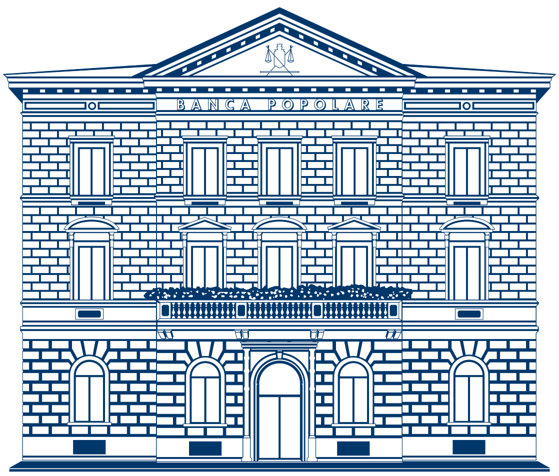
Banca Popolare di Sondrio



ANNUAL REPORT 2015

Banca Popolare
di Sondrio

2015 FINANCIAL
STATEMENTS
145th YEAR

Banca Popolare di Sondrio

Founded in 1871

ORDINARY SHAREHOLDERS' MEETING 23 APRIL 2016

Società cooperativa per azioni
Head office and general management: Piazza Garibaldi 16, 23100 Sondrio, Italy
Tel. 0342 528.111 - Fax 0342 528.204
Website: http://www.popso.it - E-mail: info@popso.it

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Official List of Cooperative Banks no. A160536
Parent bank of the Banca Popolare di Sondrio Group.
Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331 – Reserves: € 942,519,617
(Figures approved at the shareholders' meeting of 23 April 2016)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 2 July 2015:
  – Long-term: BBB
  – Short-term: F3
  – Viability rating: bbb
  – Outlook: Stable

- Rating given by Dagong Europe Credit Rating to Banca Popolare di Sondrio scpa on 22 February 2016:
  – Long-term: BBB
  – Short-term: A-3
  – Individual Financial Strength Assessment: bbb
  – Outlook: Stable

BOARD OF DIRECTORS

Chairman	FRANCESCO VENOSTA*
Deputy Chairman	LINO ENRICO STOPPANI*
Managing Director	MARIO ALBERTO PEDRANZINI**
Directors	PAOLO BIGLIOLI CECILIA CORRADINI LORETTA CREDARO* FEDERICO FALCK ATTILIO PIERO FERRARI GIUSEPPE FONTANA CRISTINA GALBUSERA* ADRIANO PROPERSI ANNALISA RAINOLDI SERENELLA ROSSI RENATO SOZZANI* DOMENICO TRIACCA*

BOARD OF STATUTORY AUDITORS

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

ADVISORY COMMITTEE

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

GENERAL MANAGEMENT

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

Manager responsible for preparing the Company's accounting documents MAURIZIO BERTOLETTI

* Members of the Chairman's Committee

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

BRANCH NETWORK OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

Banca Popolare di Sondrio

Fondata nel 1871

Branches:

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

Representative offices and desks abroad:

• ARGENTINA (BUENOS AIRES) • AUSTRALIA (PERTH AND SYDNEY) • BELGIQUE (BRUXELLES) • BRASIL (SÃO PAULO) • BULGARIA (SOFIA) • CANADA (TORONTO) • CHINA (SHANGHAI) • DANMARK (AARHUS) • FRANCE (LYON, MARSEILLE AND PERPIGNAN) • FINLAND (HELSINKI) • GREECE (ATHENS) • GUATEMALA (CIUDAD DE GUATEMALA) • HUNGARY (BUDAPEST) • INDIA (MUMBAI) • MÉXICO (CIUDAD DE MÉXICO) • MONGOLIA (ULAANBAATAR) • MOROCCO (CASABLANCA) • PERÚ (LIMA) • POLAND (WARSZAWA) • PORTUGAL (LISBOA) • REPUBLICA MOLDOVA (CHISINAU) • ROMÂNIA (BUCURESTI) • RUSSIA (MOSCOW) • SERBIA (BEOGRAD) • SOUTH AFRICA (JOHANNESBURG) • SOUTH COREA (SEOUL) • THAILAND (BANGKOK) • TUNISIA (TUNIS) • TURKEY (ISTANBUL) • UNITED ARAB EMIRATES (DUBAI) • UNITED KINGDOM (LONDON) • UNITED STATES OF AMERICA (CHICAGO) • UZBEKISTAN (TASHKENT)

BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

Branches in:

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

Principality of Monaco:

- MONACO

Factorit

GRUPPO Banca Popolare di Sondrio

Factoring – working capital solutions, credit risk protection and accounts receivable book-keeping

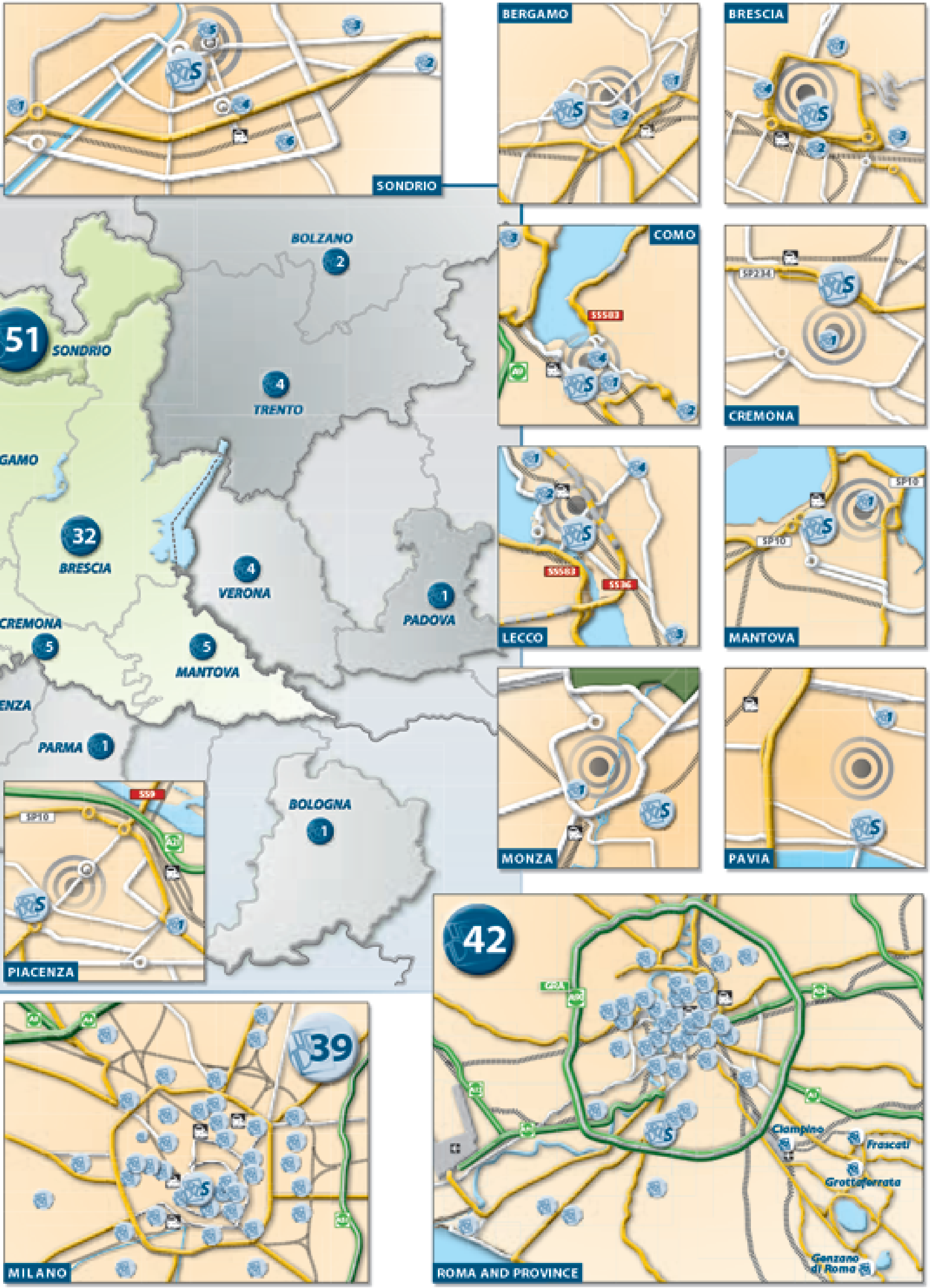
Branch offices in:

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

Member of Factors Chain International with over 270 foreign correspondents in the most important international markets. Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.

Number of branches in each province

Branches in each city


SONDRIO
BERGAMO
BRESCIA
COMO
SS583
CREMONA
SP234
BOLZANO
2
51
SONDRIO
4
TRENTO
BERGAMO
15
32
BRESCIA
4
VERONA
1
PADOVA
CREMONA
5
5
MANTOVA
3
PIACENZA
PARMA
1
BOLOGNA
1
LECCO
SS583
SS36
MANTOVA
SP10
SP10
MONZA
PAVIA
SS9
SP10
PIACENZA
39
MILANO
42
GRA
Ciampino
Frascati
Grottaferrata
Genzano di Roma
ROMA AND PROVINCE

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO

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

GENERAL MANAGEMENT AND HEAD OFFICE

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

FIELD OFFICES

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

VIRTUAL UNIT

corso Vittorio Veneto 7, Sondrio

BRANCHES - Country code +39

PROVINCE OF SONDRIO

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

AUTONOMOUS REGION OF VALLE D'AOSTA

AOSTA corso Battaglione Aosta 79 tel. 0165 21841

PROVINCE OF ALESSANDRIA

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

PROVINCE OF BERGAMO

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

PROVINCE OF BOLOGNA

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

PROVINCE OF BOLZANO

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

PROVINCE OF BRESCIA

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

PROVINCE OF COMO

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

PROVINCE OF CREMONA

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

PROVINCE OF CUNEO

ALBA viale Torino 4 tel. 0173 31261
CUNEO piazza Tancredi Duccio Galimberti 13 tel. 0171 31951

PROVINCE OF GENOVA

CHIAVARI
piazza Nostra Signora dell'Orto 42/B
- ang. via Doria tel. 0185 33051
GENOVA
Head Office, via XXV Aprile 7 tel. 010 550141
Branch no. 1, piazza Tommaseo 7 rosso tel. 010 319961
Branch no. 2, via Sabotino 32/34 rossi tel. 010 667801
RAPALLO via Gen. Alessandro Lamarmora 4
- ang. via San Filippo Neri tel. 0185 27431
SANTA MARGHERITA LIGURE
piazza Giuseppe Mazzini 40 tel. 0185 29291

PROVINCE OF LECCO

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

PROVINCE OF LODI

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

PROVINCE OF MANTOVA

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

PROVINCE OF MILANO

ABBIATEGRASSO
piazza Giuseppe Garibaldi 2 tel. 02 9401051
BUCCINASCO via Aldo Moro 9 tel. 02 4885191
CERNUSCO SUL NAVIGLIO
viale Assunta 47/49 tel. 02 9599731
CINISELLO BALSAMO
via Giuseppe Garibaldi 86 tel. 02 6602601
LEGNANO via Alcide De Gasperi 10 tel. 0331 47331
MELEGNANO via Clateo Castellini 19 tel. 02 9803691
MILANO
Head Office, via Santa Maria Fulcorina 1 tel. 02 85541
Branch no. 1, *Porpora*,
via Nicola Antonio Porpora 104 tel. 02 7064901
Branch no. 2, *Barona*, viale Faenza 22 tel. 02 8188851
Branch no. 3, *a2a*,
corso di Porta Vittoria 4 tel. 02 7626001
Branch no. 4, *Regione Lombardia*,
piazza Città di Lombardia 1 tel. 02 6787601
Branch no. 5, *Bovisa*,
via degli Imbriani 54 tel. 02 3932841
Branch no. 6, *Corvetto*,
via Marco d'Agrate 11 tel. 02 5731381
Branch no. 7, *Caneva*,
via Monte Cenisio 50 tel. 02 3103961
Branch no. 8, *Quarto Oggiaro*,
via Michele Lessona
- ang. via Federico De Roberto tel. 02 3903631
Branch no. 9, *A.L.E.R.*,
viale Romagna 24 tel. 02 7487511
Branch no. 10, *Solari*,
via Andrea Solari 15 tel. 02 8312771
Branch no. 11, *Università Bocconi*,
via Ferdinando Bocconi 8 tel. 02 5849871
Branch no. 12, *Baggio*,
via delle Forze Armate 260 tel. 02 4533951
Branch no. 13, *Repubblica*,
viale Monte Santo 8 tel. 02 6272301
Branch no. 14, *Palazzo di Giustizia*,
via Cesare Battisti 1 tel. 02 7626101
Branch no. 15, *Murat*,
via Gioacchino Murat 76 tel. 02 6901391
Branch no. 16, *Ortomercato*,
via Cesare Lombroso 54 tel. 02 5410981

Branch no. 17, *Pirelli/Bicocca,*
viale Sarca 226 - stabile n. 143 tel. 02 6474631
Branch no. 18, *Fiera,*
viale Ezio Belisario 1 tel. 02 4380231
Branch no. 19, *Giambellino,*
via Giambellino 39 tel. 02 4240991
Branch no. 20, *Sempione,*
via Antonio Canova 39 tel. 02 3103971
Branch no. 21, *Politecnico,*
via Edoardo Bonardi 4 tel. 02 2660071
Branch no. 22, *Santa Sofia,*
via Santa Sofia 12 tel. 02 5849881
Branch no. 23, *Certosa,* viale Certosa 62 tel. 02 3971081
Branch no. 24, *Piave,* viale Piave 1 tel. 02 7788681
Branch no. 25, *Zara,* viale Zara 13 tel. 02 6946501
Branch no. 26, *Lodi,*
corso Lodi - ang. via S. Gerolamo Emiliani 1 tel. 02 5410931
Branch no. 27, *Don Gnocchi,*
via Alfonso Capecelatro 66 tel. 02 4030421
Branch no. 28, *Corsica,*
via privata Sanremo - ang. viale Corsica 81 tel. 02 7109601
Branch no. 29, *Bicocca,*
piazza della Trivulziana 6 - edificio 6 tel. 02 6474651
Branch no. 30, *De Angeli,*
piazza Ernesto De Angeli 9 tel. 02 4351831
Branch no. 31, *Isola,* via Carlo Farini 47 tel. 02 6901361
Branch no. 32, *Venezia,*
viale Luigi Majno 42 - viale Piave 43 tel. 02 2772961
Branch no. 33, *Porta Romana,*
corso di Porta Romana 120 tel. 02 5849941
Branch no. 34, *San Babila,*
via Cino del Duca 12 tel. 02 7787851
Branch no. 35, *Loreto,*
piazzale Loreto 1 - ang. viale Brianza tel. 02 6797961
Branch no. 36, *Monti,* via Vincenzo Monti 41 tel. 02 4363581
Branch no. 37, *Vercelli,* corso Vercelli 38 tel. 02 4363591
Branch no. 38,
Università Cattolica del Sacro Cuore,
largo Agostino Gemelli 1 tel. 02 7274821
PERO via Mario Greppi 13 tel. 02 3391591
SEGRATE via Rodolfo Morandi 25 tel. 02 2187351
SESTO SAN GIOVANNI
Branch no. 1, piazza Martiri di via Fani 93 tel. 02 2497301
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TREZZO SULL'ADDA via Antonio Gramsci 10 tel. 02 9200971

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BARTOLOMEO PINELLI, A POSTMODERN ROMAN WITHOUT HIM KNOWING IT

ERNESTO FERRERO
Essayist, critic and translator

The fact that combining text and image is particularly effective was field-tested a few decades after the invention of the printing press, when in 1542 Gabriele Giolito de' Ferrari issued in Venice an expressly commissioned edition illustrated by woodcuts of the best-selling book of the moment, The Frenzy of Orlando (Orlando furioso) by Messer Ludovico Ariosto. The formula is so felicitous, the incisions so suggestive that many gentlemen of the time commissioned frescoes on the walls of their palaces with scenes openly inspired by it. Valtellina hosts one of the more timely and more extensive series of paintings inspired by the Frenzy of Orlando at Palazzo Besta in Teglio.

It also bore witness to an instant and overwhelming success. The same happened to The Betrothed (I Promessi Sposi) ever since the 1827 edition. In addition to being run off in dozens of unauthorised editions, it produced four illustrated editions, which immediate sold like hot cakes, even if their artistic merits were limited. The novel was a hit across the board, the same as Ariosto's poem, like a real "novel of the nation". The illustrations acted as a guide to reading, fuel for the imagination with which each reader reinvents the book in their own way. Even Manzoni must have been convinced of this when, after thirteen years of work, he decided to print the final version of his novel. He produced his own edition with over four hundred drawings by Francesco Gonin, based on Manzoni's detailed instructions. The model was taken from the French editions of Don Quixote, Gulliver's Travels, and the Fables of La Fontaine. By publishing a book that stood out for quality compared with the unauthorised versions, Manzoni also hoped to eliminate the widespread piracy of the time. It was a big investment, only partly offset by the income earned from sales. What interests us here is that ever since 1830 the novel had already acquired the status of a contemporary classic, if it is true that an artist sensitive to market needs such as Bartolomeo Pinelli decided to make twenty engravings for it.

At that time Pinelli was already a real celebrity, a romantic character secondary only to Caravaggio for his sanguine, adventurous nature, a borderline character always on the edge of the law. A man of the people but cultured, a lover of classical works, clever at creating an extravagant artistic cliché for himself, a great passion for his plebeian Rome and for the theatre, a frequenter of brigands, in whom he found something of the authentic pride of the ancient Romans. Ethnographer and folklorist in his way, mediator of different styles and genres, popularizer capable of combining the high and the low, to give his people the statuesque poses of ancient Rome and to load mythological and historical subjects, from Greece to Napoleon, with an healthy form of gallantry, a bit unsophisticated, which made feel them less distant.

Perhaps because of this, Pinelli instinctively interprets the soul of Spanish Lombardy: plumaged, vociferous, theatrical, pleased of their poses, with a deliberate boastfulness, all wrapped in the same complicated turns of phrase with which Azzeccagarbugli stuns the poor Tramaglino. Words that, by showing off their baroque sonority, hide rather than reveal, becoming an instrument of power to perpetuate ancient servitudes.

His speed of execution and attractive style lent themselves well to the needs of the incipient publishing industry. Free to choose which episodes of the novel to represent, he does not hide his preference for the Bravoes, covering their muscular bodies with showy plumage, or the episode of Father Christopher who kills his rival in a duel. His version of the Betrothed is pluralistic – nowadays we would call it "social" – genuine action movies. His tables have an energy that fills the gestures, costumes, volumes, a gaseous material that animates a creation that continues to expand. "Zor Meo" didn't know that he was already a postmodern, a contemporary of ours, a great neoclassical pop.

BARTOLOMEO PINELLI

(1781-1835)

Bartolomeo Pinelli was born in the Trastevere district of Rome on 19 November 1781, to a family of extremely modest means. It was his father, Giovanni Battista, a modeller of small ornamental reliefs for vases and votive terracotta figurines, who introduced him to artistic practice. But it was in Bologna, where the family was forced to move to in 1792 because of his father's debts, that he received a more solid artistic training, thanks to the protection of Prince Lambertini, nephew of Pope Benedict XIV, who, sensing that he had talent, entrusted him to the school of Giovan Battista Frulli from whom Pinelli learnt the art of drawing and engraving, with excellent results. Passionate about theatre, he started attending a company of strolling players, falling in love with a young dancer for whom he was forced to leave Bologna and return to Rome towards the end of 1798. Here, with a letter of recommendation from Prince Lambertini, he found hospitality at the home of Abbot Levizzari, who enrolled him at the Accademia di S. Luca in exchange for a promise that he would draw hunting and battle scenes. In the meantime, in 1799, when the rebellion of Civitavecchia against the French erupted and the Roman Jacobin Republic was formed, Pinelli volunteered to join the Roman Legion which rushed to the aid of the French to lay siege to the city, but soon he deserted for a beautiful country lass, taking refuge with her and the brigands of the Agro Romano, with whom he lived for a few months, fascinated by their lifestyle which he reproduced in a number of drawings and engravings.

Back in Rome, he attended the Accademia Capitolina to deepen his knowledge of nudes and anatomical design, but because of his quarrelsome nature, Levizzari quickly showed him the door. He then found temporary accommodation at the Caffè dell'Arco in Piazza Sciarra, where he created small figurines for candy packaging, sharing the life of the apprentice boys that he sent around to sell erotic drawings that he copied from engravings by Marcantonio Raimondi of paintings by Giulio Romano based on the school of Priapus. Around 1803, he was noticed at Caffè dell'Arco by the Swiss painter Franz Kaisermann who hired him to draw the figures in his landscapes. But after a few years Kaisermann fired him too because of a caricature that he considered offensive. However, at this stage Pinelli had developed a safe artistic personality that in 1809 led him to publish his first Collection of Fifty Picturesque Costumes, an album of etchings, whose immediate success plucks him out of anonymity. Now he was the life and soul of the Academy set up by his friend Felice Giani, a leading exponent of Italian neo-classicism, who he helped decorate some of the rooms of Palazzo Torlonia (now destroyed) in Piazza Venezia. It was Giani who influenced Pinelli in giving his common people the look and pride of ancient Roman heroes, a sign of his love for the city that led him to refuse an opportunity to move to London. It was at this time, during his stay in Rome, that Francesco Hayez got to know him and they became friends. In his Memoirs he describes Pinelli as follows: «He was a true original; his head was quite handsome, truly Roman in style; his eyes were inset and very black, his long hair was black too, falling in ringlets down his neck in the manner of brigands. He was tall and always carried a big stick, accompanied by two mastiffs; he spoke little and had very few friends. [...] He drew with great candour, but always in a conventional way; in any case, his engravings are very tasteful».

Starting from 1809, this prodigious and instinctive artist created the collections of picturesque Roman and Neapolitan costumes (but also popular costumes of the Ticino area) that continued until 1831 with extraordinary commercial success, those on brigand stories, Greek history and mythology and Roman history, not to mention the illustrations for the great classics of literature, Aeneid (1811), the Divine Comedy (1825-26), Jerusalem delivered (1827), the Frenzy of Orlando (1828), in addition to the Betrothed (1830-32) and Don Quixote (1834). But his masterpiece remains his 1823 illustrations for Meo Patacca, the XVII Century Roman dialect poem by Giuseppe Berneri, which Delacroix considered «animated and humorous».

In all this there was a vast historical and literary culture that gave his myth of the Roman people a universal appeal, in all eras typical of the Roman world. As he wrote on the incision he was working on before he died on 1 April 1835 for one drinking bout too many, «Pinelli has died, and his grave is the world».

Illustrating *The Betrothed*: the case of Bartolomeo Pinelli

Bartolomeo Pinelli's 20 lithographs have a special place in the history of illustrating *The Betrothed*, not only because they are the first to have appeared after the release of the first edition of the novel in 1827 – the so-called "ventisettana", preceding by 13 years the final edition of 1840, the "quarantana" – but also because they are the work of a Roman artist who gives us a Roman interpretation of Manzoni's novel.

Compared with the illustrations in the many unauthorised editions that appeared soon after publication of the novel in 1827 by the Milan publisher Ferrario, Pinelli's lithographs, which came out between 1830 and 1832, were a lithographic series in itself, not intended just to illustrate the novel, but to be a graphic novel in themselves, like the contemporary illustrations for *The Betrothed* by Roberto Focosi and by Gallo Gallina of Cremona, published in Milan in 1829.

Focosi and Gallo Gallina, however, were two Lombard artists, who were faithful illustrators of the Lombardy scene in the seventeenth century, so meticulously reconstructed by Manzoni, whereas Bartolomeo Pinelli, *«er pittore de Trastevere (the painter of Trastevere)»*, as Giovanni Gioacchino Belli called him in the famous sonnet-obituary *La morte der zor Meo (The death of zor Meo)*, was known for his picturesque engravings, which Hayez in its Memoirs defines as «very tasteful», in which he praised the life and times of the people of Rome and the Roman countryside, far away from the world of Lombardy's humble people, the protagonist of Manzoni's novel.

However, Pinelli was also the cultured artist who had illustrated the *Aeneid*, the *Divine Comedy*, *Jerusalem Delivered*, the *Frenzy of Orlando* and *The Golden Ass* by Apuleius, as well as the remarkable popularizer who published his Roman history in pictures and a history of illustrated Greek mythology, anticipating the times of modern popular publishing.

In the quarrelsome and more or less pagan plebs of Rome of his time and in the same brigands of the Roman countryside, with whom he had been living for a few months, he saw the heirs to the ancient pride of classical Rome: he represented them as heroes in scenes full of echoes of classical sculpture, blending neo-classicism and modern romantic spirit in his engravings.

So it was inevitable that these lithographs for *The Betrothed*, just like the illustrations of Dante, Tasso or Ariosto, also contain styles, faces and attitudes derived directly from his Roman iconographic repertoire.

This is why you can see a Mediterranean agave plant in the scene where Don Abbondio encounters the Bravoes. Then there is the improbable and classical Vitruvian architecture, instead of a simple fishing village, in the scene where Father Christopher goes to the home of Lucy. Every so often there emerges Lucia with a neoclassical Greek profile or Renzo with a Trastevere lady-killer attitude. Or the Bravoes, loaded up with weapons, more like randy brigands from Ciociaria than a gentleman's henchmen. Not to mention the many characters who often pounce with sculptural emphasis in the dilated foreground of certain scenes.

But despite all of this, the scenic invention is almost always felicitous, adherence to Manzoni's story is accurate in many cases and, in individual episodes, the choice of the narrative moment to be represented (as in the case of Lodovico's crime) is sometimes better than that of any other contemporary illustrator, while the various Roman gaffes that clash with the spirit of Manzoni, should perhaps be seen and evaluated as a way of facilitating the novel's acceptance by a popular audience such as Rome's.

So if, as Marco Gasperi has written, Pinelli's lithographs represent "the most famous figurative betrayal inflicted on the novel" (and he's right), certainly it is also one of the happiest and historically significant, because with it a Roman artist of refined culture implicitly recognizes in a contemporary Lombard novel, just a few years after its appearance, the classical value of world literature and, at the same time, that of a truly national novel.

It is said that Manzoni did not like Pinelli's lithographs; indeed, it is said, quite frankly, that they annoyed him. But, apart from the fact that there is no trace of this in Manzoni's writings, nor in contemporary evidence, but only, as Giorgio Mascherpa has noted, the opinion of «some malicious historian in highlighting the secular political and liturgical controversy between Milan and Rome», it has to be said that he did not really appreciate any of the novel's illustrations, because when it came to illustrate the definitive edition of 1840, he chose, after careful selection, the Torinese painter Francesco Gonin, discarding, as it seems, even his friend Hayez, busy at the time in painting his portrait, who after his first attempts decided to give it up.

Moreover, we know how carefully Manzoni followed and guided the hand of Gonin. And maybe, after working for years to smooth and refine his prose to make it shine like an emerald, no illustration of his novel would never make him satisfied, not even probably the famous twentieth century illustrations of Previati, De Chirico or Guttuso, who would have made it the most illustrated novel of Italian literature.

However, there are others issues that these Pinelli lithographs raise. While the first sixteen episodes follow the narrative progression of the first eight chapters of the novel quite systematically, after the sixteenth lithography he skipped to chapter XIV, which inaugurate Renzo's adventures in Milan, leaving a narrative void that oddly obscures the best known and popular story of all, that of the Nun of Monza.

The most plausible reason is that at this point Pinelli suffered the severity of Papal censorship that had almost got Manzoni's novel blacklisted, as he was strongly suspected of Jansenist rigour. And censors followed the publication of Pinelli's lithographs very closely; this can be inferred from table 17, in which Renzo sees the public edict and in the novel exclaims: *«Here's that paper missal...»*, which in the text at the foot of the page the censors corrected to *«Here's that beautiful paper...»*, as the reference to a missal being used for a public edict seemed too blasphemous.

The second issue, however, is the sudden interruption of the series at the twentieth lithography, almost certainly decided by the publisher, perhaps tired of the continual attempts at censorship, perhaps disappointed by the lithographs' lack of commercial success, the only ones produced by Pinelli during his life and among the first of the Roman publishing sector, and because of the lower cost considered less precious than the engravings.

Pinelli then started to illustrate Don Quixote with his etchings, which was left unfinished due to his sudden death on 1 April 1835, *«crepato pe causa d'un bucale»*, wrote G. G. Belli, *«... Era già scummunicato, / ha chiuso l'occhi senza confessione ... / Cosa ne dite? Se sarà sarvato?» («he died because of his heavy drinking... He was already excommunicated, / he closed his eyes without confession... / What do you say? Will he be saved?»)*.

Franco Monteforte

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indirect	16,571	23,072	26,635
Equity (excluding profit for the year)	1,120	1,590	2,234
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overdraft facilities	2,092	3,427	4,299
Financial assets	2,655	3,248	8,455
Total income	416	570	937
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Profit for the year	85	133	100
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Società cooperativa per azioni – Founded in 1871 - Official List of Banks no. 842,
Official List of Cooperative Banks no. A160536,
Official List of Banking Groups no. 5696.0, Sondrio Companies Register no.
00053810149 - Share capital € 1,360,157,331, made up of 453,385,777 ordinary shares with a
par value of € 3 each - Reserves € 833,958,444

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the ordinary annual general meeting (AGM) at the head office in Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Friday, 22 April 2016 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, 23 April 2016 to discuss the following

AGENDA

1) Presentation of the financial statements as of 31 December 2015: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions;
2) Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;
3) Approval of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Consolidated Finance Act);
4) Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;
5) Determination of directors' emoluments;
6) Appointment of five directors for the three-year period 2016-2018 and appointment of a director for the rest of the three-year period 2014-2016;
7) Appointment of advisors and alternate advisors for the three-year period 2016-2018.

Share capital

The share capital, fully subscribed and paid up, amounts to € 1,360,157,331 and is made up of 453,385,777 ordinary shares with a par value of € 3 each. There are 183,980 shareholders with voting rights.

Attendance at the Meeting

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

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

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

Shareholders may be represented at the meeting by another shareholder, by means of a proxy ballot issued in compliance with Italian law. No shareholder can be a proxy for more than ten other shareholders. Proxy forms are available at all branches of the Bank and on its website www.popso.it/assemblea2016. The proxy will have to be handed over when entering the meeting.

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

Addition of items to the agenda for the Meeting

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

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

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

Documentation

The explanatory reports of the Board of Directors containing the proposed resolutions and documents that will be submitted to the Shareholders' Meeting will be made available at head office, on the «SDIR & STORAGE» authorised storage mechanism «www.emarketstorage.com» and on the Company's website at www.popso.it/assemblea2016 by the current legal deadline. Shareholders have a right to look at this documentation and to obtain a copy of it at their own expense.

Appointment of five directors for the three-year period 2016-2018

With reference to the first part of point 6) on the agenda for the Ordinary Shareholders' Meeting - Appointment of five directors for the three-year period 2016-2018 - the following is the text of art. 35 of the articles of association.

""""

Art. 35

Presentation of lists of candidates

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

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

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

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

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

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

The signature of each 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 the 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. The candidates must declare if they possess the independence requirements as per article 33, paragraph 2 and the fulfillment of that criteria is shown in the lists. Any lists which are deposited without complying with procedure and deadlines set out above will be considered as if they were not presented.

""""

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

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

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

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

For the presentation of lists, the shareholders are required to take into account the document «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio» published on the Company's website at www.popso.it/assemblea2016

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

Appointment of a director for the rest of the three-year period 2014-2016

With reference to the second part of point 6) on the agenda of the AGM - Appointment of a director for the rest of the three-year period 2014-2016

- note that, under Article 37, paragraph 3, of the articles of association, election will be by a majority vote for each candidate, without any list obligation.

