</b>	<b>(321)</b>
170.	RESERVES	<b>642,231</b>	<b>541,065</b>
180.	SHARE PREMIUM RESERVE	<b>174,315</b>	<b>176,085</b>
190.	SHARE CAPITAL	<b>924,444</b>	<b>924,444</b>
200.	TREASURY SHARES (-)	<b>(32,821)</b>	<b>(40,211)</b>
210.	EQUITY ATTRIBUTABLE TO MINORITY INTERESTS (+/-)	<b>63,677</b>	-
220.	NET PROFIT (LOSS) FOR THE YEAR	<b>135,149</b>	<b>201,064</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>26,282,384</b>	<b>23,454,555</b>

THE GENERAL MANAGER  
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER  
Maurizio Bertoletti



## CONSOLIDATED INCOME STATEMENT

(thousands of euro)

ITEMS	2010	2009
10. INTEREST INCOME AND SIMILAR REVENUES	633,171	727,676
20. INTEREST EXPENSE AND SIMILAR CHARGES	(206,527)	(261,686)
30. <b>NET INTEREST INCOME</b>	<b>426,644</b>	<b>465,990</b>
40. COMMISSION INCOME	271,009	220,042
50. COMMISSION EXPENSE	(17,346)	(13,749)
60. <b>NET COMMISSION INCOME</b>	<b>253,663</b>	<b>206,293</b>
70. DIVIDENDS AND SIMILAR INCOME	3,397	3,224
80. NET TRADING INCOME	(34,955)	137,927
90. NET HEDGING GAINS (LOSSES)	(217)	(5,762)
100. GAINS/LOSSES ON DISPOSAL OR REPURCHASE OF:	(360)	(1,459)
b) financial assets available for sale	(327)	(1,062)
c) financial assets held to maturity	-	43
d) financial liabilities	(33)	(440)
110. NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE	806	7,477
120. <b>INCOME FROM BANKING ACTIVITIES</b>	<b>648,978</b>	<b>813,690</b>
130. NET IMPAIRMENT ADJUSTMENTS:	(141,061)	(147,417)
a) loans	(135,147)	(143,051)
b) financial assets available for sale	(5,106)	(4,366)
d) other financial transactions	(808)	-
140. <b>BALANCE OF FINANCIAL MANAGEMENT</b>	<b>507,917</b>	<b>666,273</b>
170. <b>BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT</b>	<b>507,917</b>	<b>666,273</b>
180. ADMINISTRATIVE EXPENSES:	(387,742)	(366,042)
a) personnel expenses	(203,279)	(186,929)
b) other administrative expenses	(184,463)	(179,113)
190. NET PROVISIONS FOR RISKS AND CHARGES	2,430	(461)
200. NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(16,027)	(15,408)
210. NET ADJUSTMENTS TO INTANGIBLE ASSETS	(9,977)	(7,958)
220. OTHER OPERATING CHARGES/INCOME	41,868	40,516
230. <b>OPERATING COSTS</b>	<b>(369,448)</b>	<b>(349,353)</b>
240. SHARE OF PROFIT (LOSS) OF EQUITY INVESTMENTS	59,486	(1,697)
270. GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS	(168)	(275)
280. <b>PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES</b>	<b>197,787</b>	<b>314,948</b>
290. INCOME TAXES ON CURRENT OPERATIONS	(60,988)	(117,892)
300. <b>PROFIT (LOSS) ON CURRENT OPERATIONS AFTER INCOME TAXES</b>	<b>136,799</b>	<b>197,056</b>
310. PROFIT (LOSS) AFTER TAX ON NON-CURRENT ASSETS HELD FOR SALE	-	4,008
320. <b>NET PROFIT (LOSS) FOR THE YEAR</b>	<b>136,799</b>	<b>201,064</b>
330. NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO MINORITY INTERESTS	(1,650)	-
340. <b>NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT BANK</b>	<b>135,149</b>	<b>201,064</b>

## STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items	2010	2009
10. <b>Net profit (loss) for the year</b>	<b>136,799</b>	<b>201,064</b>
<b>Other income items net of income taxes</b>		
20. Financial assets available for sale	1,127	6,894
110. <b>Total other income items net of income taxes</b>	<b>1,127</b>	<b>6,894</b>
120. <b>Comprehensive income (item 10+110)</b>	<b>137,926</b>	<b>207,958</b>
130. <b>Consolidated comprehensive income attributable to minority interests</b>	<b>(1,650)</b>	-
140. <b>Consolidated comprehensive income pertaining to the Parent Bank</b>	<b>136,276</b>	<b>207,958</b>



## STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2009	Change in opening balances	Opening balance at 1.1.2010	Allocation of prior year result		
				Reserves	Dividends and other allocations	Changes in reserves
<b>Share capital</b>						
a) ordinary shares	924,444	-	924,444	-	-	-
b) other shares	-	-	-	-	-	-
<b>Share premium reserve</b>	<b>176,085</b>		<b>176,085</b>	-	-	-
<b>Reserves</b>						
a) from earnings	541,065		541,065	100,110	-	408
b) other	-	-	-	-	-	648
<b>Valuation reserves</b>	<b>-321</b>	-	<b>-321</b>			-
<b>Equity instruments</b>	-	-	-	-	-	-
<b>Treasury shares</b>	<b>-40,211</b>	-	<b>-40,211</b>	-	-	-
<b>Net profit for the year</b>	<b>201,064</b>	-	<b>201,064</b>	<b>-100,110</b>	<b>-100,954</b>	-
<b>Equity attributable to the group</b>	<b>1,802,126</b>	-	<b>1,802,126</b>		<b>-100,954</b>	<b>1,056</b>
<b>Equity attributable to minority interests</b>	-	-	-	-	-	-

## STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2008	Change in opening balances	Opening balance at 1.1.2009	Allocation of prior year results	
				Reserves	Dividends and other allocations
<b>Share capital</b>					
a) ordinary shares	924,444	-	924,444	-	-
b) other shares	-	-	-	-	-
<b>Share premium reserve</b>	<b>176,085</b>		<b>176,085</b>	-	-
<b>Reserves</b>					
a) from earnings	498,998		498,998	34,011	151
b) other	-	-	-	-	-
<b>Valuation reserves</b>	<b>-7,215</b>	-	<b>-7,215</b>	-	-
<b>Equity instruments</b>	-	-	-	-	-
<b>Treasury shares</b>	<b>-45,452</b>	-	<b>-45,452</b>	-	-
<b>Net profit for the year</b>	<b>43,605</b>	-	<b>43,605</b>	<b>-34,011</b>	<b>-9,594</b>
<b>Equity</b>	<b>1,590,465</b>	-	<b>1,590,465</b>	-	<b>-9,443</b>



Changes during the year

Equity transactions							Comprehensive income	Equity attributable to the group at 31.12.2010	Equity attributable to minority interests at 31.12.2010
Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options				
-	-	-	-	-	-	-	-	<b>924,444</b>	<b>33,575</b>
-	-	-	-	-	-	-	-	-	-
<b>-1,770</b>	-	-	-	-	-	-	-	<b>174,315</b>	<b>4,357</b>
-	-	-	-	-	-	-	-	<b>641,583</b>	<b>24,160</b>
-	-	-	-	-	-	-	-	<b>648</b>	-
-	-	-	-	-	-	-	<b>1,127</b>	<b>806</b>	<b>-65</b>
-	-	-	-	-	-	-	-	-	-
<b>9,920</b>	<b>-2,530</b>	-	-	-	-	-	-	<b>-32,821</b>	-
-	-	-	-	-	-	-	<b>135,149</b>	<b>135,149</b>	<b>1,650</b>
<b>8,150</b>	<b>-2,530</b>	-	-	-	-	-	<b>136,276</b>	<b>1,844,124</b>	-
-	-	-	-	-	-	-	<b>1,650</b>	-	<b>63,677</b>

Changes in the year

Changes in reserves	Equity transactions						Stock options	Comprehensive income	Equity at 31.12.2009
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares				
-	-	-	-	-	-	-	-	-	<b>924,444</b>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	<b>176,085</b>
7,905	-	-	-	-	-	-	-	-	<b>541,065</b>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	<b>6,894</b>	<b>-321</b>
-	-	-	-	-	-	-	-	-	-
-	-	<b>5,241</b>	-	-	-	-	-	-	<b>-40,211</b>
-	-	-	-	-	-	-	-	<b>201,064</b>	<b>201,064</b>
<b>7,905</b>	-	<b>5,241</b>	-	-	-	-	-	<b>207,958</b>	<b>1,802,126</b>



## CONSOLIDATED CASH FLOW STATEMENT (indirect method)

	31-12-2010	31-12-2009
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Cash generated from operations</b>	<b>359,507</b>	<b>413,517</b>
- net profit for the year (+/-)	135,149	201,064
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	56,958	-74,902
- net hedging gains (losses) (-/+)	217	5,763
- net impairment adjustments (+/-)	124,143	107,846
- net adjustments to property, plant and equipment and intangible assets (+/-)	26,005	23,366
- provisions for risks and charges and other costs/revenues (+/-)	-870	140
- unpaid taxes and duties (+)	60,988	117,892
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	-	-4,008
- other adjustments (+/-)	-43,083	36,356
<b>2. Cash generated/absorbed by financial assets</b>	<b>-1,648,535</b>	<b>-1,580,555</b>
- financial assets held for trading	42,334	699,345
- financial assets carried at fair value	7,427	12,862
- financial assets available for sale	2,535	-24,261
- due from banks: sight	-70,406	105,221
- due from banks: other receivables	220,609	-250,720
- due from customers	-1,947,561	-2,117,673
- other assets	96,527	-5,329
<b>3. Cash generated/absorbed by financial liabilities</b>	<b>1,456,990</b>	<b>1,285,331</b>
- due to banks: sight	435,817	81,372
- due to banks: other payables	-501,316	665,350
- customer deposits	1,038,298	773,541
- debt securities in issue	318,808	81,794
- financial liabilities held for trading	15,543	-229,040
- financial liabilities carried at fair value	-	-
- other liabilities	149,840	-87,686
<b>Net cash generated/absorbed by operating activities</b>	<b>167,962</b>	<b>118,293</b>

	31-12-2010	31-12-2009
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash generated by</b>	<b>137,091</b>	<b>18,451</b>
- sales of equity investments	106,964	9,801
- dividends collected from equity investments	-	-
- sales and reimbursements of financial assets held to maturity	29,500	8,524
- sales of property, plant and equipment	627	126
- sales of intangible assets	-	-
- sale of business divisions	-	-
<b>2. Cash absorbed by</b>	<b>-214,232</b>	<b>-122,612</b>
- purchases of equity investments	-24,780	-80,523
- purchases of financial assets held to maturity	-12,779	-6,390
- purchases of property, plant and equipment	-60,172	-26,134
- purchases of intangible assets	-13,651	-9,565
- purchases of business divisions	-102,850	-
<b>Net cash generated/absorbed by investing activities</b>	<b>-77,141</b>	<b>-104,161</b>
<b>C. FINANCING ACTIVITIES</b>		
- issues/purchases of treasury shares	5,620	3,569
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	-100,953	-9,446
<b>Net cash generated/absorbed by financing activities</b>	<b>-95,333</b>	<b>-5,877</b>
<b>NET CASH GENERATED/ABSORBED IN THE YEAR</b>	<b>-4,512</b>	<b>8,255</b>

Key:

(+) generated (-) absorbed

## RECONCILIATION

Line items	31-12-2010	31-12-2009
Cash and balances with central banks at beginning of year	122,898	114,499
Total net cash generated/absorbed in the year	-4,512	8,255
Cash and balances with central banks: effect of change in exchange rates	8,716	144
Cash and balances with central banks at end of year	127,102	122,898



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## **PART A** *Accounting policies*

### *A.1 General information*

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

Banca Popolare di Sondrio s.c.p.a. declares that these consolidated financial statements have been prepared in accordance with all the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2010 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

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

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

#### **Section 2** *Basis of preparation*

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

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



complies with the Bank of Italy's Instructions dated 22 December 2005 (1st update of 18.11.2009).

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

The financial statements are prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 87/92, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.), the audit (art. 2409-bis c.c.) and publication (art. 2435 c.c.).

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

### **Section 3** *Scope of consolidation and methodology*

The consolidated financial statements represent the economic and financial position of the Banca Popolare di Sondrio banking group as of and for the year ended 31.12.2010; they comprise the financial statements of the parent bank, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.A., acquired during the year, and those companies in which the parent bank holds, directly or indirectly, the majority of voting rights,

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

Name	Location	Type of relationship <sup>(1)</sup>	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 100,000	100	100
Factorit S.p.a.	Milan	1	85,000	60.5	60.5
Pirovano Stelvio S.p.a.	Sondrio	1	2,064	100	100
Sinergia Seconda S.r.l.	Milan	1	50,000	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> = majority of voting rights at ordinary shareholders' meeting.

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

The joint venture shown below is valued at equity (IAS 31):

Name	Location	Type of relationship <sup>(1)</sup>	Share capital (in thousands)	% held	% of votes
Rajna Immobiliare srl	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:

- a) the Group has a representative on the Board of Directors or the equivalent body of the affiliate;

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

These holdings are valued using the equity method, except for insignificant interests which are valued at cost.

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the company's net result for the year pertaining to the bank is shown in a specific item in the income statement.

The ownership percentages are specified in the following table:

Name	Location	Share capital (in thousands)	% held
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milan	75	33.333
Sofipo Fiduciaria S.A.	Lugano	(CHF) 2,000*	30
B & A Broker S.p.a.	Milan	816	28.571
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27
Sifas S.p.a.	Bolzano	1,209**	21.614
Alba Leasing S.p.a.	Milan	255,000	20.950
Banca della Nuova Terra S.p.a.	Milan	45,000	19.500
Arca Vita S.p.a.	Verona	90,000	15.036

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

\*\* held by Pirovano Stelvio S.p.a.

With line-by-line consolidation, the book value of the investments is eliminated against the related equity and all of the assets and liabilities, guarantees, commitments and other memorandum accounts are included, as are the revenues and costs of the subsidiaries.

Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated. The financial statements of these group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the group.

Companies in which the bank does not have an investment, but for which it has received pledged voting shares are not consolidated, because the pledge is designed to protect the loans granted and not to influence the company's operating policies to obtain economic benefits.

#### Translation of financial statements in currencies other than the euro

The financial statements of Banca Popolare di Sondrio (Suisse) SA are translated into euro at the official year-end exchange rate for balance sheet items, while costs and revenues are translated into euro at average exchange rate. Differences arising on translation of the financial statements are booked to reserves.

#### **Section 4** *Subsequent events*

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 11/3/2011 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

## **Section 5** *Other aspects*

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

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

Preparing financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, and the use of valuation models for identifying the fair value of instruments that are not listed on active markets, on the basis of business continuity and excluding forced sales of assets. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Bank and other Group companies defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2010, as required by prevailing accounting standards and relevant regulation. These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale.

The outcome of this work supports the carrying amount of these items at 31 December 2010. It should be stated, however, that this valuation process was particularly complex in view of the current macroeconomic and market context, featuring abnormal volatility in all financial measures used for valuation purposes, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used for verifying the values mentioned above have been heavily affected by the particularly uncertain macroeconomic and market environment which could, like in recent months, experience currently unforeseeable rapid changes, with a consequent impact, including materially, on the amounts reported in the financial statements at 31 December 2010.

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

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

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

##### **Classification**

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



even after separation, and the hybrid instruments to which they belong are not measured at fair value through the income statement.

### **Recognition**

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

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

### **Accounting policies**

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

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

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

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

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

### **Derecognition**

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

## **2. Financial assets available for sale**

### **Classification**

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

In particular, this caption includes securities not held for trading and equity interests, also not held for trading, that do not represent investments in subsidiary companies, associated companies or companies under joint control.

## Recognition

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

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

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

## Accounting policies

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

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

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

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

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

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

## Recognition of components affecting the income statement

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

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

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

## Derecognition

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

### **3. Financial assets held to maturity**

#### **Classification**

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

#### **Recognition**

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

Any assets booked under the terms of the amendment to IAS 39 regarding the application of fair value, as adopted by the European Union with EC Regulation 1004/2008 of 15/10/2008 are measured at their fair value as of 1 July 2008, providing they were on the books as of 1/7/2008; those booked subsequently are shown at their fair value at the date of reclassification.

#### **Accounting policies**

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

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

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

#### **Derecognition**

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

### **4. Receivables**

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

##### **Classification**

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

##### **Recognition**

Receivables and loans are classified in the receivables portfolio when they are paid out or acquired and cannot be transferred to other portfolios subsequently. Loans include the advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables assigned to the company and booked in the name of the assigned debtor for which the related risks and benefits have all been substantially transferred to the assignee. Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases

with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method». Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them. The initially recorded value includes any transaction costs and revenues directly associated with each loan.

### **Accounting policies**

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

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

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

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

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

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

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

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

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

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

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

- a) plans for the recovery and/or restructuring of the loans, considering the assessment made by the offices concerned;

b) discounting rates represented by the actual or contractual interest rates applying prior to reaching agreement with the borrowers.

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

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

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

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

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

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

### **Derecognition**

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

## **4.2 Endorsement loans**

### **Classification**

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

### **Recognition and measurement**

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

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

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

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

The portfolio of «Financial assets measured 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 measured at fair value booked to the income statement in the period when they arise to «net change in financial assets and liabilities measured at fair value».

## **6. Hedging transactions**

### **Classification and recognition**

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

The hedging of market risks can take two different forms:

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

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

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

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

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

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

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

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

## **Derecognition**

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

## **7. Equity investments**

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

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

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

## **Recognition**

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

## **Accounting policies**

Investments are subsequently valued at equity, determined with reference to the value indicated in the latest approved financial statements. The initially-recorded value of each equity investment is increased or decreased in proportion to the net profit or loss for the year of the company concerned, and is reduced by the amount of any dividends collected. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

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

The negative differences on initial recognition, the interest in net profits or losses for the year, gains and losses on disposal and impairment losses are recorded in the «share of profit/loss of equity investments» caption of the income statement.



### **Derecognition**

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

## **8. Property, plant and equipment**

### **Classification**

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

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

### **Recognition**

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

### **Accounting policies**

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

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

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

### **Derecognition**

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

## **9. Intangible assets**

### **Classification**

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

Intangible assets comprise software and goodwill.



## Recognition

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

Goodwill is booked to assets when it derives from a business combination according to the criteria laid down in IFRS 3 as the residual surplus between the overall cost incurred for the operation and the net fair value of the acquired assets and liabilities that constitute businesses or business units. If the cost incurred is lower than the fair value of the assets and liabilities acquired, the negative difference («badwill») is booked directly to the income statements.

## Accounting policies

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any impairment in value. Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned. If there is evidence of impairment at the reporting date, the asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement. Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable value is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.

## Recognition of components affecting the income statement

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

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

## Derecognition

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

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

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

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



## 11. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes. Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation since, at present, the conditions for the payment of such taxation in future do not apply. Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain.

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

## 12. Provisions for risks and charges

This caption comprises the following provisions:

- a) Provisions for other long-term employee benefits. These are included in «Provisions for risks and charges» based on the valuation of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of the reserve for termination indemnities; once again, the actuarial gains and losses deriving from actuarial estimates are booked to the income statement. These are:
  - 1) Post-employment benefits. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Bank has not adopted the «corridor» method allowed by IAS 19. The bank is responsible for any unfunded liabilities.
  - 2) Provision for long-service bonuses. This represents the liability for bonuses to employees who reached a period of service of 30 years. It is recorded under «other provisions».
- b) Other provisions. This caption comprises the provision for long-service bonuses mentioned above and provisions recorded for liabilities whose timing and extent cannot be determined, which can be recognised in the financial statements when:
  - 1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
  - 2) it is likely that settlement of the obligation will involve the use of economic resources;
  - 3) a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

## 13. Payables and debt securities in issue

### Classification

Amounts due to customers and banks and debt securities in issue comprise the financial instruments (other than trading instruments) that represent the normal funding of the Group's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions and the value of the consideration still to be paid to the assignor in factoring transactions that involve an assignment of receivables with the transfer of the related risks and benefits versus the assignee.

## **Recognition**

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected by the bank. The amount initially recorded includes any transaction costs and revenues that are directly related to each liability; this amount does not include the charges made to creditors in order to recover administrative costs. The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

## **Accounting policies**

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

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

Interest expense linked to funding instruments are booked to the income statement under «Interest expense and similar charges».

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

## **Derecognition**

Financial liabilities are derecognised when they expire or are settled.

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

## **14. Financial liabilities held for trading**

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

## **15. Financial liabilities at fair value**

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

## **16. Currency transactions**

### **Classification**

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



### **Recognition**

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

### **Accounting policies**

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Long-term investments expressed in foreign currency are converted at the exchange rate ruling at the time of purchase.

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

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

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

### **Derecognition**

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

## **17. Termination indemnities**

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

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

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements. The actuarial gains and losses arising from adjustments to the actuarial estimates are recorded in the income statement with reference to the estimated residual period of service of employees.

## **18. Other information**

All assets sold have been eliminated from the financial statements.

The Bank and other Group companies have not established any stock option plans.

Revenues are recorded as received or when collection becomes likely and a reasonable

estimate can be made of the amount to be received. In particular, the default interest accrued on doubtful accounts is only credited to the income statement upon collection.

Dividends are recorded upon collection.

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



### A.3 INFORMATION ON FAIR VALUE

#### A.3.1 Transfers between portfolios

##### A.3.1.1 Reclassified financial assets: book value, fair value and the impact on comprehensive income

Type of financial instruments (1)	Portfolio of origin (2)	Portfolio of destination (3)	Book value at 31.12.2010 (4)	Fair value at 31.12.2010 (5)	Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
					Valuation (6)	Others (7)	Valuation (8)	Others (9)
<b>A. Fixed-yield securities</b>	HFT	HTM	198,798	190,034	(671)	2,513	1,725	2,513

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

The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those transferred.

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

#### A.3.2 Fair value hierarchy

Amendment to IFRS 7 approved by EU Regulation European 1165 of 27/11/2009 introduced the obligation to classify value measurements on the basis of a hierarchy of levels that reflect the reliability of the inputs used in valuing financial instruments. These levels are:

- prices (without adjustments) on active markets - according the definition of IAS 39 - for the assets and liabilities being measured (level 1);
- inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);
- inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Bank.

##### A.3.2.1 Accounting portfolios: breakdown by level of fair value

Financial assets/liabilities carried at fair value	31/12/2010			31/12/2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	2,425,009	385,007	8,705	2,562,679	323,522	10,788
2. Financial assets carried at fair value	31,002	60,886	-	45,537	53,285	-
3. Financial assets available for sale	15,943	79,192	11,834	18,317	84,910	10,220
4. Hedging derivatives	-	940	-	-	11	-
<b>Total</b>	<b>2,471,954</b>	<b>526,025</b>	<b>20,539</b>	<b>2,626,533</b>	<b>461,728</b>	<b>21,008</b>
1. Financial assets held for trading	203	100,314	-	87	72,430	-
2. Financial liabilities at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	23,601	-	-	11,330	-
<b>Total</b>	<b>203</b>	<b>123,915</b>	<b>-</b>	<b>87</b>	<b>83,760</b>	<b>-</b>

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

### A.3.2.2 Changes during the year in financial assets carried at fair value (level 3)

	Financial assets			
	held for trading	carried at fair value	available for sale	for hedging
<b>1. Opening balance</b>	<b>10,788</b>	-	<b>10,220</b>	-
<b>2. Increases</b>	<b>379</b>	-	<b>2,149</b>	-
2.1. Purchases	25	-	1,833	-
2.2. Income booked to:	-	-	-	-
2.2.1. Income statement	179	-	-	-
- of which unrealized gains	-	-	-	-
2.2.2. Equity	-	-	316	-
2.3. Transfers from other levels	-	-	-	-
2.4. Other increases	175	-	-	-
<b>3. Decreases</b>	<b>2,462</b>	-	<b>535</b>	-
3.1. Sales	7	-	-	-
3.2. Reimbursements	2,271	-	-	-
3.3. Losses booked to:	-	-	-	-
3.3.1. Income statement	-	-	245	-
- of which unrealized losses	-	-	245	-
3.3.2. Equity	-	-	128	-
3.4. Transfers to other levels	-	-	-	-
3.5. Other decreases	184	-	162	-
<b>4. Closing balance</b>	<b>8,705</b>	-	<b>11,834</b>	-

### A.3.2.3 Changes during the year in financial liabilities carried at fair value (level 3)

There are no financial liabilities carried at a level 3 fair value.

### A.3.3 Information on the so-called «day one profit/loss»

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



## **PART B** *Information on the balance sheet*

### *Assets*

#### **Section 1** *Cash and cash equivalents - line item 10*

##### **1.1 Cash and balances with central banks: analysis**

	<b>31/12/2010</b>	<b>31/12/2009</b>
a) Cash	94,515	91,270
b) Unrestricted deposits with central banks	32,587	31,628
<b>Total</b>	<b>127,102</b>	<b>122,898</b>

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

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

Items/Amounts	<b>31/12/2010</b>			<b>31/12/2009</b>		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>A. Cash assets</b>						
1. Fixed-yield securities	2,379,257	287,458	8,705	2,519,743	246,942	10,788
1.1 Structured securities	-	16,439	2,037	3,043	34,053	1,915
1.2 Other fixed-yield securities	2,379,257	271,019	6,668	2,516,700	212,889	8,873
2. Variable-yield securities	43,451	1,754	-	40,989	1,703	-
3. Mutual funds	2,277	12,717	-	1,862	9,888	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total A</b>	<b>2,424,985</b>	<b>301,929</b>	<b>8,705</b>	<b>2,562,594</b>	<b>258,533</b>	<b>10,788</b>
<b>B. Derivatives</b>						
1. Financial derivatives:	24	83,078	-	85	64,989	-
1.1 for trading	24	83,078	-	85	64,989	-
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 others	-	-	-	-	-	-
<b>Total B</b>	<b>24</b>	<b>83,078</b>	<b>-</b>	<b>85</b>	<b>64,989</b>	<b>-</b>
<b>Total (A+B)</b>	<b>2,425,009</b>	<b>385,007</b>	<b>8,705</b>	<b>2,562,679</b>	<b>323,522</b>	<b>10,788</b>

The other debt securities shown under level 3 are made up of a bond deriving from the securitisation of loans. The valuation of this instrument was made using internal valuation models based on discounting future cash flows and applying an average credit spread for Italian ABS with a corresponding rating.



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

Items/Amounts	31/12/2010	31/12/2009
<b>A. Cash assets</b>		
1. Fixed-yield securities	2,675,420	2,777,473
a) Governments and central banks	2,334,263	2,448,257
b) Other public entities	5,702	4,846
c) Banks	202,477	189,854
d) Other issuers	132,978	134,516
2. Variable-yield securities	45,205	42,692
a) Banks	19,216	14,489
b) Other issuers:	25,989	28,203
- insurance companies	4,095	4,074
- financial companies	1,228	864
- non-financial companies	20,666	23,265
- other	-	-
3. Mutual funds	14,994	11,750
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
<b>Total A</b>	<b>2,735,619</b>	<b>2,831,915</b>
<b>B. Derivatives</b>		
a) Banks	35,659	29,405
- fair value	35,659	29,405
b) Customers	47,443	35,669
- fair value	47,443	35,669
<b>Total B</b>	<b>83,102</b>	<b>65,074</b>
<b>Total (A + B)</b>	<b>2,818,721</b>	<b>2,896,989</b>

Mutual funds are made up of: bond funds and sicavs for € 14.557 million, real estate funds for € 0.392 million, and other funds for € 0.045 million.