At least fifteen days prior to the date of the first call of the Shareholders' Meeting the curriculum of each candidate must be deposited at the company's head office, together with a declaration of acceptance of the candidature and an attestation under the candidate's own responsibility confirming the absence of any reasons for their non-election and absence of incompatibility and confirmation of having the necessary requirements to hold the office of the director as set out by the law and by the articles of association. Also in this case, before submitting candidatures, reference should be made to the «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio».

Appointment of advisors and alternate advisors for the three-year period 2016-2018

The Shareholders' Meeting is called upon to renew the Advisory Committee. Election will be by a majority vote.

Sondrio, 15 March 2016

FOR THE BOARD OF DIRECTORS
Chairman
(Francesco Venosta)

The notice of calling was published, as required by law, on the Company's website at www.popso.it/assemblea2016 and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 22 March 2016.

Note. The figures in this report are in euro; all changes expressed as percentages refer to comparable data from the end of 2014, 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,

This past year has been a period of transition, from the longest and deepest crisis since the Second World War to, hopefully, a period of significant and lasting recovery. There are still many causes for concern and, unfortunately, not all of them relate to the areas of manufacturing and finance. How could we overlook the bloody attacks suffered in France, in particular, with the clear objective of subverting the fundamental values that underpin our civilisation?

Limiting our analysis to economic events, Europe has finally realised the impossibility of reconciling severe budgetary discipline with a reality that, by its nature, is «undisciplined» and unwilling to be enclosed in rigid ideological cages.

Specifically, the ECB was responsible for rekindling hopes by contributing to the creation of conditions for the relaunch of growth. Even Italy has benefited, by putting production systems back to work. Beyond the upturn in GDP, the general climate has changed with greater confidence among households and businesses.

Although still dealing with the back-end of the crisis and the ongoing effect of low interest rates, the domestic banking system has benefited from the macroeconomic improvement by, in particular, a steady slowdown in the growth of bad loans. The dynamics of lending have also shown positive signs. Tensions and uncertainties among savers were however created towards year end, with the rescue of 4 banks that required haircuts from their subordinated bondholders, as well as from their shareholders.

With regard to Banca Popolare di Sondrio, we should start from the bottom line: net profit amounted to 100.064 million, up 2.58%. A satisfactory result confirming healthy and profitable operations, capable of generating self-financing and remunerating the shareholders. These are key reasons that justify the confidence of our customers. Our results would have been even better however, had we not had to bear the heavy burden associated with resolving the banking crises mentioned above.

Direct deposits fell by 1.47% to 26,627 million, while loans declined by 2.50% to 20,021 million. These year-end statistics do not entirely reflect reality during the year, with an increase in activity benefiting the relations that tie the Bank to our customers and the territories we serve.

The decline in net interest income was due to the special conditions affecting interest rates. Results from financial activities were positive. Due to the improved macroeconomic situation, there was a marked reduction in new accruals to provisions against loans, while maintaining the prudent policies that have resulted in the increased coverage of impaired loans.

The price for BPS stock, which is listed in the Blue Chips segment of the MTA, the screen-based market of the Italian Stock Exchange, rose by 34.11% during the period, benefiting from renewed investor interest in the

RESULTS IN BRIEF

(in millions of euro)	2015	2014	Change %
Balance sheet			
Loans and receivables with customers	20,021	20,536	-2.50
Loans and receivables with banks	2,002	1,592	25.79
Financial assets	8,455	9,075	-6.83
Equity investments	489	412	18.72
Total assets	32,018	32,573	-1.70
Direct funding from customers	26,627	27,025	-1.47
Indirect funding from customers	26,635	26,835	-0.75
Direct funding from insurance premiums	1,100	897	22.54
Customer assets under administration	54,362	54,757	-0.72
Other direct and indirect funding	4,537	4,022	12.81
Equity (excluding profit for the year)	2,234	2,124	5.21
Income statement			
Net interest income	479	521	-7.89
Total income	937	968	-3.21
Profit from continuing operations	144	162	-11.05
Profit for the year	100	98	2.58
Key ratios %			
Cost/income ratio	41.97	34.31	
Net interest income/Total assets	1.50	1.60	
Net financial income/Total assets	1.68	1.52	
Net interest income/Total income	51.15	53.75	
Administrative expenses/Total income	46.37	39.43	
Profit/Total assets	0.31	0.30	
Bad loans/Loans and receivables with customers	3.65	2.96	
Loans and receivables with customers/Direct funding from customers	75.19	75.99	
Capital ratios %			
CET1 Capital ratio	10.50%	9.81%	
Total Capital ratio	13.80%	11.50%	
Free capital	1,196	748	
Other information			
Number of employees	2,646	2,596	
Number of branches	333	327	

BPS (SUISSE)

Above: an aerial view of the Gulf of Lugano and the appendix of the annual report, dedicated to Johann Heinrich Pestalozzi

Supported by consolidated operational guidelines focused on balance and commercial competitiveness, the Swiss subsidiary achieved good results in its twentieth year of activities, with a net profit of CHF 14.097 million that was 72.64% higher than in the prior year. This was particularly satisfactory in view of the regulatory and market factors that weighed adversely on the Swiss banking system. In the first case, international agreements were reached between Switzerland and other countries on tax matters and Italy activated the voluntary disclosure agreement, with a view to identifying capital held abroad.
With regard to the market factors, the appreciation of the Swiss franc affected exports and the Swiss National Bank introduced negative interest rates.
The Swiss distribution network was unchanged during the year, with twenty branches in six Cantons of the Confederation and one in the Principality of Monaco, as well as the virtual Direct Banking branch. Targeted investment has strengthened the organisational structure and the technology used, with a view to improving efficiency and competitiveness.

BPS (SUISSE)

General Management:
CH - 6900 Lugano
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Tel. +41 58 8553000
Fax +41 58 8553015

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

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

Factorit

Factorit
GRUPPO Banca Popolare di Sondrio

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

www.factorit.it
info@factorit.it

Well integrated within the Group with a view to enhancing and diversifying the opportunities available in support of the real economy, this subsidiary is a domestic leader among factoring operators, with competitive products and effective operations. The commercial range has paid special attention to the factoring of VAT recoverable, both with and without recourse. Our contribution in terms of factored receivables is the greatest among the shareholder and other banks. Factorit received significant recognition at the 47th international meeting of FCI – Factors Chain International, held in Singapore from 21 to 27 June 2015: 7th worldwide and first in Italy with regard to activities in the import and export segments.

Pirovano Stelvio

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

By its nature, working in the Stelvio Pass at 2,758 metres is not easy, especially considering the downward trend in demand seen over the years. The changeability of the weather, as in 2015, also adds to the challenges.
Clearly, the fragility of tourism reliant on summer skiing was affected by this situation, with absences that resulted in this subsidiary reporting a net loss. There were good returns however – causing us to confirm support for Pirovano Stelvio – in terms of promoting the Bank and the local economy.
We trust that operators will agree on future diversification, to include naturalistic and other sporting activities, in order to safeguard and relaunch a territory that is truly unique.

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Via Delle Prese 8
Tel. +39 0342 210040 - 515450
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Stelvio Pass
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Fax +39 0342 903433

www.pirovano.it
info@pirovano.it

banking sector. The number of shareholders rose to 185,479.

Let's now take a look at the figures, which are the fruit of the intense efforts of our staff, which consists of 2,646 people.

Total assets came in at 32,018 million, -1.70%.

Net interest income was 479.465 million, -7.89%; net fee and commission income reached 249.790 million, +3.12%. Total income amounted to 937.441 million, -3.21%.

Great attention was again paid to the containment of expenses, which were affected by the charges incurred to resolve the banking crises mentioned earlier, while the welcome reversal in the trend of loan adjustments was due to the upturn, albeit fragile, in the economic cycle.

The subsidiaries Banca Popolare di Sondrio (Suisse) SA and Factorit spa produced a positive contribution. The expansion of their commercial range of products strengthened the overall profitability of the Banking group.

TERRITORIAL EXPANSION

The title of this chapter clearly states our relationship with the territories served. Expanding and increasing the density of the branch network have been the principal tools used over the years to grow significantly the scale and operations of the Bank.

Setting down roots in each locality is not a passing fashion, but has been a deliberate decision taken to strengthen our ethos and build our organisational structure.

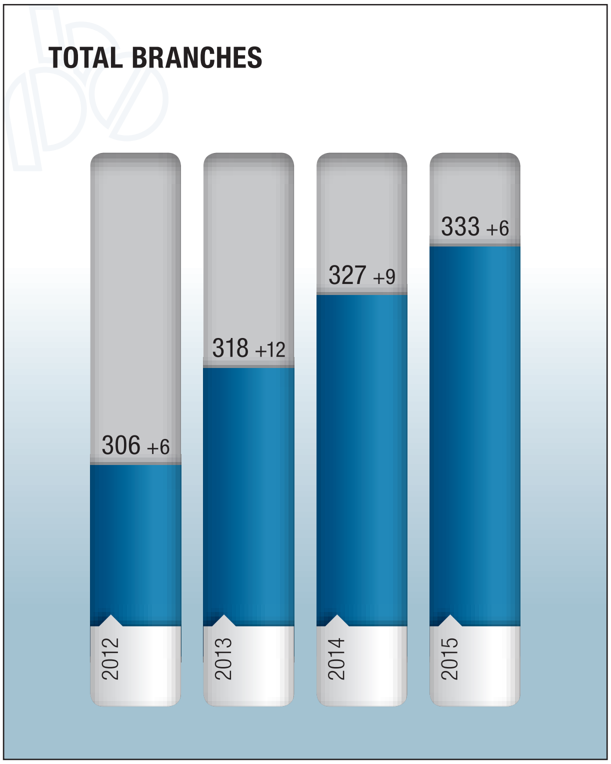
In summary: we are a bank for the territory, in the territory.

Without doubt, times are changing. The banking system is talking increasingly about branch closures, perhaps involving those branches that changed hands at exorbitant prices several years ago. We are sheltered from risks of this kind, given the care with which we have made each location decision, while the operating results delivered at branch level - including the most recent openings - confirm that there is still room to grow.

It is the role of the branch network that must change and is already changing. Branches must become increasingly integrated with the other distribution channels, providing counterparts with ever more specialised and commercial services. The renewed ability of branches to attract target customers is a fundamental tool in our pursuit of growth.

Against this background, we opened six branches during 2015 in order to strengthen the existing network and open up new markets. This last case applies to the first two branches opened during the year: Alba and Padua.

In Piedmont, we have opened in *Alba*, which - with almost 32,000 inhabitants - is the historic and economic capital of the Langhe region. The town lies at the heart of an area universally known for its beautiful scenery, often dominated by ancient manor houses, and the unrivalled prestige of its products: from famous wines to white truffles. For these reasons, the Langhe region is an eno-gastronomical destination capable of attracting tourists both from Italy and abroad. A development model that has combined economic growth with recognition of the value of traditions. Indeed, the area has been included on the Unesco list of World Heritage Sites: «The Vineyard Landscapes of Piedmont: Langhe-Roero and Monferrato». We should add that Alba is home to Ferrero spa, a global manufacturer that founded its success on a local product: the hazelnut, key ingredient of the famous Nutella. The economic fabric of the area also includes other major manufacturers, less well known to the general public, but well established in their various sectors.



Our opening in *Padua* has extended our activities to the central-eastern part of Veneto, a region in which our presence was previously Limitd to the Verona area. Padua, as a provincial capital, has a population of more than 210,000 inhabitants. Rich in history and culture, the city centre has many outstanding artistic jewels: from the Scrovegni Chapel to the Basilica of San Antonio, which are among Italy's most important places of pilgrimage. The various cultural institutions are also important: one above all, the University of Padua is one of the oldest in the world, attended by tens of thousands of students. The city's industrial area is home to hundreds of businesses, operating in a wide variety of manufacturing sectors. The Interport is one of Europe's largest hubs for the interchange between road haulage traffic and rail traffic: around 20 trains arrive and depart, maintaining regular links with the principal domestic and European ports.

In Milan, branch nos. 37 and 38 have opened. The sheet number gives an idea of the roots set down by the Bank in the metropolis: our branches are achieving ever closer contact with the dynamic economic fabric of the area, with a constant focus on innovation.

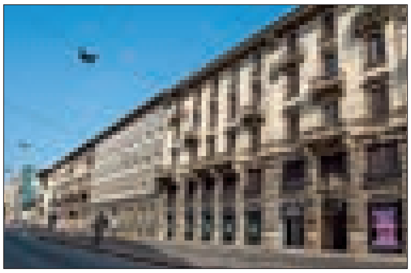
Branch no. 37 is situated in corso Vercelli, which is an important link between corso Magenta and Piazza Piemonte. While there many prestigious buildings close by, the avenue is principally characterised - especially at the start - by the presence of numerous clothing and accessories shops, as well as two popular shopping centres. They are accompanied by many restaurants and professional offices. Accordingly, we trust that this lively commercial zone will be good for business.

Milan Branch no. 38 offers our services within Università Cattolica del Sacro Cuore, a prestigious University founded in 1921 by Father Agostino Gemelli. This institution operates on a national scale, with 5 campuses in Milan, Piacenza, Cremona, Brescia and Rome, which is home to the famed «Agostino Gemelli» University Hospital. The University's outstanding statistics include: 40,000 students; 10,000 graduates every year; 1,650 lecturers. The educational programme comprises 42 three-year degree courses, 48 five-year degree courses and more than 100 first and second-level master

ALBA (CN)

PADUA

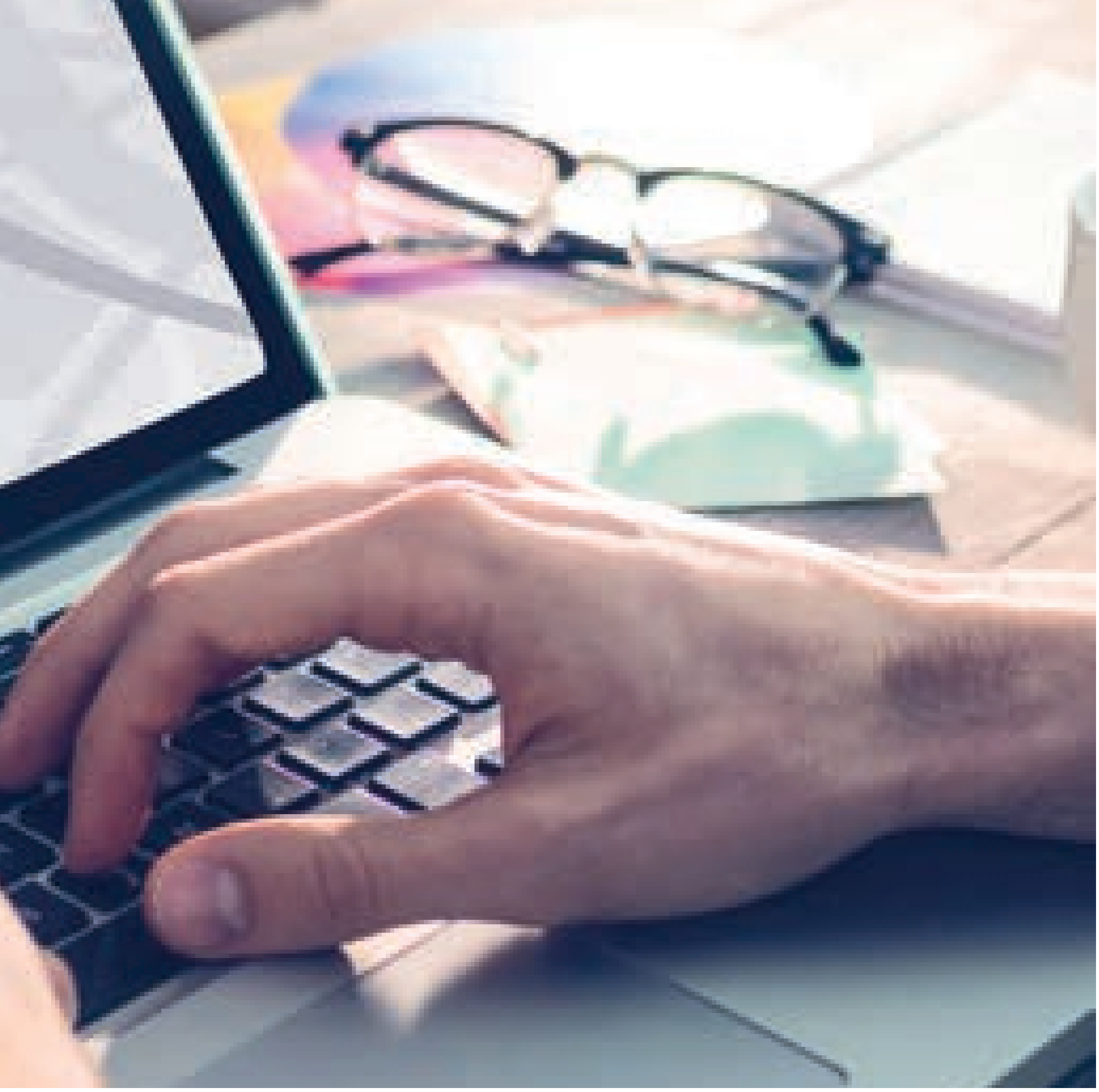
MILAN Branch no. 37



MILAN Branch no. 38

ABBIATEGRASSO (MI)

RAPALLO (GE)



Territorial expansion

The title clearly states our relationship with the territories served.
Expanding and increasing the density of the branch network
have been the principal tools used over the years
to grow significantly the scale and operations of the Bank.
Setting down roots in each locality is not a passing fashion,
but has been a deliberate decision taken to strengthen our ethos
and build our organisational structure. In summary:
we are a bank for the territory, in the territory.
Without doubt, times are changing. The banking system
is talking increasingly about branch closures.
We are sheltered from risks of this kind, given the care
with which we have made each location decision,
while the operating results delivered at branch level
confirm that there is still room to grow.
The renewed ability of branches to attract target customers
is a fundamental tool in our pursuit of growth.
Against this background, we opened six branches
during 2015 in order to strengthen the existing network
and open up new markets.

degrees. Our branch will carry out interesting development work, as well as make our Bank better known and appreciated in a prestigious environment, where the young people trained today are destined to become tomorrow's business and professional leaders.

We have also opened in *Abbiategrasso*, which - with about 32,500 residents - is one of the most significant towns in the western part of the province of Milan. The town retains much evidence of the area's history, not least Visconteo Castle, which reminds us of the traditional link with Milan. From an economic standpoint, this is an important agricultural and industrial centre. In fact, the primary sector still remains significant locally, although industrial activities have grown steadily. The latter include the BCS-Ferrari group, which is an internationally-renowned manufacturer of farm machinery.

Turning to Liguria, following 3 branches in Genoa and those in Chiavari, Santa Margherita Ligure and Savona, we have now opened in Rapallo, which - with about 30,500 inhabitants - is the principal centre of western Tigullio, a coastal area that includes the municipalities of Portofino, Santa Margherita Ligure and Zoagli. This is a prime area for tourism, with large flows of Italian and foreign visitors attracted by the beautiful locations and the prestige of the numerous hotels.

In this context, *Rapallo* has developed a special economic role. Tourism is a primary resource but, due to the large increase in the number of residents, there has also been significant development in the areas of chain retailing, commercial and professional activities, services for the elderly, consultancy, artisan studios and even larger operators, including - as an example - Mares Spa, which is an international leader in the underwater sports equipment sector. As a result, this is a sophisticated economic reality, within which the role played by the port is anything but marginal. Indeed, with more than 400 berths, it is one of the largest marinas in Liguria.

Our overall market presence also includes 528 ATMs, of which 18 were added during the year.

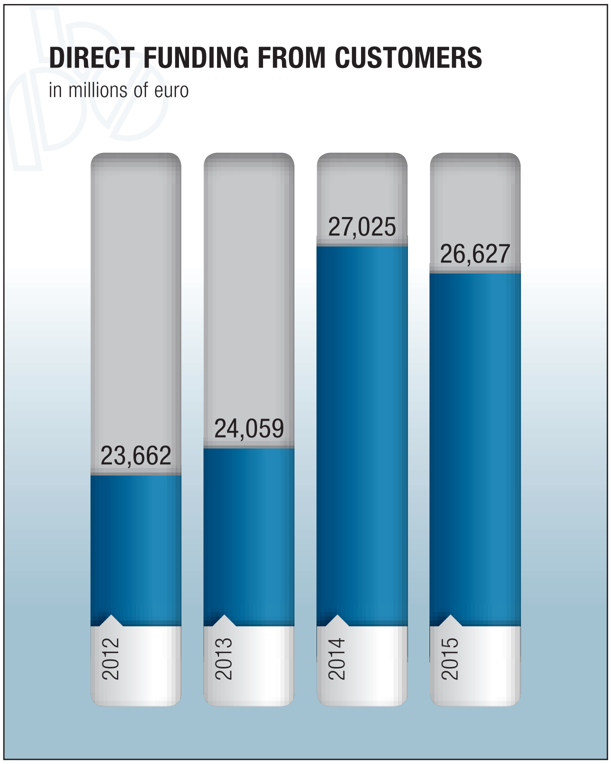
FUNDING

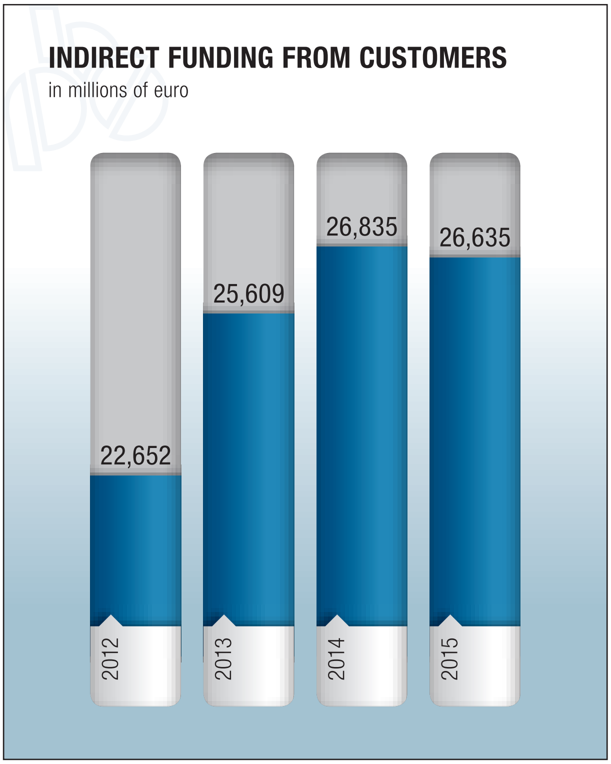
A topsy-turvy world! The likely reaction of a saver, newly arrived from the 70s and 80s, when faced with zero or even negative yields on government securities, compared with the double-digit returns available back then.

In effect, the steady reduction in interest rates, caused by the flood of liquidity injected into the system by the monetary authorities, has had effects that would have been unthinkable a short while ago, affecting all financial instruments and not just government securities.

With rates at historical minimums and further erosion likely, customers have increased their tendency to favour both the more liquid forms of saving and the asset management sector, which has been doing well for some time.

Towards year end, the action taken to save four banks, with the required participation of their subordinated bondholders, created further uncertainty and seriously disoriented savers.





DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	2015	%	2014	%	Change %
Savings deposits	434,997	1.63	428,929	1.59	1.41
Certificates of deposit	5,395	0.02	8,991	0.03	-40.00
Bonds	2,943,488	11.05	3,212,469	11.89	-8.37
Repo transactions	727,070	2.73	383,722	1.42	89.48
Bank drafts and similar	64,150	0.24	69,464	0.26	-7.65
Current accounts	20,572,945	77.27	20,102,110	74.38	2.34
Time deposit accounts	1,253,473	4.71	2,116,369	7.83	-40.77
Current accounts in foreign currency	625,603	2.35	702,570	2.60	-10.96
Total	**26,627,121**	**100.00**	**27,024,624**	**100.00**	**-1.47**

TOTAL DEPOSITS

(in thousands of euro)	2015	%	2014	%	Change %
Total direct funding from customers	26,627,121	45.21	27,024,624	45.99	-1.47
Total indirect funding from customers	26,634,547	45.22	26,834,952	45.65	-0.75
Total direct funding from insurance premiums	1,099,735	1.87	897,468	1.53	22.54
Total	**54,361,403**	**92.30**	**54,757,044**	**93.17**	**-0.72**
Due to banks	2,077,164	3.53	2,305,354	3.91	-9.90
Indirect funding from banks	2,460,008	4.17	1,716,455	2.92	43.32
Grand total	**58,898,575**	**100.00**	**58,778,853**	**100.00**	**0.20**

Against the difficult background summarised above, the Bank worked well during the year by presenting commercial proposals consistent with market requirements and, above all, due to the confidence in us shown by our customers.

Our entire business, whether as debtor or creditor, is built on this latter factor, which is both intangible and substantive. Our best guarantee for the protection of savings is to be a suitably capitalised bank, capable of healthy and profitable operations, as demonstrated by the results for this past year. The propriety and transparency that have always marked our commercial and account management practices are also important.

The results of our work are reported in the following statistics.

Direct funding from customers amounts to 26,627 million, -1.47%. Although the year-end total is slightly lower, average direct funding throughout the year was more than 5% higher. This was highly satisfactory, not least due to the abundant liquidity available to the Bank, which contributed to a significant reduction in the cost of funding. In particular, we were able to reduce our recourse to the more expensive sources of finance.

Indirect funding from customers amounts to 26,635 million, -0.75%, at market values. Funding from insurance premiums increased to 1,100 million, +22.54%.

Total funding from customers therefore amounts to 54,361 million, -0.72%.

Deposits received from banks have fallen by 9.90% to 2,077 million. As in the prior year, this balance includes refinancing operations with the European Central Bank totalling 1,098 million, as explained in the chapter on«Treasury and trading operations». Securities under administration for banks have increased from 1,716 a 2,460 million, +43.32%.

Total deposits from customers and banks therefore amount to 58,899 million, +0.20%.

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

Euro and currency current accounts rise to 21,199 million, +1.89%, while time deposit accounts have fallen to 1,253 million, -40.77%. Euro and currency accounts represent 79.62% of total direct deposits. Repo transactions climbed sharply to 727 million, +89.48%; savings deposits increased at a slower pace to 435 million, +1.41%. Bonds contracted by 8.37% to 2,943 million. The end of the voluntary exchange offer of Tier II subordinated bonds issued by the Parent Bank in 2014 for a total of 350 million euro ended on 23 October 2015; this was promoted to optimise the composition of the Bank's Class 2 liabilities (Tier II), given the new regulatory framework introduced by EU Regulation no. 575/2013 (CRR). As part of the exchange transaction, securities for a total of over 274 million euro have been transferred, i.e. a 78.32% subscription.

Certificates of deposit dropped to 5 million, -40%, and remain entirely marginal. Bank drafts amount to 64 million, -7.65%.

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

LENDING

One step at a time, away from the crisis.

That just about summarises the year gone by. The long-awaited economic recovery has finally arrived, although we have had to make do with modest growth. Nevertheless, the plus sign next to the slender GDP rate is evidence of the turnaround achieved.

The recovery in banking activity was marked by an upturn in lending to households, as well as by the stabilisation and slow improvement in lending to the productive sector. A key contribution came, of course, from the continued low rates of interest, which have stimulated investment by businesses. Conditions reflect the courageous monetary policy implemented by the European Central Bank, which has literally flooded the system with liquidity. The ever slower growth of bad loans is also a sign of improving macro conditions.

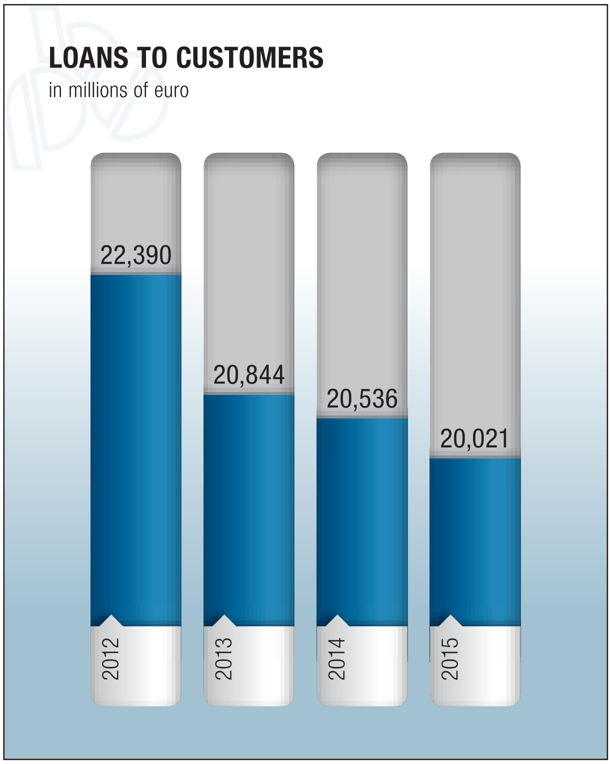
This said, more time is needed to deal with the effects of the longest and most serious post-war crisis. Above all, great attention still needs to be dedicated to credit quality, in order to ensure the proper profitability of banking operations.

For our part, we have focused on our relationship with the economies of the territories served. While this is the activity for which we are best equipped and organised, it is above all the mission that we have always pursued. The work illustrated by the following statistics was supported by the steady enrichment of the professional skills and procedures needed to manage all forms of lending risk.

Loans total 20,021 million, down by 2.50% with respect to the prior year. This reflects the repayment of major positions as they fell due, despite a substantial flow of new lending. The ratio of loans to direct deposits is 75.19% compared with 75.99% last year.

LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	2015	%	2014	%	%
Current accounts	5,244,072	26.19	5,949,385	28.98	-11.86
Foreign currency loans	1,066,732	5.33	1,057,925	5.15	0.83
Advances	383,719	1.92	378,757	1.84	1.31
Advances subject to collection	217,489	1.09	237,070	1.15	-8.26
Discounted portfolio	6,459	0.03	9,066	0.04	-28.76
Artisan loans	36,047	0.18	25,647	0.12	40.55
Agricultural loans	25,867	0.13	31,614	0.15	-18.18
Personal loans	199,710	1.00	179,206	0.87	11.44
Other unsecured loans	4,814,423	24.04	4,777,009	23.27	0.78
Mortgage loans	6,344,706	31.68	6,527,924	31.80	-2.81
Net bad loans	730,320	3.65	608,499	2.96	20.02
Repo transactions	706,060	3.53	587,505	2.86	20.18
Fixed-yield securities	245,802	1.23	166,219	0.81	47.88
Total	**20,021,406**	**100.00**	**20,535,826**	**100.00**	**-2.50**



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

Mortgage loans fell by 2.81% to 6,345 million, despite the steady increase in demand for home loans. This reflects the historically low level of interest rates and the containment of market prices.