## 2.3 Cash financial assets held for trading: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total
<b>A. Opening balance</b>	<b>2,777,473</b>	<b>42,692</b>	<b>11,750</b>	-	<b>2,831,915</b>
<b>B. Increases</b>	<b>7,428,395</b>	<b>81,583</b>	<b>25,064</b>	-	<b>7,535,042</b>
B.1 Purchases	7,369,829	79,627	23,069	-	7,472,525
B.2 Positive changes in fair value	8,885	50	1,104	-	10,039
B.3 Other changes	49,681	1,906	891	-	52,478
<b>C. Decreases</b>	<b>7,530,448</b>	<b>79,070</b>	<b>21,820</b>	-	<b>7,631,338</b>
C.1 Disposals	7,379,313	68,845	20,998	-	7,469,156
C.2 Reimbursements	50,795	-	-	-	50,795
C.3 Negative changes in fair value	65,846	10,009	818	-	76,673
C.4 Transfer to other portfolios	-	-	-	-	-
C.5 Other changes	34,494	216	4	-	34,714
<b>D. Closing balance</b>	<b>2,675,420</b>	<b>45,205</b>	<b>14,994</b>	-	<b>2,735,619</b>

### Section 3 *Financial assets carried at fair value - line item 30*

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

Items/Amounts	31/12/2010			31/12/2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	<b>29,224</b>	-	-	<b>43,880</b>	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	29,224	-	-	43,880	-	-
<b>2. Variable-yield securities</b>	-	-	-	-	-	-
<b>3. Mutual funds</b>	<b>1,778</b>	<b>60,886</b>	-	<b>1,657</b>	<b>53,285</b>	-
<b>4. Loans</b>	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total</b>	<b>31,002</b>	<b>60,886</b>	-	<b>45,537</b>	<b>53,285</b>	-
Cost	<b>32,592</b>	<b>58,826</b>	-	<b>44,886</b>	<b>47,192</b>	-

This portfolio includes all securities, other than those booked to the trading portfolio, which the bank has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.

### 3.2 Financial assets carried at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2010	31/12/2009
<b>1. Fixed-yield securities</b>	<b>29,224</b>	<b>43,880</b>
a) Governments and central banks	29,224	43,880
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>2. Variable-yield securities</b>	<b>-</b>	<b>-</b>
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
<b>3. Mutual funds</b>	<b>62,664</b>	<b>54,942</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
<b>Total</b>	<b>91,888</b>	<b>98,822</b>

Mutual funds are made up of: bond funds and sicavs for € 24.776 million, funds and sicavs for € 27.426 million, real estate funds for €1.778 million, monetary funds for € 3.519 million and flexible funds for € 5.165 million.

### 3.3 Financial assets carried at fair value: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2010
<b>A. Opening balance</b>	<b>43,880</b>	<b>-</b>	<b>54,942</b>	<b>-</b>	<b>98,822</b>
<b>B. Increases</b>	<b>13,538</b>	<b>-</b>	<b>18,670</b>	<b>-</b>	<b>32,208</b>
B.1 Purchases	13,033	-	16,000	-	29,033
B.2 Positive changes in fair value	-	-	2,641	-	2,641
B.3 Other changes	505	-	29	-	534
<b>C. Decreases</b>	<b>28,194</b>	<b>-</b>	<b>10,948</b>	<b>-</b>	<b>39,142</b>
C.1 Disposals	26,067	-	10,791	-	36,858
C.2 Reimbursements	-	-	-	-	-
C.3 Negative changes in fair value	1,759	-	49	-	1,808
C.4 Other changes	368	-	108	-	476
<b>D. Closing balance</b>	<b>29,224</b>	<b>-</b>	<b>62,664</b>	<b>-</b>	<b>91,888</b>



## Section 4 *Financial assets available for sale - line item 40*

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

Items/Amounts	31/12/2010			31/12/2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	<b>609</b>	<b>30,100</b>	-	-	<b>30,092</b>	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	609	30,100	-	-	30,092	-
<b>2. Variable-yield securities</b>	<b>15,334</b>	<b>49,092</b>	-	<b>18,317</b>	<b>54,818</b>	-
2.1 Carried at fair value	15,334	6,538	-	18,317	6,587	-
2.2 Carried at cost	-	42,554	-	-	48,231	-
<b>3. Mutual funds</b>	-	-	<b>11,834</b>	-	-	<b>10,220</b>
<b>4. Loans</b>	-	-	-	-	-	-
<b>Total</b>	<b>15,943</b>	<b>79,192</b>	<b>11,834</b>	<b>18,317</b>	<b>84,910</b>	<b>10,220</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.

Mutual funds all consist of closed-end unlisted equity funds. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV).

### 4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Amounts	31/12/2010	31/12/2009
<b>1. Fixed-yield securities</b>	<b>30,709</b>	<b>30,092</b>
a) Governments and central banks	-	-
b) Other public entities	1,320	1,316
c) Banks	28,631	28,018
d) Other issuers	758	758
<b>2. Variable-yield securities</b>	<b>64,426</b>	<b>73,135</b>
a) Banks	13,768	19,678
b) Other issuers:	50,658	53,457
- insurance companies	1,607	2,126
- financial companies	32,714	32,737
- non-financial companies	16,335	18,592
- other	2	2
<b>3. Mutual funds</b>	<b>11,834</b>	<b>10,220</b>
<b>4. Loans</b>	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
<b>Total</b>	<b>106,969</b>	<b>113,447</b>

#### 4.4 Financial assets available for sale: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans	Total 31/12/2010
<b>A. Opening balance</b>	<b>30,092</b>	<b>73,135</b>	<b>10,220</b>	-	<b>113,447</b>
<b>B. Increases</b>	<b>1,022</b>	<b>11,150</b>	<b>2,149</b>	-	<b>14,321</b>
B.1 Purchases	616	10,461	1,833	-	12,910
B.2 Positive change in FV	-	563	316	-	879
B.3 Write-backs	-	-	-	-	-
- booked to income statement	-	-	-	-	-
- booked to equity	-	-	-	-	-
B.4 Transfers from other asset portfolios	-	-	-	-	-
B.5 Other changes	406	126	-	-	532
<b>C. Decreases</b>	<b>405</b>	<b>19,859</b>	<b>535</b>	-	<b>20,799</b>
C.1 Disposals	-	412	-	-	412
C.2 Reimbursements	-	-	-	-	-
C.3 Negative change in FV	22	1,070	128	-	1,220
C.4 Impairment write-downs	-	3,339	245	-	3,584
- booked to income statement	-	3,339	245	-	3,584
- booked to equity	-	-	-	-	-
C.5 Transfers to other asset portfolios	-	14,654	-	-	14,654
C.6 Other changes	383	384	162	-	929
<b>D. Closing balance</b>	<b>30,709</b>	<b>64,426</b>	<b>11,834</b>	-	<b>106,969</b>

As stated in IAS/IFRS, assets held for sale are tested to check if there is any objective evidence of a reduction in value in conformity with the Bank's policies adopted. The rules adopted for handling impairment set quantitative and time thresholds beyond which any reduction in the fair value of variable-yield securities entails booking the loss immediately to the income statement.

The main increase concerns for € 10.145 million the interest in Banca della Nuova Terra Spa; the decrease relates to the transfer of the above company for the entire amount of holding to equity investments, € 14.654 million, and to the writedown of securities, mainly equities, for € 3.339 million.

Other decreases mainly concern collected coupons.

### Section 5 Financial assets held to maturity - line item 50

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

Type of transaction/Amounts	31/12/2010				31/12/2009			
	Book Value	Level 1	Level 2	Level 3	Book Value	Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	<b>249,304</b>	<b>6,732</b>	<b>233,795</b>	-	<b>263,654</b>	<b>5,636</b>	<b>252,703</b>	-
- structured	11,657	-	10,284	-	11,591	-	10,589	-
- other	237,647	6,732	223,511	-	252,063	5,636	242,114	-
<b>2. Loans</b>	-	-	-	-	-	-	-	-

In 2008 we transferred securities held for trading to this portfolio for a total par value of € 242.686 million, taking advantage of the amendment issued by IASB on 13/10/2008 and adopted by the European Commission with Regulation 1004/2008 on 15/10/2008.

If the securities transferred, which are currently in portfolio at an amount of € 198.798 million at par, had been measured at fair value at the date of the financial statements, they would have been worth € 190.031 million with a loss of € 8,764 million.



## 5.2 Financial assets held to maturity: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2010	31/12/2009
<b>1. Fixed-yield securities</b>	<b>249,304</b>	<b>263,654</b>
a) Governments and central banks	7,139	5,458
b) Other public entities	-	-
c) Banks	143,137	171,151
d) Other issuers	99,028	87,045
<b>2. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
<b>Total</b>	<b>249,304</b>	<b>263,654</b>

## 5.4 Financial assets held to maturity: changes during the year

	Fixed-yield securities	Loans	Total
<b>A. Opening balance</b>	<b>263,654</b>	<b>-</b>	<b>263,654</b>
<b>B. Increases</b>	<b>20,020</b>	<b>-</b>	<b>20,020</b>
B.1 Purchases	12,779	-	12,779
B.2 Write-backs	-	-	-
B.3 Transfers from other asset portfolios	-	-	-
B.4 Other changes	7,241	-	7,241
<b>C. Decreases</b>	<b>34,370</b>	<b>-</b>	<b>34,370</b>
C.1 Disposals	-	-	-
C.2 Reimbursements	29,500	-	29,500
C.3 Write-downs	-	-	-
C.4 Transfers to other asset portfolios	-	-	-
C.5 Other changes	4,870	-	4,870
<b>D. Closing balance</b>	<b>249,304</b>	<b>-</b>	<b>249,304</b>

Other increases concern interest coupons and premiums and the positive element of amortised cost. Other decreases consist of collected coupons and the negative element of amortised cost.

Item C2. relates to the repayment of securities expired, mainly bonds issued by Banca Italease.

## Section 6 Due from banks - line item 60

### 6.1 Loans and advances to banks: breakdown by sector

Type of transaction/Amounts	31/12/2010	31/12/2009
<b>A) Deposits with central banks</b>	<b>341,901</b>	<b>121,373</b>
1. Time deposits	-	-
2. Compulsory reserve	341,901	121,373
3. Repurchase agreements	-	-
4. Other	-	-
<b>B) Due from banks</b>	<b>677,828</b>	<b>955,347</b>
1. Current accounts and sight deposits	224,920	95,785
2. Time deposits	439,516	856,698
3. Other loans	13,256	2,864
3.1 Repurchase agreements	-	-
3.2 Financial leases	-	-
3.3 Other	13,256	2,864
4. Fixed-yield securities	136	-
4.1 Structured securities	-	-
4.2 Other fixed-yield securities	136	-
<b>Total (book value)</b>	<b>1,019,729</b>	<b>1,076,720</b>
<b>Total (fair value)</b>	<b>1,019,729</b>	<b>1,076,720</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.

## Section 7 Due from customers - line item 70

### 7.1 Due from customers: breakdown by sector

Type of transaction/Amounts	31/12/2010		31/12/2009	
	Performing	Impaired	Performing	Impaired
<b>1. Current accounts</b>	<b>6,238,111</b>	<b>281,001</b>	<b>5,821,215</b>	<b>269,121</b>
<b>2. Repurchase agreements</b>	<b>6,469</b>	-	-	-
<b>3. Mortgage loans</b>	<b>9,331,682</b>	<b>335,450</b>	<b>7,686,306</b>	<b>239,437</b>
<b>4. Credit cards, personal loans and assignments of one-fifth of salary</b>	<b>90,008</b>	<b>5,243</b>	<b>90,660</b>	<b>5,059</b>
<b>5. Financial lease</b>	-	-	-	-
<b>6. Factoring</b>	<b>1,263,086</b>	<b>68,648</b>	-	-
<b>7. Other transactions</b>	<b>3,524,873</b>	<b>62,586</b>	<b>3,996,755</b>	<b>47,292</b>
<b>8. Fixed-yield securities</b>	-	-	-	-
8.1 Structured securities	-	-	-	-
8.2 Other fixed-yield securities	-	-	-	-
<b>Total (book value)</b>	<b>20,454,229</b>	<b>752,928</b>	<b>17,594,936</b>	<b>560,909</b>
<b>Total (fair value)</b>	<b>20,845,963</b>	<b>752,928</b>	<b>17,850,531</b>	<b>560,909</b>

Part of these receivables are specifically hedged, as shown in table 7.3.1.

Reference should be made to Part E «Information on risks and related hedging policies, Section 1, Credit risk» with regard to impaired assets.

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



## 7.2 Loans and advances to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2010		31/12/2009	
	Performing	Impaired	Performing	Impaired
<b>1. Fixed-yield securities:</b>				
a) Governments	-	-	-	-
b) Other public entities	-	-	-	-
c) Other issuers	-	-	-	-
- non-financial companies	-	-	-	-
- financial companies	-	-	-	-
- insurance companies	-	-	-	-
- other	-	-	-	-
<b>2. Loans to:</b>				
a) Governments	171	-	676	-
b) Other public entities	89,030	589	74,738	3
c) Other issuers	20,365,028	752,339	17,519,522	560,906
- non-financial companies	13,893,323	574,317	12,066,405	445,839
- financial companies	1,271,857	15,910	1,407,046	6,218
- insurance companies	2,333	343	4,710	-
- other	5,197,515	161,769	4,041,361	108,849
<b>Total</b>	<b>20,454,229</b>	<b>752,928</b>	<b>17,594,936</b>	<b>560,909</b>

## 7.3 Due from customers: assets covered by micro hedges

Type of transaction/Amounts	31/12/2010	31/12/2009
<b>1. Loans covered by micro fair-value hedges:</b>		
a) interest rate risk	883,285	594,002
b) exchange risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
<b>2. Loans covered by micro cash-flow hedges:</b>		
a) interest rate risk	-	-
b) exchange rate risk	-	-
c) other	-	-
<b>Total</b>	<b>883,285</b>	<b>594,002</b>



## Section 8 Hedging derivatives - line item 80

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

	Fair Value 31/12/2010			Nominal value 31/12/2010	Fair Value 31/12/2009			Nominal value 31/12/2009
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>A) Financial derivatives</b>	-	<b>940</b>	-	<b>49,584</b>	-	<b>11</b>	-	<b>14,829</b>
1. Fair value	-	940	-	49,584	-	11	-	14,829
2. Financial flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
<b>B) Credit derivatives</b>	-	-	-	-	-	-	-	-
1. Fair value	-	-	-	-	-	-	-	-
2. Financial flows	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>940</b>	-	<b>49,584</b>	-	<b>11</b>	-	<b>14,829</b>

### 8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge (book value)

Transaction/ Type of hedge	Fair Value					Financial flows			Foreign investments
	Micro					Macro	Micro	Macro	
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risks				
1. Financial assets available for sale	-	-	-	-	-	-	-	-	-
2. Loans	940	-	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-	-	-
4. Portfolio	-	-	-	-	-	-	-	-	-
5. Other transactions	-	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>940</b>	-	-	-	-	-	-	-	-
1. Financial liabilities	-	-	-	-	-	-	-	-	-
2. Portfolio	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	-	-	-	-	-	-	-	-	-
1. Expected transactions	-	-	-	-	-	-	-	-	-
2. Portfolio of financial assets and liabilities	-	-	-	-	-	-	-	-	-



## Section 10 Equity investments - line item 100

### 10.1 Investments in companies under joint control (valued at equity) and companies subject to significant influence: disclosures

Name Sede	Location	Type of relationship	Type of investment	
			Parent company	% held
<b>B. Enterprises</b>				
ALBA LEASING SPA	MILAN	8	Banca Popolare di Sondrio SCPA	20.950
ARCA VITA SPA	VERONA	8	Banca Popolare di Sondrio SCPA	15.036
B&A BROKER SPA	MILAN	8	Banca Popolare di Sondrio SCPA	28.571
BANCA DELLA NUOVA TERRA SPA	MILAN	8	Banca Popolare di Sondrio SCPA	19.500
RAJNA IMMOBILIARE SRL	SONDRIO	7	Banca Popolare di Sondrio SCPA	50.000
SOFIPO FIDUCIAIRE SA	LUGANO	8	Banca Popolare di Sondrio (SUISSE) SA	30.000

#### Key

- 1 = majority of voting rights at ordinary shareholders' meeting
- 2 = dominant influence at the ordinary shareholders' meeting
- 3 = agreements with other shareholders
- 4 = other forms of control
- 5 = single management as per art. 26.2 of Decree 87/92
- 6 = single management as per art. 26.2 of Decree 87/92
- 7 = joint control
- 8 = associated company

### 10.2 Investments in companies under joint control and companies subject to significant influence: accounting information

Name	Total assets	Total revenues	Net profit (loss)	Equity	Consolidated book value
<b>A. Companies valued at equity</b>					
A.1 under joint control					
RAJNA IMMOBILIARE SRL	944	158	62	741	371
A.2 Subject to significant influence					
ALBA LEASING SPA	5,136,172	71,964	-8,950	331,923	69,538
ARCA VITA SPA	4,401,031	985,347	18,214	261,789	38,243
B&A BROKER SPA	5,117	2,435	295	1,595	456
BANCA DELLA NUOVA TERRA SPA	506,624	21,204	535	61,827	12,056
SOFIPO FIDUCIAIRE SA	3,117	3,567	-232	2,442	733
SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL	827	817	72	326	32

The fair value is not shown for companies that are not listed on active markets.

### 10.3 Equity investments: changes during the year

	31/12/2010	31/12/2009
<b>A, Opening balance</b>	<b>109,897</b>	<b>87,238</b>
<b>B, Increases</b>	<b>25,031</b>	<b>81,231</b>
B,1 Purchases	10,125	80,523
B,2 Write-backs	69	-
B,3 Revaluations	-	-
B,4 Other changes	14,837	708
<b>C, Decreases</b>	<b>13,197</b>	<b>58,572</b>
C,1 Disposals	-	14,730
C,2 Write-downs	-	-
C,3 Other changes	13,197	43,842
<b>D, Closing balance</b>	<b>121,731</b>	<b>109,897</b>
<b>E, Total revaluations</b>	<b>-</b>	<b>-</b>
<b>F, Total write-downs</b>	<b>43,731</b>	<b>43,731</b>

Purchases are made up of the subscription of € 8,218 million for the increase in capital of Arca Vita Spa and payment of € 1,907 million for the calling up of five tenths still outstanding from the previous increase in capital.

The other changes relate principally to the transfer of the interest in Banca della Nuova Terra Spa from the «Assets held for sale» portfolio for € 14,654 million following the rise in this investment from 6% to 19.5% and the increase in the share of equity held.

Decreases consist of reductions in the portions of equity held.

#### 10.4 - 10.5 Commitments relating to investments in companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing spa granted when this company started up as part of the reorganisation of Banca Italease spa, against which the Bank has made a specific risk provision.



## **Section 12** *Property, plant and equipment - line item 120*

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

Assets/Values	31/12/2010	31/12/2009
<b>A. Assets used in business</b>		
1.1 owned	186,882	142,429
a) land	51,032	42,346
b) buildings	107,530	71,797
c) furniture	9,620	9,535
d) IT equipment	8,046	7,739
e) other	10,654	11,012
1.2 purchased under finance leases	32,412	42,853
a) land	6,803	11,047
b) buildings	25,609	31,806
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
<b>Total A</b>	<b>219,294</b>	<b>185,282</b>
<b>B, Investment property</b>		
2.1 owned	-	-
a) land	-	-
b) buildings	-	-
2.2 purchased under finance leases	-	-
a) land	-	-
b) buildings	-	-
<b>Total B</b>	<b>-</b>	<b>-</b>
<b>Total A+B</b>	<b>219,294</b>	<b>185,282</b>

### 12.3 Property, plant and equipment used for business purposes: changes during the year

	Land	Buildings	Furniture	IT equipment	Other	Total 31/12/2009
<b>A. Opening gross amount</b>	<b>53,393</b>	<b>166,449</b>	<b>21,758</b>	<b>20,476</b>	<b>41,332</b>	<b>303,408</b>
A.1 Total net reductions in value	-	62,846	12,223	12,737	30,320	118,126
A.2 Opening net amount	53,393	103,603	9,535	7,739	11,012	185,282
<b>B. Increases</b>	<b>8,895</b>	<b>44,663</b>	<b>2,486</b>	<b>3,021</b>	<b>5,788</b>	<b>64,853</b>
B.1 Purchases	8,506	35,533	2,079	2,038	5,560	53,716
B.2 Capitalised improvement expenditure	-	6,456	-	-	-	6,456
B.3 Write-backs	-	-	-	-	-	-
B.4 Fair value increases booked to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate adjustments	389	2,222	348	963	187	4,109
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	452	59	20	41	572
<b>C. Decreases</b>	<b>4,453</b>	<b>15,127</b>	<b>2,401</b>	<b>2,714</b>	<b>6,146</b>	<b>30,841</b>
C.1 Disposals	4,309	9,621	-	-	138	14,068
C.2 Depreciation	-	5,433	2,351	2,617	5,626	16,027
C.3 Impairment charges booked to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value booked to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate adjustments	-	73	50	97	72	292
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) assets related to discontinued operations	-	-	-	-	-	-
C.7 Other changes	144	-	-	-	310	454
<b>D. Closing net amount</b>	<b>57,835</b>	<b>133,139</b>	<b>9,620</b>	<b>8,046</b>	<b>10,654</b>	<b>219,294</b>
D.1 Total net reductions in value	82	69,659	16,711	18,330	35,664	140,446
D.2 Closing gross amount	57,917	202,798	26,331	26,376	46,318	359,740
<b>E. Valuation at cost</b>	<b>57,835</b>	<b>133,139</b>	<b>9,620</b>	<b>8,046</b>	<b>10,654</b>	<b>219,294</b>

## Section 13 *Intangible assets - line item 130*

### 13.1 Intangible assets: breakdown by type

Assets/Values	31/12/2010		31/12/2009	
	Finite life	Indefinite life	Finite life	Indefinite life
<b>A.1 Goodwill</b>	-	<b>8,959</b>	-	-
A.1.1 pertaining to the banking group	-	8,959	-	-
A.1.2 pertaining to minority interests	-	-	-	-
<b>A.2 Other intangible assets</b>	<b>11,979</b>	-	<b>8,207</b>	-
A.2.1 Carried at cost:	11,979	-	8,207	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	11,979	-	8,207	-
A.2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
<b>Total</b>	<b>11,979</b>	<b>8,959</b>	<b>8,207</b>	-

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years. Goodwill booked for € 8.959 million refers to the acquisition of Factorit SpA. The accounting treatment is in accordance with IFRS 3 on business combinations. This standard requires that the acquisition and therefore the first consolidation of the acquired entity has to take place on the date when the purchaser effectively obtains control over the other business.

The amount reported is made up of:

- € 7.847 million refers to the acquisition of control of Factorit Spa on 29 July. Based on IFRS 3, the allocation took place according to the purchase method, which says that allocation of the identifiable assets and liabilities acquired has to take place with reference to the acquisition date. The difference between the acquisition price and the fair value of the assets and liabilities has to be recognised as goodwill and allocated to the CGU concerned. It is particularly important to identify as accurately as possible the fair value of the assets and liabilities so that only the residual portion of the purchase cost that cannot be allocated to specific assets or liabilities gets booked as goodwill; for this reason, the standard makes it possible to book goodwill on a provisional basis by the end of the year in which the combination takes place. A definitive value then has to be booked within 12 months of the acquisition date. The Bank therefore booked a provisional figure of € 7.847 million, which was the difference between the price paid and the book net equity at the acquisition date, with the possibility of establishing a more accurate fair value for the assets and liabilities within 12 months of the acquisition date. We have not identified any «trigger events» that might have caused impairment of the goodwill.
- € 1.112 million is the goodwill generated by the merger in 1999 of Factorit Spa with In Factor Spa. Also for this goodwill, we are of the opinion that there is no cause for impairment based on an estimate of the revenue flows coming from the customers acquired at the time of the merger and/or subsequently under commercial agreements deriving from it.

### 13.2 Intangible assets: change during the year

	Goodwill	Other intangible assets generated internally		Other intangible assets: other		Total 31/12/2010
		Finite life	Indefinite life	Finite life	Indefinite life	
<b>A. Opening balance</b>	-	-	-	<b>57,718</b>	-	<b>57,718</b>
A.1 Total net reductions in value	-	-	-	49,511	-	49,511
A.2 Opening net amount	-	-	-	8,207	-	8,207
<b>B. Increases</b>	<b>8,959</b>	-	-	<b>13,909</b>	-	<b>22,868</b>
B.1 Purchases	-	-	-	13,651	-	13,651
B.2 Increases in internally generated intangible assets	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- booked to equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	228	-	228
B.6 Other changes	8,959	-	-	30	-	8,989
<b>C. Decreases</b>	-	-	-	<b>10,137</b>	-	<b>10,137</b>
C.1 Disposals	-	-	-	-	-	-
C.2 Write-downs	-	-	-	9,977	-	9,977
- Amortisation	-	-	-	9,977	-	9,977
- Write-downs	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value	-	-	-	-	-	-
- booked to equity	-	-	-	-	-	-
- booked to income statement	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	160	-	160
C.6 Other changes	-	-	-	-	-	-
<b>D. Closing net amount</b>	<b>8,959</b>	-	-	<b>11,979</b>	-	<b>20,938</b>
D.1 Total net value adjustments	-	-	-	63,963	-	63,963
<b>E. Closing gross amount</b>	<b>8,959</b>	-	-	<b>75,942</b>	-	<b>84,901</b>
<b>F. Valuation at cost</b>	<b>8,959</b>	-	-	<b>11,979</b>	-	<b>20,938</b>

Key

Finite: finite life

Indefinite: indefinite life

## **Section 14** *Tax assets and liabilities - asset line item 140 and liability line item 80*

### **14.1 Deferred tax assets: breakdown**

	<b>31/12/2010</b>	<b>31/12/2009</b>
- Loan write-downs	46,401	20,960
- Provisions for risks and charges	11,796	10,466
- Deferred charges	10,485	7,630
- Securities and equity investments	550	599
- Administrative expenses	474	1,728
- Amortisation and depreciation	1,323	998
<b>Total</b>	<b>71,029</b>	<b>42,381</b>

### **14.2 Deferred tax liabilities: breakdown**

	<b>31/12/2010</b>	<b>31/12/2009</b>
- Owned buildings	7,259	7,996
- Accelerated depreciation	2,840	2,884
- Leased buildings	1,980	2,051
- Revaluation of securities and gains	394	567
- Administrative expenses	1,981	1,981
- Loans	8,865	4,416
<b>Total</b>	<b>23,319</b>	<b>19,895</b>

### **14.3 Change in deferred tax assets (with contra-entry to income statement)**

	<b>31/12/2010</b>	<b>31/12/2009</b>
<b>1. Opening balance</b>	<b>42,227</b>	<b>23,488</b>
<b>2. Increases</b>	<b>35,014</b>	<b>23,781</b>
2.1 Deferred tax assets arising during the year	18,356	23,781
a) relating to prior years	40	162
b) due to changes in accounting policies	-	-
c) write-backs	-	-
d) other	18,316	23,619
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	16,658	-
<b>3. Decreases</b>	<b>6,542</b>	<b>5,042</b>
3.1 Deferred tax assets eliminated during the year	6,542	5,042
a) reversals	6,542	5,042
b) written down as no longer recoverable	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>70,699</b>	<b>42,227</b>



#### 14.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2010	31/12/2009
<b>1. Opening balance</b>	<b>18,545</b>	<b>15,041</b>
<b>2. Increases</b>	<b>4,888</b>	<b>4,079</b>
2.1 Deferred tax liabilities arising during the year	2,184	1,759
a) relating to prior years	-	46
b) due to changes in accounting policies	-	-
c) other	2,184	1,713
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	2,704	2,320
<b>3. Decreases</b>	<b>1,728</b>	<b>575</b>
3.1 Deferred tax liabilities eliminated during the year	955	575
a) reversals	289	190
b) due to changes in accounting policies	-	-
c) other	666	385
3.2 Reduction in tax rates	-	-
3.3 Other decreases	773	-
<b>4. Closing balance</b>	<b>21,705</b>	<b>18,545</b>

#### 14.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2010	31/12/2009
<b>1. Opening balance</b>	<b>154</b>	<b>924</b>
<b>2. Increases</b>	<b>220</b>	<b>-</b>
2.1 Deferred tax assets arising during the year	24	-
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	24	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	196	-
<b>3. Decreases</b>	<b>44</b>	<b>770</b>
3.1 Deferred tax assets eliminated during the year	44	770
a) reversals	44	770
b) written down as no longer recoverable	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>330</b>	<b>154</b>

This amount relates to the tax on the losses on securities and other charges booked to equity.



#### 14.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2010	31/12/2009
<b>1. Opening balance</b>	<b>1,350</b>	<b>1,351</b>
<b>2. Increases</b>	<b>276</b>	<b>59</b>
2.1 Deferred tax liabilities arising during the year	37	59
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	37	59
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	239	-
<b>3. Decreases</b>	<b>12</b>	<b>60</b>
3.1 Deferred tax liabilities eliminated during the year	12	60
a) reversals	12	60
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
<b>4. Closing balance</b>	<b>1,614</b>	<b>1,350</b>

This amount relates to the tax on gains booked to equity. The sub-item «other increases» refers to exchange changes.

**Section 15** *Non-current assets held for sale and discontinued operations and related liabilities - asset item 150 and liability item 90*

**15.1 Non-current assets and disposal groups held for sale : breakdown by type**

	31/12/2010	31/12/2009
<b>A. Individual assets</b>		
A.1 Financial assets	-	-
A.2 Equity investments	-	60,378
A.3 Property, plant and equipment	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
<b>Total A</b>	<b>-</b>	<b>60,378</b>
<b>B. Disposal groups of assets (discontinued operations)</b>		
B1. Financial assets held for trading	-	-
B2. Financial assets carried at fair value	-	-
B3. Financial assets available for sale	-	-
B4. Financial assets held to maturity	-	-
B5. Due from banks	-	-
B6. Due from customers	-	-
B7. Equity investments	-	-
B8. Property, plant and equipment	-	-
B9. Intangible assets	-	-
B10. Other assets	-	-
<b>Total B</b>	<b>-</b>	<b>-</b>
<b>C. Liabilities associated with individual assets held for sale</b>		
C1. Payables	-	-
C2. Securities	-	-
C3. Other liabilities	-	-
<b>Total C</b>	<b>-</b>	<b>-</b>
<b>D. Liabilities associated with disposal groups of assets</b>		
D1. Due to banks	-	-
D2. Due to customers	-	-
D3. Debt securities in issue	-	-
D4. Financial liabilities held for trading	-	-
D5. Financial liabilities carried at fair value	-	-
D6. Provisions	-	-
D7. Other liabilities	-	-
<b>Total D</b>	<b>-</b>	<b>-</b>

This item has a zero balance at year-end as the contract between Banca Popolare di Sondrio, Banca Popolare dell'Emilia Romagna Scpa and Unipol Gruppo Finanziario for the transfer of the controlling interest in Arca Vita and Arca Assicurazioni was executed as soon as all the necessary authorisations had been obtained, which took place on 22 June 2010. So on that date, 25% of Arca Vita with a book value of € 93.262 million and the entire 9.90% interest in Arca Assicurazioni Spa for € 13.703 million.

## **Section 16** *Other assets - line item 160*

### **16.1 Other assets: breakdown**

	<b>31/12/2010</b>	<b>31/12/2009</b>
Advances paid to tax authorities	18,811	15,793
Withholdings on interest due to customers	47	63
Tax credits and related interest	20,329	47,718
Unpaid cheques and bills	-	1,255
Current account cheques drawn on third parties	38,694	42,841
Current account cheques drawn on Group banks	21,548	24,102
Transactions in customers' securities	475	92
Inventories	15,245	12,829
Costs pertaining to the subsequent year	981	965
Advances to suppliers	735	9,507
Advances to customers awaiting collections	8,142	89,846
Miscellaneous debits in transit	25,477	14,488
Liquidity of pension fund	1,762	4,718
Accrued income not allocated	21,403	22,178
Prepayments not allocated	5,492	7,658
Differences on elimination	963	37
Residual items	25,404	25,934
<b>Total</b>	<b>205,508</b>	<b>320,024</b>

## *Liabilities and equity*

### **Section 1** *Due to banks - line item 10*

#### **1.1 Deposits from banks: breakdown by type**

Type of transaction/Members of the Group	<b>31/12/2010</b>	<b>31/12/2009</b>
<b>1. Due to central banks</b>	<b>20,959</b>	<b>20,829</b>
<b>2. Due to banks</b>	<b>2,519,959</b>	<b>1,777,110</b>
2.1 Current accounts and sight deposits	831,183	272,274
2.2 Time deposits	839,499	1,232,690
2.3. Loans	839,004	272,135
2.3.1 Repurchase agreements	-	126,492
2.3.2 Other	839,004	145,643
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	10,273	11
<b>Total</b>	<b>2,540,918</b>	<b>1,797,939</b>
<b>Fair value</b>	<b>2,540,918</b>	<b>1,797,939</b>

These payables are not specifically hedged.

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

## 1.5 Payables for finance leases

	31/12/2010	31/12/2009
Payables for finance leases	15,165	28,827

## Section 2 Due to customers - line item 20

### 2.1 Customer deposits: breakdown by sector

Type of transaction/Members of the Group	31/12/2010	31/12/2009
<b>1. Current accounts and sight deposits</b>	<b>15,688,294</b>	<b>15,916,794</b>
<b>2. Time deposits</b>	<b>1,314,859</b>	<b>612,908</b>
<b>3. Loans</b>	<b>1,747,431</b>	<b>908,367</b>
3.1 Repurchase agreements	1,747,431	908,367
3.2 Other	-	-
<b>4. Payables for commitments to repurchase own equity instruments</b>	<b>-</b>	<b>-</b>
<b>5. Other payables</b>	<b>19,817</b>	<b>575</b>
<b>Total</b>	<b>18,770,401</b>	<b>17,438,644</b>
<b>Fair value</b>	<b>18,770,401</b>	<b>17,438,644</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.

## Section 3 Debt securities in issue - line item 30

### 3.1 Debt securities in issue : breakdown by sector

Type of security/Amounts	31/12/2010				31/12/2009			
	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	1,971,667	-	1,965,406	-	1,602,804	-	1,615,636	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	1,971,667	-	1,965,406	-	1,602,804	-	1,615,636	-
2. Other securities	104,695	-	104,695	-	124,385	-	124,385	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	104,695	-	104,695	-	124,385	-	124,385	-
<b>Total</b>	<b>2,076,362</b>	<b>-</b>	<b>2,070,101</b>	<b>-</b>	<b>1,727,189</b>	<b>-</b>	<b>1,740,021</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.



## Section 4 *Financial liabilities held for trading - line item 40*

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

Type of transaction/Amounts	31/12/2010					31/12/2009				
	NV	Fair Value			FV*	NV	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. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
<b>Total (A)</b>	-	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>										
1. Financial derivatives	-	203	100,314	-	-	-	87	72,430	-	-
1.1 for trading	-	203	100,314	-	-	-	87	72,430	-	-
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>203</b>	<b>100,314</b>	-	-	-	<b>87</b>	<b>72,430</b>	-	-
<b>Total (A+B)</b>	-	<b>203</b>	<b>100,314</b>	-	-	-	<b>87</b>	<b>72,430</b>	-	-

FV\* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date  
VN = Nominal or notional value

## Section 6 Hedging derivatives - line item 60

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

Type of derivatives/ Underlying assets	Fair Value 31/12/2010			Nominal Value 31/12/2010	Fair Value 31/12/2009			Nominal Value 31/12/2009
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>A. Financial derivatives</b>	-	<b>23,601</b>	-	<b>814,579</b>	-	<b>11,330</b>	-	<b>570,032</b>
1) Fair value	-	23,601	-	814,579	-	11,330	-	570,032
2) Financial flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>23,601</b>	-	<b>814,579</b>	-	<b>11,330</b>	-	<b>570,032</b>

### 6.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transaction/ Type of hedge	Fair Value					Financial flows			
	Micro					Macro	Micro	Macro	Foreign investments
	Interest rate risk	Exchange risk	Credit risk	Price risk	Multiple risks				
1. Financial assets available for sale	-	-	-	-	-	-	-	-	-
2. Loans	23,601	-	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-	-	-
4. Portfolio	-	-	-	-	-	-	-	-	-
5. Other transactions	-	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>23,601</b>	-	-	-	-	-	-	-	-
1. Financial liabilities	-	-	-	-	-	-	-	-	-
2. Portfolio	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	-	-	-	-	-	-	-	-	-
1. Expected transactions	-	-	-	-	-	-	-	-	-
2. Portfolio of financial assets and liabilities	-	-	-	-	-	-	-	-	-

## Section 8 *Tax liabilities*

This item reports a balance of euro 23.319 million totally referred to deferred taxes. Current taxes are not shown, as during the year the Parent Bank paid tax advances higher than the liability for current taxes booked in the year. This gave rise to a tax credit which has been booked to item 140 of the balance sheet under «Tax assets».

As regards the composition and amount of deferred taxes, please read Assets Section 14 of these notes».

The Bank's tax years from 1979 to 1981, from 1984 to 1987 and from 2006 onwards, are still open. The long-standing dispute has reached the Central Tax Commission and the initial pronouncements by the latter are favourable to the Bank for the years 1980, 1981, 1984, 1986 and 1987, while for 1979 the appeal has been heard and we are waiting for the decision. The long-standing dispute about withholding tax on deposits abroad is also being settled: the initial pronouncements by the Central Tax Commission accepted the Bank's arguments and declared that the matter was extinct as the reason for the dispute no longer existed.

Factorit Spa has a VAT dispute outstanding for the years 2005, 2006, 2007, 2008 and part of 2009. The matters in dispute concern 39.5 million of additional VAT for transactions that the inspectors did not consider as lending but as credit management, and for 1 million in connection with the classification of personnel on secondment, considering them generically as «outsourcing». As regards the first observation, the outcome was positive at first and second level of jurisdiction for exactly the same matters disputed against Banca Italease for the years 2003, 2004 and part of 2005 for the factoring activities that were subsequently transferred to Factorit Spa. The dispute involving our two property subsidiaries has also been concluded in our favour.

## Section 10 *Other liabilities*

### 10.1 Other liabilities: breakdown

	31/12/2010	31/12/2009
Amounts at the disposal of third parties	137,995	53,210
Taxes to be paid on behalf of third parties	40,370	34,412
Taxes to be paid	2,029	2,316
Employee salaries and contributions	20,901	22,348
Trade payables	13,801	10,366
Transit accounts for sundry entities	3,507	841
Invoices to be received	8,334	8,575
Credits in transit for financial transactions	493	3,159
Value date differentials on portfolio transactions	159,545	84,496
Directors' and statutory auditors' emoluments	963	1,109
Loans disbursed to customers to be finalised	13,112	12,332
Miscellaneous credit items being settled	205,023	84,495
Accrued expenses not allocated	4,540	5,915
Deferred income not allocated	9,587	7,521
Allowance for risks on guarantees and commitments	9,123	4,000
Differences on elimination	12,292	-
Residual items	38,099	13,827
<b>Total</b>	<b>679,714</b>	<b>348,922</b>



## Section 11 Termination indemnities - line item 110

### 11.1 Termination indemnities: change during the year

	2010	2009
<b>A. Opening balance</b>	<b>35,754</b>	<b>36,667</b>
<b>B. Increases</b>	<b>10,595</b>	<b>7,547</b>
B.1 Provisions	8,397	7,536
B.2 Other increases	2,198	11
<b>C. Decreases</b>	<b>8,580</b>	<b>8,460</b>
C.1 Payments made	1,430	1,998
C.2 Other decreases	7,150	6,462
<b>D. Closing balance</b>	<b>37,769</b>	<b>35,754</b>

## Section 12 Provisions for risks and charges - line item 120

### 12.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2010	31/12/2009
<b>1. Post-employment benefits</b>	<b>77,216</b>	<b>74,669</b>
<b>2. Other provisions for risks and charges</b>	<b>44,766</b>	<b>37,871</b>
2.1 legal disputes	37,596	33,000
2.2 personnel expenses	6,491	4,625
2.3 other	679	246
<b>Total</b>	<b>121,982</b>	<b>112,540</b>

At year end, the Group is not exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above. It is reasonable to conclude that there are no contingent liabilities.

### 12.2 Provisions for risks and charges: change during the year

Items/Components	Post-employment benefits	Other provisions	31/12/2010
<b>A. Opening balance</b>	<b>74,669</b>	<b>37,871</b>	<b>112,540</b>
<b>B. Increases</b>	<b>6,259</b>	<b>18,087</b>	<b>24,346</b>
B.1 Provisions	2,345	9,588	11,933
B.2 Changes due to the passage of time	-	503	503
B.3 Changes due to variations in the discount rate	-	472	472
B.4 Other changes	3,914	7,524	11,438
<b>C. Decreases</b>	<b>3,712</b>	<b>11,192</b>	<b>14,904</b>
C.1 Utilisations during the year	3,273	3,071	6,344
C.2 Changes due to variations in the discount rate	-	-	-
C.3 Other changes	439	8,121	8,560
<b>D. Closing balance</b>	<b>77,216</b>	<b>44,766</b>	<b>121,982</b>



## 12.3 Defined-benefit pension plans

### 12.3.1. Description of plans

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

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 454 employees and 217 pensioners. Employees have been given the chance to join other supplementary pension schemes as laid down by law and by contract.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

### 12.3.2 Defined-benefit pension plans: annual changes

	2010	2009
at 1 January	74,669	80,027
service cost	1,523	1,855
interest cost	3,509	3,712
actuarial gains/losses	788	3,296
payments	(3,273)	(14,221)
<b>at 31 December</b>	<b>77,216</b>	<b>74,669</b>

### 12.3.3 Defined-benefit pension plans - Changes in plan assets during the year

The changes in the fair value of plan assets during the year are summarised below:

	2010	2009
at 1 January	74,669	80,027
yield	3,915	4,710
contributions	2,344	4,620
payments	(3,712)	(14,688)
<b>at 31 December</b>	<b>77,216</b>	<b>74,669</b>

The fair value of pension plan assets is summarised in the following table.

	<b>31/12/2010</b>	<b>31/12/2009</b>
Fixed-yield securities	64,795	59,333
Variable-yield securities	2,375	3,687
Mutual funds invested in shares	7,892	6,566
Mutual funds invested in property	392	365
Other assets	1,762	4,718
<b>Total</b>	<b>77,216</b>	<b>74,669</b>

#### **12.3.4 Defined-benefit pension plans – Reconciliation between the present value of the plans, the present value of the plan assets and the assets and liabilities shown in the financial statements**

	<b>31/12/2010</b>	<b>31/12/2009</b>
Present value of the obligations to plan members	77,216	74,669
Fair value of assets	77,216	74,669
<b>Difference</b>	<b>-</b>	<b>-</b>

#### **12.3.5 Defined-benefit pension plans – Description of the principal actuarial assumptions**

	<b>31/12/2010</b>	<b>31/12/2009</b>
Discount rate	4.70%	4.70%
Expected increase in salaries	2.00%	2.00%
Annual rate of inflation	1.50%	1.50%
Underlying rate of salary increases	1.50%	1.50%

#### **12.3.6 Comparative information**

The amount of the fund increases by € 2.547 million, +3.41%, while payments amount to € 3,273 million on € 3,199 million. The contributions paid by the employees totalled € 0.276 million (€ 0.311 million in the prior year).

#### **12.4 Provisions for risks and charges – other provisions**

	<b>31/12/2010</b>	<b>31/12/2009</b>
Provision for legal disputes	37,596	33,000
Provision for personnel expenses	6,491	4,625
Provision for charitable donations	679	246
<b>Total</b>	<b>44,766</b>	<b>37,871</b>



The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The Group makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit. The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice. The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2010 as the discount rate. The total increase came to € 4.596 million, + 13.93%. The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. The total increase came to € 1.866 million, + 40.35%. The provision for charitable donations comprises an allocation from net profits authorised by the shareholders which is used to make approved payments. The increase of € 0.700 million reflects the allocation of 2009 net profit, while the reduction of € 0.267 million was a consequence of payments made during the year.

## **Section 15** *Group equity - Items 140, 160, 170, 180, 190, 200 and 220*

### **15.1 «Share capital» and «Treasury shares»: breakdown**

Share capital comprises 308,147,985 issued and fully-paid ordinary shares, par value € 3 each, totalling € 924.444 million. Shares in circulation have dividend and voting rights from 1/1/2010. At the year-end, the Bank held treasury shares with a carrying value of € 32.821 million.

## 15.2 Share capital - Number of shares of the Parent Bank: change during the year

Items/Type	Ordinary	Others
<b>A. Shares in existence at the start of the year</b>	<b>308,147,985</b>	-
- fully paid	308,147,985	-
- not fully paid	-	-
A.1 Treasury shares (-)	4,622,577	-
A.2 Shares in circulation: opening balance	303,525,408	-
<b>B. Increases</b>	<b>1,149,893</b>	-
B.1 New issues	-	-
- for payment	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- others	-	-
- free of charge	-	-
- to employees	-	-
- to directors	-	-
- others	-	-
B.2 Sales of treasury shares	1,149,893	-
B.3 Other changes	-	-
<b>C. Decreases</b>	<b>377,316</b>	-
C.1 Cancellation	-	-
C.2 Purchases of treasury shares	377,316	-
C.3 Business disposals	-	-
C.4 Other changes	-	-
<b>D. Shares in circulation: closing balance</b>	<b>304,297,985</b>	-
D.1 Treasury shares (+)	3,850,000	-
D.2 Shares in existence at the end of the year	308,147,985	-
- fully paid	308,147,985	-
- not fully paid	-	-

## 15.3 Share capital: other information

### Share premium reserve

This amounts to € 174.315 million with a decrease of € 1.770 million , - 1% due to the allocation of the loss deriving from the sale of treasury Shares in portfolio.

## 15.4 Profit reserves: other information

Revenue reserves contribute to the capital adequacy of the Group, considering both current and future operations. They amount to € 642.231 million and increase by € 101.166 million, + 18.70%. Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to € 73.000 million (it has been used for € 32.821 million).

## **Section 16** *Equity pertaining to minority interests - Line item 210*

### **116.1 Equity instruments: breakdown and change in year**

The line item equity of minority interests amounts to € 63.677 million and is made up of the share capital of € 33.575 million, the share premium reserve of € 4.357 million, reserves of € 24.160 million, valuation reserves of € - 0.065 million and profits of € 1.650 million.

### *Other information*

#### **1. Guarantees given and commitments**

Operations	<b>31/12/2010</b>	<b>31/12/2009</b>
<b>1) Financial guarantees</b>	<b>573,746</b>	<b>520,493</b>
a) Banks	29,664	27,689
b) Customers	544,082	492,804
<b>2) Commercial guarantees</b>	<b>2,825,295</b>	<b>2,353,003</b>
a) Banks	28,979	20,889
b) Customers	2,796,316	2,332,114
<b>3) Irrevocable commitments to make loans</b>	<b>2,313,202</b>	<b>1,406,599</b>
a) Banks	26,024	59,059
i) certain to be called on	26,019	59,059
ii) not certain to be called on	5	-
b) Customers	2,287,178	1,347,540
i) certain to be called on	82,140	79,031
ii) not certain to be called on	2,205,038	1,268,509
<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>16,248</b>	<b>12,744</b>
<b>6) Other commitments</b>	<b>36,682</b>	<b>33,311</b>
<b>Total</b>	<b>5,765,173</b>	<b>4,326,150</b>

#### **2. Assets lodged to guarantee the bank's liabilities and commitments**

Portfolio	<b>31/12/2010</b>	<b>31/12/2009</b>
1. Financial assets held for trading	2,166,413	1,163,016
2. Financial assets carried at fair value	28,757	30,356
3. Financial assets available for sale	-	-
4. Financial assets held to maturity	-	53,099
5. Due from banks	-	-
6. Due from customers	-	-
7. Property, plant and equipment	-	-
<b>Total</b>	<b>2,195,170</b>	<b>1,246,471</b>

Assets held for trading comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances; financial assets carried at fair value comprise the guarantee deposit paid in relation to the issue of bankers' drafts.

The financial assets held to maturity are to guarantee the advances received from the Bank of Italy.

## 5. Management and intermediation for third parties

Type of service	Amount
<b>1. Execution of orders on behalf of customers</b>	<b>13,409,287</b>
a) Purchases	7,538,214
1. settled	5,809,144
2. not settled	1,729,070
b) Sales	5,871,073
1. settled	4,419,871
2. not settled	1,451,202
<b>2. Portfolio management</b>	<b>2,225,934</b>
a) Individual	2,225,934
b) Collective	-
<b>3. Custody and administration of securities</b>	<b>41,101,566</b>
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	4,570,605
1. Securities issued by the reporting bank	-
2. Other securities	4,570,605
b) Other third-party securities on deposit (excluding portfolio management): other	13,761,250
1. Securities issued by the reporting bank	2,574,840
2. Other securities	11,186,410
c) Third-party securities on deposit with third parties	19,449,495
d) Own securities on deposit with third parties	3,320,216
<b>4. Other transactions</b>	<b>-</b>



## **PART C** *Information on the consolidated income statement*

### **Section 1** *Interest - line items 10 and 20*

#### **1.1 Interest and similar income: breakdown**

Items/technical forms	Fixed-yield securities	Loans	Other transactions	Total 31/12/2010	Total 31/12/2009
1. Financial assets held for trading	34,980	-	-	34,980	63,169
2. Financial assets carried at fair value	500	-	-	500	853
3. Financial assets available for sale	399	-	-	399	682
4. Financial assets held to maturity	4,291	-	-	4,291	6,715
5. Due from banks	4	12,049	-	12,053	21,202
6. Due from customers	-	578,394	16	578,410	634,974
7. Hedging derivatives	-	-	2,538	2,538	81
8. Other assets	-	-	-	-	-
<b>Total</b>	<b>40,174</b>	<b>590,443</b>	<b>2,554</b>	<b>633,171</b>	<b>727,676</b>

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

Items	31/12/2010	31/12/2009
A. Positive differentials on hedging transactions	2,538	81
B. Negative differentials on hedging transactions	-	-
<b>C. Net total (A-B)</b>	<b>2,538</b>	<b>81</b>

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

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

	31/12/2010	31/12/2009
Interest income and similar revenue on foreign currency assets	73,646	76,351

#### **1.4 Interest expense and similar charges: breakdown**

Items/Technical forms	Payables	Securities	Other transactions	Total 31/12/2010	Total 31/12/2009
1. Due to central banks	(78)	-	-	(78)	-
2. Due to banks	(17,538)	-	(1)	(17,539)	(22,498)
3. Due to customers	(117,238)	-	(31)	(117,269)	(181,295)
4. Debt securities in issue	-	(57,244)	-	(57,244)	(52,612)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	(15)	(15)	-
8. Hedging derivatives	-	-	(14,382)	(14,382)	(5,281)
<b>Total</b>	<b>(134,854)</b>	<b>(57,244)</b>	<b>(14,429)</b>	<b>(206,527)</b>	<b>(261,686)</b>



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

Items	31/12/2010	31/12/2009
A. Positive differentials on hedging transactions	-	-
B. Negative differentials on hedging transactions	(14,382)	(5,281)
<b>C. Net total (A-B)</b>	<b>(14,382)</b>	<b>(5,281)</b>

## 1.6 Interest expense and similar charges: other information

### 1.6.1 Interest expense on foreign currency liabilities

	31/12/2010	31/12/2009
Interest expense on foreign currency liabilities	(33,863)	(31,510)

### 1.6.2 Interest expense on finance lease transactions

	31/12/2010	31/12/2009
Interest expense on finance lease transactions	(251)	(521)

## Section 2 Commissions - line items 40 and 50

### 2.1 Commission income: breakdown

Type of service/Amounts	31/12/2010	31/12/2009
<b>a) guarantees given</b>	<b>14,629</b>	<b>11,474</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, intermediation and consultancy services:</b>	<b>84,306</b>	<b>78,752</b>
1. trading in financial instruments	19,672	19,960
2. trading in foreign currencies	6,107	5,924
3. portfolio management	6,701	6,014
3.1 individual	6,701	6,014
3.2 collective	-	-
4. custody and administration of securities	10,504	10,448
5. custodian bank	4,092	2,566
6. placement of securities	11,940	10,396
7. order receipt and transmission	13,453	13,755
8. consultancy	37	47
8.1 investments	-	-
8.2 corporate finance	37	47
9. distribution of third-party services	11,800	9,642
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	6,895	5,928
9.3 other products	4,905	3,714
<b>d) collection and payment services</b>	<b>52,195</b>	<b>49,189</b>
<b>e) services for securitisation transactions</b>	-	-
<b>f) services for factoring transactions</b>	<b>19,325</b>	-
<b>g) tax collection services</b>	-	-
<b>h) management of multilateral trading systems</b>	-	-
<b>i) management of current accounts</b>	-	-
<b>j) other services</b>	<b>100,554</b>	<b>80,627</b>
<b>Total</b>	<b>271,009</b>	<b>220,042</b>

This item increases by € 50.967 million, +23.16%, essentially due to the rise in «other services» of «loan commissions», being mainly fees charged on agreed overdrafts and loans overdrawn without authorisation, and commissions on factoring transactions of € 19.325 million which were not present in the prior year's financial statements.