Home loans are the principal element of loans and receivables with customers, representing 31.68% of the total. This line item includes loans assigned but not derecognised of 816 million in relation to the issue of covered bonds. These loans were not derecognised because the requirements of IAS 39 were not met. The prior-year balance included 1,165 million in relation to the securitisation arranged by the Bank that was terminated early, on 16 October 2015. Current

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(thousands of euro)		31/12/2015	31/12/2014	(+/-)	% change
Impaired loans	Gross exposure	4,103,695	3,501,452	602,243	17.20
	Adjustments	1,805,602	1,488,039	317,563	21.34
	Net exposure	**2,298,093**	**2,013,413**	**284,680**	**14.14**
- Bad loans	Gross exposure	1,875,221	1,516,785	358,436	23.63
	Adjustments	1,144,901	908,286	236,615	26.05
	Net exposure	**730,320**	**608,499**	**121,821**	**20.02**
- Unlikely to pay	Gross exposure	1,745,076	1,556,406	188,670	12.12
	Adjustments	592,764	526,536	66,228	12.58
	Net exposure	**1,152,312**	**1,029,870**	**122,442**	**11.89**
- Past due and/or imparied overdrawn	Gross exposure	483,398	428,261	55,137	12.87
	Adjustments	67,937	53,217	14,720	27.66
	Net exposure	**415,461**	**375,044**	**40,417**	**10.78**
Performing	Gross exposure	17,859,225	18,644,087	-784,862	-4.21
	Adjustments	135,912	121,674	14,238	11.70
	Net exposure	**17,723,313**	**18,522,413**	**-799,100**	**-4.31**
Total loans and receivables with customers	Gross exposure	21,962,920	22,145,539	-182,619	-0.82
	Adjustments	1,941,514	1,609,713	331,801	20.61
	Net exposure	**20,021,406**	**20,535,826**	**-514,420**	**-2.50**

account overdrafts have decreased from 5,949 to 5,244 million, -11.86%.

Other unsecured loans showed a positive trend, Euro 4,814 million, +0.78%. loans in foreign currency increased slightly, Euro 1,067 million, +0.83% as well as advances, 384 million, +1.31%; advances subject to collection dropped, 217 million, -8.26%. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, increased from 588 to 706 million, + 20.18%, and personal loans, 200 million, are 11.44% higher. Fixed-yield securities total Euro 246 million at the end of 2015, compared with 166 million previously. They derive from the securitisation of loans to customers made by Banca della Nuova Terra spa e Alba Leasing spa.

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

Continuation of the still fragile situation has resulted in further growth in impaired loans within the banking system, although the rate of increase has slowed significantly.

The Implementing Technical Standards, issued by the European Banking Authority on 24 July 2014 and approved by the European Commission on 9 January 2015, have provided a new definition of impaired loans known as «Non Performing Exposures». Under this definition, impaired financial assets are grouped into the following categories: bad, unlikely to pay, past due and/or impaired overdrawn. In this regard, please read the Notes to the financial statements – Accounting policies – Loans. For consistency, the impaired loans at 31 December 2014 are analysed below in accordance with the new classification.

Total impaired loans amount to 2,298 million, +14.14%, representing 11.48% of loans and receivables with customers, compared with 9.80% at the end of 2014. The increase is in line with the prior year and follows, in part, from the contraction of total loans and receivables with customers and, in part, from the application of particularly prudent policies with regard to the classification of loans and the related provisions.

Writedowns of impaired loans totalled 1,806 million, representing 44% of the gross amount, compared with 42.50% at the end of 2014. The table gives an overview of impaired and performing loans.

Net bad loans amount to 730 million, +20.02%, corresponding to 3.65% of total loans and receivables with customers, compared with 2.96% at 31 December 2014. Although higher, net bad loans increased by less than in the prior year, when the rise was 35.09%, and were significantly lower with respect to the banking system as a whole. In part, this reflects the substantial adjustments made in application of the extremely prudent criteria recommended in the past by the Supervisory Authorities, especially with regard to those positions that are secured against property. The adjustments to cover estimated losses on bad loans have risen to 1,145 million, +26.05%, representing 61.05% of the gross amount compared with 59.88% last year. Considering the amounts written off in prior years against bad loans that are still tracked by the Bank in view of possible future recoveries, the coverage of such loans amounts to 71.59%.

Unlikely-to-pay loans relate to exposures, excluding bad loans, that the debtor is deemed unlikely to settle in full, without recourse by the bank to the collection of guarantees or similar forms of protection. These have risen to 1,152 million, +11.89%, corresponding to 5.76% of total loans and receivables with customers, compared with 5.01% in the previous year. The related adjustments totalled 593 million, +12.58%, with coverage of 33.97% compared with 33.83% at the end of 2014.

Past due and/or impaired overdrawn exposures, other than non-performing or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 415 million, +10.78%, and represent 2.08% of total loans and receivables with customers compared with 1.83% in the previous year. The related adjustments amounted to 68 million, +27.66%.

In addition to the adjustment of impaired loans, provisions against performing loans totalled 136 million, +11.70%, representing coverage of 0.76% compared with 0.65% in the previous year. This increase was due to the update of certain variables used in the models, especially those that take account of economic trends.

Adjustments totalled 1,942 million overall, +20.61%.

As required by Consob Communication no. DEM/RM11070007 of 5 August 2011, we note that loans and receivables with customers include loans to central and local government for 60 million, local or state-owned enterprises for 523 million and various other entities for 55 million.

TREASURY AND TRADING OPERATIONS

Stock markets

The performance of the principal stock markets during 2015 started with a period when prices were at long-term and even historical highs, boosted by the exceptional liquidity injected by the European Central Bank. This was flowed by a loss of direction and greater volatility, caused by tensions deriving from global and local factors.

In particular, in addition to the persistent geo-political instability and the effects of terrorist actions, the Greek crisis flared up again; the Chinese markets collapsed suddenly, with a possible domino effect on the markets of other emerging countries; commodity prices weakened, including the oil price in particular. The markets were also conditioned by expectations of tighter US monetary policy, which bolstered the dollar, given the climate of confidence created by the favourable economic conditions there.

Against this background, the various indices performed differently over the year: Dow Jones Eurostoxx 50 Index, +3.85%; MSCI World Index, +0.15%; Standard & Poor's 500 Index, -0.73%; Nikkei Index, +9.07%; FTSE Italia All Share index, +15.38%.

The factors that caused the stock markets to perform differently also influenced the European bond markets. An initial period at record levels, sustained by the ECB's monetary policies and the *Quantitative Easing* programme, with interest rates at historical lows, was followed during the second half of the year by an inversion in trend due to international instability, with much greater volatility.

Like the German BUND, the yield on ten-year BTPs fell to an historical low in the spring, at about 1%, before climbing back to a maximum of around 2.50%. Yields on short-term securities were gradually eroded, ending in negative territory, with two-year BTPs at their historical minimum of -0.05% in December. At year end, about 40% of European bonds were traded at negative or zero rates. At 30 December 2015 the ten-year BTP-BUND spread was 96 basis points, down 38 from 134 one year earlier. The MTS CCT index rose 1.78% during 2015, summarising the performance of the sector as a whole.

In the context of trading in financial instruments with customers, the branch network and central organisation worked with professionalism and prudence during the year, seeking a proper balance between the risk profiles of customers and their investment objectives. The resulting increase in the volume of business with the retail sector was comforting, as was the particularly low number of complaints received, which were dealt with promptly.

With regard to managed deposits, the quality of the portfolio advisory service has been well received. This seeks to recommend investment solutions that are, to the extent possible, consistent with the characteristics and expectations of customers and effective in risk/yield terms. This service receives constant attention, with efforts to refine the dedicated IT systems used and to train the personnel involved.

The following comments relate to: the interbank market and corporate liquidity; the proprietary portfolio and its components.

Examination of the bank's treasury activities highlights the prevalence of lending transactions, up substantially compared with 2014, with volumes concentrated on very short-term maturities in both the Interbank Deposits Market (e-MID) and the Collateralised Interbank Market (MIC), in which transactions are backed by guarantees. Business was lively, although with a decrease in volumes, in repo transactions for generally less than one week with institutional counterparts (Money Market Facility), arranged via the Clearing House.

The net interbank position at the end of 2015 reflected borrowing of 75 million, which was down by 639 million from 714 million at 31 December 2014. This change was due to the good liquidity position enjoyed by the Bank for most of the year.

At year end, there were two T-LTRO outstanding with the ECB totalling 1,098 million. These were arranged in 2014 and expire 26 September 2018, subject to early mandatory repayment in September 2016 if the lending thresholds established by the ECB have not been met. Based on the latest report filed, these thresholds have been met in full and the Bank will be able to maintain access to these funds. In view of the good liquidity position, the Bank did not participate in the 4 auctions organised under the T-LTRO

Don Abbondio and the bravoes
Lithograph, page size 425 x 543 mm, decorated part 290 x 338 mm, signature and date *Pinelli made it in Rome 1830*

Those two index fingers pointed by one of the bravoes and the raised index finger of the other are enough to overload with a threatening tone the brusque words that open the encounter between the bravoes and Don Abbondio who, in Pinelli's image, but not in Manzoni's text, has already taken off his hat as a gesture of surrender.
If the picture has its narrative effectiveness, the clothing of the two bravoes, more like ferocious bandits of the Roman countryside, and the Mediterranean agave, which stands up high among the myrtle, remove from the scene and the landscape that lakeside and Lombard pre-alpine flavour that Manzoni described in such detail. However, Pinelli tries to catch various details of Manzoni's text, from the little chapel (the "tabernacle" as Manzoni calls it in the definitive edition of 1840) on which *«were depicted certain long, sinuous, pointed shapes, which, in the intention of the artist, and to the eyes of the neighbouring inhabitants, were meant to represent flames; and amidst these flames certain other shapes, impossible to describe, that were meant to be souls in purgatory».*

I Promessi Sposi, cap. I, ed. 1827

«Signor curato!» disse un di quei due, piantandogli gli occhi in faccia.
«Chi mi comanda?» rispose subito don Abbondio, alzando gli occhi d'in sul libro, e tenendolo spalancato e sospeso con ambe le mani.
«Ella ha intenzione,» proseguì l'altro, col piglio minaccioso ed iracondo di chi coglie un suo inferiore su l'intraprendere una ribalderia, «ella ha intenzione di sposare domani Renzo Tramaglino e Lucia Mondella!»
«Cioè...» rispose, con voce tremola, don Abbondio...

***The Betrothed*, chapter I, 1834 translation of the 1827 edition**

«Signor Curate!» said one of them, fixing his eyes upon him.
«Your pleasure, sir» suddenly raising his eyes from his book, which he continued to hold open before him.
«You intend» pursued the other, with the threatening and angry mien of one who has detected an inferior in an attempt to commit some villany, «you intend to-morrow to unite in marriage Renzo Tramaglino and Lucy Mondella!»
«That is» said Don Abbondio with a faltering voice...

Perpetua interrogates Don Abbondio about what happened to him

Lithograph, page size 425 x 543 mm, decorated part 290 x 340 mm, signature and date *Pinelli made it in Rome 1830*

I Promessi Sposi, cap. I, ed. 1827

«Misericordia! che ha ella, signor padrone?»
«Niente, niente» rispose don Abbondio, lasciandosi cadere tutto ansante sul suo seggiolone.
«Come, niente? A me la vuol dare ad intendere? così brutto, com'è? Qualche gran caso è avvenuto.»
«Oh, per amor del cielo! Quando dico niente, o è niente, o è cosa che non posso dire.»
«Che non può dire nemmeno a me? Chi si piglierà cura della sua salute? Chi le darà un parere?...»
«Ohimè! tacete, e non apparecchiate altro: datemi un bicchiere del mio vino.»
«Ed ella mi vorrà sostenere che non ha niente!» disse Perpetua, riempiendo il bicchiere, e tenendolo poi in mano, come se non volesse darlo che in premio della confidenza che si faceva tanto aspettare.

***The Betrothed*, chapter I, 1834 translation of the 1827 edition**

«Mercy on me! What is it ails my master?»
«Nothing, nothing» said Don Abbondio, as he sank upon his easy chair.
«How, nothing! Would you have me believe that, looking as you do? Some dreadful accident has happened.»
«Oh! for the love of Heaven! When I say nothing, it is either nothing, or something I cannot tell.»
«That you cannot tell, not even to me? Who will take care of your health? Who will give you advice?...»
«Oh! peace, peace! Do not make matters worse. Give me a glass of my wine.»
«And you will still pretend to me that nothing is the matter?» said Perpetua, filling the glass, but retaining it in her hand, as if unwilling to present it except as the reward of confidence.

The lake that can be seen from the half-open window, the painted shutters, the hen scratching on the floor, the cat at the feet of Don Abbondio, are all figurative particulars with which Pinelli creates a reassuring domestic tone around the central scene in which Don Abbondio, pretending to be reticent, abandoned on the chair, and Perpetua, whose curiosity doesn't give him a chance, fight over a glass of wine that she holds onto and seems to want to give up only *«as the reward for the secret that was so long in coming»*.
Perhaps, Perpetua's clothing is not exactly Lombard, but their faces, gestures and attitudes, not to mention the overall rendering, are perfectly in the spirit of Manzoni.

programme during the year. Once again, the ECB's objective was to stimulate the real economy by guaranteeing additional liquidity to the banking system.

Ignoring the above T-LTRO loans, the net interbank position at the end of 2015 would have reflected lending rather than borrowing.

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

The ratios required by Basel III, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are considerably higher than the established minimums. The Bank has a substantial portfolio of refinanceable assets that, net of the haircuts applied, total 8,320 million, of which 5,812 available and 2,508 committed.

The portfolios of financial assets at the end of 2015 total 8,455 million, -6.83%. The following schedule analyses these assets and indicates the change between years:

FINANCIAL ASSETS

(thousands of euro)	2015	2014	Change %
Financial assets held for trading (HFT - Held For Trading)	1,851,494	2,341,476	-20.93%
of which, derivatives	103,487	102,642	0.82%
Financial assets at fair value through profit or loss (CFV - Carried at Fair Value)	158,698	88,358	79.61%
Available-for-sale financial assets (AFS - Available For Sale)	6,319,478	6,496,844	-2.73%
Held-to-maturity investments (HTM - Held to Maturity)	125,777	148,620	-15.37%
Total	**8,455,447**	**9,075,298**	**-6.83%**

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

The ECB's expansionary policy has caused the yields on public debt securities to fall to historical minimums, being zero or even negative in the case of shorter maturities. In order to obtain better yields, we purchased longer-dated securities and, as a result, the duration of the portfolio has risen from just over 3 years to about 4. Purchases concerned BTPs and CTZs.

As required by Consob communication no. DEM/RM11070007 of 5 August 2011, we note that on 31 December 2015 these portfolios contain so-called «sovereign debt» bonds, issued by central governments, local governments and other government entities, totalling 7,352 million. The portfolios did not include any securities issued by peripheral countries within the Eurozone.

Financial assets held for trading

Financial assets held for trading (HFT), as shown in the following table, amount to 1,851 million and have decreased by 20.93%.

(thousands of euro)	2015	2014	Change %
Floating-rate Italian government securities	810,126	1,039,213	-22.04%
Fixed-rate Italian government securities	492,905	891,878	-44.73%
Bank bonds	213,316	157,358	35.56%
Bonds of other issuers	19,034	22,013	-13.53%
Securitisations	31,265	37,406	-16.42%
Variable-yield securities and mutual funds	181,361	90,966	99.37%
Net book value of derivative contracts	103,487	102,642	0.82%
Total	**1,851,494**	**2,341,476**	**-20.93%**

The composition of the HFT portfolio is essentially unchanged, being both simple and transparent. Italian government securities are preferred, representing 70.38% of the portfolio despite the reduction to 1,303 million from 1,931 previously.

As mentioned, the positive performance of the financial markets resulted in good trading results, especially during the first part of the year. However, turbulence at year end resulted in unrealised losses exceeding unrealised gains.

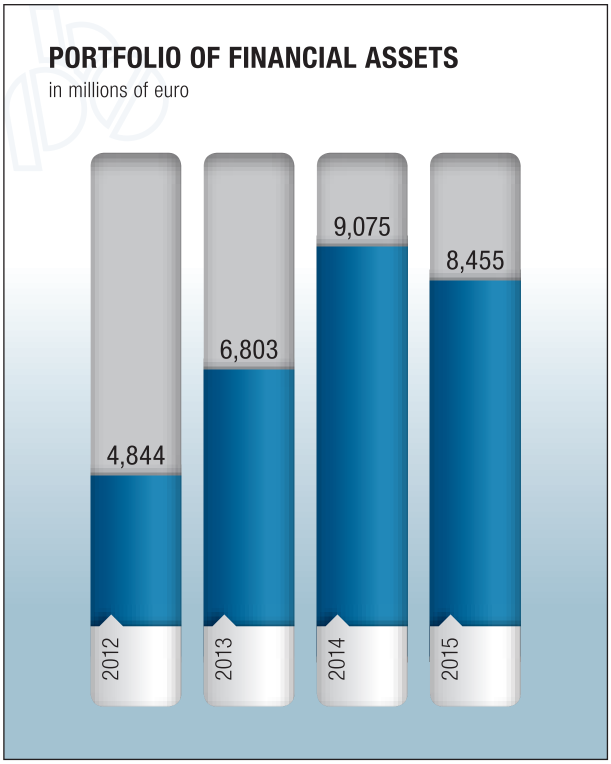
The net profit from HFT portfolio activities was 45.585 million, compared with 90.114 million in 2014, comprising 9.279 million from security activities and 36.306 million from currency, exchange rate and derivative operations.

Analysing «net trading income» in detail with regard to fixed-yield securities as a whole, net trading profits totalled 3.473 million, while unrealised gains and losses amounted to 9.233 million and 3.084 million respectively.

Then we have to add net profits of 16.640 million and net unrealised losses of 16.984 million on variable-yield securities and mutual funds.

In 2014, the following results were generated by the securities element of the portfolio: net profits of 42.334 million; unrealised gain and losses of 24.625 million and 9.890 million.

As mentioned, the HFT portfolio continues to largely comprise CCTs, 810 million representing 43.76% of the total. Corporate bonds amount to 232 million, up by 53 million, of which 213 million relate to bank issues, mostly covered bonds. Securities that are part of securitisations are all senior and have decreased to 31 million. Fixed-rate government securities have declined to 493 million, -44.73%, following the sale of BTPs and BOTs. While variable-yield securities and mutual funds have doubled, they remain little more than marginal at 181 million. Derivatives are stable: +0.82% at



€ 103 million and are made up of: derivatives on debt securities and interest rates, 77 million; derivatives on variable-yield securities, stock indices, currency, gold and precious metals, 26 million.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (CFV) amount to 159 million, +79.61%, and almost entirely relate to various types of funds and sicavs.

This increase was essentially due to subscription for all the units in the Centro delle Alpi Real Estate fund.

Available-for-sale financial assets

Available-for-sale financial assets (AFS) total 6,319 million, -2.73%. The decrease reflects the different dynamics of the various components. Within the total, Italian government securities have increased to 6,015 million, while all the dollar-denominated US government securities have been sold, together with the mutual funds denominated in that currency.

In accordance with the usual operational guidelines, this portfolio holds part of the liquidity invested largely in Italian government securities, partly to replace similar securities within the HFT portfolio that are sold or redeemed. The objective is to contain, at least in part, the effect on the income statement of the volatility present in the financial markets. With a view to currency diversification, the Bank subscribed for dollar-denominated mutual funds and treasuries in the prior year. As mentioned, these substantial holdings were sold during the year. The considerable disposals made during the period resulted in the realisation of substantial profits. The portfolio also includes fixed-yield securities of banks and other issuers amounting to 5 million, variable-yield securities of 102 million and units in UCITS of 197 million. The available-for-sale financial assets were subjected to careful appraisal in order to identify any impairment that might require the recognition of writedowns in the income statement. The valuation reserve reported in equity includes the net change in unrealised gains of 38.835 million, after tax effect, which increased the year-end balance from 74.105 a 112.940 million.

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

The changes included: purchases of fixed-yield securities for 3,516 million, referred to Government securities and bonds, mutual funds for 14 million and equities for 40 million; in addition, positive changes in fair value came to 111 million. Other changes of 229 million included income from the sale of securities of 145 million, coupon income of 41 million, discount income of 7 million, the positive effect of measurement at amortised cost of 10 million and capital increases and corporate transactions of 26 million. Decreases included the disposal of fixed-yield securities of 3,103 million, mutual funds of 234 million and equities of 1 million. Redemptions totalled 570 million; impairment adjustments totalled 8 million, of which 6 million related to the investment in Release spa. The balance related to other listed and unlisted securities and units in UCITS; decrease in fair value of 4 million; transfer to other portfolio for 51 million related to ARCA SGR spa and Bormio Golf spa. Other decreases for 117 million are made up of: collection of coupons for 38 million; transfer to equity following bond disposals of 56 million; amortised cost of 2 million; corporate transactions to eliminate variable-yield securities following special transactions and the termination of profit-sharing contracts of 5 million; losses of 5 million; as well as redemptions of units and transfers from equity in relation to mutual funds of 11 million.

With regard to the *principal minority interests held for operational purposes*, the interest held in ARCA SGR spa has been reclassified as an equity investment, as mentioned earlier, since the holding has risen from 12.906% to 21.137% following the exercise of the Bank's pre-emption rights on the withdrawal of two other shareholder banks. The interests were acquired at a price of 9.6 euro per share.

As discussed during the year, the members of the shareholders' agreement that controlled Istituto Centrale delle Banche Popolari Italiane spa, holding 93.7% of the share capital, arranged to sell the ICBPI in December to a consortium of investment funds comprising Bain Capital, Advent International and Clessidra SGR. The purchasers also made a purchase offer to the investors that were not signatories of the shareholders' syndicate. The Bank, which holds 1.997% of ICBPI and 1.249% of CartaSi spa, decided not to accept this offer. The carrying amount of these investments was aligned with the disposal price, with the recognition in equity of a capital gain of 39.554 million

Held-to-maturity investments

At year end, the portfolio of held-to-maturity investments

(HTM) amounts to 126 million, down by 15.37%, following redemptions and writedowns of 9.965 million linked to the impairment of a subordinated bond.

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

With regard to the contents of this portfolio, readers are reminded that the anomalous performance of the equity and bond markets in 2008 persuaded the Bank to take advantage of the amendment to IAS 39, issued by the International Accounting Standards Board (IASB) on 13 October 2008 and endorsed by the European Commission with Regulation (EC) 1004/2008 of

15 October 2008, which amended Regulation (EC) 1725/2003. In exceptional circumstances, this measure allows companies to disregard the ban on transferring financial assets (apart from derivatives) from the category of those designated at fair value through profit and loss to another category where securities are booked at amortised cost. As a result, we transferred from the HFT portfolio to the HTM portfolio unlisted bonds that were illiquid and not expected to be sold. These had a par value of 243 million and were carried at 233 million, whereas their fair value at 31 December 2008 was 193 million, generating a theoretical loss, prior to the tax effect, of 40 million.

At 31 December 2015, the above securities amount to 52 million, following redemptions, with a similar fair value, compared with 73 million in the prior year, -29.28%.

Asset management

The Italian asset management sector performed at record levels over the past year, facilitated by substantial net inflows and the positive conditions in the financial markets. The operations of the Bank also benefited, confirming our ability to compete actively in this particular market. The flexible investment lines were most popular, with the dynamic approach and greater delegation of powers to the manager, with a view to obtaining potentially higher returns.

At year end, the assets managed in various forms totalled 4,069 million, up by 9.06% from 31 December 2014, of which 1,944 million, +8.30%, related to mutual funds managed by Arca SGR; 634 million, +31%, to other types of UCITS, including the Popso (SUISSE) Investment Fund Sicav; 1,491 million, +2.68%, in assets managed by the central organisation of the Bank.

EQUITY INVESTMENTS

The portfolio of equity investments was essentially unchanged during the year. The holdings principally relate to the suppliers of products and services that functionally support the commercial activities of the Bank. These investments are therefore held on a stable basis, assisted by the desire of the Bank to provide the companies concerned with work and financial support in the context of viable operating plans, preferably agreed with other cooperative banks. The following comments relate to the equity investments reported in this section of the balance sheet, which is reserved for subsidiaries and associates.

At 31 December 2015, equity investments totalled 489 million, with a rise of 77 million that was essentially due to the reclassification of the interests held in ARCA SGR spa, 50.3 million, and in Bormio Golf spa, 0.2 million, and to the increase in the share capital of Banca Popolare di Sondrio (SUISSE) SA by 28.4 million, net of the writedown on the investment in Banca della Nuova Terra by 2 million.

Subsidiaries:

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

Supported by consolidated operational guidelines focused on balance and commercial competitiveness, the Swiss subsidiary achieved good results in its twentieth year of activities, with a net profit of CHF 14.097 million that was 72.64% higher than in the prior year. This was particularly satisfactory in view of the regulatory and market factors that weighed adversely on the Swiss banking system. In the first case, international agreements were reached between Switzerland and other countries on tax matters and Italy activated the voluntary disclosure agreement, with a view to identifying capital held abroad. With regard to the market factors, the appreciation of the Swiss franc affected exports and the Swiss National Bank introduced negative interest rates.

As a consequence, total funding from customers decreased, although the direct component - CHF 3,100 million, -1.28% - held up fairly well. Loans and receivables with customers performed well, rising 1.66% to CHF 3,524 million, of which more than 3,000 million, +5%, essentially relates to home mortgages.

The Swiss distribution network was unchanged during the year, with twenty branches in six Cantons of the Confederation and one in the Principality of Monaco, as well as the virtual Direct Banking branch. Targeted investment has strengthened the organisational structure and the technology used, with a view to improving efficiency and competitiveness.

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

Well integrated within the Group with a view to enhancing and diversifying the opportunities available in support of the real economy, this subsidiary is a domestic leader among factoring operators, with competitive products and effective operations. The commercial range has paid special attention to the factoring of VAT recoverable, both with and without recourse. Our contribution in terms of factored receivables is the greatest among the shareholder and other banks.

Despite the weak economic conditions, the good quality of the portfolio confirms the ability of Factorit to select its borrowers, as confirmed by the significant reduction in past due receivables.

Factorit received significant recognition at the 47th international meeting of FCI - Factors Chain International, held in Singapore from 21 to 27 June 2015: 7th worldwide and first in Italy with regard to activities in the import and export segments.

Profit for the year amounted to 20.760 million, -18.64%. This decline was caused by the historically low market interest rates and the effect of significant competition.

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

By its nature, working in the Stelvio Pass at 2,758 metres is not easy, especially considering the downward trend in demand seen over the years. Nevertheless, it is our duty to support the facilities provided, both in view of their significant environmental and historical value, and because of their suggestive contribution to provincial tourism. The changeability of the weather, as in 2015, also adds to the challenges: from the high summer temperatures, that limited the opportunities to ski on the glacier, to the landslide caused by excessive rain, that blocked the road just above Bormio in the week before Ferragosto; as well as the snow that blocked the road on the Alto-Adige side in the second week of October.

Clearly, the fragility of tourism reliant on summer skiing was affected by this situation, with absences that resulted in this subsidiary reporting a net loss. There were good returns however - causing us to confirm support for Pirovano Stelvio – in terms of promoting the Bank and the local economy. We trust that operators will agree on future diversification, to include naturalistic and other sporting activities, in order to safeguard and relaunch a territory that is truly unique. Given the effects of climate change, there may be opportunities for winter skiing, that however need to be examined carefully.

Sinergia Seconda srl (100%). A real estate company.

This subsidiary mostly provides operational support linked to the property requirements of the Bank and the Banking group. Contracts generally involve the leasing of property, on market terms, to members of the Group, with the management and maintenance of these units subject to separately agreements. No new property was acquired during the year.

The company's results are positive.

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

Its object is to purchase blocks of construction and mortgage loans from banks, which are held as fully-separate assets with respect to those owned by the company.

In the context of the programme of covered bond issues, the company manages the operations - the extent of its responsibilities and consistent with business requirements - with a view to protecting the subscribers of the bonds.

Its results should close around break even.

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

The company owns part of a prestigious condominium in Sondrio, with substantial space on the ground floor. The commercial space and office equipment are leased to Equitalia Nord spa, a tax collection subsidiary of Equitalia spa.

The company's results are positive.

Associates:

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

Unione Fiduciaria is an Italian leader in the sectors concerned, operating autonomously and working consistently with professionalism and an eye for innovation. During the year, the company further developed its advisory, organisational and IT services dedicated to banks and financial intermediaries. Significant efforts have been made in the area of voluntary disclosure.

The company was awarded the international Le Fonti Prize in 2015, as Italy's leading trust company in terms of assets administered and given its ability to innovate in the financial services sector.

The financial statements show positive results.

Arca SGR spa (21.137%, formerly 12.906%). This asset management company handles mutual funds, pension funds and institutional investment portfolios.

In the prior year, this investment was classified in the portfolio of available-for-sale financial assets. Following the reorganisation of its ownership, with the departure of two shareholders, the Bank decided to increase its interest with a payment of 39.5 million.

Founded in 1983 and among Italy's leading asset management companies, this company combines independence and professionalism. These characteristics enable it to compete actively in the market and benefit from the favourable conditions experienced in the asset management sector during 2015. The positive performance was compounded by the breadth of the product range, with funds that pay a coupon and funds with innovative characteristics.

Arca SGR won significant awards during the year: Milano Finanza Insurance & Previdenza Awards; Morningstar Fund Awards; Alto Rendimento Award-Il Sole 24 Ore; European Funds Trophy.

The company's results are positive.

Alba Leasing spa (19.264%). Company operating in the financial leasing sector.

During 2015 this company confirmed the positive trend identified in the prior year, with new business exceeding one billion euro, up by about 10%, in part deriving from expansion of the distribution banks. Alba Leasing is ranked 5th nationally in the reference market. This position is maintained by the well-received and competitive product range, which is updated with great care.

The company has reported profits for the second consecutive year.

Banca della Nuova Terra spa (19.609%).

This company was formed with a view to offering specialist loans and services to businesses operating in the agricultural and agro-industrial sectors. However, partly in view of difficulties in the primary sector, the company has not found an ongoing equilibrium. Considerations linked to an exit from the market take account of the possibility of selling the share capital. The financial statements closed with a loss.

Renzo in Dr. Azzeccagarbugli's office
Lithograph, page size 425 x 543 mm, decorated part 290 x 347 mm, signature and date *Pinelli made it in Rome 1830*

Here, Pinelli follows Manzoni's description of the scene quite closely, adding the cat among the books and the two flasks of brandy on the floor that allude to the lawyer's not-so-sober habits.
However, he fails to capture Renzo's distinctive gesture, that twirling of the hat in his hands, a sign of the attitude of inferiority of the humble in front of the intellectual, which instead here becomes the hand of a bold Roman lad leaning on the table, in contrast to the shy tone of his words.

I Promessi Sposi, cap. III, ed. 1827

... «venite, figliuolo», e lo fece entrare con sè nello studio. Era questo uno stanzone, su tre pareti del quale erano distribuiti i ritratti dei dodici Cesari; la quarta, coperta da un grande scaffale di libri vecchi e polverosi: nel mezzo, una tavola gremita di allegazioni, di suppliche, di libelli, di gride, con tre o quattro seggiole all'intorno, e da un lato un seggiolone a bracciuoli, con un appoggio alto e quadrato, terminato agli angoli da due ornamenti di legno, che si alzavano a foggia di corna, [...] Il dottore era in veste da camera, [...] Chiuse la porta, e fece animo al giovane, con queste parole: «figliuolo, ditemi il vostro caso.»
«Vorrei dirle una parola in confidenza.»
«Son qui», rispose il dottore: «parlate.» E si assettò sul seggiolone. Renzo, ritto dinanzi alla tavola, facendo rotare colla destra il cappello intorno all'altra mano, rincominciò: «Vorrei sapere da lei che ha studiato...»
«Ditemi il fatto come sta,» interruppe il dottore.
«Ella ha da scusarmi, signor dottore: noi altri poveri non sappiamo parlar bene. Vorrei dunque sapere...»

***The Betrothed*, chapter III, 1834 translation of the 1827 edition**

He replied with a kind «Come in, my son,» and led the way into an adjoining chamber. This was a large room, on the three walls of which were distributed portraits of the twelve Cæsars, while the fourth was covered with a large bookcase of old and dusty books; in the middle stood a table laden with memorials, libels, and proclamations, with three or four seats around; on one side of it was a large arm-chair with a high and square back, terminated at each corner by ornaments of wood in the fashion of horns [...] The lawyer was in his morning gown, [...] He closed the door, and encouraged the young man with these words: «My son, tell me your case.»
«I wish to speak a word to you in confidence.»
«Well, say on,» replied the lawyer, as he seated himself in the arm-chair. Renzo stood before the table twirling his hat in his hand, and began, «I wish to know from one as learned as yourself...»
«Tell me the affair just as it is,» interrupted the lawyer.
«You must pardon me; we poor people know not how to speak to such as you are. I wish then to know...»