## 2.2 Commission expense: breakdown

Services/Amounts	31/12/2010	31/12/2009
a) guarantees received	(92)	(91)
b) credit derivatives	-	-
c) management and intermediation services:	(3,460)	(3,167)
1. trading in financial instruments	(1,565)	(1,470)
2. trading in foreign currencies	-	-
3. portfolio management:	-	-
3.1. own	-	-
3.2. delegated by third parties	-	-
4. custody and administration of securities	(1,895)	(1,697)
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
d) collection and payment services	(7,575)	(7,348)
e) other services	(6,219)	(3,143)
<b>Total</b>	<b>(17,346)</b>	<b>(13,749)</b>

## Section 3 Dividends and similar income - line item 70

### 3.1 Dividends and similar income: breakdown

Items/Income	31/12/2010		31/12/2009	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,374	39	941	70
B. Financial assets available for sale	1,906	17	2,007	97
C. Financial assets carried at fair value	-	61	-	109
D. Equity investments	-	-	-	-
<b>Total</b>	<b>3,280</b>	<b>117</b>	<b>2,948</b>	<b>276</b>

## Section 4 Net trading income - line item 80

### 4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net profit (loss) [(A+B)-(C+D)]
<b>1. Financial assets held for trading</b>	<b>16,843</b>	<b>25,513</b>	<b>(73,608)</b>	<b>(5,849)</b>	<b>(37,101)</b>
1.1 Fixed-yield securities	8,880	9,298	(63,786)	(5,229)	(50,837)
1.2 Variable-yield securities	44	1,423	(9,713)	(430)	(8,676)
1.3 Mutual funds	-	271	(109)	(190)	(28)
1.4 Loans	-	-	-	-	-
1.5 Others	7,919	14,521	-	-	22,440
<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 Others	-	-	-	-	-
<b>3. Other assets and liabilities: exchange differences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>834</b>
<b>4. Derivatives</b>	<b>2,391</b>	<b>9,531</b>	<b>(3,888)</b>	<b>(6,831)</b>	<b>1,312</b>
4.1 Financial derivatives:	2,391	9,531	(3,888)	(6,831)	1,312
- On debt securities and interest rates	1,706	5,765	(3,214)	(5,347)	(1,090)
- On equities and equity indices	-	2,255	-	(23)	2,232
- On currency and gold	-	-	-	-	109
- Other	685	1,511	(674)	(1,461)	61
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>19,234</b>	<b>35,044</b>	<b>(77,496)</b>	<b>(12,680)</b>	<b>(34,955)</b>

Net trading income has been heavily influenced by significant losses on fixed-yield securities, government securities in particular. This compares with a situation last year that was almost exactly the opposite.

The income from trading in «other financial assets» is made up of exchange gains.

This table does not include the result of the securities in the post-employment fund, which is shown under another item.



## Section 5 Net hedging gains (losses) - line item 90

### 5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31/12/2010	31/12/2009
<b>A. Income from:</b>		
A.1 Fair value hedges	-	-
A.2 Hedged financial assets (fair value)	7,497	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash-flow hedges	-	-
A.5 Foreign currency assets and liabilities	-	-
<b>Total income from hedging activities (A)</b>	<b>7,497</b>	<b>-</b>
<b>B. Charges from:</b>		
B.1 Fair value hedges	(7,714)	(4,305)
B.2 Hedged financial assets (fair value)	-	(1,457)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedges	-	-
B.5 Foreign currency assets and liabilities	-	-
<b>Total charges from hedging activities (B)</b>	<b>(7,714)</b>	<b>(5,762)</b>
<b>C. Net hedging gains (losses) (A - B)</b>	<b>(217)</b>	<b>(5,762)</b>

Costs include € 7,714 million for the valuation at fair value of hedging derivatives, versus a positive valuation of the loans being hedged of € 7.497 million at fair value. The net result of measuring the hedging structure at fair value is a negative balance of € 0.217 million.

## Section 6 Gains (losses) on disposals/repurchases - line item 100

### 6.1 Gains (losses) on disposals/repurchases - breakdown

Items/Income items	31/12/2010			31/12/2009		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
<b>Financial assets</b>	-	-	-	-	-	-
1. Due from banks	-	-	-	-	-	-
2. Due from customers	-	-	-	-	-	-
3. Financial assets available for sale	-	(327)	(327)	-	(1,062)	(1,062)
3.1 Fixed-yield securities	-	-	-	-	-	-
3.2 Variable-yield securities	-	(327)	(327)	-	(1,062)	(1,062)
3.3 Mutual funds	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	43	-	43
<b>Total assets</b>	<b>-</b>	<b>(327)</b>	<b>(327)</b>	<b>43</b>	<b>(1,062)</b>	<b>(1,019)</b>
<b>Financial liabilities</b>	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	244	(277)	(33)	168	(608)	(440)
<b>Total liabilities</b>	<b>244</b>	<b>(277)</b>	<b>(33)</b>	<b>168</b>	<b>(608)</b>	<b>(440)</b>

## Section 7 *Net change in financial assets and liabilities carried at fair value - line item 110*

### 7.1 Net change in financial assets/liabilities carried at fair value: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Net profit (loss) [(A+B)-(C+D)]
<b>1. Financial assets</b>	<b>2,277</b>	<b>33</b>	<b>(1,808)</b>	<b>(60)</b>	<b>442</b>
1.1 Fixed-yield securities	-	4	(1,759)	-	(1,755)
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	2,277	29	(49)	(60)	2,197
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>364</b>
<b>4. Credit and financial derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>2,277</b>	<b>33</b>	<b>(1,808)</b>	<b>(60)</b>	<b>806</b>

The losses mainly concern mutual funds and on Italian Government securities.

## Section 8 *Net impairment adjustments - line item 130*

### 8.1 Net impairment adjustments to loans: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)				Total 31/12/2010	Total 31/12/2009
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
<b>A. Due from banks</b>	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
<b>B. Due from customers</b>	<b>(65,740)</b>	<b>(97,182)</b>	<b>(28,715)</b>	<b>837</b>	<b>30,349</b>	-	<b>25,304</b>	<b>(135,147)</b>	<b>(143,051)</b>
- Loans	(65,740)	(97,182)	(28,715)	837	30,349	-	25,304	(135,147)	(143,051)
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
<b>C, Total</b>	<b>(65,740)</b>	<b>(97,182)</b>	<b>(28,715)</b>	<b>837</b>	<b>30,349</b>	<b>-</b>	<b>25,304</b>	<b>(135,147)</b>	<b>(143,051)</b>

Key:

A = Interest

B = Other write-backs



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

Transactions/Income items	Adjustments (1)		Write-backs (2)		Total 31/12/2010	Total 31/12/2009
	Specific		Specific			
	Write-offs	Other	A	B		
A. Fixed-yield securities	-	-	-	-	-	-
B. Variable-yield securities	-	(4,865)	-	-	(4,865)	(2,246)
C. Mutual funds	-	(241)	-	-	(241)	(2,120)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
<b>F. Total</b>	<b>-</b>	<b>(5,106)</b>	<b>-</b>	<b>-</b>	<b>(5,106)</b>	<b>(4,366)</b>

Key:

A = Interest

B = Other write-backs

## 8.4 Net impairment adjustments on other financial transactions: composition

Transactions/ Income items	Adjustments			Write-backs				Total 31/12/2010	Total 31/12/2009
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Guarantees given	-	(3,767)	-	-	2,959	-	-	(808)	-
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to make loans	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>(3,767)</b>	<b>-</b>	<b>-</b>	<b>2,959</b>	<b>-</b>	<b>-</b>	<b>(808)</b>	<b>-</b>

Key:

A = Interest

B = Other write-backs

## Section 11 Administrative expenses - line item 180

### 11.1 Personnel expenses: breakdown

Type of expenses/Sectors	31/12/2010	31/12/2009
<b>1) Employees</b>	<b>(196,372)</b>	<b>(179,260)</b>
a) wages and salaries	(133,353)	(125,404)
b) social security contributions	(31,030)	(30,543)
c) termination indemnities	(17)	(15)
d) pension expenses	(3,159)	(2,568)
e) provision for employee termination indemnities	(8,002)	(7,536)
f) provision for post-employment benefits and similar commitments:	(5,984)	(9,007)
- defined contribution	-	-
- defined benefits	(5,984)	(9,007)
g) payments to external supplementary pension funds:	(2,593)	(1,680)
- defined contribution	(2,593)	(1,680)
- defined benefits	-	-
h) costs deriving from payment agreements based on own capital instruments	-	-
i) other personnel benefits	(12,234)	(2,507)
<b>2) Other working personnel</b>	<b>(4,446)</b>	<b>(5,683)</b>
<b>3) Directors and Statutory auditors</b>	<b>(2,461)</b>	<b>(1,986)</b>
<b>4) Retired personnel</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>(203,279)</b>	<b>(186,929)</b>

### 11.2 Average number of employees by category

Type of expense/Amounts	31/12/2010	31/12/2009
<b>Employees</b>	<b>2,976</b>	<b>2,740</b>
a) managers	25	24
b) officials	699	601
c) other employees	2,252	2,115
<b>Other personnel</b>	<b>111</b>	<b>124</b>

	31/12/2010	31/12/2009
<b>Number of employees at year-end</b>		
- Employees	2,974	2,806
- Other personnel	115	115

### 11.3 Defined-benefit pension plans: total costs

	31/12/2010	31/12/2009
Service cost	1,523	1,855
Interest cost	3,509	3,712
Actuarial gains/losses	788	3,296
Contributions from employees	(276)	(312)
Reductions and payments	440	456
<b>Total charge to income statement (A)</b>	<b>5,984</b>	<b>9,007</b>
Yield from assets servicing the fund (B)	3,915	4,710
Total charge (A-B)	2,069	4,297

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and related changes during the year, and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements.

The Parent Bank has not adopted the «corridor» method for the recognition of actuarial gains/losses; accordingly, there are no unrecorded gains/losses of this type.

### 11.4 Other employee benefits

This caption essentially comprises the cost of «meal vouchers», the reimbursement of travel and accommodation expenses, insurance costs and other benefits.

### 11.5 Other administrative expenses: breakdown

	31/12/2010	31/12/2009
telephone, post and data transmission	(16,367)	(16,371)
maintenance of property, plant and equipment	(8,462)	(8,079)
rent of buildings	(24,457)	(21,932)
security	(6,188)	(5,958)
transportation	(3,580)	(3,856)
professional fees	(12,171)	(10,925)
office materials	(2,883)	(2,731)
electricity, heating and water	(4,859)	(4,786)
advertising and entertainment	(4,013)	(4,570)
legal	(6,419)	(5,597)
insurance	(1,731)	(1,713)
company searches and information	(4,180)	(4,175)
indirect taxes and dues	(33,313)	(31,534)
software and hardware rental and maintenance	(10,768)	(9,297)
data entry by third parties	(936)	(1,025)
cleaning	(4,929)	(4,805)
membership fees	(1,939)	(1,764)
services received from third parties	(2,953)	(2,822)
outsourced activities	(18,289)	(16,621)
deferred charges	(5,950)	(7,612)
others	(10,076)	(12,940)
<b>Total</b>	<b>(184,463)</b>	<b>(179,113)</b>



## Section 12 Net provisions for risks and charges - line item 190

### 12.1 Net provisions for risks and charges: breakdown

The line item amounts to € 2.430 million.

## Section 13 Net adjustments to property, plant and equipment - line item 200

### 13.1 Net provisions for risks and charges: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
<b>A. Property, plant and equipment</b>				
A.1 Owned	(15,029)	-	-	(15,029)
- For business purposes	(15,029)	-	-	(15,029)
- For investment purposes	-	-	-	-
A.2 Purchased under finance leases	(998)	-	-	(998)
- For business purposes	(998)	-	-	(998)
- For investment purposes	-	-	-	-
<b>Total</b>	<b>(16,027)</b>	<b>-</b>	<b>-</b>	<b>(16,027)</b>

## Section 14 Net adjustments to intangible assets - line item 210

### 14.1 Net adjustments to intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
<b>A. Intangible assets</b>				
A.1 Owned	(9,977)	-	-	(9,977)
- Internally generated	-	-	-	-
- Other	(9,977)	-	-	(9,977)
A.2 Purchased under finance leases	-	-	-	-
<b>Total</b>	<b>(9,977)</b>	<b>-</b>	<b>-</b>	<b>(9,977)</b>

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year, accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

## Section 15 Other operating income and expense - Line item 220

### 15.1 Other operating expenses: breakdown

	31/12/2010	31/12/2009
Out-of-period expense	(2,350)	(924)
Other	(1,805)	(1,782)
Consolidation differences	(20,956)	(321)
<b>Total</b>	<b>(25,111)</b>	<b>(3,027)</b>



## 15.2 Other operating income: breakdown

	31/12/2010	31/12/2009
Recovery of charges on deposits and overdrafts	82	682
Recovery of expenses	533	-
Rental income from buildings	1,045	1,021
Recovery of taxes	28,048	27,401
Financial income of post-employment benefits plan	3,915	4,710
Out-of-period income - other	886	820
Out-of-period income - overprovisions	1	-
Other	7,997	8,776
Consolidation differences	24,472	(133)
<b>Total</b>	<b>66,979</b>	<b>43,543</b>

## Section 16 Share of profit (loss) of equity investments - line item 240

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

Income item/amount	31/12/2010	31/12/2009
<b>2) Associated companies</b>		
<b>A. Income</b>	<b>61,431</b>	<b>3,003</b>
1. Revaluations	2,958	3,003
2. Gains on disposal	58,404	-
3. Write-backs	69	-
4. Other income	-	-
<b>B. Charges</b>	<b>(1,945)</b>	<b>(4,700)</b>
1. Write-downs	(1,945)	-
2. Impairment write-downs	-	-
3. Losses on disposal	-	(4,700)
4. Other charges	-	-
<b>Net profit (loss)</b>	<b>59,486</b>	<b>(1,697)</b>

## Section 19 Gains (losses) on disposal of investments - line item 270

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

Income item/Segments	31/12/2010	31/12/2009
<b>A. Buildings</b>	<b>(108)</b>	<b>(304)</b>
- Gains on disposal	-	10
- Losses on disposal	(108)	(314)
<b>B. Other assets</b>	<b>(60)</b>	<b>29</b>
- Gains on disposal	51	33
- Losses on disposal	(111)	(4)
<b>Net profit (loss)</b>	<b>(168)</b>	<b>(275)</b>

## Section 20 *Income taxes on current operations - line item 290*

### 20.1 Income taxes on current operations: breakdown

Income items/Amounts	31/12/2010	31/12/2009
1. Current taxes (-)	(72,684)	(133,127)
2. Change in prior period income taxes (+/-)	340	-
3. Reduction in current taxes (+)	-	-
4. Change in deferred tax assets (+/-)	11,668	18,739
5. Change in deferred tax liabilities (+/-)	(312)	(3,504)
6. Income taxes for the year (-) (-1+/-2+3+/-4+/-5)	(60,988)	(117,892)

### 20.2 Reconciliation between the theoretical and effective tax burden

Income taxes are calculated on the basis of the specific tax legislation in the country where each company is resident.

The total tax charge for the year can be reconciled as follows:

INCOME TAXES	Tax base	Tax
Theoretical tax burden	197,789	54,376
Increases	58,966	17,134
Decreases	(68,474)	(18,658)
<b>Effective tax burden</b>	<b>188,281</b>	<b>52,852</b>

Regional business tax (IRAP)	Tax base	Tax
Theoretical tax burden	196,667	9,489
Increases	337,774	16,503
Decreases	(127,691)	(6,160)
<b>Effective tax burden</b>	<b>406,750</b>	<b>19,832</b>
<b>Total effective tax burden</b>	<b>-</b>	<b>72,684</b>

The main changes relate to the Parent Bank. For details, reference should therefore be made to Part C Information on the income statement of the company, Section 18 Table 18.2.



## **Section 21** Profit (loss) after tax on non-current assets held for sale - line item 310

### **21.1 Profit (loss) after tax on non-current assets/liabilities held for sale: breakdown**

Income items/Segments	Total 31/12/2010	Total 31/12/2009
1. Income	-	-
2. Charges	-	-
3. Result of valuations of group of assets and associated liabilities	-	4,008
4. Gains (losses) on disposals	-	-
5. Taxes and dues	-	-
<b>Net profit (loss)</b>	<b>-</b>	<b>4,008</b>

## **Section 24** Earnings per share

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

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in net profit is unchanged with respect to the prior year.

	31/12/2010	31/12/2009
number of shares	308,147,985	308,147,985

### **24.2 Other information**

IAS 33 requires that earnings per share (EPS) be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the net profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

There are no circumstances under which earnings can be diluted and there are no activities to be sold for which basic and diluted EPS must be stated separately.

	31/12/2010	31/12/2009
earnings per share - €	0.439	0.652

## **PART D** Consolidated comprehensive income

### Analytical statement of consolidated comprehensive income

Items/Amounts	Gross amount	Income taxes	Net amount
10. <b>Net profit (loss) for the year</b>	-	-	<b>136,799</b>
Other income items	-	-	-
20. <b>Financial assets available for sale:</b>	<b>1,173</b>	<b>(46)</b>	<b>1,127</b>
a) changes in fair value	1,173	(46)	1,127
b) transfer to income statement	-	-	-
- adjustments for impairment	-	-	-
- gains/losses on disposals	-	-	-
c) other changes	-	-	-
30. <b>Property, plant and equipment</b>	-	-	-
40. <b>Intangible assets</b>	-	-	-
50. <b>Hedges of foreign investments:</b>	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
60. <b>Cash-flow hedges:</b>	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
70. <b>Exchange differences:</b>	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
80. <b>Non-current assets held for sale and discontinued operations:</b>	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
c) other changes	-	-	-
90. <b>Actuarial profits (losses) on defined-benefit plans</b>	-	-	-
100. <b>Share of valuation reserves of equity investments valued at net equity:</b>	-	-	-
a) changes in fair value	-	-	-
b) transfer to income statement	-	-	-
- adjustments for impairment	-	-	-
- gains/losses on disposals	-	-	-
c) other changes	-	-	-
110. <b>Total other income items net of income taxes</b>	<b>1,173</b>	<b>(46)</b>	<b>1,127</b>
120. <b>Comprehensive income (item 10+110)</b>	-	-	<b>137,926</b>
130. <b>Consolidated comprehensive income pertaining to minority interests</b>	-	-	<b>(1,650)</b>
140. <b>Consolidated comprehensive income pertaining to the Parent Bank</b>	-	-	<b>136,276</b>

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

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Section IV, Chapter 1 of the New Supervisory instructions for Banks is provided by the required deadlines in the «Corporate Information» section of the Bank's website.

### **Section 1** *Risks of the Banking Group*

#### **1.1 Credit risk**

##### **QUALITATIVE INFORMATION**

##### **1. General matters**

The Parent Bank manages and coordinates the activities of the Swiss subsidiary, thereby ensuring harmonisation of credit policies at group level and a standard approach to risk management.

As outlined in the equivalent section of the notes to the Parent Bank's separate financial statement, the lines of strategy that are followed are geared to sustaining local economies, in particular small and medium-sized businesses and households, maintaining low levels of risk and concentration. These policies are applied by the subsidiaries in ways that respect the peculiarities of their counterparties and the particular types of products being offered, as well as the characteristics of the market in question.

##### **2. Credit risk management policies**

##### **2.1 Organisational aspects**

The process of credit risk management adopted by the Parent Bank and the structure set up to implement it are explained in detail in the corresponding section of the notes relating to the Bank.

The organisational structure of the subsidiaries complies with that of the Parent Bank, allowing for differences in size and the area in which they operate.

##### **2.2 Systems for managing, measuring and monitoring**

As part of its coordination activities, the Parent Bank requires the subsidiaries to apply the control methodology already discussed in detail in the corresponding section of the notes relating to the Bank

In this regard, it is worth pointing out that the Swiss subsidiary has its own rating system which it applies to customer loans. This system does not use statistical methods, which would in any case be inapplicable because of the brevity of the historical database; instead, it is based entirely on the subjective assessment and discretion of the credit and loans department. This approach involves gathering various set indicators and information of a financial and qualitative nature, depending on the type of customer. The combined evaluation of these elements results in a score, which is used by the person making the final evaluation to assign a rating. This methodology has been analysed by the independent auditors, who consider it appropriate given the scale, complexity and risks involved in the activities performed.

## 2.3 Credit risk mitigation techniques

As part of its functions of coordination and control, the Parent Bank requires the subsidiaries to adopt credit risk mitigation techniques able to ensure efficient management and prudent valuation of the guarantees obtained. This risk is controlled by the subsidiary Banca Popolare di Sondrio (Suisse) SA by means of monitoring tools that are substantially similar to those of the Parent Bank, as described in the corresponding section in the explanatory notes. Note that lending to households and businesses with mortgage backing or financial collateral is long-standing practice in Switzerland.

As regards Factorit's operations, on the other hand, particular tools for mitigating the risk assumed by the factor can be found in the techniques used to consolidate the transfer of risk versus the assigned debtor and in fragmenting it over the series of other persons or entities, a typical approach in operations of this kind.

## 2.4 Impaired financial assets

As part of its functions of coordination and control, the Parent Bank requires the subsidiaries to bring their loans classification criteria and management methods into line with those of the Parent Bank, as explained in the corresponding section of the notes on the Bank.

## QUANTITATIVE INFORMATION

### A. Asset quality

#### A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

##### A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/Quality	Banking group					Other businesses		Total 31/12/2010
	Non-performing loans	Watchlist loans	Restructured exposures	Past due exposures	Other assets	Impaired loans	Other	
1. Financial assets held for trading	5,527	4	-	-	2,752,991	-	-	2,758,522
2. Financial assets available for sale	-	-	-	-	30,709	-	-	30,709
3. Financial assets held to maturity	587	-	-	-	248,717	-	-	249,304
4. Due from banks	-	-	-	-	1,019,727	-	2	1,019,729
5. Due from customers	207,571	252,643	63,053	229,661	20,453,978	-	251	21,207,157
6. Financial assets measured at fair value	-	-	-	-	29,224	-	-	29,224
7. Financial assets being sold	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	940	-	-	940
<b>Total 31/12/2010</b>	<b>213,685</b>	<b>252,647</b>	<b>63,053</b>	<b>229,661</b>	<b>24,536,286</b>	<b>-</b>	<b>253</b>	<b>25,295,585</b>
<b>Total 31/12/2009</b>	<b>157,167</b>	<b>169,557</b>	<b>39,726</b>	<b>196,975</b>	<b>21,849,167</b>	<b>-</b>	<b>157</b>	<b>22,412,749</b>

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



### A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/Quality	Impaired assets			Other assets			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	5,531	-	5,531	2,752,991	-	2,752,991	2,758,522
2. Financial assets available for sale	-	-	-	30,709	-	30,709	30,709
3. Financial assets held to maturity	3,696	3,109	587	248,717	-	248,717	249,304
4. Due from banks	-	-	-	1,019,727	-	1,019,727	1,019,727
5. Due from customers	1,075,256	322,328	752,928	20,572,327	118,349	20,453,978	21,206,906
6. Financial assets measured at fair value	-	-	-	29,224	-	29,224	29,224
7. Financial assets being sold	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	940	-	940	940
<b>Total A</b>	<b>1,084,483</b>	<b>325,437</b>	<b>759,046</b>	<b>24,654,635</b>	<b>118,349</b>	<b>24,536,286</b>	<b>25,295,332</b>
<b>B. Other consolidated companies</b>							
1. Financial assets held for trading	-	-	-	-	-	-	-
2. Financial assets available for sale	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	2	-	2	2
5. Due from customers	-	-	-	252	1	251	251
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>254</b>	<b>1</b>	<b>253</b>	<b>253</b>
<b>Total 31/12/2010</b>	<b>1,084,483</b>	<b>325,437</b>	<b>759,046</b>	<b>24,654,889</b>	<b>118,350</b>	<b>24,536,539</b>	<b>25,295,585</b>
<b>Total 31/12/2009</b>	<b>797,278</b>	<b>233,853</b>	<b>563,425</b>	<b>21,947,242</b>	<b>97,918</b>	<b>21,849,324</b>	<b>22,412,749</b>

With reference to financial assets held for trading and those at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

The following table shows, for the aggregate «Performing loans to customers», the figures for loans subject to renegotiation under collective agreements (such as the ABI-MEF Framework Agreement) and other exposures, with an ageing of any repayments that are past due.

The figures for Factorit Spa are shown separately as they relate to the specific nature of the company's operations, namely factoring, where it is normal that there are differences in the timing of the cash flows compared with the maturity dates of the underlying loans.



Loans to customers Gross exposures (performing)	Exposure	Repayments past due up to 3 months	Repayments past due from 3 to 6 months	Repayments past due for over 3 months	Repayments past due for over 1 year
<b>Banca Popolare di Sondrio and Banca Popolare di Sondrio (SUISSE)</b>					
Subject to renegotiation under collective agreements	214,017	67	10	-	-
Other exposure	19,043,313	23,100	1,602	763	173
<b>Factorit</b>					
Other exposure	1,314,997	177,687	45,991	3,164	10,861

### A.1.3 Cash and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
<b>A. Cash exposures</b>				
a) Non-performing loans	-	-	-	-
b) Watchlist loans	-	-	-	-
c) Restructured exposures	-	-	-	-
d) Past due exposures	-	-	-	-
e) Other assets	1,393,972	-	-	1,393,972
<b>Total A</b>	<b>1,393,972</b>	<b>-</b>	<b>-</b>	<b>1,393,972</b>
<b>B, Off-balance sheet exposures</b>				
a) Impaired	-	-	-	-
b) Other	106,812	-	-	106,812
<b>Total B</b>	<b>106,812</b>	<b>-</b>	<b>-</b>	<b>106,812</b>
<b>Total A+B</b>	<b>1,500,784</b>	<b>-</b>	<b>-</b>	<b>1,500,784</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.

### A.1.6 Cash and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure	Specific adjustments	General portfolio adjustments	Net exposure
<b>A. Cash exposures</b>				
a) Non-performing loans	471,638	257,953	-	213,685
b) Watchlist loans	305,320	52,677	-	252,643
c) Restructured exposures	65,995	2,942	-	63,053
d) Past due exposures	241,526	11,865	-	229,661
e) Other assets	23,190,298	-	118,349	23,071,949
<b>Total A</b>	<b>24,274,777</b>	<b>325,437</b>	<b>118,349</b>	<b>23,830,991</b>
<b>B. Off-balance sheet exposures</b>				
a) Impaired	51,599	8,110	-	43,489
b) Other	5,699,934	-	1,013	5,698,921
<b>Total B</b>	<b>5,751,533</b>	<b>8,110</b>	<b>1,013</b>	<b>5,742,410</b>
<b>Total A+B</b>	<b>30,026,310</b>	<b>333,547</b>	<b>119,362</b>	<b>29,573,401</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.



### A.1.7 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>348,016</b>	<b>199,915</b>	<b>41,659</b>	<b>207,681</b>
- of which: sold but not eliminated from the balance sheet	-	-	-	-
<b>B. Increases</b>	<b>284,588</b>	<b>290,334</b>	<b>32,006</b>	<b>348,046</b>
B.1 transfer from performing exposures	115,373	134,070	17,126	253,158
B.2 transfers from other categories of impaired exposure	101,499	35,682	13,253	1,306
B.3 other increases	67,716	120,582	1,627	93,582
<b>C. Decreases</b>	<b>160,966</b>	<b>184,929</b>	<b>7,670</b>	<b>314,201</b>
C.1 transfers to performing loans	-	14,995	1,951	90,454
C.2 write-offs	125,447	322	-	-
C.3 collections	34,906	70,291	2,409	147,044
C.4 proceeds from disposals	-	-	-	-
C.5 transfers to other categories of impaired exposure	-	93,474	3,310	54,956
C.6 other decreases	613	5,847	-	21,747
<b>D. Closing gross exposure</b>	<b>471,638</b>	<b>305,320</b>	<b>65,995</b>	<b>241,526</b>
- of which: sold but not eliminated from the balance sheet	-	-	-	-

### A.1.8 Banking group - Cash exposures to customers: dynamics of total writedowns

Categories	Non performing loans	Watchlist loans	Restructured exposures	Past due exposures
<b>A. Total opening adjustments</b>	<b>190,849</b>	<b>30,365</b>	<b>1,933</b>	<b>10,706</b>
- of which: sold but not eliminated from the balance sheet	-	-	-	-
<b>B. Increases</b>	<b>203,620</b>	<b>43,414</b>	<b>4,567</b>	<b>6,534</b>
B.1 adjustments	147,764	26,209	3,501	4,367
B.2 transfers from other categories of impaired exposure	17,094	2,240	1,066	168
B.3 other increases	38,762	14,965	-	1,999
<b>C. Decreases</b>	<b>136,516</b>	<b>21,102</b>	<b>3,558</b>	<b>5,375</b>
C.1 write-backs on valuation	5,425	2,033	3,291	424
C.2 write-backs due to collections	5,405	1,414	43	676
C.3 write-offs	125,159	322	-	-
C.4 transfers to other categories of impaired exposure	260	17,198	224	2,886
C.5 other decreases	267	135	-	1,389
<b>D. Total closing adjustments</b>	<b>257,953</b>	<b>52,677</b>	<b>2,942</b>	<b>11,865</b>
- of which: sold but not eliminated from the balance sheet	-	-	-	-

## A.2 Classification of exposures based on external and internal ratings

### A.2.1 Distribution of cash loans and off-balance sheet items by external rating class

Type of exposure	External rating classes						Unrated	Total 31/12/2010
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
<b>A. Cash exposures</b>	<b>2,517,115</b>	<b>1,801,486</b>	<b>864,752</b>	<b>2,831,787</b>	<b>1,152,986</b>	<b>1,914,553</b>	<b>14,142,283</b>	<b>25,224,962</b>
<b>B. Derivatives</b>	<b>11,074</b>	<b>30,438</b>	<b>2,149</b>	<b>5,365</b>	<b>1,704</b>	<b>2,390</b>	<b>30,921</b>	<b>84,041</b>
B,1 Financial derivatives	11,074	30,438	2,149	5,365	1,704	2,390	30,921	84,041
B,2 Credit derivatives	-	-	-	-	-	-	-	-
<b>C. Guarantees given</b>	<b>4,118</b>	<b>1,171,295</b>	<b>227,293</b>	<b>487,901</b>	<b>69,214</b>	<b>160,404</b>	<b>1,295,071</b>	<b>3,415,296</b>
<b>D. Commitments to make loans</b>	<b>33,410</b>	<b>276,683</b>	<b>53,982</b>	<b>167,555</b>	<b>91,735</b>	<b>323,896</b>	<b>1,402,624</b>	<b>2,349,885</b>
<b>Total</b>	<b>2,565,717</b>	<b>3,279,902</b>	<b>1,148,176</b>	<b>3,492,608</b>	<b>1,315,639</b>	<b>2,401,243</b>	<b>16,870,899</b>	<b>31,074,184</b>

The distribution of loans to banks and customers is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Group's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations (see Circular no. 263 of 27.12.2006 «New supervisory instructions for banks»).

The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Group. Banca Popolare di Sondrio (Suisse) SA and Factorit Spa do not use the ratings issued by Cerved Group.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
FitchRatings	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	below to B-
Standard & Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	below B-
Cerved Group	-	from Aa.1 to Baa.7	Baa.8	from Baa.9 to B.13	from B.14 to B.15	from B.16 to C.19

Note that from 31 December 2010 the Bank of Italy changed the method of linking the ratings issued by Cerved Group (formerly Lince Spa), using greater prudence in associating them with the various rating classes: the related table takes into account those changes.



## A.2.2 Banking group - Distribution of cash loans by internal rating class

BANCA POPOLARE DI SONDRIO - PRIVATE CUSTOMERS - Exposure		Internal rating classes						
	01	02	03	04	05	06	07	
<b>A. Cash exposures</b>	<b>356,855</b>	<b>38,675</b>	<b>73,454</b>	<b>481,094</b>	<b>819,073</b>	<b>509,574</b>	<b>201,900</b>	
<b>B. Derivatives</b>	<b>99</b>	<b>28</b>	<b>37</b>	<b>228</b>	<b>830</b>	<b>670</b>	<b>164</b>	
B.1 Financial derivatives	99	28	37	228	830	670	164	
B.2 Credit derivatives	-	-	-	-	-	-	-	
<b>C. Guarantees given</b>	<b>6,034</b>	<b>114</b>	<b>4,782</b>	<b>14,232</b>	<b>24,266</b>	<b>20,313</b>	<b>2,391</b>	
<b>D. Commitments to make loans</b>	<b>105</b>	<b>527</b>	<b>114</b>	<b>9,424</b>	<b>14,547</b>	<b>6,459</b>	<b>2,437</b>	
<b>Total</b>	<b>363,093</b>	<b>39,344</b>	<b>78,387</b>	<b>504,978</b>	<b>858,716</b>	<b>537,016</b>	<b>206,892</b>	

BANCA POPOLARE DI SONDRIO - SMALL BUSINESS Exposure		Internal rating classes						
	01	02	03	04	05	06	07	
<b>A. Cash exposures</b>	<b>12,121</b>	<b>285,927</b>	<b>94,639</b>	<b>216,942</b>	<b>1,088,228</b>	<b>310,833</b>	<b>137,683</b>	
<b>B. Derivatives</b>	<b>1</b>	<b>99</b>	<b>37</b>	<b>26</b>	<b>238</b>	<b>18</b>	<b>28</b>	
B.1 Financial derivatives	1	99	37	26	238	18	28	
B.2 Credit derivatives	-	-	-	-	-	-	-	
<b>C. Guarantees given</b>	<b>1,958</b>	<b>7,011</b>	<b>5,346</b>	<b>11,928</b>	<b>31,924</b>	<b>36,117</b>	<b>4,371</b>	
<b>D. Commitments to make loans</b>	<b>1</b>	<b>4,310</b>	<b>2,755</b>	<b>1,308</b>	<b>19,467</b>	<b>5,477</b>	<b>1,240</b>	
<b>Total</b>	<b>14,081</b>	<b>297,347</b>	<b>102,777</b>	<b>230,204</b>	<b>1,139,857</b>	<b>352,445</b>	<b>143,322</b>	

BANCA POPOLARE DI SONDRIO - MICRO-ENTERPRISES Exposure		Internal rating classes						
	01	02	03	04	05	06	07	
<b>A. Cash exposures</b>	<b>34,225</b>	<b>73,403</b>	<b>159,288</b>	<b>338,564</b>	<b>546,524</b>	<b>717,319</b>	<b>635,170</b>	
<b>B. Derivatives</b>	<b>106</b>	<b>659</b>	<b>337</b>	<b>280</b>	<b>486</b>	<b>229</b>	<b>312</b>	
B.1 Financial derivatives	106	659	337	280	486	229	312	
B.2 Credit derivatives	-	-	-	-	-	-	-	
<b>C. Guarantees given</b>	<b>5,717</b>	<b>8,678</b>	<b>24,132</b>	<b>42,835</b>	<b>39,151</b>	<b>70,116</b>	<b>32,018</b>	
<b>D. Commitments to make loans</b>	<b>3,778</b>	<b>12,073</b>	<b>13,435</b>	<b>43,284</b>	<b>75,748</b>	<b>111,458</b>	<b>73,945</b>	
<b>Total</b>	<b>43,826</b>	<b>94,813</b>	<b>197,192</b>	<b>424,963</b>	<b>661,909</b>	<b>899,122</b>	<b>741,445</b>	

BANCA POPOLARE DI SONDRIO - SMEs - Exposure		Internal rating classes						
	01	02	03	04	05	06	07	
<b>A. Cash exposures</b>	<b>28,190</b>	<b>54,225</b>	<b>247,853</b>	<b>439,956</b>	<b>744,151</b>	<b>769,686</b>	<b>428,665</b>	
<b>B. Derivatives</b>	<b>21</b>	<b>92</b>	<b>1,200</b>	<b>1,241</b>	<b>1,489</b>	<b>1,683</b>	<b>120</b>	
B.1 Financial derivatives	21	92	1,200	1,241	1,489	1,683	120	
B.2 Credit derivatives	-	-	-	-	-	-	-	
<b>C. Guarantees given</b>	<b>21,351</b>	<b>19,778</b>	<b>45,552</b>	<b>105,084</b>	<b>110,052</b>	<b>98,887</b>	<b>56,768</b>	
<b>D. Commitments to make loans</b>	<b>5,242</b>	<b>1,323</b>	<b>20,156</b>	<b>13,747</b>	<b>47,147</b>	<b>34,822</b>	<b>15,708</b>	
<b>Total</b>	<b>54,804</b>	<b>75,418</b>	<b>314,761</b>	<b>560,028</b>	<b>902,839</b>	<b>905,078</b>	<b>501,261</b>	

08	09	10	11	12	13	Insolvent	Total 31/12/2010
<b>127,253</b>	<b>85,740</b>	<b>47,747</b>	<b>36,931</b>	<b>19,094</b>	<b>82,245</b>	<b>123,950</b>	<b>3,003,585</b>
<b>19</b>	<b>7</b>	<b>43</b>	<b>2</b>	<b>3</b>	<b>6</b>	<b>3</b>	<b>2,139</b>
19	7	43	2	3	6	3	2,139
-	-	-	-	-	-	-	-
<b>2,341</b>	<b>1,838</b>	<b>292</b>	<b>642</b>	<b>758</b>	<b>574</b>	<b>582</b>	<b>79,159</b>
<b>1,772</b>	<b>577</b>	<b>118</b>	<b>85</b>	<b>17</b>	<b>225</b>	<b>181</b>	<b>36,588</b>
<b>131,385</b>	<b>88,162</b>	<b>48,200</b>	<b>37,660</b>	<b>19,872</b>	<b>83,050</b>	<b>124,716</b>	<b>3,121,471</b>

08	09	10	11	12	13	Insolvent	Total 31/12/2010
<b>135,889</b>	<b>66,960</b>	<b>42,728</b>	<b>34,824</b>	<b>23,696</b>	<b>60,912</b>	<b>98,724</b>	<b>2,610,106</b>
<b>137</b>	<b>1</b>	<b>5</b>	<b>2</b>	-	<b>1</b>	-	<b>593</b>
137	1	5	2	-	1	-	593
-	-	-	-	-	-	-	-
<b>4,112</b>	<b>1,532</b>	<b>3,240</b>	<b>1,164</b>	<b>500</b>	<b>1,771</b>	<b>1,814</b>	<b>112,788</b>
<b>1,393</b>	<b>672</b>	<b>251</b>	<b>763</b>	<b>252</b>	<b>427</b>	<b>1,481</b>	<b>39,797</b>
<b>141,531</b>	<b>69,165</b>	<b>46,224</b>	<b>36,753</b>	<b>24,448</b>	<b>63,111</b>	<b>102,019</b>	<b>2,763,284</b>

08	09	10	11	12	13	Insolvent	Total 31/12/2010
<b>512,914</b>	<b>200,341</b>	<b>102,055</b>	<b>54,908</b>	<b>37,308</b>	<b>75,995</b>	<b>199,400</b>	<b>3,687,414</b>
<b>195</b>	<b>80</b>	<b>152</b>	<b>529</b>	<b>2</b>	<b>20</b>	-	<b>3,387</b>
195	80	152	529	2	20	-	3,387
-	-	-	-	-	-	-	-
<b>22,276</b>	<b>3,693</b>	<b>2,321</b>	<b>1,443</b>	<b>1,827</b>	<b>3,082</b>	<b>3,286</b>	<b>260,575</b>
<b>80,072</b>	<b>10,851</b>	<b>2,357</b>	<b>5,398</b>	<b>1,049</b>	<b>1,136</b>	<b>4,460</b>	<b>439,044</b>
<b>615,457</b>	<b>214,965</b>	<b>106,885</b>	<b>62,278</b>	<b>40,186</b>	<b>80,233</b>	<b>207,146</b>	<b>4,390,420</b>

08	09	10	11	12	13	Insolvent	Total 31/12/2010
<b>313,400</b>	<b>334,580</b>	<b>124,544</b>	<b>107,173</b>	<b>28,143</b>	<b>83,305</b>	<b>138,651</b>	<b>3,842,522</b>
<b>51</b>	<b>344</b>	<b>14</b>	<b>111</b>	-	-	-	<b>6,366</b>
51	344	14	111	-	-	-	6,366
-	-	-	-	-	-	-	-
<b>17,317</b>	<b>9,486</b>	<b>5,135</b>	<b>4,995</b>	<b>2,491</b>	<b>3,052</b>	<b>6,135</b>	<b>506,083</b>
<b>29,119</b>	<b>23,258</b>	<b>7,358</b>	<b>5,388</b>	<b>84</b>	<b>325</b>	<b>255</b>	<b>203,932</b>
<b>359,887</b>	<b>367,668</b>	<b>137,051</b>	<b>117,667</b>	<b>30,718</b>	<b>86,682</b>	<b>145,041</b>	<b>4,558,903</b>



BANCA POPOLARE DI SONDRIO - LARGE AND PUBLIC ENTERPRISES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
<b>A. Cash exposures</b>	<b>87,419</b>	<b>388,700</b>	<b>173,758</b>	<b>415,237</b>	<b>276,178</b>	<b>90,703</b>	<b>128,045</b>
<b>B. Derivatives</b>	<b>5,938</b>	<b>174</b>	<b>1,085</b>	<b>638</b>	<b>814</b>	<b>9</b>	<b>847</b>
B.1 Financial derivatives	5,938	174	1,085	638	814	9	847
B.2 Credit derivatives	-	-	-	-	-	-	-
<b>C. Guarantees given</b>	<b>78,171</b>	<b>510,923</b>	<b>181,787</b>	<b>240,838</b>	<b>368,752</b>	<b>21,395</b>	<b>43,448</b>
<b>D. Commitments to make loans</b>	<b>20,000</b>	<b>86,862</b>	<b>107,603</b>	<b>20,387</b>	<b>13,818</b>	<b>41,831</b>	<b>5,355</b>
<b>Total</b>	<b>191,528</b>	<b>986,659</b>	<b>464,233</b>	<b>677,100</b>	<b>659,562</b>	<b>153,938</b>	<b>177,695</b>

BANCA POPOLARE DI SONDRIO BANKS - Exposure				
	01	02	03	04
<b>A. Cash exposures</b>	-	-	<b>42,830</b>	<b>16,086</b>
<b>B. Derivatives</b>	-	-	<b>461</b>	<b>85</b>
B.1 Financial derivatives	-	-	461	85
B.2 Credit derivatives	-	-	-	-
<b>C. Guarantees given</b>	-	-	<b>12,234</b>	<b>2,115</b>
<b>D. Commitments to make loans</b>	-	-	-	-
<b>Total</b>	-	-	<b>55,525</b>	<b>18,286</b>

BANCA POPOLARE DI SONDRIO (SUISSE) - CUSTOMERS - Exposure				
	R1	R2	R3	R3G
<b>A. Cash exposures</b>	-	<b>2,469</b>	<b>308,674</b>	<b>208,683</b>
<b>Total</b>	-	<b>2,469</b>	<b>308,674</b>	<b>208,683</b>

Banca Popolare di Sondrio (Suisse) SA has its own customer rating system, which it only applies to customer loans. This system splits the loan book into 10 different risk categories. The 1st category identifies customers with the lowest risk, while the R7 and R8 categories indicate a state of insolvency.

Note that the Bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

Internal rating classes							Total
08	09	10	11	12	13	Insolvent	31/12/2010
<b>56,370</b>	<b>41,451</b>	<b>46,517</b>	<b>34,048</b>	-	<b>1,487</b>	<b>28,131</b>	<b>1,768,044</b>
-	<b>46</b>	-	-	-	-	-	<b>9,551</b>
-	46	-	-	-	-	-	9,551
-	-	-	-	-	-	-	-
<b>6,297</b>	<b>21,896</b>	<b>250</b>	<b>386</b>	-	<b>364</b>	<b>14,055</b>	<b>1,488,562</b>
<b>9,277</b>	<b>9,690</b>	-	-	-	-	<b>44</b>	<b>314,867</b>
<b>71,944</b>	<b>73,083</b>	<b>46,767</b>	<b>34,434</b>	-	<b>1,851</b>	<b>42,230</b>	<b>3,581,024</b>

Internal rating classes							Total
05	06	07	08	09	Insolvent	31/12/2010	
<b>87,605</b>	<b>1,374</b>	<b>5,008</b>	-	<b>623</b>	-	<b>153,526</b>	
<b>277</b>	<b>40</b>	-	-	-	-	<b>863</b>	
277	40	-	-	-	-	863	
-	-	-	-	-	-	-	
<b>8,426</b>	<b>4,541</b>	<b>106</b>	-	<b>1,626</b>	-	<b>29,048</b>	
-	-	<b>2,399</b>	-	<b>17</b>	-	<b>2,416</b>	
<b>96,308</b>	<b>5,955</b>	<b>7,513</b>	-	<b>2,266</b>	-	<b>185,853</b>	

Internal rating classes						Total
R4	R4G	R5	R6	R7	R8	31/12/2010
<b>1,242,067</b>	<b>203,854</b>	<b>37,747</b>	<b>4,804</b>	<b>2,163</b>	<b>70</b>	<b>2,010,531</b>
<b>1,242,067</b>	<b>203,854</b>	<b>37,747</b>	<b>4,804</b>	<b>2,163</b>	<b>70</b>	<b>2,010,531</b>



### A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Exposure» column are stated net of specific and portfolio adjustments. The guarantees are split on the basis of this exposure.

The amounts shown in the «guarantees» columns relate to the exposure covered. This means that the real value of the guarantees may exceed that shown.

#### A.3.1 Banking group - Guaranteed cash exposure to customers

	Net exposure	Secured guarantees (1)		Other secured guarantees
		Buildings	Securities	
<b>1. Guaranteed cash exposures:</b>				
1.1 fully guaranteed	208	-	-	-
- of which: impaired	-	-	-	-
1.2 partially guaranteed	567	-	343	-
- of which: impaired	-	-	-	-
<b>2. Guaranteed off-balance sheet exposures:</b>				
2.1 fully guaranteed	-	-	-	-
- of which: impaired	-	-	-	-
2.2 partially guaranteed	-	-	-	-
- of which: impaired	-	-	-	-

#### A.3.2 Banking group - Guaranteed cash exposure to customers

	Net exposure	Secured guarantees (1)		Other secured guarantees
		Buildings	Securities	
<b>1. Guaranteed cash exposures:</b>				
1.1 fully guaranteed	13,029,861	10,137,293	260,680	174,691
- of which: impaired	521,620	451,982	5,450	2,505
1.2 partially guaranteed	852,640	9,074	65,028	47,701
- of which: impaired	53,528	675	5,431	317
<b>2. Guaranteed off-balance sheet exposures:</b>				
2.1 fully guaranteed	1,577,040	726,464	40,954	35,905
- of which: impaired	15,884	7,585	2,692	614
2.2 partially guaranteed	425,915	19,588	15,804	7,295
- of which: impaired	1,222	-	162	9



Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2010
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	-	-	-	208	-	208
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	343
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-

Personal guarantees (2)

Personal guarantees (2)										
Credit derivatives					Guarantees given					Total 31/12/2010
Other derivatives										
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties		
-	-	-	-	-	-	12,856	61,198	2,383,143	-	13,029,861
-	-	-	-	-	-	161	275	61,247	-	521,620
-	-	-	-	-	-	10,521	2,819	436,515	-	571,658
-	-	-	-	-	-	135	-	18,571	-	25,129
-	-	-	-	-	-	151	88,608	684,958	-	1,577,040
-	-	-	-	-	-	-	-	4,993	-	15,884
-	-	-	-	-	-	-	244	299,452	-	342,383
-	-	-	-	-	-	-	-	890	-	1,061



## B. Distribution and concentration of lending

### B.1 Banking group - Territorial distribution of the cash and off-balance sheet exposures to customers (book value)

Exposures/Counterparties	Government			Other public entities		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
<b>A. Cash exposures</b>						
A.1 Non-performing loans	-	-	-	-	-	-
A.2 Watchlist loans	-	188	-	387	71	-
A.3 Restructured exposures	-	-	-	-	-	-
A.4 Exposure past due	-	-	-	203	31	-
A.5 Other exposures	2,370,797	-	-	96,052	-	45
<b>Total A</b>	<b>2,370,797</b>	<b>188</b>	<b>-</b>	<b>96,642</b>	<b>102</b>	<b>45</b>
<b>B. Off-balance sheet exposures</b>						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 Watchlist loans	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Other exposures	48,413	-	5	28,470	-	-
<b>Total B</b>	<b>48,413</b>	<b>-</b>	<b>5</b>	<b>28,470</b>	<b>-</b>	<b>-</b>
<b>Total 31/12/2010</b>	<b>2,419,210</b>	<b>188</b>	<b>5</b>	<b>125,112</b>	<b>102</b>	<b>45</b>
<b>Total 31/12/2009</b>	<b>2,551,543</b>	<b>-</b>	<b>-</b>	<b>122,559</b>	<b>-</b>	<b>75</b>

### B.2 Banking group - Territorial distribution of the cash and off-balance sheet exposures to customers (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total adjustment	Net exposure	Total adjustment
<b>A. Cash exposures</b>				
A.1 Non-performing loans	203,920	244,494	3,656	10,340
A.2 Watchlist loans	251,191	52,310	1,449	367
A.3 Restructured exposures	63,053	2,942	-	-
A.4 Exposure past due	207,053	11,705	11,755	139
A.5 Other exposures	20,515,744	105,590	2,326,530	11,944
<b>Total A</b>	<b>21,240,961</b>	<b>417,041</b>	<b>2,343,390</b>	<b>22,790</b>
<b>B. Off-balance sheet exposures</b>				
B.1 Non-performing loans	4,820	6,030	-	-
B.2 Watchlist loans	20,507	1,486	1,387	593
B.3 Other impaired assets	16,751	-	22	-
B.4 Other exposures	5,214,843	924	457,413	83
<b>Total B</b>	<b>5,256,921</b>	<b>8,440</b>	<b>458,822</b>	<b>676</b>
<b>Total 31/12/2010</b>	<b>26,497,882</b>	<b>425,481</b>	<b>2,802,212</b>	<b>23,466</b>
<b>Total 31/12/2009</b>	<b>23,195,209</b>	<b>316,587</b>	<b>1,748,742</b>	<b>15,412</b>

Financial businesses			Insurance companies			Non-financial companies			Other parties		
Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
10,509	10,111	-	-	-	-	162,959	202,317	-	40,217	45,525	-
4,099	1,719	-	343	1,881	-	192,164	42,845	-	55,650	5,973	-
7,414	43	-	-	-	-	54,426	2,892	-	1,213	7	-
1	-	-	-	-	-	164,768	9,144	-	64,689	2,690	-
1,450,963	-	5,520	22,247	-	14	13,934,375	-	84,791	5,197,514	-	27,980
<b>1,472,986</b>	<b>11,873</b>	<b>5,520</b>	<b>22,590</b>	<b>1,881</b>	<b>14</b>	<b>14,508,692</b>	<b>257,198</b>	<b>84,791</b>	<b>5,359,283</b>	<b>54,195</b>	<b>27,980</b>
-	-	-	-	-	-	4,740	6,017	-	80	13	-
-	-	-	23	19	-	21,671	2,051	-	202	10	-
394	-	-	-	-	-	16,122	-	-	257	-	-
323,892	-	20	57	-	-	4,702,488	-	904	595,601	-	84
<b>324,286</b>	<b>-</b>	<b>20</b>	<b>80</b>	<b>19</b>	<b>-</b>	<b>4,745,021</b>	<b>8,068</b>	<b>904</b>	<b>596,140</b>	<b>23</b>	<b>84</b>
<b>1,797,272</b>	<b>11,873</b>	<b>5,540</b>	<b>22,670</b>	<b>1,900</b>	<b>14</b>	<b>19,253,713</b>	<b>265,266</b>	<b>85,695</b>	<b>5,955,423</b>	<b>54,218</b>	<b>28,064</b>
<b>1,769,002</b>	<b>8,980</b>	<b>5,609</b>	<b>25,751</b>	<b>-</b>	<b>27</b>	<b>15,723,447</b>	<b>180,446</b>	<b>69,729</b>	<b>4,939,645</b>	<b>48,354</b>	<b>22,551</b>

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total adjustment	Net exposure	Total adjustment	Net exposure	Total adjustment
6,109	3,119	-	-	-	-
3	-	-	-	-	-
-	-	-	-	-	-
4	-	9,673	19	1,176	2
196,719	777	28,701	28	4,254	11
<b>202,835</b>	<b>3,896</b>	<b>38,374</b>	<b>47</b>	<b>5,430</b>	<b>13</b>
-	-	-	-	-	-
2	1	-	-	-	-
-	-	-	-	-	-
7,297	-	3,035	1	16,333	5
<b>7,299</b>	<b>1</b>	<b>3,035</b>	<b>1</b>	<b>16,333</b>	<b>5</b>
<b>210,134</b>	<b>3,897</b>	<b>41,409</b>	<b>48</b>	<b>21,763</b>	<b>18</b>
<b>167,897</b>	<b>3,751</b>	<b>5,776</b>	<b>17</b>	<b>14,323</b>	<b>4</b>



### B.3 Banking group - Territorial distribution of the cash and off-balance sheet exposures to banks (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total adjustment	Net exposure	Total adjustment
<b>A. Cash exposures</b>				
A.1 Non-performing loans	-	-	-	-
A.2 Watchlist loans	-	-	-	-
A.3 Restructured exposures	-	-	-	-
A.4 Exposure past due	-	-	-	-
A.5 Other exposures	1,159,179	-	185,595	-
<b>Total A</b>	<b>1,159,179</b>	<b>-</b>	<b>185,595</b>	<b>-</b>
<b>B. Off-balance sheet exposures</b>				
B.1 Non-performing loans	-	-	-	-
B.2 Watchlist loans	-	-	-	-
B.3 Other impaired assets	-	-	-	-
B.4 Other exposures	49,891	-	45,768	-
<b>Total B</b>	<b>49,891</b>	<b>-</b>	<b>45,768</b>	<b>-</b>
<b>Total 31/12/2010</b>	<b>1,209,070</b>	<b>-</b>	<b>231,363</b>	<b>-</b>
<b>Total 31/12/2009</b>	<b>1,336,152</b>	<b>-</b>	<b>204,568</b>	<b>-</b>

### B.4 Significant risks

	31/12/2010	31/12/2009
a) Amount (risk position)	3,172,258	2,160,592
b) Number	18	9

With the 6th update on 27 December 2010 of its Circular Letter 263 of 27 December 2006, the Bank of Italy radically revised the rules on risk concentration. It follows that the comparison figures at 31/12/2009 shown in the table are not consistent and therefore not comparable with those at the end of 2010.

For example, the exposure limit of 10% of capital for supervisory purposes - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «sum of the cash risk assets and off-balance sheet transactions with a customer or a related group of customers» and no longer in terms of the so-called «risk position», which is the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained. In this way, the definition of «significant risk» changes considerably.

In accordance with these instructions, the above table shows on the «Number» line, the number of counterparties whose exposure exceeds the stated limit, and on the «Amount» line, their total risk position. This «risk position» comes from the weighting of exposures in relation to the short-term portfolio (essentially government securities and repurchase agreements) for a total of € 3,231 million, cash risk assets (amounts due from banks and customers and securities held in the bank book) for a total of € 1,982 million, off-balance sheet risk assets (guarantees given and available margins on lines of credit) for a total of € 3,167 million.