I Promessi Sposi, cap. III, ed. 1827

Qui ricomparve Lucia, col grembiale così carico di noci, che a fatica lo reggeva, tenendone i due capi sospesi colle braccia tese e allungate. Mentre fra Galdino, levatasi la bisaccia di collo la poneva giù, e ne scioglieva la bocca, per introdurvi l'abbondante elemosina, la madre fece un volto attonito e severo a Lucia, per la sua prodigalità; ma Lucia le diede una occhiata, che voleva dire: mi giustificherò. Fra Galdino proruppe in elogi, in augurii, in promesse, in ringraziamenti, e, rimessa la bisaccia si avviava. Ma Lucia, richiamatolo: «Vorrei un servigio da voi,» disse, «vorrei che diceste al padre Cristoforo, che ho gran premura di parlargli, e che mi faccia la carità di venire da noi poverette, subito, subito; perché non posso venire io alla chiesa.»

The Betrothed, chapter III, 1834 translation of the 1827 edition

Lucy now reappeared with her apron so loaded with nuts, that she could with difficulty support the burthen. Whilst Friar Galdino untied his wallet to receive them, Agnes cast an astonished and displeased glance at her for her prodigality; she returned it with a look which seemed to say, «I will satisfy you.» The friar was liberal of thanks, and, replacing his wallet, was about to depart, when Lucy called him back. «I wish you to do me a service,» said she; «I wish you to say to Father Christopher that I have a great desire to speak with him, and request him to have the goodness to come hither immediately, as it is impossible for me to go to the convent.»

Alms of Friar Galdino

Lithograph, page size 425 x 543 mm, decorated part 298 x 335 mm, signature and date *Pinelli made it in Rome 1830*

Lucy's self-interested generosity surprises Agnes, her mother, who does not understand Lucy's intention.

The clothing is plebeian Rome, but the spirit of the scene is sufficiently Manzonian. The naked and unadorned interior of the house focuses all of the attention on the attitude with which the Friar welcomes Lucy's gesture that seems dictated by the miraculous parable he had just told about the origins of popular generosity by giving alms in the form of walnuts, with which «so much oil was made, that it was freely given to the poor; like the sea, which receives waters from every part, and distributes abundantly to the rivers» concluded Friar Galdino.

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

This company's consolidated ability to compete - supported by the constant and careful development of the product range - has enabled it to benefit from the highly favourable market conditions in the asset management sector, thus increasing the volume of net inflows. The Bank made an active contribution to this results, alongside other shareholders and banks.

In the loss sector served by Arca Assicurazioni, a subsidiary, business in the various sub-groups has been lively, with the auto sector essentially aligned with the market.

The company's results are positive.

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

Operational balance and professional skill have enabled this company to tackle pro-actively the extended contraction of the property market, which now seems to show selective signs of improvement. Against this background, work continues on the targeted diversification of operations with respect to the original plan for the Polis Fund.

A loss was reported in 2015 due to non-recurring charges that will not undermine the long-term economic equilibrium of the company.

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

Given the growing importance of Shanghai for commercial relations between China and the rest of the world, this company has decided to concentrate on its advisory and support office there, with the closure of the office in Hong Kong.

The work performed in Milan continues to be well received, focusing on the assessment of country risk, especially with regard to the emerging countries, as well as of lending systems and individual banks.

The company's results are positive.

Related-party transactions

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

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

Related-party transactions, as identified in accordance with IAS 24 and the Consob Regulation, form part of the Bank's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred. These transactions amount to 9.52% of total loans to customers and banks and financial assets and 2.37% of direct deposits from customers and banks and financial liabilities.

In compliance with disclosure obligations prescribed in article 5 of the Consob Regulation, during the period 1 January to 31 December 2015, the Bank's corporate bodies decided the following transactions of greatest significance:

– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; granting of a financial credit limit for guarantee deposits in the form of securities of € 7,000,000 available until revoked; resolution of 22/01/2015;
– Alba Leasing spa, associated company; commitment to subscribe for senior securities deriving from securitisations for € 200,000,000; resolution of 10/02/2015;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of currency conversion facilities of € 1,050,000,000 available until revoked; resolution of 08/05/2015;
– Factorit spa, subsidiary; grant of revolving facility for guarantees in favour of residents of € 10,000,000 available until revoked, renewal of lines of credit for a total of € 2,265,000,000 available until revoked; resolutions of 02/09/2015;
– Alba Leasing spa, associated company; renewal of lines of credit totalling € 470,528,202 available until revoked; resolution of 10/11/2015;
– Release spa, associated company; renewal of lines of credit totalling € 171,000,000 available until revoked; resolution of 10/11/2015;
– Factorit spa, subsidiary; grant of revolving facility for guarantees in favour of residents of € 40,000,000, returnable on demand; resolution of 21/12/2015.

No transactions with related parties in the period under review, whether of greater or lesser significance, have had a significant impact on the financial position or results of the Bank. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Bank's 2015 balance sheet or results with regard to the related-party transactions carried out during 2014; 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 Limitd incidence on the balance sheet and financial position, as well as on the Bank's economic results and cash flows. In Part H of the notes to the financial statements, the section entitled «Related-party transactions» includes a table that summarises the effect of these relations.

During 2015 and in the current year, no positions or transactions deriving from atypical or unusual operations have arisen. According to Consob Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those - not arising in the ordinary course of business - that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.

In accordance with Article 84-*quater* of Consob Regulations 11971 of 14 May 1999, as amended, we have prepared a separate compensation report on the remuneration paid to, and the shares of the Bank and its subsidiaries held by, Directors, Statutory Auditors, the General Manager and key executives (or by their spouses, unless legally separated, and their minor children), whether directly or through subsidiaries, trust companies or third parties. The notes to the financial statements (Part H, «Transactions with related parties») also show the credit facilities granted to and guarantees given on behalf of Directors, Statutory Auditors and the General Management, as required by article 136 of Legislative Decree 385 of 1 September 1993.

REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE

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

INTERNATIONAL UNIT

The knowledge accumulated over decades of activity in the international markets makes a fundamental contribution to the quality of the services offered by the Bank. Our true wealth, albeit intangible - comprising professional staff, specialist skills, accumulated experience, operating procedures and relations with counterparties throughout the world - sets the Bank apart in the eyes of those interested in international business. This wealth of resources is available to businesses, especially those that have already understood the importance of the internationalisation process, and to national and sovra-national bodies that require expert support, particularly with regard to payments. These activities enable us to establish numerous, meaningful working relationships and consolidate existing ties, while also - and just as important - facilitating the economic development of the territories served. We have always kept our feet firmly on the ground, aware of the importance of fulfilling our primary function, in order to act as a bridge between our local economies and the global markets.

A strong interest in growth and development guides our activities, together with - and in particular - our pragmatic attention to satisfying in full the needs of our counterparts. For these reasons, our ongoing efforts alongside manufacturers and institutions have included numerous, diversified initiatives: incoming, entrepreneurial missions, international trade fairs, seminars, meetings with the managers of our foreign desks.

These all-encompassing activities are supported by our working relations with hundreds of banks in more than 150 countries. During 2015 we commenced new relations with institutions in Algeria, Armenia, Oman, Vietnam and Uzbekistan.

We use experienced, tried and tested partners in order to help our customers enter into foreign markets, which is not always an easy matter.

Priority is given to training, in full awareness that businesses of all sizes need specific knowledge and skills before venturing on the international stage. Our services include a training programme that involves multiple meetings with specialists in this area. This is also a chance to hear about the specific needs of each entrepreneur, when are then met during an additional day of specialist technical support.

We are a leading member of CBE-EEIG, a European economic interest group based in Brussels. As such, we are able to provide precise, customised support to those customers - whether businesses, or agencies, professionals, universities and public administrations - interested in taking a professional approach to the world of European contracts and funding.

Ongoing collaboration with a leading operator has enabled us to constantly enrich the training platform dedicated to international trade. This platform now includes the new Foreign Markets Overview application, which enables businesses to take stock of their situation and obtain an initial opinion about possible untapped market opportunities.

The sheer volume of services provided requires both operational skill and constant quality control. As in the past, we have conducted counterpart satisfaction surveys. The results, in truth somewhat flattering, have been analysed carefully in order to identify possible areas for improvement. In addition, Det Norske Veritas, our certification agency, has inspected without problems the sectors involved in the three ISO 9001:2008 quality certifications.

Global Compact

We have confirmed our membership of the Global Compact, the United Nations initiative involving 8,300 businesses in 162 countries, in which we have participated since 2004. Global Compact is one of the principal commitments worldwide in favour of economic sustainability. Membership of the project means making a responsible commitment to implementing a series of business practices in support of the universally-recognised human rights, such as the dignity of work and the fight against corruption, as well as the protection of the environment. The presence of the Bank in the «Global Compact International Yearbook 2015», alongside institutions and businesses from around the world, is a sign of our contribution to economic growth and social responsibility at a global level.

COMMERCIAL SERVICES AND PROJECTS

The operational dynamism of the Bank is reflected in the effectiveness of our commercial actions, based on the competitiveness of our products - with crucial support from the professionalism of our people and their spirit of customer service, as well as on the quality of our organisation and support tools, and our targeted approach to territorial expansion.

The broad catalogue of constantly-updated products and services reflects the commitment of the competent central departments within the Bank. These work closely with specialist companies that have extensive reach, some of which are affiliates. The objective is to improve efficiency for the benefit of the areas served, while also maintaining competitive pricing, in order to achieve a steady increase in market share.

SCRIGNOInternet Banking

The growing use of the SCRIGNOInternet Banking channel, with refined and expanded content, not only helps to consolidate our relations with customers, but also releases resources for wide-ranging advisory work. This enables our branches to affirm their central role in the development of commercial relations.

The principal initiatives implemented during the year are summarised below.

The close attention always paid to savers, even with market rates at historical lows, has translated into finding solutions for them that give satisfactory returns for an acceptable level of risk.

Arca SGR
Etica SGR
Arca Vita

In this light, Arca SGR has updated its product range with the addition of a number of new funds: «Arca 2020 Reddito Multivalore» IV, V, VI and VII; «Arca Annual 2020 Obbligazione Attiva» IX, X, XI and XII; «Arca Economia Reale Equity Italia»; «Arca Multiasset Balanced»; «Arca Multiasset Aggressive»; «Arca Economia Reale Bond Italia».

Etica SGR, for which we also place funds, has proposed the new «Etica Rendita Bilanciata» fund, with the possibility of either receiving an annual coupon or accumulating the income earned.

With regard to life insurance policies, we have started to place the innovative, unit-linked «Private Selecta Plus» policy, written by Arca Vita International.

Carta +ma

The success of «Carta +ma», our credit card with IBAN, has led to the issue of our innovative «Carta +mazienda», which is a prepaid, top-up card with IBAN reserved for business customers. This gives the employees and collaborators of firms, professional offices and institutions an easy and practical method of payment, while facilitating the related reporting and control.

Our website «www.popso.it» has been fully updated, resulting in numerous commercial and institutional benefits. In particular, the functions of the home page are now specifically designed to encourage visitors to contact the Bank about the various products and services offered. Significantly, from a technical standpoint, the web pages are now better able to adapt to the screen size of the device used for browsing purposes.

RISK MANAGEMENT

The continuing climate of uncertainty about the global macroeconomic situation is severely testing the financial stability of the system. In order to avoid undesirable economic effects, financial activities have been surrounded by a strong protective shield, both to deal with possible adverse scenarios and to resolve any resulting failures. Among the elements of protection, banking supervision has been intensified and become more coordinated at a European level. As part of their in-depth assessment of the banks supervised, the authorities constantly encourage operators to improve their analytical and forecasting tools, while also maintaining appropriate levels of capitalisation.

Our risk management processes and techniques are therefore evolving rapidly, in order to keep pace with the radical changes taking place. The Risk Appetite Framework (RAF) lies at the heart of these changes. This framework sets out the boundaries of the «playing field», establishing the propensity to accept risk and a system of objectives, limits, indicators, checks and mitigating mechanisms that help to understand the business risks accepted and monitor them for signs of deterioration.

Major efforts have been made - and still more are being made - to ensure that «risk appetite» becomes a more integral part of strategic thinking, operational planning and the daily decision-making processes. From an organisational standpoint, the offices responsible for risk control are required to revolutionise their work: from mere measurement of the various risk profiles, as the alterego of the operational functions responsible for accepting them, these offices must now play a more pro-active role, investigating and providing specialist support for those called upon to make important decisions.

The «risk» variable is now considered in many business contexts: when preparing business and financial plans and commercial budgets, which are developed in a way that ensures consistency between the forecasting objectives and the desired levels of risk, as confirmed by the simulation of scenarios; when justifying lending policy and investment decisions, as well as prior to the approval of major operations, with an examination of their impact on the principal risk parameters; when assessing internal capital adequacy in prospective terms and under hypothetical adverse scenarios (ICAAP); when evaluating the results of operations; when establishing incentive systems.

In implementing EC regulations on the management of banking crises, recently transposed into Italian law, during 2015 the Group prepared a specific plan for prevention and recovery that was presented to the Supervisory Body for evaluation. This plan establishes how the capital adequacy and financial strength of the Group are monitored, describing the measures to be implemented if a significant deterioration is identified. This new tool – which complements the «resolution plans» being prepared by the competent European bodies with reference to the most significant banking institutions, including our Bank – is an integral part, in methodological and process terms, of the set of risk management tools available and enhances their potential and degree of effectiveness.

Credit risk

The credit risk generated by our exposures to customers is the most significant individual risk. This is primarily monitored by the use of internal rating models, developed and managed by specialist personnel. In order to estimate the Probability of Default (PD) of counterparties, the Bank currently uses models that cover the following operational segments: Private individuals, Small Economic Operators, Small Business, SMEs, Corporate, Non-profit institutions, Large Enterprises, Public Enterprises and Non-resident, non-financial companies.

The portfolios covered by internal rating systems represent 75.21% of loans and receivables with customers (97.52% of the number of counterparts).

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

New models for the estimating the PDs of «Corporate» counterparts were released during the year, the «Retail» models were recalibrated for the first time. New methodologies were also configured for quantifying LGD and the Danger Rate (probability of becoming a non-performing exposure). The central importance of the rating system is identifiable in all phases of the lending process, from the initial investigation to environmental monitoring. The use of risk-adjusted indicators of value creation (EVA), based on consideration of the expected loss, also contributes to the more selective assessment and tighter control of the quality of loans made. Ratings are of paramount importance when determining the lending policies of the Bank and the optimal composition of the loan portfolio. This analysis seeks to maximise expected profitability while, at the same time, governing the quality of the portfolio and ensuring capital adequacy on a prospective basis.

The overall quality of the loan portfolio and the phenomena that influence its deterioration are investigated by a monitoring system established for this purpose. This system is still evolving in order to improve its efficiency, with indicators that provide better predictions, specific processes for each operational segment and more robust organisational and IT procedures. In addition, a process has also been established for identifying and managing separately the most significant lending transactions. These are isolated with reference to established scale and risk parameters, in order to evaluate prior to commitment their consistency with the bank's propensity to accept risk.

Counterparty and issuer risks

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

This information is set out in the following table.

(in thousands of euro)	**31/12/2015**	Average	Minimum	Maximum	Limit
Capital absorption	95,947	107,598	91,098	136,739	130,000*
Maximum capital absorption	316,839	310,832	288,075	326,246	350,000
Risk					
Individual counterparty risk	46,500	36,262	16,500	46,500	52,500
Concentration risk	138,450	128,128	106,500	139,800	140,000
Country risk	54,162	43,789	23,768	54,162	59,500

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

Market risks

With regard to the market risks inherent in the trading portfolio (interest rate and price risk, as well as the exchange-rate risk affecting the financial statements as a whole), 2015 was a difficult year that, in special circumstances, required a review of the daily VAR operating limits.

Exchange-rate risk turned out to be the most critical factor, not so much in terms of the number of times the limits were exceeded, but rather with regard to the size of the excursions in mid-January. In particular, when the National Bank of Switzerland abandoned the exchange-rate limit of 1.20 swf/euro, the sudden strengthening of the Swiss currency increased its volatility 61-fold with respect to the previous calm conditions. This had a marked effect on the investment in BPS (SUISSE), which is denominated in that currency.

The increases in the daily operating limits also required adjustment of the limits imposed by management on the Maximum Acceptable Loss (MAL).

Father Christopher's sad premonition on the road to Lucy's house

Lithograph, page size 425 x 543 mm, decorated part 300 x 337 mm, signature and date *Pinelli made Rome 1830*

The contrast between the serene sweetness of the natural and urban landscape (the fishing village that is reflected on the lake) and the compassionate sadness of the social scene (the row of tattered beggars along the way) is the background on which Manzoni presents the figure of Father Christopher, who participates in both parts of the scene with the interior motion of the heart, agitated by conflicting feelings and sad premonitions, while he goes quickly to the house of Lucy. None of this in Pinelli's scene, where an anonymous landscape of pure fantasy, lacking any local colour and with no relation to the intensely emotional one described by Manzoni, is the backdrop to a conventionally pathetic scene where the figure of Father Christopher loses strength and character.
Pinelli here pays for his absolute lack of knowledge of the places linked to Manzoni, which are so intrinsic to the spirit of the novel.

I Promessi Sposi, cap. IV, ed. 1827

Il sole non era ancora tutto apparso sull'orizzonte, quando il padre Cristoforo uscí del suo convento di Pescarenico, per salire alla casetta dove era aspettato. È Pescarenico una terricciuola, sulla riva sinistra dell'Adda, o vogliam dire del lago, pochi passi al di sotto del ponte: un gruppetto di case, abitate la più parte da pescatori, e addobbate qua e là di tramagli e di reti tese ad asciugare. [...]
La scena era lieta; ma ogni figura d'uomo che vi si movesse, contristava lo sguardo e il pensiero. Ad ogni tratto s'incontravano mendichi laceri e macilenti, o invecchiati nel mestiere, o indotti allora dalla necessità a tender la mano. [...]
Queste viste crescevano ad ogni passo, la mestizia del frate, il quale camminava già col tristo presentimento in cuore, di andare a sentire una qualche sciagura.

***The Betrothed*, chapter IV, 1834 translation of the 1827 edition**

The sun had not yet risen above the horizon, when Father Christopher left the convent of Pescarenico, to go to the cottage where he was so anxiously expected. Pescarenico is a small hamlet on the left bank of the Adda, or, rather, of the Lake, a few steps below the bridge; a group of houses, inhabited for the most part by fishermen, and adorned here and there with nets spread out to dry. [...]
The scene was beautiful; but the misery of the inhabitants formed a sad contrast to it. At every moment you met pale and ragged beggars, some grown old in the trade, others youthful, and induced to it from extreme necessity. [...]
This melancholy picture of human misery increased the sadness of Father Christopher, who, when he left the convent, had been filled with presentiments of evil.

Episode in the life of Father Christopher: the murder of Lodovico

Lithograph, page size 425 x 543 mm, decorated part 302 x 340 mm, signature and date *Pinelli made it in Rome 1830*

I Promessi Sposi, cap. IV, ed. 1827

... Cristoforo, vedendo il suo padrone nell'estremo pericolo, andò col pugnale addosso al signore. Questi, rivolta tutta la sua ira contro di lui, lo passò colla spada. A quella vista, Ludovico, come uscito di sé, cacciò la sua nel ventre del provocatore, il quale cadde moribondo, quasi ad un punto col povero Cristoforo. Gli scherani del gentiluomo, vedutolo sul terreno, si diedero alla fuga malconci: quelli di Ludovico, pur tartassati e sfregiati, non v'essendo più cui dare, e non volendo trovarsi impacciati nella gente, che già accorreva, se la batterono dall'altra parte: e Ludovico si trovò solo con quei due funesti compagni ai piedi, in mezzo ad una folla. [...]

«– Misericordia! che spettacolo! – Salvatelo, salvatelo. – Sta fresco anch'egli. – Vedete come è concio! va tutto a sangue. – Scappate, pover uomo, scappate! Non vi lasciate pigliare.»

The Betrothed, chapter IV, 1834 translation of the 1827 edition

... Christopher, seeing his master in extreme danger, attacked the gentleman with his dagger. Upon this the anger of the enraged cavalier was turned against the shopman, and he thrust him through the heart with his sword. Lodovico, as if beside himself at the sight, buried his weapon in the breast of the murderer, who fell almost at the same instant with the poor Christopher. The attendants of the gentleman, beholding him on the ground, took to flight; and Lodovico found himself alone, in the midst of a crowd, with two bodies lying at his feet. [...]

«– Mercy! what a sight! – Save him, save him. – It will go hard with him also. – See how he is wounded – he is covered with blood! – Escape, poor man, escape! Do not let yourself be taken.»

Lodovico (Ludovico, in the 1827 edition), a young squire, son of a wealthy merchant, has just pierced with his sword the arrogant knight who by right of lineage claimed priority on the public way. On the ground, next to the knight, the body of Christopher, Lodovico's faithful servant, who protected him with his body, saving his life. Faithfully following the Manzonian sense of this episode, Pinelli chooses to represent the moment when the crowd, feeling that this crime avenged the everyday abuses of the hated knight, rescues Lodovico making him enter the sanctuary of the nearby church of the Capuchins (*«He is an honest man who has made a proud rascal cold; but he did it in his own defence: he was provoked»*), triggering the chain of events that would lead Lodovico to become a friar and take on the name of his servant, who sacrificed his life for him.

Following identification of the need to extend the «Operational and management limits for financial activities» to the AFS portfolio (external and trading), on 8 October the Board of Directors determined - for the remainder of 2015 - the Maximum Acceptable Loss deriving from the market risks faced by that specific portfolio. The resulting daily VAR limits, defined in relation to the interest-rate and price risks, were only exceed slightly once in the first case.

Interest-rate risk

New methodology has been adopted for managing the interest-rate risk on the bank book, both for operational and regulatory purposes. The new system measures the exposure to interest-rate risk in terms of the risk of incurring losses due to reductions in the value of assets, and/or increases in the value of liabilities, caused by adverse rate changes affecting positions not included in the trading portfolio for supervisory purposes.

Business operations are tracked better by this new methodology. For example, it can take account of the implied optional component when variable rates are subject to a cap or a floor; additionally, it can model demand positions whose financial characteristics are analysed using appropriate econometric-statistical tools and robust time series, resulting in a more effective assessment of the persistence of volumes and the reactivity to market conditions of the rates applied. This model is monitored constantly and updated every six months.

In particular, the propensity to accept interest-rate risk within the bank book is expressed in quantitative terms by assigning a threshold objective to the quotient between the amount of capital required to cover the risk under «static» conditions, with the simulation of a parallel shift of the reference curves by +/-200 basis points, and total own capital for supervisory purposes.

The current model for measuring interest-rate risk within the bank book, together with the monthly processing described above in relation to sensitivity of the economic value of capital to rate changes, makes it possible to analyse the net interest income generated by the Group, or by individual members. This involves making the same simulations of a parallel shift in the reference curves by +/- 200 basis points, over a one year horizon under «static» conditions, with reference to the bank book and trading portfolios containing incoming-earning assets and interest-bearing liabilities.

Work is proceeding in this area, in order to define a consistent risk indicator and related set of thresholds and limits that can summarise the impact of an unexpected change in market rates on the net interest income generated.

Liquidity risk

In addition to the daily control of risk, numerous initiatives regarding the monitoring of liquidity risk were implemented during 2015, not least with a view to developing significant new analyses and complying with additional regulatory requests.

With regard to the input from external regulations, special reference should be made to that issued by the European institutions – in primis Regulation (EU) 575/2013 («CRR») and the consequent Commission Delegated Regulation (EU) 2015/61 –, which transposed into EU law the set of liquidity risk indicators developed by the Basel Committee for Banking Supervision.

The CRR (Capital Requirements Regulation) issued in 2014 introduced two new indicators (the Liquidity Coverage Ratio - LCR and the Stable Funding Ratio - SFR), only partly the same as the comparable ratios identified by the Basel Committee, that must be reported periodically to the Supervisory authorities. The «European» ratios have monitoring objectives similar to those already developed by the Committee, but there are numerous, significant differences in the method of calculation. The related supervisory reporting is carried out monthly (Liquidity Coverage Ratio) and quarterly (Stable Funding Ratio).

The new LCR, as modified by the above-mentioned Delegated Regulation (EU) 2015/61, took effect from 1 October 2015. This change amended certain aspects of the regulation introduced in 2014 and resulted in additional reporting requirements: while monthly reporting of the ratio continues in the established manner, the amended version is temporarily being reported every quarter and is the focus of supervisory attention. Obviously enough, the calculations and related monitoring have become more burdensome as the regulatory framework has developed.

Work has also continued on the control of operational risks, with the daily calculation of operational liquidity, with a three-month horizon at Group level, and the monthly calculation of long-term liquidity without any limit on the time horizon.

The latest available calculations regarding the year-end situation report satisfactory liquidity, in line with the objectives and risk limits established in the Risk Appetite Framework.

Another important new requirement imposed by the Supervisory Authorities during 2015 involved the preparation, for the first time, of an annual report dedicated to the ILAAP (Internal Liquidity Adequacy Assessment Process) and the related risks. The results included in that report, together with all the other risk exposure data provided during the year, provide the foundations for the SREP (Supervisory Review and Evaluation Process), regarding the «Liquidity and liquidity risk» pillar.

Lastly, the European Central Bank has requested a new quarterly report entitled STE (Short-Term Exercise) that, with regard to liquidity risk, includes further risk measurements in addition to the amended LCR referred to above. Among others, these address the transformation of maturities and the concentration of funding and the portfolio of available liquid assets. Risk exposure must also be calculated on a prospective basis, estimating values for the LCR and NSFR in the coming years, with reference to planned objectives for funding and lending.

Operational risk

The methodologies for identifying and managing operational risk were strengthened during the year, with specific reference to the analysis of the maturity and completeness of the process used to identify operational losses, as well as to the update of the system for assessing potential risk exposures.

Work on the identification of operational losses has resulted in establishing preliminary guidelines for the development of the process already used by the Bank. This essentially involves identifying and recording the scale and frequency of the economic losses incurred as a result of significant events, as well as observing the related dynamics over time. The objective is to obtain robust time series data for the losses incurred and the recoveries obtained, based on all possible events that generate quantified or quantifiable losses.

With reference to the prospective assessment of operational risk, the new methodology seeks to identify the potential exposure by determining, on an annual basis, the principal operational issues. The objective here is to active appropriate measures for the monitoring, prevention and attenuation of risk, and to ensure the provision of necessary information to the competent bodies and business functions about the evolution of the exposure to operational risk.

In addition, work has continued on the strengthening of the model used for the analysis of operational risks and its integration with the systems for the management of technological and IT risks, as required by the current regulatory framework.

IT risk, associated with the use of information and communications technology, is in fact a category of operational risk that receives special attention, given its pervasive and critical nature.

The assessment of IT risk used a methodology that associates the sources of potential risk with the existing controls, with a view to appraising the corresponding level of «residual» risk. The analysis covered all aspects of the governance of the information systems, including the externalisation of IT components and the internal infrastructure and processing resources, as well as the availability of knowledge, skills and human resources and the management of so-called «IT incidents», being events that degrade the quality or interrupt the provision of IT services.

In summary, the analysis showed that consistent and satisfactory technical and organisational countermeasures have been adopted or introduced, thereby appropriately containing the amount of «residual» IT risk.

The usual annual comprehensive test of the business continuity plan was completed successfully in early December 2015; this was the ninth carried out over time. As in the past, the test checked the key functions of the processes that support the bank’s financial, commercial, payment and collection services, as well as those relating to the development of IT applications.

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

Key persons were able to work properly and interact with colleagues, external counterparties and customers, just as they do every day in their normal working environment.

Similar checks covered the IT components involved in the «disaster recovery plan», to mitigate the risk of unavailability of critical IT systems. Tests were carried out successfully during the year, with periodic testing of data recovery and the verification of operations relating to the different components of the bank's information system: mainframe, internet/intranet services provided by the departmental systems housed at the Bank's server farm, certification of the telematic networks and local workstations.

Risk of operation with related parties

As required by the 9th update of Circular 263 dated 27 December 2006 «New supervisory instructions for banks», published by the Bank of Italy on 12 December 2011, which revised Title V – Chapter 5 on «Risk activities and conflicts of interest with related parties», the meeting of the Board of Directors held on 15 May 2012 approved a policy document, applicable to the entire banking group, on the internal controls for the mitigation of these risks. It was made available to the shareholders' meeting of 27 April 2013.

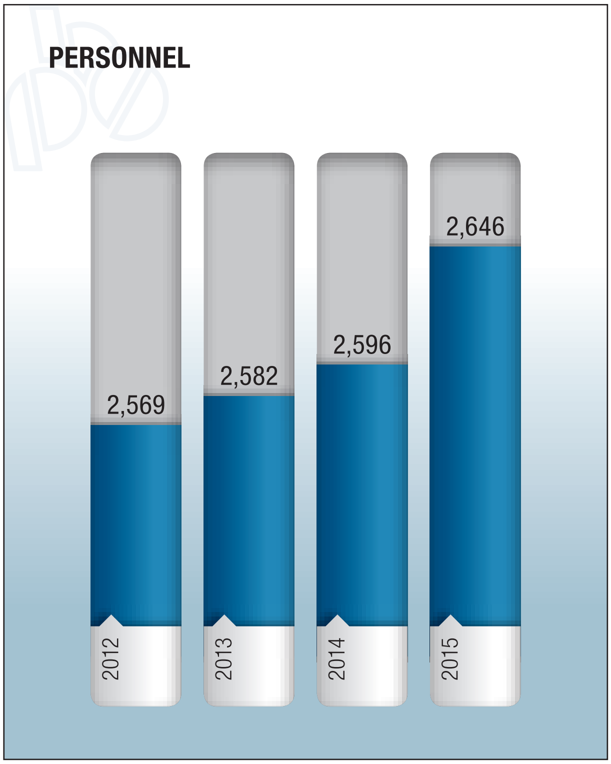
This document, entitled «Regulation for managing the risk of conflicts of interest with related parties», establishes guidelines for defining how to manage transactions with related parties and those associated with them, together referred to as «related parties». The instructions will be reviewed at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

At the meeting held on 28 August 2014, the Board of Directors approved revisions to the above Regulation, which was renamed «General regulation for the management of risks deriving from transactions with related parties». The new document revised the previous policy that, although still valid in substantive terms, required alignment with the changes in approach specified in Circular no. 263 — XVth revision dated 2 July 2013. The regulation redefines the way that the maximum exposure to risk is calculated under the new rules, making reference to all relations with related parties and associated persons, consistent with the method used to determine Group's propensity to accept risk.

This document, presented to the Shareholders' Meeting held on 18 April 2015, has not been amended since and is available (in Italian) on the Bank's website at the address www.popso.it/assemblea2016.

HUMAN RESOURCES

Our people are the life blood of the Bank, managing constantly our relations with customers. They are also a fundamental distinguishing factor, enabling us to grow steadily and strengthen our market presence.



These simple observations are enough to understand the importance of having men and women capable of playing, with skill and dynamism, a professional role whose nature and requirements have changed profoundly at every level over the years: from those who work in contact with the public to the senior managerial positions.

Professionalism and a spirit of service are key elements in the achievement of our business objectives, focused on independent growth by internal means and the constant search for long-term relationships with our customers. These are founded on transparency, the consistency of our proposals with the financial and commercial profiles of each customer, and the constant search for mutual satisfaction.

The readiness of our people to serve every customer, of whatever type and however important, highlights the cooperative spirit of the Bank. All, in the context of a business culture founded on the propriety of the relationships established, not least in order to contain any legal or reputational risks.

The quality of our staff stems from the steadfast of standards and the significant efforts made in terms of recruitment, training programmes and the functional management of personnel, both centrally and at branch level.

The HR department looks after all these activities with skill and commitment, contributing to our competitiveness.

At year end, the Bank employed 2,646 persons - up by 50, +1.93% -, of which 77% worked within the branch network and the remaining 23% at the central offices.

The average age of our employees, 39 years and 9 months, and their average length of service, 15 years and 8 months, have both increased by 7 months.

In terms of personnel selection, we seek to identify candidates whose profiles allow the successful launch of specialist professional careers, with a view - among other objectives - to strengthening our ability to manage both our capital and the related risks. This is consistent with the new supervisory regulations and helps to deal with the related operational requirements.

The intensity of our training activities - carefully scheduled and organised by the HR department - reflects the evolution of the system, not only in terms of products and services, but also with regard to the regulatory changes in the area of consumer protection, often transposed from EU law.

Training includes both classroom sessions and multimedia courses, which are constantly updated. During 2015, classroom sessions were attended by 1,906 collaborators, who received a total of 57,560 man-hours of training, while the multimedia courses taken by 2,319 employees accumulated another 52,994 man-hours of training.

Special attention was given to the courses on sector regulations, such as the transparency of banking operations and services, anti-money laundering and insurance broking. The training provide in this last area also related to the certification of sales personnel, pursuant to Isvap regulation no. 5 dated 16 October 2006.

With regard to the principal operational areas, significant classroom hours were dedicated to lending - the initial investigation, guarantees, the management and control of credit granted, the analysis of businesses in difficulty -; the provision of treasury services; the management of after-sales activity in the financial advisory area. The multimedia courses focused more on the regulations governing banking activities, including those on privacy, transparency, usury and anti-money laundering. In addition, the course on the value of conformity was repeated, covering conduct that complies with the regulations and the principles of loyalty and propriety.

The training programme for new recruits, involving both classroom and multimedia courses, was followed by 285 employees. They tackled such topics as the rules of employment; branch operations; the products and services on offer; introduction to lending, the securities markets and international operations. The Bank has collaborated intensively with the technical schools and universities in the territories served, enabling 224 students to take internships at banks and our central offices.

On the regulatory front, the enabling decrees for Law no. 183/2014 (Jobs Act) have been issued. In this regard, Decree no. 23/2015 applies the new rules for dismissals to permanent employment contracts, as well as to the conversion of fixed-term and/or apprenticeship contracts arranged after the regulation came into force. Additionally, Decree no. 81/2015 extends the rules governing employment relationships to certain types of freelance relationship.

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

PROMOTIONAL AND CULTURAL ACTIVITIES

We encourage the culture of our territories and support local identities, aware that - in doing so - we promote ourselves, as the lasting expression and positive effect of those territories and identities.

This consideration underpins our commitment over the decades, in constantly renewed forms, to promote the natural, cultural and artistic wealth of the areas served and enhance its value in the eyes of the general public. To achieve this, we even make recourse to telematic channels and tools.

For this purpose, we dedicate work and resources to facilitate public contact with quality information, the arts, history and traditions, thus contributing to the social and economic growth of the local communities.

The work performed, carefully analysed by topic, is available on the institutional website «www.popso.it», not least in order to provide information and pictures of Valtellina and Valchiavenna, our original home territories, for the benefit of provincial operators. An integrated promotion, therefore, that brings together the Bank, culture and the local economy.

Among the many cultural initiatives, there is room to talk about the main ones including, first and foremost, the Notiziario. This magazine issued every four months is full of articles of every kind, many of which are signed by persons worthy of the greatest respect. All three issues in 2015 dedicated considerable space to «Expo Milano 2015», an event that brought millions of Italian and foreign visitors to Milan. Stand-out authors included the Minister of Agriculture, Food and Forestry, Maurizio Martina, and the Chairman of the Pontifical Council for Culture, Cardinal Gianfranco Ravasi, with respective contributions dedicated to Italy, the Italian Pavilion and the much admire «Tree of Life» monument; and to the Vatican State and the Pavilion approved by Pope Francis.

The annual cycle of conferences was launched on 20 February 2015 by Aldo Bonomi, Chairman and Managing Director of the Bonomi Group, who spoke on the subject of «Business networks: a growth opportunity for Italian firms». On 6 March 2015, Roberto De Martin, Chairman of the Trento Film Festival, talked about the «Trento Film Festival, 63 years of looking to the future».

Another important occasion arose when, on 16 September 2015, Antonio Patuelli, Chairman of the Italian Banking Association and Cassa di Risparmio di Ravenna, visited us in Sondrio to talk about «Towards the recovery», a highly topical subject.

This was followed on 6 November 2015 by a conference held by Prof. Francesco Sabatini, Honorary Chairman Accademia della Crusca, entitled «The Italian language is not a telephone wire. The mother tongue and the others». This speaker also contributed to marking the 91st World Savings Day, which we always celebrate, with a particular focus on young people. In particular, during the morning of that date, Prof. Sabatini met around 500 interested students and their teachers, at the Policampus in Sondrio, to give a talk entitled, «Italian is the key to our brain».

Shareholders who attended the AGM held on 18 April 2015 in Bormio received a presentation box containing a DVD entitled «Stelvio. Crossroads of Peace», a documentary produced and directed by Alessandro Melazzini, and a booklet entitled «The Stelvio Epic», written by Franco Monteforte, author and historian. These works enabled us to commemorate the centenary of the First World War.

The cultural inserts accompanying the 2014 financial statements of the Bank and Banca Popolare di Sondrio (SUISSE) SA were dedicated respectively to the collection of watercolours by Johann Jakob Meyer «Picturesque journey through Stelvio (1831)», owned by the Bank and presented by Attilio Brilli, writer and essayist, and Franco Monteforte; and the monograph entitled, «Felix Somary: man, economist and banker, between Switzerland and Italy».

Via the «Luigi Credaro» Library in Sondrio, the Bank contributed to the second edition of the Festival of Creative Culture held under the aegis of

ABI on 21 March 2015, on the topic entitled, «The alphabet of the world - Let's read the signs around us and talk about them». For its own part, the «Luigi Credaro» Library has steadily expanded its role as a cultural hub in Sondrio, not least for the specialist topics that are addressed.

In our annual tribute to the Madonna of the Snow, on 9 August 2015 Father Cesare Bedognè, military chaplain, said Mass at the Rese Basse dello Scorluzzo pastures, Stelvio Pass, and presented Pope Francis' encyclical, «Praise be to you», to the families present.

Once again, we participated in ABI's «Invitation to the Palace» initiative, which reached its XIVth edition on 3 October 2015. In particular, we organised guided tours of the Bank's headquarters in Sondrio, drawing attention to the many works of art - see also the dedicated website «www.popsoarte.it» –, of the «Luigi Credaro» Library in Sondrio and the «Carlo Donegani» Museum at the Stelvio Pass.

The «ReStelvio 2015 Mapei» was held on 12 July with the Bank among the organisers. As in prior years, this event brought thousands of sports enthusiasts to Alta Valle in order to tackle, on foot and by bicycle, the challenging Bormio-Stelvio Pass route.

With regard to the skiing competitions traditionally held in the Stelvio Pass, heavy snowfall prevented the 2nd Interbank Hexagonal Meeting planned for 16 October 2015, but better weather conditions on the following day allowed the 14th Pirovano Interbank Meeting, with the friendly participation of 119 competitors from 16 banks.

Lastly, the «Fifth meeting with Nobel Laureates for Literature» was held on 29 December 2015 in Bormio. Organised together with the local Cultural Commission at the Bormio Terme Conference Hall, the meeting was entitled, «Un addio alle armi - A Farewell to Arms» and dedicated to Ernest Hemingway and his famous novel of the same name. The event was coordinated by Prof. Leo Schena and led by Prof. Maximum Bacigalupo, with narrations by Mira Andriolo and Christian Poggioni.

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

A highlight was the large donation made by the Bank to renovate Teatro sociale di Sondrio, whose re-opening has truly filled a gap.

In closing this section, the Banking Group's Recreation Centre deserves praise for the many cultural, touristic and sporting initiatives organised during the year.

EQUITY

Shareholders' equity at 31 December 2015, inclusive of valuation reserves and the profit for the year, amounts to 2,334.514 million, being an increase of 113.095 million, +5.09%.

The share capital, which consists of 453,385,777 ordinary shares with a par value of 3 euro, amounts to 1,360.157 million, which amount

Lodovico/Father Christopher asks forgiveness from the victim's brother
Lithograph, page size 425 x 543 mm, decorated part 303 x 340 mm, signature and date *Pinelli made it in Rome 1830*

Pinelli here interprets with undoubted efficacy the feelings of humility and forgiveness in the face and attitude of the two protagonists and shows that he able to cope easily with in choreographic *«a blending of veils, feathers, and jewels»* and in *«a heavy motion of starched and crisped bands»*. However, it always remains a bit over the top with that statuesque emphasis of the figures which contrasts with the nuanced details of Manzoni, already clearly delineated in the 1827 text, even though it was less mature from a literary point of view.

I Promessi Sposi, cap. IV, ed. 1827

Al mezzogiorno, il palazzo brulicava di signori d'ogni età e d'ogni sesso: era un girare, un rimescolarsi di grandi cappe, di alte piume, di durlindane pendenti, un muoversi librato di gorgiere inamidate e crespe, uno strascico intralciato di rabescate zimarre. [...] Fra Cristoforo vide quell'apparecchio, ne indovinò il motivo, e provò un leggier turbamento. [...] Quando egli vide l'offeso, affrettò il passo, gli si pose ginocchione a' piedi, incrocicchiò le mani sul petto, e, chinando la sua testa rasa, disse queste parole: «io sono l'omicida di suo fratello. Sa Iddio se io vorrei restituirglielo a costo del mio sangue; ma, non potendo che farle inefficaci e tarde scuse, la supplico di accettarle per Dio.» [...] Il gentiluomo, che stava in atto di degnazione forzata, e d'ira compressa, fu turbato da quelle parole; e chinandosi verso l'inginocchiato, «alzatevi», disse con voce alterata: «[...] Mio fratello... non lo posso negare... era un cavaliere... era un uomo... un po' precipitoso... un po' vivo. Ma tutto accade per disposizione di Dio. Non se ne parli più... Ma, padre, ella non debbe stare in codesta positura.» E presolo per le braccia, lo sollevò.

***The Betrothed*, chapter IV, 1834 translation of the 1827 edition**

At mid-day the palace swarmed with nobility of either sex; there was a blending of veils, feathers, and jewels; a heavy motion of starched and crisped bands; a confused entangling of embroidered trains. [...] Father Christopher experienced a momentary agitation at beholding all this preparation.
[...] He threw himself on his knees before him whom he had most injured, crossed his hands on his breast, and bending his head, exclaimed: «I am the murderer of your brother. God knows, that to restore him to life I would sacrifice my own; but as this cannot be, I supplicate you to accept my useless and late apology, for the love of God!» [...] The angry scorn of the nobleman relaxed at this appeal, and bending towards the kneeling supplicant, «Rise,» said he, with a troubled voice. «[...] My brother...I cannot deny it...was a cavalier...of a hasty temper. Do not speak of it again... But, father, you must not remain in this posture.» And he took him by the arm to raise him.

Renzo arrives at the home of Agnes and Lucy, who have just met with Father Christopher

Lithograph, page size 425 x 543 mm, decorated part 300 x 340 mm, signature and date *Pinelli made it in Rome 1830*

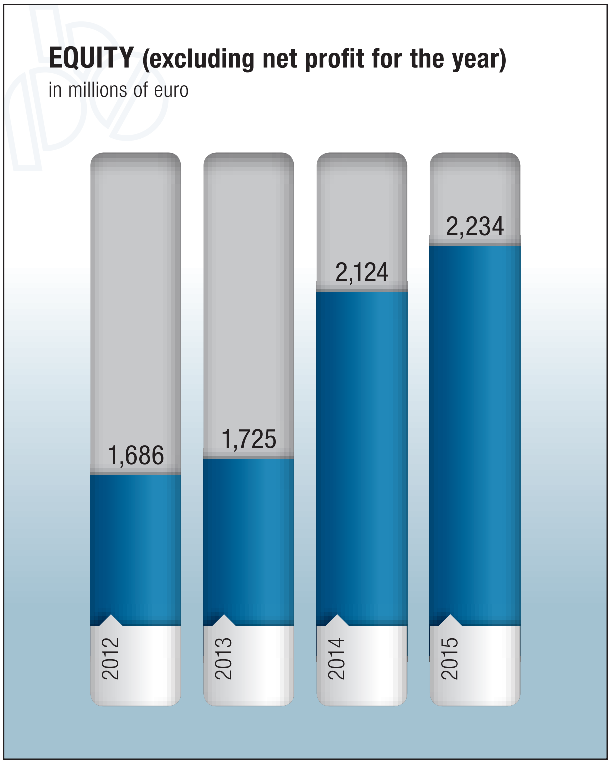
I Promessi Sposi, cap. V, ed. 1827

«... Vediamo, pensiamo che si possa fare.»
Così dicendo, appoggiò il gomito sinistro in sul ginocchio, chinò la fronte nella palma, e con la destra strinse la barba e il mento, come per tener ferme ed unite tutte le potenze dell'anima. Ma la più attenta considerazione non serviva che a fargli scorgere più distintamente quanto il caso fosse pressante ed intricato, e quanto scarsi, quanto incerti, e pericolosi i ripieghi. [...]
Mentre il frate stava così meditando, Renzo il quale, per tutte le ragioni che ognuno può indovinare, non sapeva star lontano da quella casa, era comparso in su la porta; ma, visto il padre assorto, e le donne che facevano cenno di non disturbarlo, si teneva sulla soglia in silenzio.

The Betrothed, chapter V, 1834 translation of the 1827 edition

«... Let us think what can be done.»
Thus saying, he grasped his beard and chin with his hand, as if to concentrate more completely the powers of his mind. But the more clearly he perceived the pressing nature of the case, the more uncertain and dangerous appeared every mode of meeting it. [...]
At this moment Renzo, who, as the reader will readily imagine, could not long be absent at so interesting a crisis, appeared at the door of the room; the father raised his head and bowed to him affectionately, and with a look of intense pity.

The entire scene is already in the visual power of Manzoni's text that Pinelli only has to translate into image, preserving its natural simplicity. The impetuous appearance of Renzo, on his return from the meeting with Dr Azzeccagarbugli, contrasts with the meditative attitude of Father Christopher. Between them, to preserve the silent concentration of the friar, the two women that block the newcomer on the doorstep, one with her hand, the other indicating with her index finger not to make a noise. It would have been perfect, except – once again – for the way the two women are dressed and the Lucy's classical features of a young Athenian woman that rather spoil the domestic atmosphere of humble Lombardy peasants.



has remained unchanged with respect to the comparative period, during which there had been a capital increase through a combined bonus and rights issue.

The share premium reserve remained unchanged at 79.005 million.

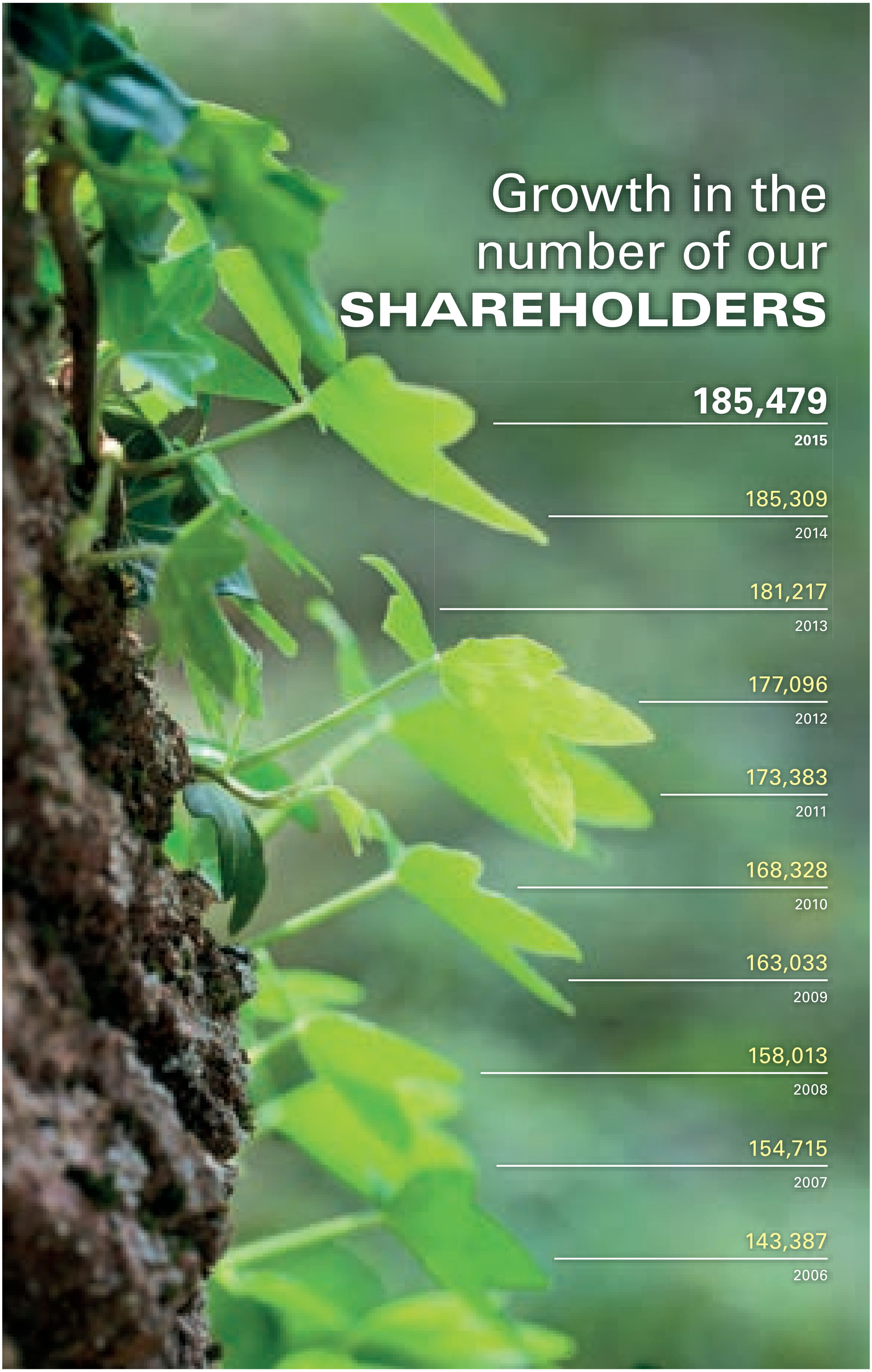
The line item reserves rose to 735.497 million, +10.52%, due to the allocation of a significant portion of the 2014 profit for the year. In this regard, note that the Parent Bank's Shareholders' Meeting of 18 April 2015 approved the result for 2014 and the proposed distribution of a dividend of 0.06 euro for each of the 453,385,777 shares outstanding at 31 December 2014.

The valuation reserves, representing the net unrealised gains and losses recorded on AFS financial assets and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a net positive balance of 85.112 million, up from the positive balance of 44.267 million reported at the end of 2014 (+92.27%). The significant increase that has taken place - despite the negative changes resulting from reversals to the income statement after the sale of securities in the AFS portfolio - is due to a capital gain of 39.554 million, net of the tax effect, resulting from the revaluation of investments held by the Parent Bank in ICBPI spa, and Cartasì spa. For the two companies, the value was based on an appraisal made in connection with the sale of ICBPI spa, which took place last December, by the current shareholders that are part of the shareholders' agreement in which Banca Popolare di Sondrio does not participate.

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

The outcome of the SREP process is discussed in a separate chapter of this Report.

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to € 3,126 million at 31 December 2015.



Growth in the number of our SHAREHOLDERS

2015	185,479
2014	185,309
2013	181,217
2012	177,096
2011	173,383
2010	168,328
2009	163,033
2008	158,013
2007	154,715
2006	143,387

Set out below are the Group's adequacy requirements at 31 December 2015 and the minimum requirements:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	10.49%	9.25%
Tier 1 Capital Ratio	10.50%	8.50%*
Total Capital Ratio	**13.44%**	**10.50%***

* minimum requirements.

In accordance with the provisions of the ESMA document no. 725/2012, which originated from the observation that the market value of various listed companies was lower than their book value, the Bank carried out an impairment test on the entire structure. The results of this test showed that the Group was worth 2,910 million, 347 million more than its consolidated equity, which amounted to 2,563 million. Further details are provided in Part F «Information on equity» of the notes.

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2014:

– *capital/direct funding from customers*
  8.77% v. 8.22%

– *capital/customer loans*
  11.66% v. 10.82%

– *capital/financial assets*
  27.61% v. 24.48%

– *capital/total assets*
  7.29% v. 6.82%

– *Net bad loans/capital*
  31.28% v. 27.39%

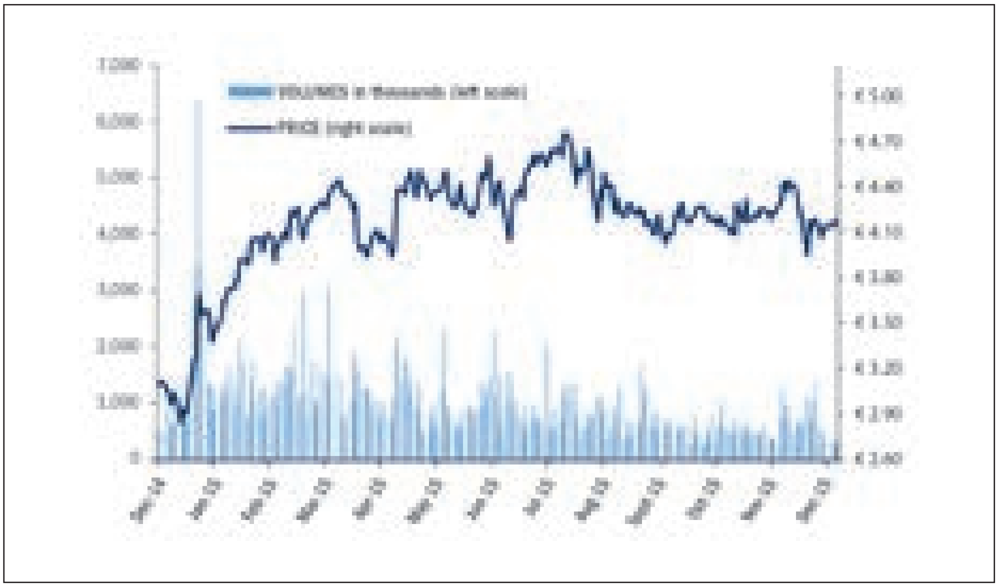
BPS stock

The BPS stock, which is listed on the MTA, the screen-based market, Blue Chips segment, of the Italian Stock Exchange, saw its price improve by 34.11% to 4.152 euro at the end of 2015.

This performance is particularly good well compared with the FTSE Mib (+12.66%) and the FTSE Italia All Share Banks (+14.78%).

The chart of market prices shows that, following the minimum for the year of 2.84 euro on 12 January, the quotation rose steadily toward its maximum of 4.778 euro on 10 August. The final four months were marked by progressive decline that accelerated in November and December, due to the deterioration in confidence, both domestically (rescue of four Italian banks) and internationally (crisis in emerging stock markets, uncertainties about the Fed's rate policies, weak economic recovery in the Eurozone).

BPS stock



The shareholder base continued to expand during 2015, rising to 185,479.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Bank held 3,650,000 treasury shares with a carrying amount of 25.322 million at the end of 2015, compared with 3,550,000 with a carrying amount of 25.031 million at the end of 2014.

During the year 100,000 shares were purchased for a nominal value of 300,000 euro, equal to 0.022% of the share capital. The total amount paid for these purchases was 0.291 million. Purchases were made using the specific provision shown in the financial statements under reserves.

Applications for admission as a member received during the year were examined by the Board of Directors in accordance with the law and the articles of association (as per art. 2528, last para., of the Italian Civil Code). In particular, art. 9 of the articles of association states that: «the Board of Directors decides on applications for admission as a member by adopting a suitably-reasoned resolution, having regard for the interests of the bank, the spirit of the cooperative movement and the requirements of the articles of association», taking into account the guidelines laid down by the Board.

RESULTS OF THE SREP PROCESS AND SUPERVISORY ACTIVITIES

Under Regulation (EU) 1024/2013, the European Central Bank is the Supervisory Authority responsible for Banca Popolare di Sondrio.

In the context of the Single Supervisory Mechanism, the ECB performs its tasks via a supervisory group comprising ECB and National Authority personnel, whose duties include carrying out a new prudent and harmonised Supervisory Review and Evaluation Process (SREP). Following the results of the 2015 SREP, the European Central Bank requested Banca Popolare di Sondrio to maintain a minimum Common Equity Tier 1 Ratio (CET 1 Ratio) of 9.25% on a consolidated basis. At 31 December 2015, this ratio - calculated using the transitional (phased in) regulations and including the net profit for the current year, net of dividends - was 10.49%.

The ECB has also asked the Bank to maintain at all times sufficient liquid assets, on a consolidated basis, to meet the liquidity requirements of art. 412 of Regulation (EU) 575/2013, and to strengthen the organisational aspects, processes, methodologies and strategies for guaranteeing full and constant compliance with the requirements of Bank of Italy Circular 285/2013. Consistent with this, the Bank is implementing - with agreement from the Supervisor - a series of specific actions that will be largely completed during the year.

Lastly, with the support of inspectors from the Bank of Italy, during 2015 the ECB carried out two inspections at the Bank covering the following matters: governance, remuneration and internal controls; the management of credit and counterparty risk and the risk control system.

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group, as shown in greater detail in the following tables, has been assessed by the rating agencies Fitch Ratings and Dagong Europe Credit Rating. These ratings refer, respectively, to the date of first release on 26 February 2015 of the assessments by Dagong Europe Credit Rating and to the periodic review on 2 July 2015 of those by Fitch Ratings. As part of this update, the London-based rating agency, which has been assessing the bank's creditworthiness since April 1993, took steps to confirm the opinions previously attributed, upgrading the outlook from negative to stable.

FITCH RATINGS - issued on 2 July 2015

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

DAGONG EUROPE CREDIT RATING – issued on 26 February 2015

	RATING
LONG – TERM	
It is a measure of the probability of default and reflects the bank's ability to meet its financial obligations. It is expressed on a scale from AAA to D, for a total of 10 levels.	**BBB**
SHORT – TERM	
It measures the ability of the organisation to which the rating is assigned to meet payments due in the short-term. The scale includes six levels (A-1, A-2, A-3, B, C and D).	**A-3**
INDIVIDUAL FINANCIAL STRENGHT ASSESSMENT	
It aims to assess what the bank's situation would be if it were completely independent and could not rely on external support. It is expressed on a scale from AAA to D, for a total of 10 levels.	**bbb**
OUTLOOK	
It is a prospective evaluation regarding possible changes in the long-term rating over a period of 1-2 years. It can be «positive», «stable» or «negative».	**Stable**

INCOME STATEMENT

The long-awaited recovery finally materialised in 2015, but in a limited and patchy manner. In particular, its effects on loan quality were slow to show. The ongoing problems were made clear at year end by the action taken to rescue 4 banks, which further burdened the banking system.

All this did not prevent the Bank from reporting satisfactory results: 100.064 million, +2.58% on the previous year. This outcome would have been much better without the charges deriving from the above-mentioned rescues, which required a special payment of 27.444 million, in addition to the normal contribution to the Single Resolution Fund of 9.148 million.

Net interest income

Following the growth seen in 2014, albeit at a rate that slowed during the year, net interest income amounted to 479.465 million in 2015 compared with 520.560 million in the prior year, -7.89%. This was partly due to the contracting spread.

Interest income fell by 18.10% to 704.049 million. The ECB's expansionary monetary policy has caused interest rates to fall to historical minimums, with negative rates on deposits and government securities. This had an inevitable impact on the flow of coupon income from the securities portfolio, which largely comprises Italian government bonds. The falling rates in the monetary and financial markets were, equally inevitably, reflected in the lending conditions applied to customers.

Interest expense, on the other hand, fell to 224.584 million, -33.77%. This percentage was greater than the reduction in interest income, but not enough to counter the decline in net interest income.

There was a reasonable increase in net fee and commission income: +3.12%, from 242.237 to 249.790 million. Good contributions were made by asset management, the placement of securities, funds and insurance products, and currency conversion; the income from collections, payments and guarantees given was more or less stable; however the results from the acceptance of instructions, current accounts and loans deteriorated.

Dividends amounted to 16.273 million, up +0.19%.

The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 191.913 million compared with 189.455 million, +1.30%. Beyond the modest increase, it is worth noting that the results in both years were very good; the results from HFT portfolio were better in 2014, whereas those from the AFS portfolio were better in the period under review.

The net trading income of the HFT portfolio amounted to 45.585 million, compared with 90.114 million, - 49.41%. This portfolio has declined considerably in recent years, following the restructuring of the Bank's overall portfolio, which now prefers AFS financial assets. Analysing its component parts, net trading income from securities declined to 20.113 from 42.333 million; net unrealised gains totalled 14.735 million in 2014, but net unrealised losses of 10.834 million were reported in 2015; derivatives contributed 10.441 million, compared with 4.536 million. Income from currency conversion and exchange differences fell from 28.510 to 25.865 million, with the former performing well but the latter dropping considerably, due to the valuation of dollar-denominated securities.

Sales and repurchases of available-for-sale financial assets, loans and financial liabilities generated 140.034 million, compared with 94.154 million, essentially due to the profits earned on the sale of Italian government securities, US treasuries and dollar-denominated funds. The result from assets carried at fair value was 6.294 million, compared with 5.187 million in the previous year.

Total income

Despite the substantial stability in financial results and a reasonable performance by net fee and commission income, total income fell to 937.441 million, -3.21%, due to the decline in net interest income. Within this aggregate, the weighting of net interest income decreased to 51.15% from 53.75%. Despite the signs of economic recovery and improved access to credit, the amount of impaired loans remains high, although their growth has slowed sharply. As a result, considerable adjustments were again necessary during the year. This implemented the prudent criteria adopted, taking account of the considerations emerging from constant discussions with the Supervisory Authorities.

Net adjustments to loans, available-for-sale financial assets, held-to-maturity investments and other financial transactions came to 400.488 million compared with 473.561 million (-15.43%). Within it, the element relating to

SUMMARY INCOME STATEMENT

(in thousands of euro)	2015	2014	(+/-)	% change
Net interest income	479,465	520,560	-41,095	-7.89%
Dividends	16,273	16,242	31	0.19%
Net fee and commission income	249,790	242,237	7,553	3.12%
Results of financial activities	191,913	189,455	2,458	1.30%
Total income	**937,441**	**968,494**	**-31,053**	**-3.21%**
Net adjustments to loans and financial assets	-400,488	-473,561	73,073	-15.43%
Net financial income	**536,953**	**494,933**	**42,020**	**8.49%**
Personnel expenses	-181,209	-175,541	-5,668	3.23%
Other administrative expenses	-253,442	-206,324	-47,118	22.84%
Other operating income/expense	69,211	70,782	-1,571	-2.22%
Net accruals to provisions for risks and charges	-2,134	3,455	-5,589	–
Adjustments to property equipment and investment property and intangible assets	-25,865	-24,664	-1,201	4.87%
Operating costs	**-393,439**	**-332,292**	**-61,147**	**18.40%**
Operating profit (loss)	**143,514**	**162,641**	**-19,127**	**-11.76%**
Net losses on equity investments and other investments (+/-)	585	-637	1,222	–
Profit (loss) before tax	144,099	162,004	-17,905	-11.05%
Income taxes	-44,035	-64,452	20,417	-31.68%
Profit (loss)	**100,064**	**97,552**	**2,512**	**2.58%**

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

The bravoes welcome Father Christopher in front of Don Roderick's palace
Lithograph, page size 425 x 543 mm, decorated part 305 x 345 mm, signature and date *Pinelli made it in Rome 1830*

Here they are in the foreground, nailed to the gate, the *«two large vultures, with their wings expanded»*, reflecting the far worse vultures that live in the house.
And here are the two bravoes – or rather brigands of the Agro Pontino from the way they are dressed – *«friends of the convent»* accustomed to the complacent Capuchins that frequent that house like accomplices, who treat that unusually humble friar in a haughtily ceremonious way. The close-up of the door allows Pinelli to highlight these elements in particular, but also to give rhetorical significance to the architectural detail of the gate, making the "palace" of Don Roderick lose that vaguely grim and sinister character of a fort that dominates the district as it has in Manzoni's text (*«... stood by itself, on the summit of one of the promontories that skirt the coast»*).