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total adjustment	Net exposure	Total adjustment	Net exposure	Total adjustment
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
44,926	-	3,777	-	497	-
<b>44,926</b>	-	<b>3,777</b>	-	<b>497</b>	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
6,838	-	3,126	-	1,189	-
<b>6,838</b>	-	<b>3,126</b>	-	<b>1,189</b>	-
<b>51,764</b>	-	<b>6,903</b>	-	<b>1,686</b>	-
<b>48,630</b>	-	<b>6,898</b>	-	<b>6,547</b>	-



## C. Securitisation transactions and disposal of assets

### C.2 Disposals

#### C.2.1 Financial assets sold and not eliminated from the balance sheet

Technical forms/Portfolio	Financial assets held for trading			Financial assets at fair value			Financial assets available for sale		
	A	B	C	A	B	C	A	B	C
<b>A. Cash assets</b>	<b>1,732,379</b>	-	-	-	-	-	-	-	-
1. Fixed-yield securities	1,732,379	-	-	-	-	-	-	-	-
2. Variable-yield securities	-	-	-	-	-	-	-	-	-
3. Mutual funds	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-
<b>B. Derivatives</b>	-	-	-	-	-	-	-	-	-
<b>Total 31/12/2010</b>	<b>1,732,379</b>	-	-	-	-	-	-	-	-
of which: impaired	-	-	-	-	-	-	-	-	-
<b>Total 31/12/2009</b>	<b>1,035,136</b>	-	-	-	-	-	-	-	-
of which: impaired	-	-	-	-	-	-	-	-	-

Key:

A = financial assets sold and recognised in full (book value)

B = financial assets sold and recognised in part (book value)

C = financial assets sold and recognised in part (full value)

#### C.2.2 Financial liabilities associated with assets sold and not eliminated from the balance sheet

	Financial assets held for trading	Financial assets at fair value	Financial assets available for sale	Financial assets held to maturity	Due from other banks	Due from customers	<b>Total 31/12/2010</b>
<b>1. Due to customers</b>	<b>1,747,431</b>	-	-	-	-	-	<b>1,747,431</b>
a) for assets recognised in full	1,747,431	-	-	-	-	-	1,747,431
b) for assets recognised in part	-	-	-	-	-	-	-
<b>2. Due to banks</b>	-	-	-	-	-	-	-
a) for assets recognised in full	-	-	-	-	-	-	-
b) for assets recognised in part	-	-	-	-	-	-	-
<b>3. Securities issued</b>	-	-	-	-	-	-	-
a) for assets recognised in full	-	-	-	-	-	-	-
b) for assets recognised in part	-	-	-	-	-	-	-
<b>Total 31/12/2010</b>	<b>1,747,431</b>	-	-	-	-	-	<b>1,747,431</b>
<b>Total 31/12/2009</b>	<b>1,034,859</b>	-	-	-	-	-	<b>1,034,859</b>



Financial assets held to maturity			Due from other banks			Due from customers			Total	Total	
A	B	C	A	B	C	A	B	C	31/12/2010	31/12/2009	
-	-	-	-	-	-	-	-	-	-	<b>1,732,379</b>	<b>1,035,136</b>
-	-	-	-	-	-	-	-	-	-	1,732,379	1,035,136
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	<b>1,732,379</b>	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	<b>1,035,136</b>
-	-	-	-	-	-	-	-	-	-	-	-



## **1.2 Banking group - Market risk**

### **1.2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes**

#### **QUALITATIVE INFORMATION**

##### **A. General aspects**

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

Factorit spa is not subject to interest rate risk or price risk on the trading portfolio.

The interest rate risk deriving from Banca Popolare di Sondrio (Suisse) SA's trading portfolio relates to investments in fixed-yield securities.

These are for both investment purposes - the positions are held until their natural maturity - and trading purposes in a strict sense. The portfolio mainly comprises prime fixed-yield securities with a definite life.

The price risk deriving from the subsidiary's trading portfolio relates to investments in variable-yield securities of prime issuers, above all, in mutual funds managed by the Group (Popso (Suisse) Investment Fund Sicav).

These are mainly held as an investment, for the long term, rather than for trading in the strictest sense.

The subsidiary's accounting department performs a monthly valuation in order to reflect any adverse price changes in the income statement, while the Asset Management office monitors the situation during the month, consistent with the procedure followed in relation to customer assets under administration. The subsidiary's General Management presents a report on the status of the trading portfolio to its Board of Directors every month.

##### **B. Management and measurement of interest rate risk and price risk**

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

The Parent Bank assesses the subsidiary's degree of market risk (measurement of VaR) based on information provided by the company's own risk management unit.

The approach adopted for analysing the sensitivity to interest rate risk - solely in relation to fixed-yield securities held at year end - and to price risk - limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties and relating to period end - - essentially reflect the internal model used by the Parent Company to calculate Value at Risk (VaR), as described in the corresponding section of the notes to the separate financial statements

In particular, the model used covers the financial instruments exposed to price risk included in the Parent Bank's trading portfolio for supervisory purposes: as for interest rate risk, fixed-yield securities of the Parent Bank or of the subsidiary and forward contracts on fixed-yield securities; as for price risk, the financial instruments exposed to price risk included in the trading portfolio for supervisory purposes of the Parent Bank; moreover, the variable-yield securities and mutual funds of the subsidiary, excluding equity investments and the two variable-yield securities classified as «financial assets available for sale», included in the bank book. The price risk on foreign currency mutual funds also includes exchange risk.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

The policies and procedures for the ex post comparison of the model's results with the actual results («back testing») are only applied to the variable-yield securities and mutual funds held by the Parent Bank in its trading portfolio for supervisory purposes.



## QUANTITATIVE INFORMATION

### 1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>1. Cash assets</b>	<b>520</b>	<b>1,655,587</b>	<b>800,701</b>	<b>2,252</b>	<b>106,970</b>	<b>6,585</b>	<b>41,347</b>	-
1.1 Fixed-yield securities	520	1,649,119	800,701	2,252	106,970	6,585	41,347	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	520	1,649,119	800,701	2,252	106,970	6,585	41,347	-
1.2 Other assets	-	6,468	-	-	-	-	-	-
<b>2. Cash liabilities</b>	<b>1,683</b>	<b>1,561,573</b>	<b>181,175</b>	<b>3,000</b>	-	-	-	-
2.1 Repurchase agreements	1,683	1,561,573	181,175	3,000	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	<b>4,257</b>	<b>5,976,846</b>	<b>1,229,303</b>	<b>224,270</b>	<b>424,514</b>	<b>91,891</b>	<b>24,346</b>	-
3.1 With underlying security	-	67,211	31,443	10,097	16,737	101	13,836	-
- Options	-	8,323	4,149	10,097	6,004	-	-	-
+ Long positions	-	4,165	2,077	5,054	3,006	-	-	-
+ Short positions	-	4,158	2,072	5,043	2,998	-	-	-
- Other derivatives	-	58,888	27,294	-	10,733	101	13,836	-
+ Long positions	-	23,776	16,932	-	5,360	50	9,186	-
+ Short positions	-	35,112	10,362	-	5,373	51	4,650	-
3.2 Without underlying security	4,257	5,909,635	1,197,860	214,173	407,777	91,790	10,510	-
- Options	-	56,874	16,332	-	53,798	19,406	-	-
+ Long positions	-	28,437	8,166	-	26,899	9,703	-	-
+ Short positions	-	28,437	8,166	-	26,899	9,703	-	-
- Other derivatives	4,257	5,852,761	1,181,528	214,173	353,979	72,384	10,510	-
+ Long positions	-	3,208,755	634,954	108,943	176,770	36,192	5,255	-
+ Short positions	4,257	2,644,006	546,574	105,230	177,209	36,192	5,255	-

**Currency: USD**

Type/residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>1. Cash assets</b>	-	<b>576</b>	-	-	-	<b>10</b>	-	-
1.1 Fixed-yield securities	-	576	-	-	-	10	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	576	-	-	-	10	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	<b>12,910</b>	<b>4,376,592</b>	<b>426,818</b>	<b>151,996</b>	<b>177,076</b>	-	-	-
3.1 With underlying security	-	11,832	4,186	10,114	5,778	-	-	-
- Options	-	11,832	4,186	10,114	5,778	-	-	-
+ Long positions	-	5,916	2,093	5,057	2,889	-	-	-
+ Short positions	-	5,916	2,093	5,057	2,889	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	12,910	4,364,760	422,632	141,882	171,298	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	12,910	4,364,760	422,632	141,882	171,298	-	-	-
+ Long positions	-	2,215,761	204,397	68,970	85,649	-	-	-
+ Short positions	12,910	2,148,999	218,235	72,912	85,649	-	-	-

**Currency: CHF**

Type/residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>1. Cash assets</b>	-	<b>1,635</b>	<b>2,455</b>	<b>2,444</b>	<b>6,138</b>	<b>785</b>	-	<b>833</b>
1.1 Fixed-yield securities	-	1,635	2,455	2,444	6,138	785	-	833
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	1,635	2,455	2,444	6,138	785	-	833
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	<b>7,580</b>	<b>761,044</b>	<b>196,976</b>	<b>3,690</b>	<b>1,628</b>	-	-	-
3.1 With underlying security	-	11,948	-	-	-	-	-	-
- Options	-	11,948	-	-	-	-	-	-
+ Long positions	-	5,974	-	-	-	-	-	-
+ Short positions	-	5,974	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	7,580	749,096	196,976	3,690	1,628	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	7,580	749,096	196,976	3,690	1,628	-	-	-
+ Long positions	-	108,216	74,186	1,960	1,081	-	-	-
+ Short positions	7,580	640,880	122,790	1,730	547	-	-	-

**Currency: YEN**

Type/residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>1. Cash assets</b>	-	-	<b>24,197</b>	-	-	-	-	-
1.1 Fixed-yield securities	-	-	24,197	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	24,197	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	-	<b>165,189</b>	<b>56,493</b>	<b>994</b>	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	165,189	56,493	994	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	165,189	56,493	994	-	-	-	-
+ Long positions	-	81,945	16,205	497	-	-	-	-
+ Short positions	-	83,244	40,288	497	-	-	-	-

**Currency: OTHER CURRENCIES**

Type/residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>1. Cash assets</b>	-	-	-	-	-	-	-	-
1.1 Fixed-yield securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Cash liabilities</b>	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>	<b>2,277</b>	<b>484,593</b>	<b>12,331</b>	<b>4,492</b>	<b>7,427</b>	-	-	-
3.1 With underlying security	-	960	-	-	-	-	-	-
- Options	-	960	-	-	-	-	-	-
+ Long positions	-	480	-	-	-	-	-	-
+ Short positions	-	480	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	2,277	483,633	12,331	4,492	7,427	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	2,277	483,633	12,331	4,492	7,427	-	-	-
+ Long positions	-	196,170	5,958	2,307	3,714	-	-	-
+ Short positions	2,277	287,463	6,373	2,185	3,713	-	-	-

**2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation**

Type of transaction/ Listing index	Listed						Unlisted
	Italy	United States	United Kingdom	Japan	Germany	Other	
<b>A. Equities</b>	<b>39,717</b>	-	-	-	<b>2,492</b>	<b>1,242</b>	<b>1,754</b>
- long positions	39,717	-	-	-	2,492	1,242	1,754
- short positions	-	-	-	-	-	-	-
<b>B. Purchase/sale transactions not yet settled in variable-yield securities</b>	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
<b>C. Other derivatives on variable-yield securities</b>	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
<b>D. Derivatives on stock indices</b>	-	-	-	-	-	-	<b>784</b>
- long positions	-	-	-	-	-	-	392
- short positions	-	-	-	-	-	-	392



### 3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

#### Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities and forward contracts on fixed-yield securities of the Parent Bank	1,136.6
Fixed-yield securities BPS Suisse	27.5
<b>Total interest rate risk</b>	<b>1,139.8</b>
Parent Bank	1,589.7
BPS Suisse	87.8
<b>Total Price risk</b>	<b>1,658.5</b>
<b>Total Interest rate risk and price risk</b>	<b>2,254.4</b>

#### 1.2.2 Interest rate risk and price risk - Bank portfolio

##### QUALITATIVE INFORMATION

##### A. General aspects , management and measurement of interest rate risk and price risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

For Factorit Spa, interest rate risk is caused by the different times and methods used in repricing the interest rate on assets and liabilities. The presence of diversified fluctuations in interest rates leads to a variation in the expected interest margin, as well as a change in the present value of the assets and liabilities; this in turn alters the economic value of the items at risk. Note that the characteristics of Factorit's assets and liabilities mean that the impact of a change in market rates on the present value of its assets and liabilities is quite marginal. The high level of rotation of the loans and receivables and the fact that the funding is exclusively short-term, which ensure frequent repricings very close to each other, make it possible to maintain lending and funding terms in line with current market conditions. As with the Parent Bank, the principal source of interest rate risk for the subsidiary derives from fixed-rate lending (mortgage loans). The General Management of the subsidiary is assisted by the AL.CO. (Asset & Liability Management Committee) which, each month, analyses the gaps by duration in order to monitor risk trends and make the appropriate decisions. The subsidiary's board of directors has established prudent gap limits in order to minimise risk and receives a specific quarterly report from General Management, which is signed off by the Internal Audit Department. In accordance with the relevant Swiss regulations, a quarterly gap analysis and duration analysis is performed, covering the entire balance sheet exposure (including therefore both the trading and the investment portfolios), in order to measure the impact on profits and equity of a change of 100 basis points over a twelve-month period in relation to the principal balance sheet currencies. The measurement and control of interest rate risk essentially consists of an internal model for strategic Asset & Liability Management (ALM) regarding the Parent Bank, as described in the corresponding section of the notes to the separate financial statements, and a model for the subsidiary bank. In addition to the official report on the overall position of the subsidiary bank, mentioned above, this model reports each month on gaps with a duration of more than one year deriving from fixed-rate funding and lending transactions involving the bank book. In addition, stress tests are performed on a quarterly basis in order to measure the effect on profits and equity of anomalous and unexpected changes in the rate curve for the principal balance sheet currencies.

As for price risk, the Parent Bank assesses the price risk exposure (measurement of VaR) of the subsidiary using information provided by the latter.

The analysis of sensitivity to price risk - limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties and

relating to period end – essentially involves application of an internal model of the Parent Bank for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to price risk included in the Parent Bank's investment book, excluding investment in Banca Popolare di Sondrio (SUISSE) SA and Factorit Spa; as well as the two variable-yield securities held by the subsidiary and classified as «financial assets available for sale» and the one classified under «equity investments».

These last three unlisted securities were measured at consolidated book value in the VaR calculation. The price risk on foreign currency mutual funds also includes exchange risk.

## **B. Fair value hedges**

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

Significant loans with similar characteristics granted by the subsidiary Banca Popolare di Sondrio (Suisse) SA are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the Parent Bank.

## **C. Cash flow hedges**

The Group has not arranged any cash-flow hedges.



## QUANTITATIVE INFORMATION

### 1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: CHF

Type/residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
<b>3. Financial derivatives</b>	<b>140,145</b>	<b>491,882</b>	<b>529,221</b>	<b>23,433</b>	<b>594,170</b>	<b>229,766</b>	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	140,145	491,882	529,221	23,433	594,170	229,766	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	140,145	491,882	529,221	23,433	594,170	229,766	-	-
+ Long positions	137,555	346,329	520,424	-	-	-	-	-
+ Short positions	2,590	145,553	8,797	23,433	594,170	229,766	-	-

### 2. Bank book - internal models and other methodologies for the analysis of sensitivity

#### Interest rate risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

The data supplied by the subsidiary Banca Popolare di Sondrio (Suisse) SA are reported below (including data related to the trading portfolio).

#### Effect on profits of exposure to interest margin risk

##### Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-3.476	-0.270	-0.036
average	-3.627	-0.058	0.079
maximum	-3.884	-0.493	0.486
minimum	-3.323	0.180	-0.036

#### Effect on equity of exposure to interest margin risk

##### Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-12.310	-0.080	-0.020
average	-10.160	-0.433	-0.045
maximum	-12.310	-0.720	-0.180
minimum	-8.170	-0.080	-0.020



## Price risk

### Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Bank (excluding Suisse and Factorit)	7,025.0
BPS Suisse	12.4
Total	7,033.5

### 1.2.3 Exchange risk

#### QUALITATIVE INFORMATION

##### A. General aspects, management and measurement of exchange risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

Exchange risk is marginal for Factorit s.p.a., given the company's policy of systematic hedging of foreign currency amounts. This risk exists principally, though for limited volumes, in the case of: fee and interest income not offset by interest expense in a currency other than the euro; guarantees in foreign currencies versus operations in euro.

Except with regard to securities held in the trading portfolio, Banca Popolare di Sondrio (Suisse) SA enters into currency transactions to satisfy customer requirements and to cover transitory treasury mismatches, which in any case are contained within the prudent limits established by the subsidiary's Board of Directors and General Management.

The measurement and control of exchange risk - with reference to the situation at year end - essentially involves application of the Parent Bank's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to exchange risk included in the Parent Bank's investment book, excluding financial derivatives (in a strict sense) traded by the Exchange Centre, other than forward contracts on exchange rates and excluding all balances with Banca Popolare di Sondrio (Suisse) SA and the investment in it; it also covers all of the assets and liabilities in foreign currency (excluding gold and currencies other than those taken into consideration by the Parent Bank), on and off the balance sheet, pertaining to the subsidiary, which are shown on table 1 below, excluding other financial assets (mutual funds in foreign currency, whose exchange risk is included in the price risk. Forward contracts on exchange rates of the Parent Bank and fixed and variable-yield securities are treated analytically, whereas the overall difference by individual currency of the other items is treated as a deposit (positive or negative) with a due date of one day.

##### B. Hedging of exchange risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

The activities of the subsidiary are consistent with those of the Parent Bank.

The subsidiary's Exchange Office administers the positions and matches the exchange risk in the interbank market, while maintaining residual exposures within the limits established in the internal regulations.



## QUANTITATIVE INFORMATION

### 1. Distribution of assets, liabilities and derivatives by foreign currency

Items	Currency					
	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
<b>A. Financial assets</b>	<b>885,141</b>	<b>33,819</b>	<b>87,073</b>	<b>2,476,424</b>	<b>133,754</b>	<b>32,101</b>
A.1 Fixed-yield securities	586	-	24,206	14,289	-	-
A.2 Variable-yield securities	1,182	1,670	1,933	1,543	-	-
A.3 Loans to banks	76,003	6,502	31,165	21,267	40,392	15,165
A.4 Loans to customers	807,370	25,647	29,769	2,439,325	93,362	16,936
A.5 Other financial assets	-	-	-	-	-	-
<b>B. Other assets</b>	<b>2,295</b>	<b>690</b>	<b>78</b>	<b>60,883</b>	<b>132</b>	<b>281</b>
<b>C. Financial liabilities</b>	<b>925,376</b>	<b>29,133</b>	<b>60,233</b>	<b>1,761,856</b>	<b>42,212</b>	<b>32,645</b>
C.1 Due to banks	410,727	1,117	55,472	603,155	39,664	13,271
C.2 Due to customers	514,649	28,016	4,761	1,014,077	2,548	19,374
C.3 Fixed-yield securities	-	-	-	144,624	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
<b>D. Other liabilities</b>	<b>703</b>	<b>177</b>	<b>598</b>	<b>132,318</b>	<b>-</b>	<b>-</b>
<b>E. Financial derivatives</b>	<b>5,149,975</b>	<b>235,068</b>	<b>222,677</b>	<b>970,920</b>	<b>140,251</b>	<b>135,795</b>
- Options	31,911	464	-	11,948	496	-
+ Long positions	15,955	232	-	5,974	248	-
+ Short positions	15,956	232	-	5,974	248	-
- Other derivatives	5,118,064	234,604	222,677	958,972	139,755	135,795
+ Long positions	2,577,067	115,654	98,647	185,443	23,805	68,689
+ Short positions	2,540,997	118,950	124,030	773,529	115,950	67,106
<b>Total assets</b>	<b>3,480,458</b>	<b>150,395</b>	<b>185,798</b>	<b>2,728,724</b>	<b>157,939</b>	<b>101,071</b>
<b>Total liabilities</b>	<b>3,483,032</b>	<b>148,492</b>	<b>184,861</b>	<b>2,673,677</b>	<b>158,410</b>	<b>99,751</b>
<b>Net balance (+/-)</b>	<b>(2,574)</b>	<b>1,903</b>	<b>937</b>	<b>55,047</b>	<b>(471)</b>	<b>1,320</b>

### 2. Internal models and other methodologies for the analysis of sensitivity

#### Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Bank (net of eliminations)	879.9
BPS Suisse (net of eliminations)	1,645.5
Factorit (net of eliminations)	668.7
<b>Total</b>	<b>864.4</b>
Details of the principal currencies	
US Dollars	13.1
Sterling	25.8
Japanese Yen	12.9
Swiss Francs	868.8
Canadian Dollars	1.2
Other currencies	9.5
<b>Total</b>	<b>864.4</b>

## 1.2.4 Derivative instruments

### A. Financial derivatives

#### A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

Underlying assets /Type of derivative	Total 31/12/2010		Total 31/12/2009	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>1. Fixed-yield securities and interest rates</b>	<b>953,782</b>	-	<b>880,692</b>	-
a) Options	264,576	-	275,568	-
b) Swap	689,206	-	605,124	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Variable-yield securities and stock indices</b>	<b>20,880</b>	-	<b>20,906</b>	-
a) Options	20,880	-	20,906	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currency and gold</b>	<b>6,092,557</b>	-	<b>5,791,972</b>	-
a) Options	76,495	-	113,238	-
b) Swap	-	-	-	-
c) Forward	6,016,062	-	5,678,734	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	<b>12,974</b>	-	<b>14,120</b>	-
<b>5. Other underlying assets</b>	-	-	-	-
<b>Total</b>	<b>7,080,193</b>	-	<b>6,707,690</b>	-
<b>Averages</b>	<b>6,893,941</b>	-	<b>7,461,205</b>	-



## A.2 Bank book: notional amounts at period end and average amounts

### A.2.1 For hedging

Underlying assets /Type of derivative	Total 31/12/2010		Total 31/12/2009	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>1. Fixed-yield securities and interest rates</b>	<b>864,163</b>	<b>-</b>	<b>584,861</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	864,163	-	584,861	-
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>864,163</b>	<b>-</b>	<b>584,861</b>	<b>-</b>
<b>Averages</b>	<b>724,512</b>	<b>-</b>	<b>391,345</b>	<b>-</b>

### A.3 Financial derivatives: gross positive fair value - breakdown by product

Portfolio/Type of derivatives	POSITIVE FAIR VALUES			
	Total 31/12/2010		Total 31/12/2009	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>A. Trading portfolio for supervisory purposes</b>	<b>83,077</b>	-	<b>65,015</b>	-
a) Options	3,168	-	4,130	-
b) Interest rate swaps	15,806	-	14,076	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	62,788	-	46,289	-
f) Futures	-	-	-	-
g) Other	1,315	-	520	-
<b>B. Bank book - for hedging purposes</b>	<b>940</b>	-	<b>11</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	940	-	11	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Bank book - other derivatives</b>	<b>-</b>	-	<b>-</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>84.017</b>	-	<b>65,026</b>	-



#### A.4 Financial derivatives: gross negative fair value - breakdown by product

Portfolio/Type of derivatives	NEGATIVE FAIR VALUE			
	Total 31/12/2010		Total 31/12/2009	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>A. Trading portfolio for supervisory purposes</b>	<b>100,311</b>	-	<b>72,430</b>	-
a) Options	3,136	-	4,077	-
b) Interest rate swaps	13,636	-	13,042	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	82,241	-	54,797	-
f) Futures	-	-	-	-
g) Other	1,298	-	514	-
<b>B. Bank book - for hedging purposes</b>	<b>23,601</b>	-	<b>11,330</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	23,601	-	11,330	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Bank book - other derivatives</b>	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>123,912</b>	-	<b>83,760</b>	-

## A.5 OTC financial derivatives - trading portfolio for supervisory purposes: notional values, gross positive and negative fair value by counterparty - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
<b>1) Fixed-yield securities and interest rates</b>							
- notional value	-	17,877	476,812	87,351	225	350,084	21,433
- positive fair value	-	279	4,083	596	-	11,732	376
- negative fair value	-	55	12,176	260	-	2,337	67
- future exposure	-	134	1,682	70	-	812	167
<b>2) Variable-yield securities and stock indices</b>							
- notional value	-	-	10,440	4,940	5,500	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	835	-	-	-	-
<b>3) Currency and gold</b>							
- notional value	-	1,281	3,249,504	1,432,961	259	1,014,004	394,548
- positive fair value	-	-	30,619	11,707	9	16,885	5,476
- negative fair value	-	126	49,867	11,652	3	15,764	6,706
- future exposure	-	13	35,819	14,330	3	13,311	3,968
<b>4) Other assets</b>							
- notional value	-	-	6,487	-	-	6,487	-
- positive fair value	-	-	944	-	-	371	-
- negative fair value	-	-	369	-	-	929	-
- future exposure	-	-	680	-	-	680	-



## A.7 OTC financial derivatives - bank book: notional values, gross positive and negative fair values for counterparties - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
<b>1) Fixed-yield securities and interest rates</b>							
- notional value	-	-	864,163	-	-	-	-
- positive fair value	-	-	940	-	-	-	-
- negative fair value	-	-	23,601	-	-	-	-
- future exposure	-	-	6,417	-	-	-	-
<b>2) Variable-yield securities and stock indices</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>3) Currency and gold</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>4) Other assets</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

## A.9 Residual life of OTC financial derivatives: notional values

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	Total
<b>A. Trading portfolio for supervisory purposes</b>	<b>6,352,938</b>	<b>609,585</b>	<b>117,670</b>	<b>7,080,193</b>
A.1 Financial derivatives on fixed-yield securities and interest rates	435,068	401,044	117,670	953,782
A.2 Financial derivatives on variable-yield securities and stock indices	-	20,880	-	20,880
A.3 Financial derivatives on exchange rates and gold	5,907,990	184,567	-	6,092,557
A.4 Financial derivatives on other instruments	9,880	3,094	-	12,974
<b>B. Bank book</b>	<b>40,227</b>	<b>594,170</b>	<b>229,766</b>	<b>864,163</b>
B.1 Financial derivatives on fixed-yield securities and interest rates	40,227	594,170	229,766	864,163
B.2 Financial derivatives on variable-yield securities and stock indices	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other instruments	-	-	-	-
<b>Total 31/12/2010</b>	<b>6,393,165</b>	<b>1,203,755</b>	<b>347,436</b>	<b>7,944,356</b>
<b>Total 31/12/2009</b>	<b>6,083,180</b>	<b>915,878</b>	<b>293,493</b>	<b>7,292,551</b>



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

#### **QUALITATIVE INFORMATION**

##### **A. General aspects, management and measurement of liquidity risk**

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

The Group's overall strategy for managing liquidity risk, with its low propensity for risk, consists of giving priority to matching assets and liabilities, taking a prudent approach, while at the same time pursuing reasonable levels of profitability.

The coverage of expected liquidity requirements is checked and monitored on a continuous basis and timely action is taken in the markets to ensure the appropriate availability of funds. In this context, the Parent Bank acts as the subsidiary's counterparty of choice in the raising of funds and in the investment of any cash surpluses.

The subsidiaries control this type of risk by using adequate monitoring tools according to the type of operations that they carry on; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority. We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5 of the Parent Bank's financial statements, complies with the requirements of IFRS 7.39.