I Promessi Sposi, cap. V, ed. 1827

Fra Cristoforo attraversò il casale, salí per un sentieruolo a chiocciola, e pervenne sur una picciola spianata, dinanzi al palazzotto. [...] Due grandi avoltoi colle ali spalancate, e coi teschi spenzolati, l'uno spennacchiato e mezzo consunto dal tempo, l'altro ancor saldo e pennuto, erano inchiodati, ciascuno sur una imposta del portone: e due bravi, sdraiati, ciascuno sur una delle panche poste a diritta e a sinistra, facevano la guardia, aspettando d'essere chiamati a godere i rilievi della tavola del signore. Il padre si fermò ritto, in atto di chi si dispone ad aspettare; ma uno dei bravi si alzò, e gli disse: «padre, padre, venga pure avanti: qui non si fanno aspettare i cappuccini: noi siamo amici del convento: ed io vi sono stato in certi momenti che al di fuori non era troppo buon'aria per me; e se mi avessero tenuta la porta chiusa, la sarebbe andata male.» Così dicendo, battè due colpi col martello.

***The Betrothed*, chapter V, 1834 translation of the 1827 edition**

Father Christopher passed through the hamlet, ascending a winding path which conducted him to the little esplanade in the front of the castle. [...] Two large vultures, with their wings expanded, were nailed each at the posts of the gate; and two bravoes, extended at full length on the benches on either side, were keeping guard until their master should have finished his repast. The father stopped, as if willing to wait. «Father, father, come on,» said one, «we do not make the Capuchins wait here; we are friends of the convent: I have been within its walls when the air on the outside of them was not very wholesome for me; it was well the fathers did not refuse me admittance.»
So saying, he gave two strokes with the knocker.

Father Christopher at Don Roderick's table

Lithograph, page size 425 x 543 mm, decorated part 305 x 341 mm, signature and date *Pinelli made it in Rome 1830*

I Promessi Sposi, cap. V, ed. 1827

«Bramerei di parlarle da solo a solo, per un affare d'importanza», soggiunse egli poi, con voce più sommessa, all'orecchio di don Rodrigo.
«Bene, bene, parleremo;» rispose questi, «ma intanto si porti da bere al padre.»
Il padre voleva schermirsi, ma don Rodrigo, levando la voce, in mezzo al trambusto che era ricominciato, gridava: «no, per bacco, la non mi farà questo torto; non sarà mai che un cappuccino si parta da questa casa, senza aver gustato del mio vino, né un creditore insolente senza avere assaggiato della legna dei miei boschi.» Queste parole furono susseguite da un riso universale, e interruppero un momento la quistione che si agitava caldamente fra i commensali. Un servo, portando sur un bacile un'ampolla di vino, e un lungo bicchiero a foggia di calice, lo presentò al padre, il quale, non volendo resistere ad un invito tanto pressante dell'uomo che egli aveva tanto bisogno di farsi propizio, non esitò a mescere, e si pose a sorbire lentamente il vino.

The Betrothed, chapter V, 1834 translation of the 1827 edition

«I would speak with you alone on an affair of importance,» added he, in a low tone, to Don Roderick.
«Very well, father, it shall be so,» replied he; «but in the meanwhile bring the father something to drink.»
Father Christopher would have refused, but Don Roderick, raising his voice above the tumult of the table, cried, «No, by Bacchus, you shall not do me this wrong; a capuchin shall never leave this house without having tasted my wine, nor an insolent creditor without having tasted the wood of my forests.» These words produced a universal laugh, and interrupted for a moment the question which was hotly agitated between the guests. A servant brought the wine, of which Father Christopher partook, feeling the necessity of propitiating the host.

We would have expected Father Christopher of «A day will come» that warns Don Roderick with his raised finger at the end of the stormy conversation and instead we find the scene of Father Christopher accepting the offer of a glass of wine with the necessity of propitiating the host.
Pinelli prefers the daily scene of the table, a prelude to the tragedy.
He prefers the direct comparison between the man of God and the man of the devil, the contrast of the humble and sober solitude of the friar, that is expressed in the attitude with which he receives the cup of wine from the servant, the boisterous company of wickedness, Don Roderick, his cousin Count Attilio, the Podestà, Dr. Azzeccagarbugli.

customer loans fell by 16% from 454.076 to 381.403 million. As mentioned, this total reflects the difficulties impeding the economic upturn and causing the riskiness of borrowers to remain high. The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has decreased to 1.90% from 2.21%. Losses from the impairment of securities have increased from 19.308 to 8.203 million. Of this amount, 6.043 million relates to the writedown of the investment in Release spa (already written down in the prior year by 12.184 million), while 2.160 million relates to certain AFS shares and mutual funds whose stock market prices are objectively lower than their original carrying amounts. Adjustments to other financial transactions amounted to 0.917 million, compared with 0.177 million in the prior year. In addition, there is a figure of 9.965 million relating to a subordinated bond.

The net contribution from financial activities was therefore 536.953 million, +8.49%.

Operating costs amounted to 393.439 million, +18.40%. This increase, partly due to the normal expansion of activities, is also attributable to charges associated with the new regulation on deposit protection funds and bank rescues.

The ratio of operating costs/total income, i.e. the «cost income ratio», has risen to 41.97% from 34.31% in the previous year.

Considering the various components of this ratio, administrative expenses amounted to 434.651 million, +13.82%; of these, personnel expenses rose from 175.541 to 181.209 million, +3.23%, partly as a consequence of contractual increases; whereas other administrative expenses increased from 206.324 to 253.442 million, +22.84%. This significant increase was partly attributable to the payment of 2.849 million made to the National Deposit Guarantee Fund envisaged by Directive 2014/49/EU (DGS), which corresponds to the Interbank Deposit Protection Fund, and of 36.592 million to the National Resolution Fund required by Directive 2014/59/EU (BRRD), comprising a special contribution of 27.444 million and the normal contribution of 9.148 million. This last Fund participated in the rescue of Banca delle Marche spa, Banca dell'Etruria e del Lazio soc. coop. p.a., Cassa di Risparmio della Provincia di Chieti s.p.a. and Cassa di Risparmio di Ferrara s.p.a..

The costs associated with normal operations were monitored closely, as always, with significant increases in the areas of IT, consultancy and legal advice.

Net accruals to provisions for risks and charges involved provisions totalling 2,134 million, while 3.455 million was released in 2014 with regard to provisions recorded in prior years that were used or no long required.

The depreciation of property, equipment and investment property and amortisation of software amounted to 25.865 million, +4.87%.

Other operating income, net of other operating expenses, resulted in a positive balance of 69.211 million, -2.22%.

Operating profit therefore came to 143.514 million, -11.76%. Net gains on equity and other investments amounted to 0.585 million, following writedowns of 2.424 million - due to Pirovano Stelvio spa for 0.425 million, and to Banca della Nuova Terra for 1.999 million - and gains of 3.009 million, which included 3.002 million recognised to the Bank, under contractual agreements, to adjust the price for the sale in 2010 of investments in Arca Vita spa and Arca Assicurazioni spa. This line item was negative for 0.637 million in the comparative period.

Profit for the year

Profit before income taxes therefore totalled 144.099 million, -11.05%. After deducting income taxes of 44.035 million, which have decreased by 31.68%, benefiting from changes during the year in IRAP and the deductibility of loan writedowns and losses, the net profit for the year was 100.064 million, compared with 97.552 million the previous year, +2.58%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 30.56% compared with 39.78% in the previous year.

CRITERIA FOR MUTUALISTIC ACTIVITIES

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

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

Once again during 2015 which, pursuant to Law 33/2015, should be our last full year as a cooperative bank, we worked to satisfy the demand for banking products and services - especially loans - from customers and, above all, from our shareholders. This is our mission and as always, we have acted accordingly, giving attention not only to the needs of individuals, but also to the more general requirements of the communities to which they belong. This means working with a vision that seeks to make best use of the resources and specific characteristics of each territory, thereby reflecting their nature and desires, as well as enhancing our mutual interests. We take the opportunities for work offered by the various counterparties, while they benefit from operating in a healthy and profitable environment. In this way, we also comply with the guiding principles established in the Valtellina Community Statute, identity, solidarity and subsidiarity, which can be extended to the other territories in which the Bank has worked, and continues to work, in accordance with sound principles.

Loans to customers amounted to 20,021 million, -2.50% on the previous year. This reflects the repayment of major loans that fell due during year, despite a substantial flow of new loans, and confirms the scale of the financial support provided to households and businesses.

Among other things, we have supported numerous eco-compatible economic initiatives by making loans intended to spread further the use of renewable energy and implement rural development plans. The same is true for the support provided for property renovations, which seek to save energy and, of course, upgrade the existing stock of properties. We have also continued our collaboration with INPS (Italian Social Security) and the Central Institute of Italian Cooperative Banks on the issue and payment of «work vouchers» for casual labour. The objective is to facilitate the provision of casual work to young people by improving the flexibility of businesses.

Against a background dominated by interest rates at historical minimums, funding was focused on offering investment instruments that safeguard the assets of savers. Customers were given all necessary assistance, including expert advice, in a fully transparent manner and respecting their individual propensities to accept risk.

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

Direct deposits came in at 26,627 million, -1.47%. Although the year-end total is slightly lower, average direct funding throughout the year was more than 5% higher. This confirms the validity of the commercial offer and, above all, the trust placed in the Bank.

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

The number of shareholders was 185,479 at year-end. The wide membership confirms our ability to involve new partners in our work. A simultaneous increase in the number of member-customers is a concrete reflection of the way we implement the founding principles of the cooperative banking movement, which identifies the members as the most important and stable core of customers. This is key to the expansion and defence of market share.

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

Institutional communications and that to the market- carried out in full compliance with the specific regulations - take account of the nature and sheer number of our members. In this regard, we note that communications are the key to informed participation by the members in the life of the bank. The traditional mid-year and year-end «Letters» are addressed to all members and friends, in order to update them on a periodic and timely basis about the performance of the bank. The directors' report and annual financial statements provide a comprehensive picture of the events that took place during the year, explained using language that seeks to be understandable by all. It is our duty to ensure that communications, increasingly required by the regulations, remain transparent and not excessively technical, in which case they would only benefit a few readers.

The Bank and the membership also come together at the annual general meeting. This key moment in the life of our business in which the most relevant decisions are taken. Direct participation is facilitated by the transport services provided and represents an opportunity to take lunch together. Indirect participation is of course possible by the wider possibility to use proxy voting. This participation by members in the life of the bank also extends to the various meetings organised directly by the Bank and in collaboration with local entities and institutions.

The will to contribute towards the economic and social development of the communities that we serve also manifests itself in the financial support that we give to a vast range of initiatives. They are the result of a solidarity-based vision of the market, where profit is accompanied by other objectives, reflecting a long-term assumption of responsibility towards the social context to which we belong for the enhancement of its identity. Initiatives during the year were as follows:

– running the library in Sondrio named after Luigi Credaro, illustrious compatriot and former Education Minister from 1910 to 1914. In addition to making available to the general public our significant heritage of books and documents, we have also established fruitful contacts with the world of education;
– support for Pirovano Stelvio spa and through it for the tourist complex of the Stelvio and the Upper Valtellina;
– the cultural events we organize on an ongoing basis such as conferences and seminars, as well as the publications we edit and publish, and the sporting events that involve a large number of participants;
– the traditional celebration of World Savings Day;
– the support provided, in collaboration with other parties, for the improvement of economic and social conditions in the various geographical areas of activity;
– the contributions 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 SUBSEQUENT EVENTS

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

On 10 March, the Governor of the European Central Bank announced a cut in the reference rate by 0.05 percentage points, dropping it to zero. At the same time, the interest rate on deposits with the Central Bank declined by 10 points to -0.40%.

The purpose of this monetary policy action is to facilitate access to credit and push the Eurozone closer to the inflation objective of 2%.

With regard to Banca Popolare di Sondrio, on 22 February 2016 the Dagong Europe Credit Rating agency, affiliated with the Chinese «Dagong Global Credit Rating», confirmed the following ratings:

– long term = BBB;

– short term = A-3;

– individual Financial Strenght Assessment = bbb;

– outlook = stable

OUTLOOK FOR OPERATIONS

The recent economic forecasts issued by the most authoritative international bodies tend to have significantly lower growth expectations for the current year. The macroeconomic situation is in fact exposed to various risks, so - in Italy too - the long-awaited recovery is likely to proceed somewhat slowly.

The contained level of demand is reflected in an inflation level that - not least due to the marked fall in commodity prices, especially the oil price - is well below the target set by the monetary authorities, while the dangers deriving from financial instability - as seen by the fluctuating prices for black gold - remain high. The global situation is highly complex and clearly cannot be countered in the Eurozone by mere recourse to monetary policies.

In this context, we believe that the Bank must continue - in the absence of unforeseeable events in the financial markets - along the growth path followed for some time, thus confirming and perhaps improving our profitability. While the results from security trading during 2015 will be hard to replicate, it is not easy to predict the performance of net interest income, although it should benefit from the action taken to contain the cost of funding. In addition, the rise in fee and commission income may make a contribution, while loan adjustments should fall and operating costs will be contained even further.

* * *

Shareholders,

The 2015 financial statements, comprising the balance sheet, the income statement and the attachments forming an integral part of these documents, are presented for your examination and approval. These financial statements, which show a profit for the year of € 100,064,082, have been audited by KPMG s.p.a..

BALANCE SHEET

Total assets			€	32,018,438,079
Liabilities	€	29,683,924,127		
Valuation reserves	€	85,111,584		
Share capital	€	1,360,157,331		
Share premium reserve	€	79,005,128		
Treasury Shares	€	-25,321,549		
Other reserves	€	735,497,376		
Total liabilities and equity (excluding profit for the year)			€	31,918,373,997
Profit for the year			€	100,064,082

ALLOCATION OF PROFIT FOR THE YEAR

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

– to the legal reserve 10%	€	10,006,408.20
– to the statutory reserve 30%	€	30,019,224.60
– dividend to shareholders of € 0.07 per share	€	31,737,004.39
– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	28,201,444.81
Total	€	**100,064,082.00**

EQUITY

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

– Valuation reserves	€	85,111,584
– Share capital – 453,385,777 shares, par value € 3 each	€	1,360,157,331
– Share premium reserve	€	79,005,128
- Treasury shares	€	-25,321,549
– Other reserves	€	803,724,454
Total	€	**2,302,676,948**

Shareholders,

After outlining the accounting data for 2015, we now have to turn our thoughts to those who contributed to the achievement of the positive results.

Firstly, we would like to thank our shareholders and customers for their constant presence, ideas and suggestions, as well as their decision to work with the Bank.

Our appreciation for the efforts of the Board of Statutory Auditors which, chaired attentively by Piergiuseppe Forni, has performed its functions with skill and professionalism, for the Advisory Committee that is always available and careful, and for the Supervisory and Discount Commissioners, who have given their contribution in term of ideas, suggestions, experience and knowledge: they are important points of reference for our branches and, understandably, more so for those located in major cities, such as Milan and Rome.

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

Profound respect for and gratitude to the management of the ECB - European Central Bank, which became our Supervisory Authority from November 2014 and we are proud of it. These sentiments are dedicated, most especially, to Chairman Mario Draghi, who greatly honours Italy at international level, and to his collaborators including in primis the members of the Executive Committee.

Special thanks also to the management of the Bank of Italy, from the Governor, Ignazio Visco, to the Members of the Directorate, to the Chief of Supervision and his staff, to the general officers and the directors of the main offices and branches located in the provinces where we are present. Special greetings also go to Giuseppe Sopranzetti, director of the Milan head office of the Bank of Italy, and to Paolo Galiani, manager of the Rome head office. A grateful thought goes to Carmela Lanza, whose management of the Sondrio branch of the Bank of Italy terminated in November 2015, due to the territorial reorganisation of the Central Bank. We wish her well as she moves to her next important assignment.

Our gratitude also goes to the Inspection Offices of the European Central Bank and the Bank of Italy - also used by the ECB -, for their constructive spirit and for the precious lessons and advice that accompany their inspections.

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.

If our results were good - although the Bank still had to work in adverse macroeconomic conditions - a significant part of the merit is attributable to our employees who, once again in 2015, worked with professionalism, commitment and willingness: our heartfelt thanks to each and every employee.

We also want to take this opportunity to thanks those employees who have recently retired for their commitment over many years. We wish them good health, serenity and long life together with their loved ones. They are: Manuela Maria Berandi, Alberto Arnaboldi, Renzo Benedetti, Bruno Bettini, Gianpietro Blasotti, Franco Bonazzi, Giorgio Casaleggi, Renato Ferrari, Maurizio Gerosa, Luigi Poli, Silvano Puratti, Aurelio Ronzio, Lorenzo Tomasi.

Our apologies to those we may have mistakenly overlooked who, nevertheless, have helped us with their friendly advice, information and in other ways: our grateful thoughts are extended to them as well.

Shareholders,

In presenting the 2015 financial statements for your approval, the directors invite the Shareholders' Meeting – having read the reports of the Statutory and Independent Auditors – to adopt the following resolution:

«The ordinary meeting of the shareholders of Banca Popolare di Sondrio, meeting today, having heard the directors' report on operations during 2015 and the proposed allocation of profit for the year, which includes the payment of a dividend to the shareholders of € 0.07 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 2015, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 100,064,082. The Shareholders' Meeting therefore specifically approves the allocation of profit for the year of € 100,064,082 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	€	10,006,408.20
– 30% to the statutory reserve	€	30,019,224.60
b) to pay a dividend of € 0.07 to each of the 453,385,777 shares in circulation at 31/12/2015 with dividend rights as from 1/1/2015, 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	€	31,737,004.39
c) to allocate the residual profit:		
– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	28,201,444.81

In accordance with the Stock Exchange calendar, the dividend will be paid from 25 May 2016, going ex-coupon (no. 38) on 23 May 2016.

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

Don Roderick racks his brain in front of the portraits of his ancestors

Lithograph, page size 425 x 543 mm, decorated part 304 x 342 mm, signature and date *Pinelli made it in Rome 1831*

The terrible and stern gaze of his ancestors, judges and military leaders, increases in Don Roderick the restlessness and torment for the dark prophecy made by the friar (*«A day will come»*), transforming them into a proud desire to emulate their power in evil satisfaction of his overbearing whim. Pinelli reconstructs the scene with a happy viewing angle that allows the exact visual reproduction of the two portraits described by Manzoni, accompanied by halberds, armour, clubs and shields, all signs of the interior dream of power that germinates in Don Roderick's breast.

I Promessi Sposi, cap. VII, ed. 1827

Don Rodrigo [...] misurava innanzi e indietro, a gran passi, quella sala, dalle pareti della quale pendevano ritratti di famiglia, di varie generazioni. Quando si trovava col muso ad una parete, e dava di volta, si vedeva in faccia un suo antenato guerriero, terrore dei nemici e de' suoi soldati, torvo nella guardatura, i corti capegli irti sulla fronte, le basette tirate e appuntate che sporgevano dalle guance, il mento obliquo: ritto in piedi l'eroe, colle gambiere, coi cosciali, colla corazza, coi bracciali, coi guanti, tutto di ferro, colla destra compressa sul fianco, e la manca mano sul pomo della spada. Don Rodrigo lo guardava, e quando gli era arrivato sotto e voltava, ecco in faccia un altro antenato magistrato, terrore dei litiganti seduto sur un'alta scranna di velluto rosso, [...] squallido, colle ciglia aggrottate; teneva in mano una supplica e pareva dicesse: vedremo. [...] Alla presenza di tali memorie, don Rodrigo tanto più si arrovellava, si vergognava, non poteva darsi pace, che un frate avesse osato venirgli addosso colla prosopopea di Nathan.

***The Betrothed*, chapter VII, 1834 translation of the 1827 edition**

[...] The more he reflected on his interview with the friar, the more was he enraged and ashamed, that he should have dared to come to him with the rebuke of Nathan to David on his lips.

Don Roderick leaves the house accompanied by the bravoes

Lithograph, page size 425 x 543 mm, decorated part 306 x 341 mm, signature and date *Pinelli made it in Rome 1831*

I Promessi Sposi, cap. VII, ed. 1827

«Bene: sei persone di seguito pel passeggio: subito. La spada, la cappa, il cappello: subito.» Il servo partì, rispondendo con un inchino; e, poco stante tornò, colla ricca spada, che il padrone si cinse; colla cappa, che egli si gittò sulle spalle; col cappello a grandi piume, che egli si pose e inchiodò, con una palmata, fieramente sul capo: segno di marina gonfiata. Si mosse, e sulla soglia trovò i sei cagnotti tutti armati, i quali, fatto ala ed inchino, gli tennero dietro. Più burbero, più superbioso, più accigliato del solito uscì, e andò passeggiando verso Lecco.

The Betrothed, chapter VII, 1834 translation of the 1827 edition

«Well; six followers to accompany me; quickly. My sword, cloak, and hat. Be quick.» The servant left the room, and returned in a few moments with a rich sword, which his master girded on; he then threw the cloak around his shoulders, and donned his hat with its waving plumes with an air of proud defiance. He then passed into the street, followed by six armed ruffians, taking the road to Lecco.

In the 1827 edition, Manzoni uses the term *«Little dogs»* for the six bravoes, armed to the teeth, who flank and bow to Don Roderick, ready to accompany him on his walk. Pinelli, with his incomparable knowledge of the code of brigands' ribaldry, presents them here like a servile pack of dogs, that crowd under the *«grouchy»* and *«arrogant»* gaze of their master, who looks *«more worried than usual»*.

Shareholders,

In implementation of the Supervisory instructions for banks on compensation and incentive policies – 7th revision dated 18 November 2014, pursuant to Directive 2013/36/EU (CRD IV) dated 23 June 2013, the Shareholders' Meeting held on 18 April 2015 approved the «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

At the board meeting held on 15 March 2016, the directors of the Bank resolved to make a number of changes to the «Policies» proposed by the Remuneration Committee. In particular, the maximum limit on the variable portion of the remuneration of the General Management of Banca Popolare di Sondrio (SUISSE) SA was raised to 50% of their fixed remuneration. Previously, this limit was set at 40% for the Chairman of the General Management of the Swiss subsidiary and at 30% for the remaining members of General Management. The new parameter is consistent with the remuneration practices adopted in the Swiss banking market and, in particular, in Canton Ticino. The Board of Directors also made a number of necessary amendments, including with reference to the identification of Key personnel.

In implementing the Bank of Italy's instructions and art. 29 of our current articles of association, we submit for your approval the document containing the «Compensation policies of the Banca Popolare di Sondrio Banking Group», which has been made available in Italian as required by law, in particular through publication on the Bank's website www.popso.it/assemblea2016 and distributed to all shareholders present.

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

Shareholders,

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

To start with, we would point out that the Internal Audit Department has carried out the necessary checks to ensure that our compensation practices comply with the approved policies and with the Bank of Italy's regulations. No anomalies have emerged in the application of the rules, which means that the policies and practices in use at Banca Popolare di Sondrio can be considered in line with the regulatory requirements.

For its part, the Remuneration Committee has fulfilled the tasks entrusted to it by legislation and the specific Regulations approved by the Board of Directors. In carrying out its work the Committee met 5 times and has, in particular, served in an advisory role, making proposals to the Board of Directors. It has monitored correct application of the rules relating to the remuneration of those in charge of internal control functions. The main activities carried out are summarised below.

The Remuneration Committee was instrumental in proposing adoption of the new compensation policies that, approved by the Board of Directors on 17 March 2015 and then at the Shareholders' Meeting on 18 April 2015, implemented the new Supervisory instructions for banks – 7th revision dated 18 November 2014, issued pursuant to Directive 2013/36/EU (CRD IV) dated 23 June 2013.

The Remuneration Committee also assisted the Board of Directors in preparing the shareholders' resolution on the remuneration of the Board of Directors and the Board of Statutory Auditors.

Additionally, the Remuneration Committee made proposals regarding the remuneration of those persons whose compensation and incentive systems are decided by the Board of Directors. For this purpose, it checked that the established quantitative, qualitative and functional objectives have been met.

Subsequent to approval of the new compensation policies, the Committee made implementing proposals to the Board of Directors regarding the criteria and parameters for recognising variable remuneration to key personnel, linked to the economic-financial, qualitative and functional objectives indicated in the policies.

The Remuneration Committee also made proposals regarding the remuneration of directors with specific duties. These were based on the criteria indicated in the compensation policies, taking account therefore of «the importance of the role and the related level of responsibility; the professional and moral qualities required; the commitment involved, including time and energy; the economic and financial position of the Bank, including prospectively; the market remuneration for equivalent duties in companies of similar size and characteristics».

The Remuneration Committee recommended the Board of Directors to adopt the «Regulation for identifying the key personnel of Banca Popolare di Sondrio and of the Banking group».

The Remuneration Committee has found no anomalies in the application of the compensation policies during the exercise of its functions.

Lastly, the Committee confirms that its remuneration-related activities were carried out on a prudent basis, with a view to containing the costs in order to strengthen the equity position of the Bank.

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

Point 3) on the agenda: 4) Approval of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Consolidated Finance Act).

Shareholders,

in implementation of art. 123-ter of Legislative Decree 58/98, Consolidated Finance Act, and related regulations approved by CONSOB, the Board of Directors has approved the Compensation Report, which is made up of two sections: the first section explains the bank's compensation policies for Directors, the General Manager and Managers with strategic responsibilities, with reference to at least the next financial year; also the procedures for the adoption and implementation of this policy. The second section illustrates with charts and tables, in the form required and with reference to the positions involved by the regulations, the compensation paid during the year concerned.

Under art. 123-ter, paragraph 1, of the CFA, the «Compensation Report» is distributed and made available to the public in the manner and terms established by current legislation, in particular via publication on the Bank's website www.popso.it/assemblea2016. It is also distributed to the shareholders present at the meeting.

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

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

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

Shareholders,

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

The matter is governed by the Italian Civil Code, i.e. articles 2529 and 2357 et seq, and by article 132 of Legislative Decree 58/98 CFA and by CONSOB Regulation 11971 of 14 May 1999 and subsequent amendments. In particular, articles 73 and 144 bis of this Regulation establish how information should be communicated to the General Meeting and the procedures for carrying out purchases and sales. In accordance with para. 33 of IAS 32 «Financial Instruments: Presentation», any treasury shares purchased must be deducted from equity.

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

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

hereby resolves:

to set at Euro 35,000,000 – shown in the financial statements under «Reserves» – as the amount made available to the Board of Directors to make purchases of the Bank's own shares in accordance with art. 21 of the Articles of Association, within the limit of this amount and whatever part of it is made available by subsequent sales of the shares purchased; all as part of an activity that is compliant with current regulations and designed in particular to facilitate circulation of the shares.

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

Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2016 financial statements. Purchases will have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned «Reserve» of Euro 35,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 2% of the shares making up the share capital. Sales will have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned «Reserve» of Euro 35,000,000.

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

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

Shareholders,

The Bank has updated the Compensation Policies for 2016, which are submitted to the Shareholders' Meeting for approval.

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

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

Based on the theoretical requirement estimated for the 2016 Compensation Plan based on financial instruments, covering the variable remuneration of key personnel and totalling a maximum of Euro 406,000, the Shareholders' Meeting is requested to approve a mandate for the Board of Directors to use the ordinary shares of Banca Popolare di Sondrio already held at the date of this resolution, up to a total amount of Euro 406,000, in order to service the 2016 Compensation Plan based on financial instruments. The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

The characteristics of the 2016 Compensation Plan based on financial instruments are described in the specific Prospectus prepared, which is available at the head office of the Bank and in the corporate information section of the website www.popso.it.

In this regard, we note that at 31 December 2015 and at today's date, the Bank holds 3,650,000 treasury shares with a carrying amount of 25.322 million.

Given the above and in compliance with the relevant laws and provisions of the articles of association, the Shareholders' Meeting is invited to adopt the following resolution:

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

hereby resolves:

to authorise the Board of Directors to use, up to a maximum total amount of Euro 406,000, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2016 Compensation Plan based on financial instruments during the life of that plan. The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

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

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

Shareholders,

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

At its meeting of 15 March, the Board of Directors approved the proposal made by the Remuneration Committee in terms of annual remuneration of the directors, in light of the difficult overall environment. It is now submitted to the General Meeting:

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

  € 300 for attending meetings of the Board of Directors; € 150 for attending meetings of the Chairman's Committee and other Board committees; € 75 for attending meetings of the Supervisory and Discount Committees;
– personal flat-rate reimbursements for the travel expenses incurred in order to attend meetings of the Board of Directors, the Chairman's Committee, the other Board committees and the Supervisory and Discount Committees:
– for residents in the province of Sondrio: € 80;
– for residents outside the province of Sondrio: € 160.

Point 6) on the agenda: appointment of five directors for the three-year period 2016-2018 and appointment of a director for the rest of the three-year period 2014-2016.

Shareholders,

In accordance with the articles of association, the Shareholders' Meeting is called upon to renew the appointment of directors. The mandates of the following directors have expired: Federico Falck, Cristina Galbusera, Nicolò Melzi di Cusano, Domenico Triacca and Francesco Venosta.

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

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

Pursuant to art. 33, paragraph 1, of the articles of association, the directors have to meet the requirements laid down by law and by the supervisory rules for banks. Art. 33, paragraph 2, also states that at least two members of the Board of Directors must meet the independence requirements laid down in art. 147-ter, paragraph 4, of Decree 58 of 24 February 1998. In this regard, note that of the 9 directors whose term of office is not about to expire, 3 meet this requirement.

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

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

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

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

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

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

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

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

The signature of each 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 set for the submission of lists, the curriculum of each candidate must be submitted, together with a declaration of acceptance of the candidature and an attestation under the candidate's own responsibility confirming the absence of any reasons for their non-election and absence of incompatibility and confirmation of having the necessary requirements to hold the office of the director as set out by the law and by the articles of association. The candidates must declare if they possess the independence requirements as per article 33, paragraph 2 and the fulfillment of that criteria is shown in the lists.

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

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

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

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

The results of this analysis are reported in the document entitled «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio», published on the Bank's website www.popso.it/assemblea2016.

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

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

Art. 36
Election of the directors

Each member may vote for only one list of candidates.

Directors are elected as follows:

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

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

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

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

If the shareholders have not submitted a single valid, the Board of Directors can present at the Meeting a pre-filled ballot paper containing a non-binding list of candidates. In this case, each shareholder may alter all or part of the voting form, deleting the candidates they do not intend to vote for and, if they want, adding one or more new candidates in place of those deleted. Once the votes have been counted, the candidates who received the highest number are elected. If no valid list is presented and the Board of Directors does not make a proposal pursuant to this article, the Meeting shall elect the Directors by a relative majority among the individual candidates.

If the composition of the Board of Directors resulting from the votes does not respect the gender balance principle the director who does not comply with that principle and placed at the highest position in the winning list is replaced by the next candidate from the same list who complies with that principle. If even after applying this criteria suitable replacements are not identified then the replacement criteria is applied to the director elected in the list obtaining the second highest number of votes. If even then suitable replacements are not identified or in case it is

Don Roderick and the Griso

Lithograph, page size 425 x 543 mm, decorated part 303 x 345 mm, signature and date *Pinelli made it in Rome 1831*

Swords, spears, halberds, daggers. It is an outline of oppression and violence that is the backdrop to the conversation between Don Roderick and the chief of his bravoes in Pinelli's illustration. The first comfortably stretched in his chair in front of the large canopy of his bed (*«Hardly risen, he sent for Griso»*), an image of power that becomes crime; the second, standing, leaning on his huge sword, the defiant attitude of the villain in uniform, with his head uncovered that shows his long hair tied in a mesh from which a large lock emerges, ready to be dropped over his face, when needed, as a visor to make himself unrecognisable, the image of crime at the service of power.

I Promessi Sposi, cap. VII, ed. 1827

Al mattino vegnente don Rodrigo si destò don Rodrigo. [...] Appena alzato, fece chiamare il Griso. [...] l'uomo che aveva quel soprannome non era niente meno che il capo dei bravi, quegli a cui si imponevano le faccende più arrischiate e insolenti; il fidatissimo del padrone, l'uomo devoto a lui a tutte prove, per gratitudine e per interesse. Reo di pubblico omicidio, per sottrarsi alla caccia della giustizia, era egli venuto ad implorare la protezione di don Rodrigo; e questi prendendolo al suo servigio, lo aveva messo al coperto da ogni persecuzione. Cosí, coll'impegnarsi ad ogni delitto che gli venisse comandato, colui s'era assicurata l'impunità del primo. [...]

«Griso!» disse don Rodrigo, «in questa congiuntura si vedrà quel che tu vali. Prima di domani, quella Lucia debbe trovarsi in questo palazzo.»

«Non si dirà mai che il Griso si sia ritirato da un comando dell'illustrissimo signor padrone.»

***The Betrothed*, chapter VII, 1834 translation of the 1827 edition**

The following morning, when he awoke, Don Roderick was «himself again».[...] Hardly risen, he sent for Griso. [...] This Griso was nothing less than the leader of the bravoes to whom was entrusted the most dangerous and daring enterprises, who was the most trusted by the master, and the most devoted to him, from gratitude and interest. This man had been guilty of murder; he had fled from the pursuit of justice to the palace of Don Roderick, who took him under his protection, and thus sheltered him from the pursuit of the law.

He, therefore, stood pledged to the performance of any deed of villainy that should be imposed on him.[...] «Griso,» said Don Roderick, «you must show your skill in this emergency. Before to-morrow, that Lucy must be in this palace.»

«It shall never be said that Griso failed to execute a command from his illustrious protector.»

Renzo with Tony and Jervase at the inn under the gaze of Don Roderick's bravoes

Lithograph, page size 425 x 543 mm, decorated part 305 x 340 mm, signature and date *Pinelli made it in Rome 1831*

I Promessi Sposi, cap. VII, ed. 1827

Quando Renzo e i due compagnoni giunsero all'osteria, vi trovarono quel tale già piantato in sentinella, che ingombrava mezzo il vano della porta, appoggiato colla schiena ad uno stipite, colle braccia incrocicchiate sul petto, e sguaraguatava a dritta e a sinistra[...] teneva sospeso in mano un grosso randello: [...] Entrati videro gli altri dei quali già avevano intesa la voce, quei due bravacci, che seduti a un deschetto, giuocavano alla mora, gridando tutti e due ad un fiato e versandosi or l'uno or l'altro a bere, d'un gran fiasco posto fra loro. Questi pure adocchiarono i sopravvegnenti; e uno dei due specialmente, tenendo sospesa in aria la destra con tre grosse dita sparpagliate e la bocca squarciata per un gran «sei» che ne era scoppiato fuori in quel momento, squadrò Renzo ben bene, ...

The Betrothed, chapter VII, 1834 translation of the 1827 edition

When Renzo and his companions arrived at the inn, they found the door blockaded by a sentinel, who, leaning on one side of it, with his arms folded on his breast, occupied half its width; at the same time rolling his eagle eyes first to the right and then to the left [...] he held in his hand a club: [...] Having gained an entrance, he beheld the other two bravoes with a large mug between them, seated at play; they stared at him with a look of enquiry, making signs to each other, and then to their comrade at the door...

Renzo, with his cousins Tony and Jervase, enters the town inn where Griso has placed some of his bravoes to spy on any suspicious movements. The two groups that have organised the surprise wedding on the one hand, and the kidnap of Lucy on the other, both destined to failure, are now face to face. The Pinelli illustration corresponds exactly to the scene described by Manzoni in the 1827 edition, considered more primitive from a literary point of view, with the bravo guarding the door *«with his arms folded on his breast»*, *«rolling his eagle eyes first to the right and then to the left»* and the other bravoes play morra on a *«deschetto»*, rather than *«a un canto della tavola»*.

Pinelli couldn't possibly skip this scene, because the game of morra was one of his party pieces in the scenes of Roman life where there has to be what Manzoni describes as the right hand *«sospesa in aria»*, *«con tre grosse dita sparpagliate»* which, in the 1840 edition, would become, much more effectively, *«tre ditacci tesi e allargati»*.

impossible to apply this mechanism then the Shareholders' Meeting decides by simple majority from amongst the individual candidates, thereby putting in replacements in the order indicated above.

For partial renewals of the Board in accordance with the provisions of article 34, paragraph 2, where it is not necessary to appoint a director taken from a list that obtained the second highest number of votes, for the first time or due to expiry of a mandate or other cause of termination, all of the candidates on the list that obtained the highest number of votes shall be elected.

""""

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

** *** **

Shareholders,

the Meeting is also called upon to appoint a director for the rest of the three-year period 2014-2016.

This follows the death of the Honorary Chairman of the Bank, Piero Melazzini - director elected from the sole list presented -, whose three-year mandate would have ended on the date of the Shareholders' Meeting called to approve the 2016 financial statements.

In this case art. 37 applies, as follows:

""""

Art. 37
Replacement of directors

If, during the year, one or more Directors are no longer available for whatever reason, the other directors proceed with the replacement with the approval of the Board of Statutory Auditors, wherever possible, choosing the replacement from amongst the non-elected candidates of the same list. The directors thereby nominated shall remain in office until the next shareholders' meeting.

If there is no longer the majority of directors nominated by the shareholder' meeting the remaining directors must call the Shareholders' Meeting so that it can decide on the replacements.

If the Shareholders' Meeting has to find replacements from only one list or in case of more than one list, directors nominated from the winning list, the election is by a relative majority from amongst the individual candidates without any list restriction.

If the Shareholders' Meeting has to find replacements from the other list according to article 36 above, the election is by a relative majority from amongst the individual candidates choosing them where possible from the unelected candidates from the lists to which the departing directors belonged.

In any case, the replacement of directors must be in compliance with the provisions of article 33, paragraph 2 and must ensure gender balance in the Board of directors according to the principles set by the law and by these articles of association.

At least fifteen days prior to the date of the first call of the Shareholders' Meeting the curriculum of each candidate must be deposited at the company's head office, together with a declaration of acceptance of the candidature and an attestation under the candidate's own responsibility confirming the absence of any reasons for their non-election and absence of incompatibility and confirmation of having the necessary requirements to hold the office of the director as set out by the law and by the articles of association. The candidates must declare if they possess the independence requirements as per article 33, paragraph 2.

The directors elected by the Shareholders' Meeting take office and for the purposes of rotation as set out in article 34, paragraph 2, assume the residual period of office of the person they replaced. In case of simultaneous nominations to offices of differing durations, the longer duration offices are to be assigned to the elected directors with the highest votes, and in the case of equal number of votes, the age of the directors becomes the deciding factor. ""

In this case, in accordance with paragraph 3 of article 37 of the articles of association, the election is by a relative majority vote for each candidate, without any list obligation.

Also in this case, before submitting candidatures, reference should be made to the «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio».

Point 7) on the agenda: Appointment of advisors and alternate advisors for the three-year period 2016-2018.

Shareholders,

Under art. 54 of the articles of association, the Advisory Committee consists of three members and two alternate members, elected by the Ordinary General Meeting from among the shareholders. They hold office for three years and expire at the Shareholders' Meeting called to approve the financial statements for their third year of office; they can be re-elected.

In accordance with the Articles of Association, the Shareholders' Meeting is called upon to elect the entire Advisory Committee for the three-year period 2016-2018. Election will be by a relative majority vote.

The mandates of the following members have expired: Giuseppe Guarino, Andrea Monorchio, members, Diana Bracco and Antonio La Torre, alternate members.

Sondrio, 15 March 2016

THE BOARD OF DIRECTORS

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

Shareholders,

Pursuant to art. 153 of Decree no. 58/1998 (TUF), the Board of Statutory Auditors is required to report to the Shareholders' Meeting called to approve the financial statements on the supervisory activities carried out during the year, and on any omissions or censurable facts that were identified; we can also make observations and proposals regarding the financial statements, their approval and the matters included in our tasks.

During 2015, the Board of Statutory Auditors carried out its institutional duties in compliance with the Italian Civil Code, Decree nos. 385/1993 (TUB), 58/1998 (TUF) and 39/2010 (Consolidated Law on Legal Audits), the articles of association and the instructions issued by the national and European authorities responsible for supervision and control; in performing this work, we also complied with the code of conduct recommended by the Italian Accounting Profession.

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

Supervisory activities of the Board of Statutory Auditors

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

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

With reference to the activities carried out during 2015, we can report that we attended the only Shareholders' Meeting, all the meetings of the Board of Directors (11) and all those of the Chairman's Committee (80), with the exception of a few, justified absences; the Chairman of the Board and/or at least one of the Statutory Auditors also attended 18 of the 19 meetings of the Control and Risks Committee held in 2015.

Participation at the meetings of the above bodies enabled the Board, as envisaged in art. 150 of Decree no. 58/98, to obtain from the directors and senior managers information about the principal economic, financial and equity transactions carried out during the year by the Bank and its subsidiaries. In addition, we monitored constantly the adequacy of the overall system of controls by interacting intensively with the second and third-level control functions, as well as by carrying out periodic checks: overall we carried out 46 checks, of which 17 at branches. These activities also enabled us to carry out, in collaboration with the Internal Audit Department - Central and Branch Inspections Office, specific checks on the proper operations of branches, as well as on the proper implementation of processes and procedures there. The outcome of our inspections are documented in the related reports.

Principal economic and financial transactionsduring the year

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

– The reclassification among equity investments of the interest held in ARCA SGR spa following the increase in the Bank's holding from 12.906% to 21.137% on the exercise of pre-emption rights following the withdrawal of two banking shareholders.

– The decision not to accept the proposal made by Bain Capital, Advent International and Clessidra SGR, a consortium of investment funds, to purchase the quotas held by the Bank in Istituto Centrale delle Banche Popolari Italiane S.p.A. (ICBPI) and in CartaSi spa, totalling respectively 1.997% and 1.249%. The realignment of the carrying amount of these equity investments to reflect their selling prices resulted in the recognition of a capital gain in equity of 39.554 million euro.

– The performance of a second level impairment test of the entire business, in compliance with ESMA (European Securities and Markets Authority) Document no. 725/2012, identified an economic value of 2,910 million euro, which compares with consolidated equity of 2,563 million euro.

– The voluntary public offer completed in October to exchange the Tier 2 subordinated bonds issued by the Bank in 2014, with a total value of 350 million euro; as part of the transaction, securities totalling more than 274 million euro were exchanged, representing a 78.32% take-up rate; the transaction increased the Total Capital Ratio by 111 bp.

– The payments made to the National Deposit Protection Fund required by Directive 2014/49/EU (DGS - Deposit Guarantee Schemes), 2.849 million euro, and the National Resolution Fund required by Directive 2014/59/EU (BRRD - Banks Recovery and Resolution Directive), 36.592 million euro, significantly increased other administrative expenses, which rose by 22.84%.

– The decision not to participate in the 4 auctions held by the ECB in 2015 as part of the programme of Targeted Longer-Term Refinancing Operations (T-LTRO): there are currently two outstanding T-LTRO, totalling 1,098 million euro, which were arranged in 2014 with expiry on 26 September 2018. They do not have to repaid early, during 2016, since the Bank has complied in full with the lending parameters set by the ECB.

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

– on 10 March, the ECB announced a cut in the reference rate by 0.05 percentage points, dropping it to zero;
– on 22 February, the Dagong Europe Credit Rating agency, affiliated with the Chinese «Dagong Global Credit Rating», issued ratings for the Bank. These ratings, stated in the Directors' report, confirm the previous assessments made.

See the Report on operations for a complete description of operating activities during 2015. In this regard, we confirm to the best of our knowledge that the decisions taken were made in compliance with the law, the Articles of Association and the regulations issued by the domestic and European Supervisory Authorities (Bank of Italy and Consob - ECB and ESMA).

Transformation of cooperative banks into limited liability companies

Law no. 33 dated 24 March 2015 requires the «reform of cooperative banks». The consolidated assets of the Banca Popolare di Sondrio Banking Group amounted to 35.618 billion euro at 31 December 2014 and, accordingly, this law applies to the Bank. The transformation into a limited liability company will be an event of great importance for the Bank. The Board has monitored the measures taken to implement this law, giving its opinion when requested: in particular, the Board of Directors approved amendments to align the articles of association with the related regulatory requirements and established, as required by the Supervisory Authorities, a general calendar of implementation that is expected to terminate in autumn 2016, with an Extraordinary Shareholders' Meeting called to approve the new articles of association and the resolution to change the legal form of the Bank into a limited liability company (SpA).

Compliance with the principles of proper administration

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

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

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

Adequacy of the organisational structure

The organisational structure of the Bank appears to be suitably controlled, having regard for their specific duties, by General Management and the Board of Directors. Action was taken during the year to improve their effectiveness and efficiency, considering the needs deriving from both market dynamics and intensive regulatory developments. In view of the challenging competitive environment, special attention was dedicated to ensuring the ever more careful management of risks, going beyond the normal focus on strengthening the organisational structure, to support the expansion of economic activity, and on targeting profitability and opportunity. In pursuit of the above objectives, working continues on the strengthening of the organisation and the improvement of processes, together with the related IT architecture, especially with regard to the management of loans, the identification and assessment of risks and their control.

The work to implement the instructions contained in Bank of Italy Circular 263/2006 and subsequent amendments, and in the first update to Bank of Italy Circular 285/2013, was followed by the initiatives taken following the recommendations expressed by the European Supervisory Body consequent to the SREP (Supervisory Review and Evaluation Process) 2015.

Significant actions concerning the organisational structure included the quantitative and qualitative strengthening of the second-level control functions, such as Risk Management, Validation and Compliance, and the related supporting tools.

To the extent of our responsibilities, we have monitored the adequacy of the organisational structure having regards for adjustments already made and those to be made and, based on the outcome of the investigations carried out and the information obtained from the various business functions, while also having regard for the scale and complexity of the bank, the organisational structure is, in our opinion, essentially adequate in relation to the needs of the bank. We concur with the need, identified by the Bank, to continue strengthening and enhancing the organisational structure, in order to take account of new situations associated with the changed environment in which the Bank now operates.

Adequacy of the system of internal control

We have assessed and monitored the adequacy of the system of internal control, considering the various elements and their interaction, for which the Board of Directors is responsible; in doing so, we used indications provided for that purposes by the Controls and Risks Committee. These supervisory activities involved constant interaction with the second and third-level control functions (Internal Audit, Risk Management, Compliance and Anti-money laundering functions) in order to check compliance with corporate rules and procedures, as well as the adequacy and effectiveness of the overall system of internal control, with particular reference to the management and control of risks. Specifically, we interacted with:

– the Internal Audit Department, which is responsible for checking the adequacy and effectiveness of the system of internal controls and the related processes; in collaboration with this Department, we carried out checks at branch level in order to verify compliance with operating procedures and identify any weaknesses in the branch organisation;

– working with the Risk Management functions, we monitored the effectiveness of the controls in place to prevent, measure and mitigate the various types of risk, having regard for the indications received from the European Supervisor, which is increasingly calling on banks to strengthen their risk assessment tools. The Directors' Report provides full information about the actions taken to manage risk, focusing on their evolution as a result of the more intense and coordinated banking supervision exercised at a European level;

– with the Compliance Unit, establishing constant dialogue regarding the examination and assessment of certain topics within the regulatory framework applicable to the Bank and arising from domestic and international supervisory authorities; this function provided us with reports on compliance by the Bank, with particular regard to the regulations governing investment services, transparency, privacy and conflict of interests.

– the Anti-money laundering Function, which has made available detailed information about the current situation, the related improvements in progress and those to be implemented, as well as about the assessment of compliance with current regulations. This information was obtained from the reports prepared about the work performed, which have been made more incisive by the strengthening of the system of controls, as well as from the specific checks carried out and from meetings. With regard to the current regulations, the Board of Statutory Auditors notes the measures adopted by the Function to guarantee compliance by the Bank with Law 186 of 15 December 2014, that became effective on 1 January 2015, on «Instructions for the identification and return of capital held abroad, as well as for strengthening the fight against tax evasion.
Instructions on anti-money laundering matters», which governs the amnesty relating to the identification and return of capital held abroad (so-called voluntary disclosure), and that has created work for Banca Popolare di Sondrio (SUISSE), in particular.
As stated in its annual report, the Function has followed up on the recommendations made in this regard by the competent Authorities, by

Renzo and Lucy attempt a surprise wedding in front of Don Abbondio

Lithograph, page size 425 x 543 mm, decorated part 300 x 350 mm, signature and date *Pinelli made it in Rome 1831*

It is the night of misunderstandings and tricks. Tony, with the excuse of redeeming a pledge (*«the necklace of my Tecla»*), enters Don Abbondio's home together with Jervase. Agnes, with malicious gossip about her missed weddings, has drawn Perpetua away from the door, allowing Renzo and Lucy to sneak furtively in the priest's house as well. Toni has already taken his payment receipt from the hands of Don Abbondio, when he and Jervase move aside to allow Renzo and Lucy can pronounce their surprise "yes" in the presence of two witnesses. The rest is all in the Manzoni's masterly description of Don Abbondio quicksilver reaction, well illustrated by Pinelli who adds some particulars, such as the bottles of wine on the top shelf, broom and shovel leaning against the cupboard and, priceless, the picture on the wall with the scene of a comic play, which mocks the comedy being played in this scene of the novel.

I Promessi Sposi, cap. VIII, ed. 1827

Tonio, stendendo la destra a prenderlo [il foglio]*, si ritirò da una parte, Gervaso, ad un suo cenno, dall'altra: ed ecco, come al dividersi di una scena, apparire nel mezzo Renzo e Lucia. Don Abbondio, intravvide, vide, si spaventò, si stupì, s'infuriò, pensò, prese una risoluzione: tutto questo nel tempo che Renzo mise a proferire le parole: «signor curato, in presenza di questi testimonii, quest'è mia moglie.» Le sue labbra non erano tornate in riposo, che don Abbondio aveva già lasciata cadere la quitanza, afferrata colla manca, e sollevata la lucerna, ghermito con la destra il tappeto che copriva la tavola e tiratolo a sé con furia, gittando a terra libro, carta, calamaio e polverino; e balzando tra la seggiola e la tavola, s'era avvicinato a Lucia. La poveretta con quella sua voce soave, e allora tutta tremante, aveva appena potuto proferire: «e questo...» che don Abbondio le aveva gittato sgarbatamente il tappeto sulla testa e sul volto, per impedirle di pronunziare intera la formola.*

***The Betrothed*, chapter VIII, 1834 translation of the 1827 edition**

Tony, on receiving it [the paper], retired on one side, Jervase on the other, and, behold, in the midst, Renzo and Lucy!

Don Abbondio, affrighted, astonished, and enraged, took an immediate resolution; and while Renzo was uttering the words, «Sir Curate, in the presence of these witnesses, this is my wife,» and the poor Lucy had begun, «And this is» he had snatched from the table the cloth which covered it, throwing on the ground books, pen, ink, and paper, and in haste letting fall the light, he threw it over and held it wrapped around the face of Lucy.

I Promessi Sposi, cap. XVII, ed. 1827

Renzo, scorto sul fondo della barca un altro remo, si china, e lo afferra.
«Piano, piano,» disse il padrone; ma al veder poi con che garbo il giovane aveva dato di piglio allo stromento, e si disponeva a maneggiarlo, «ah, ah,» soggiunse: «Siete del mestiere.»
«Un pochettino» rispose Renzo, e vi diè dentro con un vigore e con una maestria più che da dilettante. E sbracciandosi tuttavia, sospingeva tratto tratto un'occhiata ombrosa alla riva da cui si allontanavano, e poi una ansiosa a quella dove erano rivolti, e si crucciava di dovervi andare per la lunga; ché la corrente era ivi troppo rapida, per tagliarla direttamente; e la barca, parte rompendo, parte secondando il filo dell'acqua, doveva fare un tragitto diagonale.

The Betrothed, chapter XVII, 1834 translation of the 1827 edition

Renzo, perceiving another oar in the bottom of the bark, stooped to take it.
«Softly, softly,» said the fisherman. But seeing with what skill the young man managed the oar, «Ah! ah!» added he, «you know the trade.»
«A very little,» replied Renzo, and he continued to row with a vigour and skill beyond that of a mere amateur in the art. With all his efforts, however, the bark moved slowly; the current, setting strong against it, drove it continually from the line of its direction, and impeded the rapidity of its course.

Renzo crosses the Adda in a boat

Lithograph, page size 355 x 390 mm, decorated part 300 x 357 mm, signature and date *Pinelli made it in Rome 1831*

Renzo's anxious "crossing of the Adda" in a boat together with a fisherman, is transformed, in Pinelli's illustration, almost into the headlong flight of two brigands. The very close foreground of the scene focuses all of the reader's attention on the boat, which takes up the entire frame, on Renzo's vigorous rowing and on the fisherman who tries to cool down Renzo's impetuosity, preventing us from grasping the stretch of the river between the two banks, one escaped, the other awaited, towards which the boat makes slow progress, zigzagging in the swirling current.

refining the preventive action taken with more systematic recourse to a risk-based approach.

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

In the context of the Single Supervisory Mechanism, the Bank was subjected to the ECB's Supervisory Review and Evaluation Process (SREP) for the first time in 2015, which covered the following four principal factors:

– business models: review of the sustainability of the operational model and profitability of banks;
– governance and risk management: review of the operational and organisational structure of banks and their overall approach to risk management;
– capital risks: assessment of the risks and systems for the control of risks associated with the capital of banks, and the need to establish additional capital and capital adequacy requirements;
– liquidity and funding risks: analysis of the liquidity and funding positions of banks, the systems for the control of risk and the need for keeping supplementary reserve liquidity.

Following the SREP, an ECB communication to the Bank on 20 November 2015 requested the maintenance on a consolidated basis of CET 1 (Common Equity Tier 1) ratio of 9.25% and sufficient liquid assets to meet the liquidity requirement (Liquidity Coverage Ratio - LCR) established in Regulation (EU) 575/2013 (Capital Requirements Regulation - CRR).

Both requirements are complied with.

Adequacy of the administrative-accounting system. Manager responsible for preparing the Company's accounting documents

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

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

- the adequacy and effective application of the administration and accounting procedures for the preparation of the financial statements at 31 December 2015;

- their agreement with the underlying accounting records and entries;
- the ability of the financial statements to present a true and fair view of the economic and financial position of the bank.

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

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

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

We also note the establishment and functioning of an Appointments Committee during 2015, alongside the already active Control and Risks Committee, Committee for Related-Party Transactions and Compensation Committee, as well as the Supervisory Body required by Decree 231/2011. On the one hand, these bodies contribute to the architecture of the corporate governance model, making it ever more compliant with the instructions received from the Supervisory Authorities, and, on the other, they provide the Board of Directors with improved support in the performance of its duties regarding the management and control of risk.

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

Instructions given to Group companies

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

– with regard to Banca Popolare di Sondrio (SUISSE) SA (100%), which has a focus on retail customers, control activities are carried out by the Internal Audit Department of the parent bank, which works with the IA managers at the subsidiary. This company operates in accordance with the instructions issued by FINMA, the authority that supervises financial activities in Switzerland.

This subsidiary has worked hard on the activities consequent to tax agreements reached between Switzerland and other countries that, for Italy, provided a basis for issuing the «voluntary disclosure» regulation on the emergence of capital held abroad. In this regard, based on the results of the checks carried out by the Parent Bank's Internal Audit Department and the information obtained from the management of BPS Suisse, the Board has not identified any critical matters or information to report about compliance by the subsidiary with the regulations. Lastly, based on the contents of the auditors' report on the annual financial statements issued by KPMG SA, the independent auditors, we can confirm - considering also the information obtained from discussions with the directors and managers - that no matters worthy of mention have been identified with regard to the control of risks or compliance with the instructions given by the parent bank;

– with regard to Factorit spa (60.5%), we confirm that our monitoring activities were carried out via the presence on the board of statutory auditors of the subsidiary of one of the parent bank's serving statutory auditors, as well as via our interactions with the Internal Audit Department of the parent bank, which is also responsible for the internal audit of the subsidiary on an outsourcing basis. In this way, it also carries out the third-level control on the Compliance Function;

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

– with regard to Popso Covered Bond srl (60%), a company formed in relation to the issue of covered bonds, our checks were carried out with reference to BDO Italy Spa, the current asset monitor, and to the Internal Audit Department, which issues an annual report on the programme of covered bond issues, as required by Part III, Chapter 3, of Bank of Italy Circular 285 dated 17 December 2013.

The regulatory activity performed by the parent bank, with regard to its relations and information flows with subsidiaries, was particularly intensive during the year: as required by Bank of Italy Circular 263, during 2015 the Board of Directors adopted and/or updated regulations that were promptly transmitted to Banca Popolare di Sondrio (SUISSE) and Factorit; in turn, these subsidiaries adopted them and included them in their respective systems of internal rules. With regard to the governance of risks, these regulations covered in particular: the ICAAP process, determination of the RAF, the process of managing risks and the specific controls over operating, liquidity, concentration, excessive leverage, RPT and equity investment risks.

ECB Supervision

Since November 2014, the Bank is subject to the ECB's Single Supervisory Mechanism (SSM) pursuant to Regulation (EU) 1024/2013 dated 15 October 2013. The most significant facts relating to the ECB supervision in 2015 include:

a) for all supervised banks: the initial outcome of the SREP (discussed above) and, for the majority of banks, a request to implement a stress test using the methodologies and procedures established by the EBA;

b) for the Bank: the inspections carried out by the ECB, via the Bank of Italy's Inspection Office, during the first half of the year, covering governance, compensation and internal controls, and those in the latter part of the year, covering the management of credit and counterparty risk and the system of risk control. The related reports, containing improvement objectives, were received in July 2015 and February 2016 respectively.

The Bank has constant links and discussions with the JST (Joint Supervisory Team), via the functions and central offices involved, in order to define, assess and update the activities already completed, and those scheduled, together with the management of the Team. Discussions with the JST have always been constructive and, during 2015, the Board of Statutory Auditors was involved in four meetings (one held at the ECB offices in Frankfurt) that were attended by the Chairman and at least one auditor.

With reference to the work performed by the Bank on the improvements suggested by the JST, the Board has always noted attention, awareness and a spirit of collaboration, and has checked that the Bank has implemented methodological and organisational action designed to improve efficiency and effectiveness, as well as to contain risk. Specifically, we can confirm that the Bank has commenced and partly completed a complex process of alignment with the ECB's instructions on the monitoring, mitigation, assessment and control of the various types of risk. All this has had a significant and positive effect on the definition of the RAF (level of risk that the Bank intends to accept in the pursuit of its strategic objectives) and the ICAAP process (assessment of the internal capital adequacy of banks).

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

Pursuant to art. 17, para. 9, letter a), of Decree 39/2010 and art. 149-duodecies of Consob Regulation 11971, information is given about the remuneration recognised for the services provided to the Group by the firms belonging to the international network of KPMG (including the Auditing Firm, KPMG spa) during 2015.

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

– KPMG spa for Audit Services:

• Banca Popolare di Sondrio	443
• Sinergia Seconda srl	21
• Pirovano Stelvio spa	12
• Factorit spa	70
• Popso Covered Bond srl	31

– KPMG spa for other services:

• Banca Popolare di Sondrio	58

– KPMG Advisory spa for assistance and methodological support in various areas, including the Recovery Plan, the operational risk management framework, the Remedial Actions following the Comprehensive Assessment, the validation of operational models:

• Banca Popolare di Sondrio	1,134

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

In addition to the above, KPMG SA, a member of the KPMG international network, was paid 420 thousand euro for Audit Services performed in relation to Banca Popolare di Sondrio (SUISSE).

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

In accordance with the above requirements, we confirm that:

– 5 complaints were received about investment services; the low number, in line with 2013 and 2014 (4 in both years), their nature and the absence at present of legal action all confirm the propriety of the Bank's actions;

– no petitions under article 2408 of the Civil Code were received;

– we did not issue any opinions apart from those required by law.

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

Directors' Report and are confirmed and highlighted in the activities carried out by the bank.

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

Gender balance

In compliance with Law no. 120 dated 12 July 2011 on equal access to the administrative and supervisory boards of companies listed in regulated markets and of public companies, the Bank's Board of Directors now comprises three women and eleven men. This is consistent with the first application of the law concerning the least represented gender, in this case the female gender. Following the appointment of members for the three-year period 2015-17, the Board of Statutory Auditors consists of two male statutory auditors (the Chairman and one auditor) and one female statutory auditor, therefore complying with the minimum proportion of the least represented gender. On renewing the Board of Directors during the Shareholders' Meeting in April 2016, at least one third of the appointments must be allocated to the least represented gender.

Financial Statements and Report on operations

We have examined the financial statements at 31 December 2015, which are presented today for your examination and approval. In this regard, we confirm that they were approved by the Board of Directors of Banca Popolare di Sondrio on 15 March 2016 and, on that date, they were provided to us together with the Directors' report on operations and the other obligatory documentation.

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

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

The financial statements for the year are summarised below:

Balance sheet

Assets	€	32,018,438,079
Liabilities	€	29,683,924,127
Equity	€	2,234,449,870
Net profit for the year	€	**100,064,082**

Income statement

Pre-tax profit from continuing operations	€	144,098,616
Income taxes	€	44,034,534
Net profit for the year	€	**100,064,082**

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

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

– the financial statements for 2015 reflect the balances on the books of account and have been prepared in accordance with the IAS/IFRS adopted by the European Commission and applied according to the principles and methods explained in the Notes.
  The amendments made to those principles and criteria, discussed in the notes to the financial statements, were not significant and did not give rise to any significant variances, with respect to those adopted to prepare the financial statements for the prior year;

– the report on operations can be considered exhaustive and is consistent with the figures and other information provided in the financial statements and explanatory notes; this report describes the operations and events arising during the year, both with regard to the related economic and financial information, and with reference to the «other information», such as management of the risks relating to the activities of the bank, human resources, the criteria underlying the bank's mutual activities, promotional and cultural activities etc.;

– the report on operations also properly describes the significant events and transactions that have taken place subsequent to year end.

Consolidated Financial Statements

With regard to the consolidated financial statements, which report a profit of 129.300 million euro compared with 115.203 million in 2014, we note that they were correctly prepared in accordance with the relevant accounting standards, in terms of the definition of the scope of consolidation and with regard to compliance with the relevant regulations. In reaching these conclusions, we noted the functioning of the systems in place to provide the related data and the application of the related operational controls.