## QUANTITATIVE INFORMATION

### 1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
<b>Cash assets</b>	<b>6,580,172</b>	<b>112,267</b>	<b>541,234</b>	<b>602,342</b>	<b>1,061,522</b>	<b>599,952</b>	<b>999,036</b>	<b>5,731,297</b>	<b>4,934,741</b>	<b>590,960</b>
A.1 Government securities	10,396	-	-	-	-	-	148,277	1,787,699	398,227	-
A.2 Other fixed-yield securities	5,142	-	1,170	6,395	6,349	4,013	13,290	325,560	233,078	6,114
A.3 Mutual funds	85,826	-	-	-	-	-	-	-	-	-
A.4 Loans	6,478,808	112,267	540,064	595,947	1,055,173	595,939	837,469	3,618,038	4,303,436	584,846
- Banks	99,174	-	140,170	225,000	20,829	1,466	538	-	-	342,192
- Customers	6,379,634	112,267	399,894	370,947	1,034,344	594,473	836,931	3,618,038	4,303,436	242,654
<b>Cash liabilities</b>	<b>14,653,427</b>	<b>1,497,290</b>	<b>572,404</b>	<b>824,268</b>	<b>774,806</b>	<b>323,397</b>	<b>226,857</b>	<b>1,156,035</b>	<b>432,312</b>	<b>-</b>
B.1 Deposits and current accounts	14,632,408	1,497,025	563,954	822,443	686,946	235,962	16,947	60,724	88,076	-
- Banks	101,110	915,060	85,701	100,405	61,507	2	6,498	59,169	88,059	-
- Customers	14,531,298	581,965	478,253	722,038	625,439	235,960	10,449	1,555	17	-
B.2 Fixed-yield securities	21,019	265	8,450	1,825	87,860	87,435	209,910	1,095,311	344,236	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	<b>1,537,137</b>	<b>912,508</b>	<b>945,364</b>	<b>2,604,330</b>	<b>1,093,724</b>	<b>880,416</b>	<b>400,869</b>	<b>382,463</b>	<b>669,331</b>	<b>8,414</b>
C.1 Financial derivatives with exchange of capital	-	822,499	944,983	2,552,776	1,082,994	682,099	157,792	180,756	26,703	-
- long positions	-	507,967	487,306	1,357,772	623,653	388,019	80,759	90,199	15,595	-
- short positions	-	314,532	457,677	1,195,004	459,341	294,080	77,033	90,557	11,108	-
C.2 Financial derivatives without exchange of capital	33,842	-	-	-	-	-	-	-	-	-
- long positions	18,014	-	-	-	-	-	-	-	-	-
- short positions	15,828	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	1,502,498	90,009	381	51,499	10,658	198,049	242,557	197,103	642,586	8,414
- long positions	30,621	90,009	381	51,499	10,658	198,049	242,557	197,103	642,586	8,414
- short positions	1,471,877	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	797	-	-	55	72	268	520	4,604	42	-

**Currency: USD**

Items/time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
<b>Cash assets</b>	<b>64,370</b>	<b>67,872</b>	<b>75,411</b>	<b>220,768</b>	<b>335,107</b>	<b>80,450</b>	<b>33,439</b>	<b>7,314</b>	<b>5,194</b>	<b>-</b>
A.1 Government securities	-	-	-	-	576	-	-	-	10	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	1,182	-	-	-	-	-	-	-	-	-
A.4 Loans	63,188	67,872	75,411	220,768	334,531	80,450	33,439	7,314	5,184	-
- Banks	39,178	16,639	394	12,286	7,197	149	3	-	507	-
- Customers	24,010	51,233	75,017	208,482	327,334	80,301	33,436	7,314	4,677	-
<b>Cash liabilities</b>	<b>287,688</b>	<b>267,622</b>	<b>16,210</b>	<b>46,394</b>	<b>230,296</b>	<b>66,031</b>	<b>10,577</b>	<b>561</b>	<b>-</b>	<b>-</b>
B.1 Deposits and current accounts	287,688	267,622	16,210	46,394	230,296	66,031	10,577	561	-	-
- Banks	21,597	222,947	2,709	20,586	139,383	2,333	1,175	-	-	-
- Customers	266,091	44,675	13,501	25,808	90,913	63,698	9,402	561	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	<b>55,616</b>	<b>620,574</b>	<b>696,230</b>	<b>2,207,247</b>	<b>915,095</b>	<b>430,800</b>	<b>153,193</b>	<b>177,130</b>	<b>-</b>	<b>-</b>
C.1 Financial derivatives with exchange of capital	-	590,638	695,936	2,206,821	896,102	426,817	151,997	177,075	-	-
- long positions	-	273,870	358,244	1,109,224	480,339	206,490	74,027	88,538	-	-
- short positions	-	316,768	337,692	1,097,597	415,763	220,327	77,970	88,537	-	-
C.2 Financial derivatives without exchange of capital	732	-	-	-	-	-	-	-	-	-
- long positions	367	-	-	-	-	-	-	-	-	-
- short positions	365	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	30,198	29,936	225	-	-	-	37	-	-	-
- long positions	30,198	-	-	-	-	-	-	-	-	-
- short positions	-	29,936	225	-	-	-	37	-	-	-
C.4 Irrevocable commitments to make loans	24,686	-	69	426	18,993	3,983	1,159	55	-	-
- long positions	-	-	69	426	18,993	3,983	1,159	55	-	-
- short positions	24,686	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

**Currency: CHF**

Items/time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
<b>Cash assets</b>	<b>158,708</b>	<b>26,993</b>	<b>43,666</b>	<b>76,627</b>	<b>235,503</b>	<b>99,935</b>	<b>95,173</b>	<b>904,047</b>	<b>838,653</b>	-
A.1 Government securities	-	-	-	-	-	-	-	1,234	-	-
A.2 Other fixed-yield securities	-	-	-	-	1,635	2,455	2,444	4,904	1,618	-
A.3 Mutual funds	551	-	-	-	-	-	-	-	-	-
A.4 Loans	158,157	26,993	43,666	76,627	233,868	97,480	92,729	897,909	837,035	-
- Banks	3,113	441	2,929	9,178	5,113	492	-	-	-	-
- Customers	155,044	26,552	40,737	67,449	228,755	96,988	92,729	897,909	837,035	-
<b>Cash liabilities</b>	<b>899,440</b>	<b>212,448</b>	<b>161,469</b>	<b>160,230</b>	<b>96,200</b>	<b>57,765</b>	<b>80,747</b>	<b>92,854</b>	<b>706</b>	-
B.1 Deposits and current accounts	897,833	211,932	161,174	159,684	94,526	30,547	61,539	-	-	-
- Banks	2,052	211,932	160,709	146,580	29,832	-	52,052	-	-	-
- Customers	895,781	-	465	13,104	64,694	30,547	9,487	-	-	-
B.2 Fixed-yield securities	1,607	516	295	546	1,674	27,218	19,208	92,854	706	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	<b>140,162</b>	<b>194,027</b>	<b>130,314</b>	<b>286,226</b>	<b>302,578</b>	<b>203,836</b>	<b>3,893</b>	<b>1,646</b>	-	-
C.1 Financial derivatives with exchange of capital	-	96,112	87,206	285,515	299,798	196,975	3,690	1,629	-	-
- long positions	-	17,219	17,618	50,849	28,504	74,185	1,960	1,081	-	-
- short positions	-	78,893	69,588	234,666	271,294	122,790	1,730	548	-	-
C.2 Financial derivatives without exchange of capital	-	347	721	711	2,620	6,830	203	-	-	-
- long positions	-	32	75	72	321	785	-	-	-	-
- short positions	-	315	646	639	2,299	6,045	203	-	-	-
C.3 Deposits and loans to be received	137,555	97,568	39,987	-	-	-	-	-	-	-
- long positions	137,555	-	-	-	-	-	-	-	-	-
- short positions	-	97,568	39,987	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	2,607	-	2,400	-	160	31	-	17	-	-
- long positions	-	-	2,400	-	160	31	-	17	-	-
- short positions	2,607	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-



**Currency: JPY**

Items/time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
<b>Cash assets</b>	<b>5,304</b>	<b>7,037</b>	<b>7,742</b>	<b>17,253</b>	<b>21,344</b>	<b>27,952</b>	<b>419</b>	<b>83</b>	<b>109</b>	<b>-</b>
A.1 Government securities	10	-	-	-	-	24,197	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	1,933	-	-	-	-	-	-	-	-	-
A.4 Loans	3,361	7,037	7,742	17,253	21,344	3,755	419	83	109	-
- Banks	2,442	6,441	3,277	13,204	4,681	1,121	-	-	-	-
- Customers	919	596	4,465	4,049	16,663	2,634	419	83	109	-
<b>Cash liabilities</b>	<b>5,010</b>	<b>55,223</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
B.1 Deposits and current accounts	5,010	55,223	-	-	-	-	-	-	-	-
- Banks	249	55,223	-	-	-	-	-	-	-	-
- Customers	4,761	-	-	-	-	-	-	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	<b>51,674</b>	<b>58,915</b>	<b>35,232</b>	<b>32,319</b>	<b>90,372</b>	<b>56,518</b>	<b>994</b>	<b>-</b>	<b>-</b>	<b>-</b>
C.1 Financial derivatives with exchange of capital	-	7,373	35,232	32,319	90,265	56,493	994	-	-	-
- long positions	-	1,667	17,676	16,653	45,949	16,205	497	-	-	-
- short positions	-	5,706	17,556	15,666	44,316	40,288	497	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	51,542	51,542	-	-	-	-	-	-	-	-
- long positions	51,542	-	-	-	-	-	-	-	-	-
- short positions	-	51,542	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	132	-	-	-	107	25	-	-	-	-
- long positions	-	-	-	-	107	25	-	-	-	-
- short positions	132	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-


**Currency: OTHER CURRENCIES**

Items/time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified
<b>Cash assets</b>	<b>55,867</b>	<b>103,262</b>	<b>496</b>	<b>10,453</b>	<b>16,558</b>	<b>2,591</b>	<b>51</b>	<b>9,362</b>	-	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	-	-	-	-	-	-	-	-	-	-
A.4 Loans	55,867	103,262	496	10,453	16,558	2,591	51	9,362	-	-
- Banks	55,225	6,004	251	536	64	-	-	-	-	-
- Customers	642	97,258	245	9,917	16,494	2,591	51	9,362	-	-
<b>Cash liabilities</b>	<b>75,508</b>	<b>12,890</b>	<b>117</b>	<b>9,866</b>	<b>3,634</b>	<b>1,869</b>	<b>103</b>	-	-	-
B.1 Deposits and current accounts	75,508	12,890	117	9,866	3,634	1,869	103	-	-	-
- Banks	40,152	12,890	117	-	890	-	-	-	-	-
- Customers	35,356	-	-	9,866	2,744	1,869	103	-	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	<b>1,848</b>	<b>125,093</b>	<b>163,097</b>	<b>147,882</b>	<b>52,646</b>	<b>12,331</b>	<b>4,492</b>	<b>7,427</b>	-	-
C.1 Financial derivatives with exchange of capital	-	123,245	163,097	147,882	52,646	12,331	4,492	7,427	-	-
- long positions	-	13,504	81,815	74,529	26,803	5,958	2,307	3,714	-	-
- short positions	-	109,741	81,282	73,353	25,843	6,373	2,185	3,713	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	1,848	1,848	-	-	-	-	-	-	-	-
- long positions	1,848	-	-	-	-	-	-	-	-	-
- short positions	-	1,848	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

## 1.4 Banking group - Operational risks

### QUALITATIVE INFORMATION

#### A. General aspects, management and measurement of operational risk

The notes to the Bank's separate financial statements explain the system used to identify losses and to monitor operational risk.

This system is also used by the subsidiaries, albeit with a few adjustments to adapt it to the local operating context.

The principal manifestations of this type of risk, at Group level, relate to settlements and legal disputes, fraudulent acts, generally mitigated by taking out insurance policies, accidents and breakdowns at structures, errors in the execution of transactions used in day-to-day operations or in the application of operating practices.

### QUANTITATIVE INFORMATION

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements; as regards the subsidiaries, it has been seen that the largest loss events are due to errors in day-to-day activities and, as for the Parent Bank, they are generally recovered.

In this regard, we would observe that the loss events recorded by Factorit all relate to risks that arose in the second half of 2010; the Swiss subsidiary's exposure is, in any case, extremely limited due to the way internal control is organised, with the presence of specialists and action directly at operating unit level.

The following table summarises the banking group's losses from risk events that took place in the last three years.

#### Sources of losses from 01/01/2008 to 31/12/2010

	No. of events	% of events	Gross loss	% of total	Net loss	% of total	% recovered
Fraud	173	27.12%	1,739,597	15.16%	693,496	21.96%	60.13%
Settlements and legal disputes	86	13.48%	1,376,266	11.99%	1,269,427	40.19%	7.76%
Damage to fixed assets	96	15.05%	341,025	2.97%	65,434	2.07%	80.81%
Errors in carrying out transactions	236	36.99%	7,601,253	66.24%	750,408	23.76%	90.13%
Other	47	7.36%	418,032	3.64%	379,726	12.02%	9.16%
<b>Total</b>	<b>638</b>	<b>100.00%</b>	<b>11,476,173</b>	<b>100.00%</b>	<b>3,158,491</b>	<b>100.00%</b>	<b>72.48%</b>

(Amounts in euro)

Key:

**Fraud** = bank robberies, theft, false instructions, cloning debit and credit cards, forging cheques, disloyalty.

**Settlements and legal disputes** = settlements reached with customers, transactions contrary to the rules of proper conduct and prudent provisions for legal disputes.

**Errors in carrying out transactions** = errors in day-to-day operations, in the execution of processes, in relations with vendors or suppliers.

**Damage to fixed assets** = accidents, damage caused to third parties, structural failures and breakdowns.



## **PART F** *Information on consolidated equity*

### **Section 1** *Consolidated capital*

#### **QUALITATIVE INFORMATION**

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and 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 particular responsibilities that the Bank has accepted vis-à-vis the shareholders are also reflected in extremely prudent management of the company's assets.

#### **QUANTITATIVE INFORMATION**

The component parts and size of the Bank's capital and equity are described in Part B, Section 15 of these notes to the financial statements.



## B.1 Consolidated equity broken down by type of businesses

Equity items	Banking group	Insurance companies	Other businesses	Consolidated eliminations and adjustments	Total
<b>1. Share capital</b>	<b>958,019</b>	-	-	-	<b>958,019</b>
<b>2. Share premium reserve</b>	<b>178,672</b>	-	-	-	<b>178,672</b>
<b>3. Reserves</b>	<b>659,822</b>	-	<b>9,946</b>	<b>(3,377)</b>	<b>666,391</b>
<b>4. Equity instruments</b>	-	-	-	-	-
<b>5. Treasury shares (-)</b>	<b>(32,821)</b>	-	-	-	<b>(32,821)</b>
<b>6. Valuation reserve:</b>	<b>549</b>	-	<b>192</b>	-	<b>741</b>
- Financial assets available for sale	614	-	-	-	614
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash-flow hedges	-	-	-	-	-
- Exchange differences	-	-	-	-	-
- Non-current assets held for sale and discontinued operations	-	-	-	-	-
- Actuarial profits (losses) on defined-benefit plans	(65)	-	-	-	(65)
- Share of valuation reserves of equity investments valued at net equity	-	-	-	-	-
- Special revaluation regulations	-	-	192	-	192
<b>7. Net profit for the year</b>	<b>139,090</b>	-	<b>(310)</b>	<b>(1,981)</b>	<b>136,799</b>
<b>Equity</b>	<b>1,903,331</b>	-	<b>9,828</b>	<b>(5,358)</b>	<b>1,907,801</b>

## B.2 Valuation reserves for financial assets available for sale: breakdown

Assets/Values	Banking group		Insurance companies		Other businesses		Consolidated eliminations and adjustments		Total 31/12/2010	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	-	(15)	-	-	-	-	-	-	-	(15)
2. Variable-yield securities	968	(310)	-	-	-	-	-	-	968	(310)
3. Mutual funds	203	(232)	-	-	-	-	-	-	203	(232)
4. Loans	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,171</b>	<b>(557)</b>	-	-	-	-	-	-	<b>1,171</b>	<b>(557)</b>
<b>Total 31/12/2009</b>	<b>1,380</b>	<b>(1,893)</b>	-	-	-	-	-	-	<b>1,380</b>	<b>(1,893)</b>



### B.3 Valuation reserves for financial assets available for sale: change in year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
<b>1. Opening balance</b>	-	<b>(321)</b>	<b>(192)</b>	-
<b>2. Positive changes</b>	<b>7</b>	<b>2,102</b>	<b>333</b>	-
2.1 Increases in fair value	7	2,102	333	-
2.2 Release to the income statement of negative reserves	-	-	-	-
- from impairment	-	-	-	-
- from disposals	-	-	-	-
2.3 Other changes	-	-	-	-
<b>3. Negative changes</b>	<b>22</b>	<b>1,123</b>	<b>170</b>	-
3.1 Reductions in fair value	22	1,123	170	-
3.2 Impairment write-downs	-	-	-	-
3.3 Transfer to income statement from positive reserves: from disposals	-	-	-	-
3.4 Other changes	-	-	-	-
<b>4. Closing balance</b>	<b>(15)</b>	<b>658</b>	<b>(29)</b>	-

## Section 2 Capital and capital adequacy ratios

### 2.2 Capital for supervisory purposes

#### QUALITATIVE INFORMATION

Capital for supervisory purposes is determined in accordance with the rules laid down by the Bank of Italy in its 13th update of Circular Letter 155 «Instructions for the reporting of capital and capital ratios». This is the main point of reference for the Supervisory Body when assessing the stability of the Bank and of the system. The principal prudent control mechanisms all make reference to capital for supervisory purposes: the requirements to cover market risk and the rules governing the concentration of risk. It consists of the sum of Tier 1 capital, which is included in the calculation without any limitation, and Tier 2 capital that is included up to the equivalent of the Tier 1 capital. The amounts foreseen in the regulations applicable at 31.12.2010 are then deducted from this aggregate.

#### 1. Tier 1 capital

The positive elements of Tier 1 capital comprise share capital, the share premium reserve, other reserves and part of the net profit for 2010, on the assumption that the shareholders will approve the proposed allocations to reserves; the negative elements, consisting of treasury shares (line item 200 of liabilities), intangible assets (line item 130 of assets) and other elements to be deducted in application of the «precautionary filters» made up of negative balances among valuation reserves and negative ones relating to fixed-yield securities classified in the «financial assets available for sale» portfolio.

From Tier 1 capital calculated in this way get deducted 50% of any equity investments in excess of 10% in non-consolidated banks and financial companies, the combination of any equity investments equal to or higher than 10% in banks and financial companies and subordinated instruments that exceed 10% of «Tier 1 and Tier 2 capital, both gross of the elements to be deducted».

On 18 May 2010 the Bank of Italy issued new supervisory rules on the reserves linked to the valuation of debt securities issued by EU governments and allocated to «Assets available for sale». This provision makes it possible to completely neutralise the gains and losses booked to these reserves from 1/1/2010 onwards as an alternative to deducting all of the

losses and partial inclusion of the gains as previously envisaged. The Bank took advantage of this faculty even though it did not have this kind of securities in its portfolio of «assets available for sale».

## **2. Tier 2 capital**

Tier 2 capital is made up of positive reserves on the measurement of shareholdings classified as «assets available for sale» and subordinated loans net of negative elements consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

The subordinated bonds consist of the Lower Tier II bond loan of par value 350 million with «step up» from 26/2/2010 to 26/2/2017. This bond loan has the characteristics required by the regulations for inclusion in capital for supervisory purposes. The subordination clause consists of the bond owner's right to be reimbursed in the event of liquidation after all the other creditors have been satisfied. The positive elements of Tier 2 capital are represented by after-tax gains on shareholdings classified as «assets available for sale». It is made up of the positive reserves deriving from after-tax gains on securities available for sale, cut by 50% for the application of the precautionary filters and reduced by the negative elements, consisting of potential losses on assets shown in the balance sheet, in addition to the other elements to be deducted in the same way as mentioned above for Tier 1 capital.

## **3. Tier 3 capital**

There are no elements of equity to be included in Tier 3 capital.



## QUANTITATIVE INFORMATION

	31/12/2010	31/12/2009
<b>A. Tier 1 before the application of precautionary filters</b>	<b>1,807,104</b>	<b>1,681,861</b>
<b>B. Precautionary filters of Tier 1 capital:</b>	<b>(80)</b>	<b>(513)</b>
B.1 Positive IFRS precautionary filters (+)	-	-
B.2 Negative IFRS precautionary filters (-)	(80)	(513)
<b>C. Tier 1 capital gross of the elements to be deducted (A + B)</b>	<b>1,807,024</b>	<b>1,681,348</b>
<b>D. Elements to be deducted from tier 1 capital</b>	<b>(42,974)</b>	<b>(90,868)</b>
<b>E. Total Tier 1 capital (C-D)</b>	<b>1,764,050</b>	<b>1,590,480</b>
<b>F. Tier 2 capital before the application of precautionary filters</b>	<b>350,332</b>	<b>(245)</b>
<b>G. Precautionary filters for tier 2 capital:</b>	<b>(314)</b>	-
G.1 Positive IFRS precautionary filters (+)	-	-
G.2 Negative IFRS precautionary filters (-)	(314)	-
<b>H. Tier 2 capital gross of the elements to be deducted (F + G)</b>	<b>350,018</b>	<b>(245)</b>
<b>I. Elements to be deducted from tier 2 capital</b>	<b>(42,974)</b>	-
<b>L. Total tier 2 capital (H-I)</b>	<b>307,044</b>	<b>(245)</b>
<b>M. Items to be deducted from tier 1 and tier 2 capital</b>	-	<b>(64,206)</b>
<b>N. Capital for supervisory purposes (E + L - M)</b>	<b>2,071,094</b>	<b>1,526,029</b>
<b>O. Tier 3 capital</b>	-	-
<b>P. Capital for supervisory purposes including tier 3 (N + O)</b>	<b>2,071,094</b>	<b>1,526,029</b>

### 2.3 Capital adequacy

#### QUALITATIVE INFORMATION

The Bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and protect against risk. The Bank is subject to the capital adequacy requirements according to the rules adopted by the Bank of Italy. Based on these rules, at enterprise level the ratio between capital and total risk-weighted risk assets has to be at least 8%. On an individual basis, the minimum capital requirement is reduced by 25% as foreseen by the current rules of Basel II for banks forming part of banking groups. Compliance with these requirements is checked on a quarterly basis when preparing the periodic reports to be sent to the Supervisory Authority. The annual ICAAP report on the Group's capital adequacy sent to the Bank of Italy outlines the checks carried out on the degree of risk inherent in the various items. This requisite is expressed by the ratio between capital for supervisory purposes and total risk-weighted assets, which at the end of the year came to 9.48%, with an excess of 148 basis points compared with the minimum requirement of 8% mentioned above. In absolute terms, the excess capital compared with the minimum requirement - what is called «free capital» - amounts to € 323 million; This amount is considered adequate.

The following table provides information of a quantitative nature on risk assets and capital ratios, reflecting prudent management of the various types of risks with a limited absorption of capital. Capital for supervisory purposes is absorbed for around 78% by credit risk, around 1.5% by market risks, around 5% by operational risks, while the other 15.5% is free capital). The good growth in capital for supervisory purposes compared with the end of 2009 is essentially due to the net profit allocated to reserves and the increase in Tier 2 capital thanks to the issue of the subordinated bond loan with a par value of € 350 million.

## QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/requirements	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
<b>A. Assets at risk</b>				
A.1 Credit and counterparty risk	28,303,676	23,568,068	20,645,223	15,271,628
1. Standardised approach	28,303,676	23,568,068	20,645,223	15,271,628
2. Approach based on internal ratings			-	-
2.1 Basic			-	-
2.2 Advanced			-	-
3. Securitisations			-	-
<b>B. Capital adequacy requirements</b>				
B.1 Credit and counterparty risk			1,651,618	1,221,730
B.2 Market risks			29,251	31,090
1. Standard methodology			29,251	31,090
2. Internal models			-	-
3. Concentration risk			-	-
B.3 Operational risk			105,526	94,282
1. Basic method			105,526	94,282
2. Standardised approach			-	-
3. Advanced method			-	-
B.4 Other precautionary requirements			-	-
B.5 Other calculation elements			(38,299)	(22,275)
B.6 Total precautionary requirements			1,748,096	1,324,827
<b>C. Risk assets and capital ratios</b>				
C.1 Risk-weighted assets			21,851,200	16,560,338
C.2 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)			8,07	9,60
C.3 Capital for supervisory purposes including Tier 3/Risk-weighted assets (Total capital ratio)			9,48	9,21

The other calculation elements shown at line B.5 refer to intragroup transactions.



## **PART G** *Operations of business divisions*

### **Section 1** *Operations realised during the year*

On 29 July 2010 the Bank purchased 60.50% of Factorit spa from Banco Popolare, acquiring control over it. The agreed cash payment was of € 102.850 million for 51,425,001 shares. The operation took place in agreement with Banca Popolare di Milano, which purchased 30%, while Banco Popolare kept the residual interest of 9.50%. The price paid is substantially in line with its book net equity at the acquisition date (1.1 times). On first-time booking of the equity investment, a difference of € 7.8 million arose, which has been temporarily booked as goodwill in the consolidated financial statements.

The purpose of the acquisition is further expansion in a sector (factoring) where Factorit spa is one of the main players at a national level.

Factorit spa closed 2010 with a net profit of € 10,014 million and revenues of € 82,209 million. The operation comes under the definition of a business combination governed by IFRS 3. This standard requires combinations of whole businesses or of certain activities in a single entity or the acquisition of control of an entity to be accounted for according to the purchase method.

### **Section 2** *Operations carried out after the year-end*

No business combinations were carried out after the end of the year.

## PART H *Related party transactions*

### 1. Information on the remuneration of directors and managers

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in office	Expiry of office	Emoluments for the office held in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
PIERO MELAZZINI	Chairman	1/1/2010-31/12/2010	31-12-2010	952	-	-	112
MILES EMILIO NEGRI	Deputy Chairman	1/1/2010-31/12/2010	31-12-2010	148	-	-	-
CLAUDIO BENEDETTI	Director	1/1/2010-31/12/2010	31-12-2011	40	-	-	-
PAOLO BIGLIOLI	Director	1/1/2010-31/12/2010	31-12-2010	40	-	-	-
GIANLUIGI BONISOLO	Director	1/1/2010-31/12/2010	31-12-2010	60	-	-	-
FEDERICO FALCK	Director	1/1/2010-31/12/2010	31-12-2012	40	-	-	-
ATTILIO PIEROERRARI	Director	1/1/2010-31/12/2010	31-12-2011	41	-	-	-
GIUSEPPE FONTANA	Director	1/1/2010-31/12/2010	31-12-2011	40	-	-	-
MARIO GALBUSERA	Director	1/1/2010-31/12/2010	31-12-2012	40	-	-	-
NICOLÒ MELZI DI CUSANO	Director	1/1/2010-31/12/2010	31-12-2012	40	-	-	-
ADRIANO PROPERSI	Director	1/1/2010-31/12/2010	31-12-2011	40	-	-	-
RENATO SOZZANI	Director	1/1/2010-31/12/2010	31-12-2011	77	-	-	3
LINO ENRICO STOPPANI	Director	1/1/2010-31/12/2010	31-12-2010	40	-	-	-
DOMENICO TRIACCA	Director	27/3/2010-31/12/2010	31-12-2012	46	-	-	-
BRUNO VANOSI	Director	1/1/2010-26/3/2010	26-3-2010	10	-	-	-
FRANCESCO VENOSTA	Director	1/1/2010-31/12/2010	31-12-2012	51	-	-	67
EGIDIO ALESSANDRI	Chairman of the Board of Statutory Auditors	1/1/2010-31/12/2010	31-12-2011	111	-	-	11
PIO BERSANI	Auditor	1/1/2010-31/12/2010	31-12-2011	60	-	-	8
PIERGIUSEPPE FORNI	Auditor	1/1/2010-31/12/2010	31-12-2011	55	-	-	8
MARIO ALBERTO sPEDRANZINI	General Manager	1/1/2010-31/12/2010		-	-	-	898
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2010-31/12/2010		-	-	-	1.071

Of the compensation reported at the balance sheet date, emoluments for € 2.802 million have been paid. The column «Emoluments for the office» includes € 0.104 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries.

the report on operations discloses the investments held by the directors, statutory auditors, the general manager and managers with strategic responsibilities and the related changes during the year.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager and managers with strategic responsibilities, note that there are no stock option plans or non-monetary benefits, nor bonuses or other incentives.

## 2. Related party disclosures

In accordance with CONSOB Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned CONSOB Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year. Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association. There are no profit-related incentive plans for managers or pension plans other than the post-employment benefits envisaged for participating employees of the Bank; there are no stock-option plans. 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	39	9,044	2	104	52	1,041
Statutory auditors	752	69	23	1	91	458
Management	101	3,689	2	47	45	119
Family members	2,673	15,444	101	136	174	8,825
Subsidiaries	1,041,259	620,723	29,397	5,110	141,215	38,401
Associated companies	414,844	8,513	4,468	207	49,856	-
Other related parties	296,782	46,949	3,980	447	6,365	29,846

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 € 335 million to a loan granted to Alba Leasing SpA and for € 67 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 211 million granted to the affiliate Release spa.



## **PART L** *Segment information*

### **A. Primary format**

The primary format has been determined using the methodology applied in relation to the Parent Bank.

Accordingly, reference is made to the section of the notes to the Parent Bank's financial statements entitled Part L - Segment information.

### **A.1 Distribution by business segment: income statement**

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/12/2010
Interest income	429,076	369,108	-	275,699	1,073,883	-440,712	633,171
Interest expense	-162,379	-226,547	-	-258,313	-647,239	440,712	-206,527
<b>Net interest income</b>	<b>266,697</b>	<b>142,561</b>	<b>-</b>	<b>17,386</b>	<b>426,644</b>	<b>-</b>	<b>426,644</b>
Commission income	125,103	63,562	79,514	5,143	273,322	-2,313	271,009
Commission expense	-6,965	-4,236	-7,147	1,539	-16,809	-537	-17,346
Dividends and similar income	-	-	-	3,397	3,397	-	3,397
Net trading income	-	-	-	-37,724	-37,724	2,769	-34,955
Net hedging profits (losses)	-	-813	-	596	-217	-	-217
Gains/losses on disposals or repurchases	-	-	-	-360	-360	-	-360
Net change in financial assets and liabilities carried at fair value	-	-	-	806	806	-	806
<b>Income from banking activities</b>	<b>384,835</b>	<b>201,074</b>	<b>72,367</b>	<b>-9,217</b>	<b>649,059</b>	<b>-81</b>	<b>648,978</b>
Adjustments to the net value of financial assets	-117,689	-18,264	-	-5,108	-141,061	-	-141,061
<b>Balance of financial management</b>	<b>267,146</b>	<b>182,810</b>	<b>72,367</b>	<b>-14,325</b>	<b>507,998</b>	<b>-81</b>	<b>507,917</b>
Administrative expenses	-115,852	-114,598	-49,040	-75,410	-354,900	-32,842	-387,742
Provisions for risks and charges	1,193	-51	-	1,288	2,430	-	2,430
Net adjustments to property, plant and equipment	-4,877	-5,195	-2,121	-3,834	-16,027	-	-16,027
Net adjustments to intangible assets	-3,363	-3,457	-1,380	-1,777	-9,977	-	-9,977
Other operating income/expense	1,380	2,138	604	4,823	8,945	32,923	41,868
Share of profit/loss of equity investments	-	-	-	59,486	59,486	-	59,486
Gains/losses on disposal of investments	-	-	-	-168	-168	-	-168
<b>Gross profit</b>	<b>145,627</b>	<b>61,647</b>	<b>20,430</b>	<b>-29,917</b>	<b>197,787</b>	<b>-</b>	<b>197,787</b>

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 31/12/2009
Interest income	488,489	462,708	-	442,965	1,394,162	-666,486	727,676
Interest expense	-267,159	-313,243	-	-347,770	-928,172	666,486	-261,686
<b>Net interest income</b>	<b>221,330</b>	<b>149,465</b>	<b>-</b>	<b>95,195</b>	<b>465,990</b>	<b>-</b>	<b>465,990</b>
Commission income	82,613	60,003	75,248	5,745	223,609	-3,567	220,042
Commission expense	-3,950	-3,769	-6,203	653	-13,269	-480	-13,749
Dividends and similar income	-	-	-	3,224	3,224	-	3,224
Net trading income	-	-	-	134,562	134,562	3,365	137,927
Net hedging profits (losses)	-	-7,607	-	1,845	-5,762	-	-5,762
Gains/losses on disposals or repurchases	-	-	-	-1,459	-1,459	-	-1,459
Net change in financial assets and liabilities carried at fair value	-	-	-	7,477	7,477	-	7,477
<b>Income from banking activities</b>	<b>299,993</b>	<b>198,092</b>	<b>69,045</b>	<b>247,242</b>	<b>814,372</b>	<b>-682</b>	<b>813,690</b>
Adjustments to the net value of financial assets	-127,973	-15,078	-	-4,366	-147,417	-	-147,417
<b>Balance of financial management</b>	<b>172,020</b>	<b>183,014</b>	<b>69,045</b>	<b>242,876</b>	<b>666,955</b>	<b>-682</b>	<b>666,273</b>
Administrative expenses	-104,329	-110,793	-48,028	-69,827	-332,977	-33,065	-366,042
Provisions for risks and charges	1,509	-1,509	-	-461	-461	-	-461
Net adjustments to property, plant and equipment	-4,871	-5,144	-2,189	-3,204	-15,408	-	-15,408
Net adjustments to intangible assets	-2,521	-2,734	-1,190	-1,513	-7,958	-	-7,958
Other operating income/expense	856	2,055	557	3,301	6,769	33,747	40,516
Share of profit/loss of equity investments	-	-	-	-1,697	-1,697	-	-1,697
Gains/losses on disposal of investments	-	-	-	-275	-275	-	-275
<b>Gross profit</b>	<b>62,664</b>	<b>64,889</b>	<b>18,195</b>	<b>169,200</b>	<b>314,948</b>	<b>-</b>	<b>314,948</b>

## A.2 Distribution by business segment: balance sheet

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total 31/12/2010
Financial assets	14,078,147	7,556,508	-	3,981,784	25,616,439
Other assets	-	-	-	425,713	425,713
Property, plant and equipment	52,589	54,045	21,570	91,090	219,294
Intangible assets	4,270	4,120	1,575	10,973	20,938
Financial liabilities	4,308,456	16,549,703	-	2,653,640	23,511,799
Other liabilities	92,539	4,782	-	605,712	703,033
Provisions	73,293	50,497	14,418	21,543	159,751
Guarantees given	2,905,443	451,204	-	58,642	3,415,289
Commitments	1,842,960	229,129	16,614	261,181	2,349,884



Items	Enterprises	Individuals and other customers	Securities	Central functions	<b>Total 31/12/2009</b>
Financial assets	11,809,418	6,352,207	-	4,614,138	22,775,763
Other assets	-	-	-	485,303	485,303
Property, plant and equipment	56,536	56,873	23,099	48,774	185,282
Intangible assets	2,761	2,821	1,163	1,462	8,207
Financial liabilities	4,041,286	15,030,329	-	1,976,004	21,047,619
Other liabilities	3,927	73	-	452,516	456,516
Provisions	67,287	49,560	14,015	17,432	148,294
Guarantees given	2,461,979	375,683	-	48,578	2,886,240
Commitments	729,283	633,122	18,448	59,057	1,439,910

### Summary discussion of results

The combined results for the «enterprises» and the «individuals and other customers» segments are not significantly different to those reported by the Parent Bank, since the «Suisse» and «Factorit» subsidiaries only makes a small contribution, while the other consolidated subsidiaries are insignificant.

Accordingly, reference is made to the separate financial statements in relation to these aggregates.

We would like to dwell a moment on the securities sector, given the considerable contribution made in this area by the Swiss subsidiary.

In particular:

- this sub-segment contributes 10.3% of overall results;
- with respect to income from banking activities, administrative expenses absorb 67.8% of the total;
- comparison with the prior year shows a 12.3% increase in the result, due to a substantial increase in fee and commission flows (5.7%) and a contained increase in administrative expenses (2.1%) .

As regards the «central functions» - the only sub-segment where the non-banking subsidiaries have some effect, albeit a small one - it has to be said that the gross result, in absolute terms, comes in slightly below that of the Parent Bank on its own because of the sizeable investments made by the subsidiaries in connection with the reinforcement of its staff and upgrade of its organisational and IT structures.

### B. Secondary format

The methodology applied is that adopted by the Parent Bank.

The following information refers to the location of branches.

There are differences between the Parent Bank and the Swiss subsidiary regarding the types of customer served, the products and services provided, and commercial and operational policies adopted. Accordingly, the analysis includes the «Swiss» area as well as the domestic market».

## B.1 Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Suisse	Total	Reconciliation	Total 31/12/2010
Interest income	899,381	126,648	49,703	1,075,732	-442,561	633,171
Interest expense	-540,415	-79,410	-29,575	-649,400	442,873	-206,527
<b>Net interest income</b>	<b>358,966</b>	<b>47,238</b>	<b>20,128</b>	<b>426,332</b>	<b>312</b>	<b>426,644</b>
Commission income	198,890	41,349	35,207	275,446	-4,437	271,009
Commission expense	-9,991	-4,819	-4,306	-19,116	1,770	-17,346
Dividends and similar income	6,368	-	24	6,392	-2,995	3,397
Net trading income	-39,462	-	6,332	-33,130	-1,825	-34,955
Net hedging profits (losses)	-	-	-813	-813	596	-217
Gains/losses on disposals or repurchases	-360	-	-	-360	-	-360
Net change in financial assets and liabilities carried at fair value	806	-	-	806	-	806
<b>Income from banking activities</b>	<b>515,217</b>	<b>83,768</b>	<b>56,572</b>	<b>655,557</b>	<b>-6,579</b>	<b>648,978</b>
Adjustments to the net value of financial assets	-124,892	-12,727	-3,442	-141,061	-	-141,061
<b>Balance of financial management</b>	<b>390,325</b>	<b>71,041</b>	<b>53,130</b>	<b>514,496</b>	<b>-6,579</b>	<b>507,917</b>
Administrative expenses	-272,178	-34,246	-49,737	-356,161	-31,581	-387,742
Provisions for risks and charges	-658	1,800	1,288	2,430	-	2,430
Net adjustments to property, plant and equipment	-11,877	-1,336	-2,814	-16,027	-	-16,027
Net adjustments to intangible assets	-7,507	-929	-1,541	-9,977	-	-9,977
Other operating income/expense	4,733	909	796	6,438	35,430	41,868
Share of profit/loss of equity investments	58,057	-	-	58,057	1,429	59,486
Gains/losses on disposal of investments	-168	-	-	-168	-	-168
<b>Gross profit</b>	<b>160,727</b>	<b>37,239</b>	<b>1,122</b>	<b>199,088</b>	<b>-1,301</b>	<b>197,787</b>

Items	Northern Italy	Central Italy	Suisse	Total	Reconciliation	Total 31/12/2009
Interest income	1,193,643	160,063	54,156	1,407,862	-680,186	727,676
Interest expense	-791,543	-115,819	-35,000	-942,362	680,676	-261,686
<b>Net interest income</b>	<b>402,100</b>	<b>44,244</b>	<b>19,156</b>	<b>465,500</b>	<b>490</b>	<b>465,990</b>
Commission expense	160,062	28,678	36,100	224,840	-4,798	220,042
Commissioni passive	-7,973	-3,271	-3,360	-14,604	855	-13,749
Dividends and similar income	3,193	-	31	3,224	-	3,224
Net trading income	127,968	-	8,968	136,936	991	137,927
Net hedging profits (losses)	-	-	-7,607	-7,607	1,845	-5,762
Gains/losses on disposals or repurchases	-1,459	-	-	-1,459	-	-1,459
Net change in financial assets and liabilities carried at fair value	7,477	-	-	7,477	-	7,477
<b>Income from banking activities</b>	<b>691,368</b>	<b>69,651</b>	<b>53,288</b>	<b>814,307</b>	<b>-617</b>	<b>813,690</b>
Adjustments to the net value of financial assets	-142,015	-3,627	-1,775	-147,417	-	-147,417
<b>Balance of financial management</b>	<b>549,353</b>	<b>66,024</b>	<b>51,513</b>	<b>666,890</b>	<b>-617</b>	<b>666,273</b>
Administrative expenses	-257,466	-29,682	-46,526	-333,674	-32,368	-366,042
Provisions for risks and charges	384	-384	-461	-461	-	-461
Net adjustments to property, plant and equipment	-11,331	-1,345	-2,732	-15,408	-	-15,408
Net adjustments to intangible assets	-5,608	-692	-1,658	-7,958	-	-7,958
Other operating income/expense	6,284	342	769	7,395	33,121	40,516
Share of profit/loss of equity investments	-7,233	-	-	-7,233	5,536	-1,697
Gains/losses on disposal of investments	-275	-	-	-275	-	-275
<b>Gross profit</b>	<b>274,108</b>	<b>34,263</b>	<b>905</b>	<b>309,276</b>	<b>5,672</b>	<b>314,948</b>



## B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Suisse	<b>Total 31/12/2010</b>
Financial assets	20,495,459	2,331,426	2,789,554	25,616,439
Other assets	364,807	-	60,906	425,713
Property, plant and equipment	180,699	14,527	24,068	219,294
Intangible assets	18,635	1,196	1,107	20,938
Financial liabilities	15,596,586	5,239,764	2,675,449	23,511,799
Other liabilities	655,354	29,490	18,189	703,033
Provisions	144,699	15,052	-	159,751
Guarantees given	2,552,132	727,378	135,779	3,415,289
Commitments	1,801,907	501,606	46,371	2,349,884

Items	Northern Italy	Central Italy	Suisse	<b>Total 31/12/2009</b>
Financial assets	18,865,566	1,852,682	2,057,515	22,775,763
Other assets	429,790	-	55,513	485,303
Property, plant and equipment	147,482	15,767	22,033	185,282
Intangible assets	6,216	768	1,223	8,207
Financial liabilities	13,828,714	5,220,541	1,998,364	21,047,619
Other liabilities	436,965	87	19,464	456,516
Provisions	133,392	14,902	-	148,294
Guarantees given	2,213,026	569,177	104,037	2,886,240
Commitments	1,282,998	112,333	44,579	1,439,910

## Certification pursuant to para. 5 of art. 154-bis of Decree 58/98 on the consolidated financial statements.

The undersigned Piero Melazzini as Chairman and Chief Executive Officer and Maurizio Bertoletti, as Financial Reporting Officer of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Decree 58 of 24 February 1998, confirm:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for the formation of the consolidated financial statements for the period 1 January 2010 - 31 December 2010.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the «Internal Control - Integrated Framework (CoSO)», issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the consolidated financial statements at 31 December 2010:

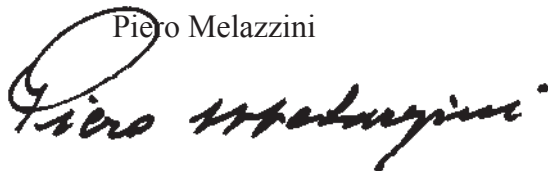
- have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
- agree with the balances on the books of account and the accounting entries;
- are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the scope of consolidation.

The directors' report on operations includes a reliable analysis of the progress and performance, the situation of the Bank and the consolidated companies together with a description of the main risks and uncertainties to which they are subjected.

Sondrio, 10 March 2011

The Chairman and Chief Executive Officer

Piero Melazzini



The Financial Reporting Officer

Maurizio Bertoletti



## **Relazione della società di revisione ai sensi degli artt. 14 e 16 del D.Lgs. 27 gennaio 2010, n. 39**

Ai Soci della  
Banca Popolare di Sondrio S.C.p.A.

- 1 Abbiamo svolto la revisione contabile del bilancio consolidato, costituito dallo stato patrimoniale, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario e dalla relativa nota integrativa, del Gruppo Banca Popolare di Sondrio chiuso al 31 dicembre 2010. La responsabilità della redazione del bilancio in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05, compete agli amministratori della Banca Popolare di Sondrio S.C.p.A.. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.
- 2 Il nostro esame è stato condotto secondo i principi e i criteri per la revisione contabile raccomandati dalla Consob. In conformità ai predetti principi e criteri, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio consolidato sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenuti nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

Per il giudizio relativo al bilancio consolidato dell'esercizio precedente, i cui dati sono presentati ai fini comparativi, si fa riferimento alla relazione da noi emessa in data 11 marzo 2010.

- 3 A nostro giudizio, il bilancio consolidato del Gruppo Banca Popolare di Sondrio al 31 dicembre 2010 è conforme agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria, il risultato economico e i flussi di cassa del Gruppo Banca Popolare di Sondrio per l'esercizio chiuso a tale data.
- 4 La responsabilità della redazione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari, pubblicata nella sezione "informativa societaria" del sito internet della Banca Popolare di Sondrio S.C.p.A., in conformità a



quanto previsto dalle norme di legge e dai regolamenti compete agli amministratori della Banca Popolare di Sondrio S.C.p.A.. E' di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione e delle informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b), dell'art. 123-bis del D.Lgs. 58/98, presentate nella relazione sul governo societario e gli assetti proprietari, con il bilancio, come richiesto dalla legge. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione n. 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili e raccomandato dalla Consob. A nostro giudizio la relazione sulla gestione e le informazioni di cui al comma 1, lettere c), d), f), l), m) e al comma 2, lettera b), dell'art. 123-bis del D.Lgs. 58/98 presentate nella relazione sul governo societario e gli assetti proprietari sono coerenti con il bilancio consolidato del Gruppo Banca Popolare di Sondrio al 31 dicembre 2010.

Milano, 24 marzo 2011

KPMG S.p.A.



Paolo Valsecchi  
Socio



**RESOLUTIONS OF THE ORDINARY  
ANNUAL GENERAL MEETING  
OF THE SHAREHOLDERS**

of 9 April 2010 (second calling)



## AGENDA

- 1) *Presentation of the financial statements as of 31 December 2010: report of the Board of Directors and proposed allocation of net profit; report of the Board of Statutory Auditors; related resolutions;*
- 2) *Mandate to the Board of Directors to buy and sell treasury shares in accordance with art. 21 of the articles of association;*
- 3) *Information on implementation of the «Compensation policies of Banca Popolare di Sondrio»;*
- 4) *Determination of directors' emoluments;*
- 5) *Appointment of five Directors for the three-year period 2011-2013;*
- 6) *Resolutions in accordance of art. 6 of Treasury Minister Decree no. 161 of 18 March 1998.*

The Shareholders' Meeting, which had a quorum, began dealing with the matters on the agenda.

### *Point 1) on the agenda*

Having heard the directors' report on operations for 2010 and the proposed allocation of the net profit for the year, having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors, having taken as read the balance sheet, income statement and explanatory notes, as well as the financial statements of the subsidiaries,

the Meeting approved:

- the directors' report on operations;
- the financial statements at 31 December 2010, comprising the balance sheet, income statement and explanatory notes; the financial statements that show a net profit for the year of € 133,319,754. The Shareholders' Meeting also approved the allocation of net profit for the year of € 133,319,754 as proposed by the Board of Directors in accordance with current legislation and the articles of association and, in particular, resolved:
  - a) to allocate:
    - 10% to the legal reserve € 13,331,975.40
    - 30% to the statutory reserve € 39,995,926.20
  - b) to pay a dividend of € 0.21 to each of the 308,147,985 shares in circulation at 31/12/2010 with dividend rights as from 1/1/2010, transferring to the statutory reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of € 64,711,076.85
  - c) to allocate to the reserve for treasury shares € 14,000,000.00

d) to allocate the residual net profit:		
– to the reserve for donations	€	500,000.00
– to the legal reserve, a further	€	780,775.55

*Point 2) on the agenda*

to set at Euro 87,000,000 – shown in the financial statements under «Reserves» – as the amount made available to the Board of Directors to make purchases of the Bank's own shares in accordance with art. 21 of the Articles of Association, within the limit of this amount and whatever part of it is made available by subsequent sales of the shares purchased; all as part of an activity that is compliant with current regulations and designed in particular to facilitate circulation of the shares.

Purchases and sales of treasury shares – namely the ordinary shares of Banca Popolare di Sondrio of par value Euro 3 each – have to be carried out on organised markets according to operating methods that ensure parity of treatment between shareholders and which do not permit direct matching of purchase and sale offers. Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2011 financial statements.

Purchases have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned «Reserve» of 87,000,000 euro and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 4% of the shares making up the share capital. Sales have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned «Reserve» of Euro 87,000,000.

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

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

*Point 3) on the agenda*

The Meeting took note of the information provided on the «Compensation Policies of Banca Popolare di Sondrio» in favour of the directors, employees and contract workers, presented by the Board of Directors.

*Point 4) on the agenda*

– The Meeting set the remuneration of the directors in accordance with the current «Compensation Policies of Banca Popolare di Sondrio».

*Point 5) on the agenda*

The Meeting appointed the following as members of the Board of Directors for the three-year period 2011-2013: Piero Melazzini, Gianluigi Bonisolo, Miles Emilio Negri, Lino Enrico Stoppani and Paolo Biglioli.

*Point 6) on the agenda*

The Meeting passed resolutions in accordance of art. 6 of Treasury Minister Decree no. 161 of 18 March 1998.





## THE BANK'S GROWTH SINCE ITS FOUNDATION, KEY FINANCIAL DATA

Year	Financial investments euro	Customer loans euro	Fiduciary funds euro	Shareholders' equity (capital & reserves) euro	Net profit for the year euro	Dividend euro
1871	26	93	37	47	1	0.001
1875	109	675	569	181	21	0.002
1880	46	1,024	777	360	33	0.002
1885	213	1,431	1,161	410	42	0.002
1890	459	1,805	1,646	457	49	0.002
1895	840	1,380	1,631	453	36	0.002
1900	860	1,627	1,987	465	43	0.002
1905	940	2,330	2,834	504	53	0.002
1910	1,460	3,717	4,738	563	68	0.003
1915	2,425	3,399	5,178	658	59	0.002
1920	7,906	9,100	22,320	1,232	186	0.005
1925	9,114	35,692	39,924	2,303	523	0.006
1930	12,899	43,587	54,759	3,230	561	0.006
1935	21,402	30,912	53,190	3,543	339	0.004
1940	24,397	32,808	57,064	3,091	312	0.002
1945	112,239	101,840	191,619	6,491	817	0.002
1950	608,460	892,440	1,359,864	50,496	10,834	0.041
1955	1,413,363	2,372,139	3,573,499	262,122	25,998	0.124
1960	3,474,898	5,864,314	9,124,181	495,960	45,997	0.150
1965	6,564,058	9,861,955	18,238,851	670,265	60,044	0.170
1970	11,228,709	21,140,462	34,440,002	1,577,469	86,800	0.196
1975	49,247,998	46,458,454	103,136,018	4,940,413	336,351	0.284
1980	248,877,713	135,350,391	386,128,259	44,618,760	2,298,768	0.620
1981	303,227,605	149,856,755	435,958,220	70,294,839	3,543,126	0.878
1982	434,505,499	168,991,589	564,440,308	93,988,765	5,876,973	0.930
1983	551,731,767	201,889,280	722,876,267	105,498,725	9,795,722	1.394
1984	657,323,707	244,311,938	885,640,690	117,286,747	11,754,271	1.911
1985	669,773,787	327,572,423	985,454,131	123,347,208	13,332,058	2.582
1986	854,978,708	381,346,894	1,108,118,326	129,106,270	13,582,958	2.169
1987	954,429,924	407,643,937	1,205,007,005	134,486,897	13,588,657	2.169
1988	950,465,324	510,164,638	1,285,408,512	139,730,318	13,665,548	2.272
1989	958,277,398	634,760,956	1,431,120,712	145,100,954	13,984,014	2.324
1990	919,261,388	819,877,375	1,567,539,101	170,006,961	14,919,668	1.653
1991	886,480,827	1,014,385,379	1,708,284,250	192,743,654	16,018,859	1.653
1992	1,162,262,510	1,202,265,949	2,151,786,340	198,979,714	16,304,997	1.704
1993	1,675,065,908	1,441,158,530	2,862,510,529	250,913,662	17,860,906	1.136
1994	1,438,251,891	1,701,208,296	2,922,731,483	258,100,923	16,976,601	1.136
1995	1,828,374,994	1,903,530,111	3,401,567,857	335,480,368	18,688,353	0.413
1996	1,817,497,737	2,120,842,006	3,590,238,215	345,127,951	20,685,619	0.439
1997	1,730,940,393	2,485,706,688	3,844,781,082	353,507,281	20,796,084	0.439
1998	2,005,202,039	2,990,333,100	4,343,203,973	535,162,454	24,784,724	0.196
1999	1,993,529,114	3,724,763,745	5,058,960,710	557,555,696	30,555,532	0.232
2000	2,043,141,602	4,443,945,484	5,829,901,035	576,036,331	38,428,768	0.300
2001	2,618,137,267	5,579,546,805	7,374,954,358	731,304,438	46,064,525	0.180
2002	3,218,789,508	6,246,734,925	8,626,473,276	752,369,741	46,703,800	0.190
2003	2,827,584,863	7,117,211,453	9,139,503,657	773,957,639	60,117,119	0.230
2004	3,492,730,224	8,078,424,234	10,498,481,204	1,031,391,991	73,210,556	0.170
2005	4,029,597,013	9,197,849,967	11,928,279,967	1,119,500,111	85,178,406	0.190
2006	4,216,404,673	10,560,504,042	13,316,179,364	1,231,012,722	107,113,135	0.230
2007	5,174,395,815	12,402,268,867	15,844,113,698	1,592,235,650	130,823,404	0.220
2008	5,260,646,663	14,936,103,083	18,469,073,506	1,492,021,195	13,735,247	0.030
2009	4,794,397,579	16,711,080,589	19,779,755,056	1,683,715,881	190,674,454	0.330
2010	5,063,550,816	18,247,861,145	21,243,136,724	1,722,830,035	133,319,754	0.210

The figures for the years prior to 1993 have not been adjusted for consistency with those of subsequent years, which have been classified differently in accordance with Decree 87/92.



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The artistic patrimony of a co-operative bank is above all the patrimony of its members, but it is also the cultural heritage of the entire community. It is with this conviction that each year Banca Popolare di Sondrio publishes an insert devoted to its art collection to accompany the annual report.

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