Closing remarks

Shareholders,

Given all of the above and noting that the reports of KPMG, the auditing firm, do not contain qualifications or any emphasis of matter and confirm that the separate and consolidated financial statements for 2015:

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

we express our opinion in favour of approving the financial statements for 2015.

In closing our report, we wish to join with the heartfelt thoughts expressed by the directors in relation to the late Honorary Chairman Piero Melazzini, a man of unusual humanity. His contribution was decisive in enabling Banca Popolare di Sondrio to achieve its significant position in domestic and European banking sector; we shall all remember his profound rectitude and great intellectual honesty that, on every occasion, knowledgeably and consistently guided his unanimously recognised professional qualities.

Sondrio, 1 April 2016

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

Equity investments

International unit

Online Bank

Loans to households

Loans to businesses

The Bank and young people

Carta +ma

Asset management

Bancassurance and supplementary pension schemes

Publishing

Conferences

Appointments with literature and schools

Gift to the shareholders

Equity investments

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

SUBSIDIARIES

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FACTORIT SPA

PIROVANO STELVIO SPA

SINERGIA SECONDA SRL

POPSO COVERED BOND SRL

RAJNA IMMOBILIARE SRL

ASSOCIATED COMPANIES

UNIONE FIDUCIARIA SPA

ARCA SGR SPA

ALBA LEASING SPA

BANCA DELLA NUOVA TERRA SPA

ARCA VITA SPA

POLIS FONDI IMMOBILIARI DI BANCHE POPOLARI SGR PA

SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL

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International unit

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

ONE-STOP SHOP FOR INTERNATIONALISATION

The right solution
for your business abroad

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

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SCRIGNO IdentiTel

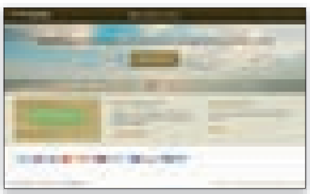
A strong authentication tool that complies with national and European directives in the field of online payments

Online Bank

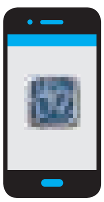
the services of your bank at your fingertips, whenever you want and wherever you want, as well as being easily and safely accessible

SCRIGNO Pago Facile

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



SCRIGNO app



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

... and on your "wrist"!

Correspondence on line

This service allows to reduce costs for customers and makes it possible to receive communications in digital form rather than on paper

SCRIGNO Internet Banking

The simple, convenient and safe solution to operate on line

PAGE 56

Loans to households

simple, transparent and competitive proposals;
offering a variety of solutions for all needs

PAGE 56

Loans to businesses

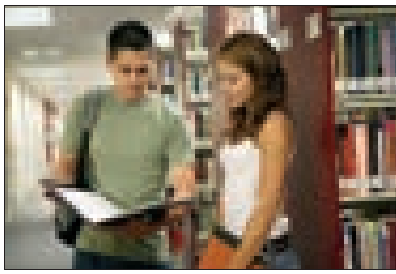
in line with the evolving needs of companies,
effective products to support development and innovation



PAGE 56

The Bank and young people

special attention to the younger generations
with products tailored to promote a growth path



Carta +ma

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

PAGE 56

Asset management

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

GPM
ASSET MANAGEMENT

GPF Multimarca
ASSET MANAGEMENT
IN INTERNATIONAL FUNDS AND SICAVS

Popso (SUISSE)
Investment
Fund SICAV

MUTUAL FUNDS

ETHICAL MUTUAL FUNDS

PAGE 56

Bancassurance and supplementary pension schemes

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

ARCA ASSICURAZIONI ARCA VITA Arca Previdenza FONDO PENSIONE APERTO

PAGE 56

Publishing

for nearly seventy years, a contribution that bears witness
to a path of growth and a sharing of cultural values





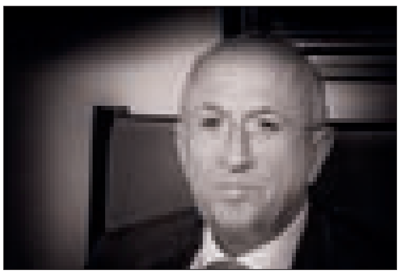
PAGE 67

Conferences

public meetings with famous personalities
to transmit cultural values to the community

ALDO BONOMI
20 February 2015

ANTONIO PATUELLI
16 September 2015



Prof. FRANCESCO SABATINI
6 November 2015

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29 December 2015

Ernest Hemingway.
A Farewell to Arms

Fifth meeting with the Nobel Prize for Literature

Appointments with literature and schools

31 October 2015

91st World Savings Day with Professor Francesco Sabatini

Gift to the shareholders

from the "Banking Group in the heart of the Alps",
a book dedicated to changing panoramas, the evocative atmosphere
and the fauna of the most important mountain range in Europe

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2015

BALANCE SHEET

(in euro)

ASSET ITEMS			31-12-2015		31-12-2014
10.	CASH AND CASH EQUIVALENTS		**96,965,094**		**108,352,180**
20.	FINANCIAL ASSETS HELD FOR TRADING		**1,851,494,461**		**2,341,476,201**
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		**158,697,872**		**88,358,337**
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**6,319,477,580**		**6,496,843,763**
50.	HELD-TO-MATURITY INVESTMENTS		**125,776,716**		**148,620,141**
60.	LOANS AND RECEIVABLES WITH BANKS		**2,001,898,271**		**1,591,500,904**
70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**20,021,406,321**		**20,535,826,086**
100.	EQUITY INVESTMENTS		**488,595,257**		**411,565,806**
110.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**170,965,705**		**159,370,059**
120.	INTANGIBLE ASSETS		**12,959,574**		**11,917,167**
130.	TAX ASSETS		**447,243,565**		**360,228,837**
	a) current	61,750,270		8,105,885	
	b) deferred	385,493,295		352,122,952	
	b1) of which as per Law 214/2011	353,003,389		320,197,761	
150.	OTHER ASSETS		**322,957,663**		**319,159,596**
	TOTAL ASSETS		**32,018,438,079**		**32,573,219,077**

THE CHAIRMAN
Francesco Venosta

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

EQUITY AND LIABILITY ITEMS			31-12-2015		31-12-2014
10.	DUE TO BANKS		**2,077,164,130**		**2,305,353,629**
20.	DUE TO CUSTOMERS		**23,614,087,733**		**23,733,700,374**
30.	SECURITIES ISSUED		**3,013,032,938**		**3,290,923,515**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**97,310,098**		**98,098,533**
80.	TAX LIABILITIES		**48,309,394**		**45,844,815**
	b) deferred	48,309,394		45,844,815	
100.	OTHER LIABILITIES		**633,552,831**		**679,296,184**
110.	POST-EMPLOYMENT BENEFITS		**40,864,317**		**42,441,900**
120.	PROVISIONS FOR RISKS AND CHARGES:		**159,602,686**		**156,141,205**
	a) pension and similar obligations	117,912,386		117,042,900	
	b) other provisions	41,690,300		39,098,305	
130.	VALUATION RESERVES		**85,111,584**		**44,266,836**
160.	RESERVES		**735,497,376**		**665,468,678**
170.	SHARE PREMIUM RESERVE		**79,005,128**		**79,005,128**
180.	SHARE CAPITAL		**1,360,157,331**		**1,360,157,331**
190.	TREASURY SHARES (-)		**(25,321,549)**		**(25,031,162)**
200.	PROFIT FOR THE YEAR (+/-)		**100,064,082**		**97,552,111**
	TOTAL LIABILITIES AND EQUITY		**32,018,438,079**		**32,573,219,077**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

INCOME STATEMENT

(in euro)

	ITEMS		2015		2014
10.	INTEREST AND SIMILAR INCOME		704,049,473		859,665,284
20.	INTEREST AND SIMILAR EXPENSE		(224,584,075)		(339,105,440)
30.	**NET INTEREST INCOME**		**479,465,398**		**520,559,844**
40.	FEE AND COMMISSION INCOME		264,627,405		257,984,748
50.	FEE AND COMMISSION EXPENSE		(14,837,612)		(15,747,499)
60.	**NET FEE AND COMMISSION INCOME**		**249,789,793**		**242,237,249**
70.	DIVIDENDS AND SIMILAR INCOME		16,272,895		16,242,011
80.	NET TRADING INCOME		45,584,573		90,113,864
100.	**GAINS/LOSSES FROM SALES OR REPURCHASES OF:**		**140,033,949**		**94,154,389**
	a) loans and receivables	(91)		–	
	b) available-for-sale financial assets	139,926,360		95,504,969	
	d) financial liabilities	107,680		(1,350,580)	
110.	NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		6,293,949		5,186,918
120.	**TOTAL INCOME**		**937,440,557**		**968,494,275**
130.	NET IMPAIRMENT LOSSES ON:		(400,487,707)		(473,560,652)
	a) loans and receivables	(381,403,319)		(454,076,144)	
	b) available-for-sale financial assets	(8,202,923)		(19,307,623)	
	c) held-to-maturity investments	(9,965,039)		–	
	d) other financial transactions	(916,426)		(176,885)	
140.	**NET FINANCIAL INCOME**		**536,952,850**		**494,933,623**
150.	ADMINISTRATIVE EXPENSES:		(434,650,707)		(381,864,998)
	a) personnel expenses	(181,209,011)		(175,541,214)	
	b) other administrative expenses	(253,441,696)		(206,323,784)	
160.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(2,134,105)		3,455,337
170.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(13,548,252)		(12,750,956)
180.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(12,317,392)		(11,913,001)
190.	OTHER OPERATING INCOME/EXPENSE		69,211,415		70,782,043
200.	**OPERATING COSTS**		**(393,439,041)**		**(332,291,575)**
210.	NET LOSSES ON EQUITY INVESTMENTS		577,727		(648,217)
240.	NET GAINS ON SALES OF INVESTMENTS		7,080		10,768
250.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**144,098,616**		**162,004,599**
260.	INCOME TAXES		(44,034,534)		(64,452,488)
270.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**100,064,082**		**97,552,111**
290.	**PROFIT FOR THE YEAR**		**100,064,082**		**97,552,111**

STATEMENT OF COMPREHENSIVE INCOME

Items/Amounts		2015	2014
10.	**Profit for the year**	**100,064,082**	**97,552,111**
	Other income items net of income taxes that will not be reclassified to profit or loss		
40.	Defined-benefit plans	2,010,148	(12,883,360)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
100.	Available-for-sale financial assets	38,834,600	41,792,535
130.	**Total other income items net of income taxes**	**40,844,748**	**28,909,175**
140.	**Comprehensive income (item 10+130)**	**140,908,830**	**126,461,286**

STATEMENT OF CHANGES IN EQUITY

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

A dividend from the results for 2014 of € 0.06 per share, totalling € 27,203 million, was paid from 20 May 2015. The directors have proposed a dividend of € 0.07 from the results for 2015. 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 25 May. The payout envisaged totals € 31.737 million.

STATEMENT OF CHANGES IN EQUITY

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

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

Changes during the year								
	Equity transactions							
Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income	**Equity at 31.12.2014**
–	435,713,376	–	–	–	–	–	**–**	**1,360,157,331**
–	–	–	–	–	–	–	**–**	**–**
–	**(92,444,394)**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
(6,077,991)	–	–	–	–	–	–	**–**	**665,468,678**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**28,909,175**	**44,266,836**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**(714,816)**	**–**	**–**	**–**	**–**	**–**	**(25,031,162)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**97,552,111**	**97,552,111**
(6,077,991)	**343,268,982**	**(714,816)**	**–**	**–**	**–**	**–**	**126,461,286**	**2,221,418,922**

CASH FLOW STATEMENT (Indirect method)

	31/12/2015	31/12/2014
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**612,358,615**	**597,606,544**
- profit for the year (+/-)	100,064,082	97,552,111
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	3,164,437	(29,659,383)
- net hedging gains (losses) (-/+)	–	–
- net impairment losses (+/-)	410,890,096	483,704,811
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	25,865,643	24,663,957
- provisions for risks and charges and other costs/revenues (+/-)	28,807,373	22,102,926
- unpaid taxes and duties (+)	44,034,534	64,452,488
- net impairment losses on assets held for sale, net of tax effect (+/-)	–	–
- other adjustments (+/-)	(467,550)	(65,210,366)
2. **Cash generated/absorbed by financing activities**	**322,631,470**	**(2,469,943,653)**
- financial assets held for trading	485,751,549	875,506,614
- financial assets at fair value through profit or loss	(64,157,841)	(4,697,778)
- available-for-sale financial assets	196,488,097	(3,103,275,921)
- loans and receivables with banks: sight	(50,214,600)	(62,592,343)
- loans and receivables with banks: other receivables	(360,111,631)	(47,276,274)
- loans and receivables with customers	113,166,836	(157,903,518)
- other assets	1,709,060	30,295,567
3. **Cash generated/absorbed by financial liabilities**	**(839,660,278)**	**1,532,657,793**
- due to banks: sight	(214,559,517)	139,630,491
- due to banks: other payables	(14,275,586)	(1,500,192,891)
- customer deposits	(107,102,945)	2,545,738,141
- securities issued	(276,461,582)	440,655,282
- financial liabilities held for trading	(7,447,867)	10,406,281
- financial liabilities carried at fair value	–	–
- other liabilities	(219,812,781)	(103,579,511)
Net cash generated/absorbed by operating activities	**95,329,807**	**(339,679,316)**

	31/12/2015	31/12/2014
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**29,441,504**	**47,750,164**
- sales of equity investments	–	–
- dividends collected from equity investments	13,425,902	12,731,538
- sales and reimbursements of held-to-maturity investments	16,000,000	35,000,000
- sales of property, equipment and investment property	15,602	18,626
- sale of intangible assets	–	–
- sale of business divisions	–	–
2. **Cash absorbed by**	**(109,583,615)**	**(29,132,098)**
- purchases of equity investments	(68,483,537)	(474,273)
- purchases of held-to-maturity investments	(2,596,380)	–
- purchases of property, equipment and investment property	(25,143,898)	(16,504,017)
- purchases of intangible assets	(13,359,800)	(12,153,808)
- purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**(80,142,111)**	**18,618,066**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	(290,387)	334,567,504
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(26,984,147)	(15,185,837)
Net cash generated/absorbed by financing activities	**(27,274,534)**	**319,381,667**
NET CASH GENERATED/ABSORBED IN THE YEAR	**(12,086,838)**	**(1,679,583)**

Key:
(+) generated (-) absorbed

RECONCILIATION

Line items	**31/12/2015**	**31/12/2014**
Cash and cash equivalents at beginning of year	108,352,180	109,512,487
Total net cash generated/absorbed in the year	(12,086,838)	(1,679,583)
Cash and cash equivalents: effect of change in exchange rates	699,752	519,276
Cash and cash equivalents at end of year	**96,965,094**	**108,352,180**

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

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

Banca Popolare di Sondrio s.c.p.a. declares that these financial statements have been prepared in accordance with the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2015 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 Legislative Decree 38/2005 and subsequent updates.

Section 2 *Basis of preparation*

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

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations.
   Considering the structure of deposits based essentially on customer current accounts, repurchase agreements and loans, mainly to retail customers and SMEs which the Bank monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the difficulties encountered by sovereign debt securities in the recent past, management is of the opinion that there are no critical areas that could negatively influence the Bank's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.

2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.

3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and

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

4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.

5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.

6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation. Explanatory and descriptive information is included when this helps to provide a better understanding of the financial statements.

The financial statements are prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 136/2015, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

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

Section 3 ***Subsequent events***

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 15/03/2016 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 4 ***Other aspects***

The accounting policies adopted for the reporting period are consistent with those used in 2014, with the sole exception resulting from the applicability as from 1 January 2015 of the requirements of Regulation (EU) 1361/2014, which adopted certain international accounting standards in compliance with Regulation (EU) 1606/2002 of the European Parliament and of the Council, with regard to IFRS 3 and 13 and IAS 40.

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

Preparing financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, and the use of valuation models for identifying the fair value of instruments that are not listed on active markets. These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Bank defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the financial statements at 31 December 2015, 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 2015. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a reduced growth and high levels of uncertainty about the prospects for recovery, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment which could, as in the previous year, experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2015.

Standards already in force whose application became mandatory from the 2015 financial year or later:

- Regulation (EU) no. 28/2015 dated 17 December 2014 that adopted amendments to the following international accounting standards: IFRS 2 «Share-based payment», IFRS 3 «Business combinations», IFRS 8 «Operating segments», IAS 16 «Property, plant and equipment», IAS 24 «Related party disclosures», IAS 37 «Provisions, contingent liabilities and contingent assets», IAS 38 «Intangible assets» and IAS 39 «Financial instruments: Recognition and measurement». They apply from 1 January 2016.
- Regulation (EU) no. 29/2015 that amends IAS 19 «Employee benefits» applies from 1 January 2016.
- Regulation (EU) 1361/2014 of 18/12/2014 which amends Regulation (EU) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EU) 1606/2002 of the European Parliament and of the Council with regard to IFRS 3, IFRS 13 and IAS 40. It applies from 1/1/2015 (first financial year starting on or after 1/1/2015)
- Regulation (EU) no. 2113/2015 dated 23 November 2015 that, by modifying earlier regulations, amends IAS 16 «Property, plant and equipment» and IAS 41 «Agriculture». These amendments apply to financial years starting on or after 1 January 2016.
- Regulation (EU) no. 2173/2015 dated 24 November 2015 which specifies that the references to IFRS 9 in IFRS 11 «Joint arrangements», regarding the classification and measurement of financial assets, cannot be applied for the moment, as IFRS 9 has not yet been endorsed by the EU, and must be read as references to the «corresponding» IAS 39 «Financial instruments: Recognition and measurement». The amendments envisaged in this regulations apply to financial years starting on or after 1 January 2016.
- Regulation (EU) no. 2231/2015 dated 2 December 2015 that amends Regulation (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 16 and IAS 38. Clarifications are provided about the acceptable methods of depreciation and amortisation. This applies from 1/1/2016.
- Regulation (EU) no. 2343/2015 dated 15 December 2015 that amends Regulation (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IFRS 5, IFRS 7, IAS 19 and IAS 34. This applies from 1/1/2016.
- Regulation (EU) no. 2406/2015 dated 18 December 2015 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 1. The objective is to promote the use of professional judgement in the required disclosures, in order to make them more effective. This applies from 1/1/2016.

– Regulation (EU) no. 2441/2015 dated 18 December 2015 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 27. The equity method can now be used in separate financial statements, in addition to the cost and fair value methods, to measure the investments held on subsidiaries, joint ventures and associates. This applies from 1/1/2016.

IFRS 9 «Financial instruments»

On 24 July 2014, the IASB published the final version of IFRS 9 «Financial instruments». IFRS 9 replaces IAS 39 and contains a series of innovations that, in particular, introduce new approaches to «classification and measurement», «impairment» and «hedge accounting», and also relate to financial liabilities. The new standard, not yet endorsed by the EU, will apply from 1 January 2018, but early adoption is allowed. Among the effects of the global financial crisis, operators believed that the accounting rules had contributed to the acceleration and intensification of the crisis, particularly with regard to the delayed recognition of losses on loans and other financial assets. As a result, the IASB commenced a project in 2008 to replace IAS 39 in a number of stages. In relation to the above, the Bank deemed it necessary to take appropriate action. Firstly, a gap analysis was carried out to identify the possible effects of applying the new standard, both with regard to the classification and measurement of financial instruments, and in relation to the new impairment model for calculating the adjustments to loans, based on an «expected losses» approach (rather than the «incurred losses» approach required by IAS 39). It will be necessary to review the classification of certain financial instruments held in the Bank's portfolios, with the possibility of transfers between portfolios and changes in the method adopted for their measurement from amortised cost to fair value; this will require decisions about the composition of each portfolio and will increase the volatility of the income statement. There may also be significant effects on the FTA regulatory capital due to changes in the classification criteria and, in particular, to the expected future loan losses. At the time of preparing this report, it is not yet possible to estimate reliably the economic and financial effects of adopting the new standard. Its impact on the Bank's processes, models, organisational structure and risk management will however be significant. Amendments of the policies regarding new products and pricing will also be necessary.

IFRS 15 «Revenues from contracts with customers»

IFRS 15, published on 28 May 2014, introduces a new model for the recognition of revenues deriving from contracts with customers, and replaces the current standards on the subject, being IAS 18, IAS 11 and the related interpretations. Entities are required to recognise revenues based on the remuneration expected from the products or services provided, which is calculated in five steps: identification of the contract, identification of the individual obligations arising under the contract, determination of the price of the transaction, allocation of the price to each of the individual obligations and recognition of the revenue when control over the product or service is transferred to the customer. This standard will apply from 1 January 2018. The Bank has commenced a project that, during 2015, involved analysing its principal contracts with reference to the new rules. No estimate was made of the economic effects of the new standard, but it is reasonable to believe that they will not be significant. It will however be necessary to amend processes, policies and IT systems in order implement the new accounting rules.

In the 4th update to Circular 262 of 15 December 2015, the Bank of Italy adopted the disclosure requirements specified by certain accounting standards that came into force from 2015. In particular, the Circular amended the disclosures about asset quality in the notes to the financial statements to take account of the new definitions for impaired financial assets, consistent with the concepts of non-performing exposures and forborne exposures established by the European Commission in Regulation no. 2015/227. Further, it rationalised the notes to the financial statements in order to improve their usability, consistent with international best practices for the preparation of financial statements.

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

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

1. Financial assets held for trading

Classification

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

Recognition

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

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

Accounting policies

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

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

Recognition of components affecting the income statement

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

Derecognition

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

2. Available-for-sale financial assets

Classification

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

Recognition

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

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

Accounting policies

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

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

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

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

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

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

Recognition of components affecting the income statement

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

Income and charges deriving from changes in fair value, net of the related deferred tax effect, are recorded in specific equity reserves, known as «Valuation reserves», until the asset is derecognised or its value is impaired; The accumulated gains or losses are released to the income statement at the time of derecognition or the recognition of impairment. Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within equity.

Derecognition

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

3. Held-to-maturity investments

Classification

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

Recognition

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

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

Accounting policies

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

Recognition of components affecting the income statement

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

Derecognition

Held-to-maturity investments are derecognised on expiry of the contractual rights over the related financial flows.

4. Receivables

4.1 Cash loans and deposits

Classification

Receivables comprise deposits with banks and loans to customers, made directly or acquired from third parties, which have fixed or determinable payments, not listed on an active market. Receivables also include trade receivables, repo transactions, loans originating from finance leases and securities not listed on an active market that were acquired as a result of subscriptions or private placements, with payment amounts that are known or determinable.

Recognition

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

Loans include the advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables assigned to the company and booked in the name of the assigned debtor for which the related risks and benefits have all been substantially transferred to the assignee.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method. Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them.

The initially recorded value includes any transaction costs and revenues directly associated with each loan.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans without a specific repayment date and loans repayable on demand are booked at their historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this value. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount the expected cash flows, even if the loan is later restructured and changes are made to the contractual rate.

Loans are subjected to impairment testing at each reporting date to check for any loss in value due to deterioration in the solvency of borrowers.

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

The European Banking Authority issued Implementing Technical Standards (ITS) on 24 July 2014 that have amended the definition of non-performing exposure (NPE). On 9 January 2015, the European Commission approved amendments to the definition of impaired financial assets for consistency with the new notions introduced by implementing technical standards for harmonised supervisory reporting purposes established by the European Banking Authority. According to the new definitions, impaired financial assets are categorised as «bad loans», «unlikely to pay loans» and «past due and/or impaired overdrawn exposures»; the sum of these categories corresponds to the total Non-Performing Exposures in the ITS. The previous watchlist and restructured exposures categories have been eliminated.

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

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

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

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

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

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

c) internal rate of return.

Bad loans are assessed on either a detailed or an overall basis. Detailed analysis of bad 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 non-performing.

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

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

a) recoveries forecast by the offices concerned;

b) expected timing of recoveries based on historical-statistical data;

c) original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

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

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

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

Recognition of components affecting the income statement

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

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

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

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

4.2 Endorsement loans

Classification

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

Recognition and measurement

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

Recognition of components affecting the income statement

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

5. Financial assets at fair value through profit or loss

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

The income elements relating to instruments classified as financial assets at fair value through profit or loss booked to the income statement in the period when they arise to «net gains on financial assets and liabilities at fair value through profit or loss».

6. Hedging transactions

Classification and recognition

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

The hedging of market risks can take two different forms:

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

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

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

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

Measurement and recognition of components affecting the income statement

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

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

2) hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement.

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

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

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

2) The hedged item continues to be valued on the basis applicable to the category concerned.

Derecognition

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

7. Equity investments

Classification

The portfolio of equity investments comprises the holdings in subsidiary companies, associated companies and companies under joint control. Control is presumed to exist when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control is therefore deemed to exist in the following circumstances:

a) availability of actual and potential voting rights at a shareholders' meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;

b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;

c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

A company is an associated company if the Bank exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

a) the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;

b) the Bank takes part in the decision-making process, including decisions regarding dividends;

c) there are significant transactions between the parent company and the affiliate;

d) there is an exchange of managers;

e) essential technical information is being provided.

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

Recognition

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

Accounting policies

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

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

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

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

Derecognition

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

8. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery. As required by IAS 17, assets held under finance leases are also classified in this caption. In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation.

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

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

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

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

Derecognition

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

9. Intangible assets

Classification

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

Intangible assets comprise software.

Recognition

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

Accounting policies

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

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

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

Recognition of components affecting the income statement

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

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

Derecognition

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

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

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

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

11. Current and deferred taxation

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

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

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

12. Provisions for risks and charges

This caption comprises the following provisions:

a) Provisions for other long-term employee benefits. These are included in «Provisions for risks and charges» based on the valuation of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of post-employment benefits; once again, the actuarial gains and losses deriving from actuarial estimates are treated in accordance with the provisions of the revised version of IAS 19 endorsed by EC Regulation 475 of 5 June 2012, i.e. booked to equity as shown in the statement of comprehensive income. These are:

   1) Pension and similar obligations. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Bank is responsible for any unfunded liabilities.

   2) Provision for long-service bonuses. This represents the liability for bonuses to employees who reached a period of service of 30 years. It is recorded under «other provisions».

b) Other provisions. This caption comprises the provision for long-service bonuses mentioned above and provisions recorded for liabilities whose timing and extent cannot be determined, which can be recognised in the financial statements when:

   1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;

   2) it is likely that settlement of the obligation will involve the use of economic resources;

   3) a reliable estimate can be made of the amount necessary to settle the obligation.

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

13. Payables and securities issued

Classification

Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the bank's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions and the value of the consideration still to be paid to the assignor in factoring transactions that involve an assignment of receivables with the transfer of the related risks and benefits versus the assignee.

Recognition

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

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected. Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

Recognition of components affecting the income statement

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

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

Derecognition

Financial liabilities are derecognised when they expire or are settled.

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

14. Financial liabilities held for trading

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

15. Financial liabilities carried at fair value

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

16. Currency transactions

Classification

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

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period. Exchange differences on non-monetary assets defined as available for sale are recorded under valuation reserves.

Derecognition

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

17. Termination indemnities

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

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

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

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

18. Other information

The Bank has not established any stock option plans.

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

Dividends are recorded upon collection.

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

Securitisations

During the year 2012, the Bank carried out a securitisation of performing residential mortgage loans. These loans were sold without recourse to a vehicle company and its senior and junior securities were purchased by the Bank. Given that the Bank maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet. The operation was closed-out early, on 16 October 2015. The economic effects were recognised on a consistent basis, giving prevalence to substance over form.

Covered bonds

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

On 30 May 2014, a portfolio of performing loans totalling € 802 million was assigned without recourse to POPSO Covered Bond s.r.l., the vehicle company, in relation to the first series of covered bonds amounting to € 500 million issued on 5 August 2014. A second assignment of performing loans totalling € 202 million took place on 4 December 2015.

Resolution mechanism and deposit guarantee system

By Directives 2014/49/EU dated 16 April 2014 and 2014/59/EU dated 15 May 2014, respectively known as the «Deposit Guarantee Schemes Directive (DGS)» and the «Bank Recovery and Resolution Directive (BRDD)», and by establishing the Single Resolution Mechanism (Regulation (EU) no. 806/2014 dated 15 July 2014), the European legislator made significant amendments to the governance of banking crises in order to strengthen the single market and systemic stability. Directive 2014/49/EU (DGS) harmonises the levels of protection offered by the national deposit protection funds and makes amendments to the system of contributions; for Italian banks, this means moving from an «ex post» system of contributions to a mixed system that envisages making an advance contribution in order to reach, over ten years, a minimum fund size of 0.8% of the deposits guaranteed. Contributions may include payment pledges up to a maximum of 30% of the total. For 2015, the advance contribution requested by the Interbank Deposit Protection Fund was set at 50% of the annual amount. The amount paid was 2.850 million.

Directive 2014/59/EU (BRRD) defines new resolution rules to be applied to all EU banks in serious difficulties. Under these rules and on certain conditions, the National Resolution Fund to be established by each member State will participate in funding the resolution. The Directive was transposed into Italian legislation by Decree no. 180 dated 16 November 2015 and, subsequently, the Bank of Italy, as the national resolution authority, established the National Resolution Fund. The new Fund participated immediately in the failures of Cassa di Risparmio di Ferrara S.p.a., Banca delle Marche S.p.a., Banca dell'Etruria e del Lazio Soc. Coop. p.a. and Cassa di Risparmio della Provincia di Chieti S.p.a. With regard to 2015, the Bank was asked to make an ordinary contribution of 9.148 million and a special contribution of 27.444 million, being three times the ordinary amount.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

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

Type of financial instruments (1)	Portfolio of origin (2)	Portfolio of destination (3)	Net book value as of 31.12.2015 (4)	Fair value as of 31.12.2015 (5)	Income items without any transfer (pre-tax)		Income items without any transfer year (pre-tax)	
					Valuation (6)	Others (7)	Valuation (8)	Others (9)
A. Debt securities	HFT	HTM	51,952	51,674	-7,141	284	9,499	284

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

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

A.3.3 Transfer of financial assets held for trading

As in the previous year, the Bank did not carry out any reclassifications of financial assets. A reclassification was made on the basis of the amendment to IAS 39 approved by EU Regulation 1004 of 15/10/2008. In very particular circumstances, this amendment makes it possible to reclassify certain financial instruments from one portfolio to another. Its purpose is to reduce the volatility in the income statement (or in equity) of financial institutions and companies that apply IAS/IFRS in situations of illiquid markets and/or characterised by prices that do not reflect the realisable value of financial instruments. Table A.3.1 shows the profits and losses that would have been made if the Bank had not taken advantage of this possibility.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

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

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

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

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

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

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

A.4.2 Processes and sensitivity of the measurements

The Bank determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, as envisaged in IAS 39, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;

b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;

c) the rate applicable to risk-free monetary assets of similar duration;

d) the risk premium;

e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful.

With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities carried at cost, or through prices of previous transactions, or information from third parties without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact

For those Level 3 instruments whose fair value is determined using unobservable quantitative inputs, the economic results are not significantly affected by changes in one or more of the unobservable parameters, such as the credit spreads associated with the counterparties that were used for measurement purposes.

For changes of +/- 1 basis point in the credit spread or changes in other input parameters, the fair value of the financial instruments changes by about € 13 thousand.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets – according to the definition of IAS 39 – for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Bank.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used. Following the entry into force of IFRS 13, which strengthened the guidelines underlying the classification of financial instruments, the Bank revised such classifications during the year and transferred its financial instruments to the most appropriate fair value level.

A.4.4 Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13. The disclosures envisaged in paras. 51, 93 (i) and 96 of that standard are not required.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

Financial assets/liabilities carried at fair value	31/12/2015			31/12/2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	1,705,527	103,487	42,481	2,175,702	104,498	61,276
2. Financial assets at fair value through profit or loss	94,495	–	64,203	84,702	–	3,656
3. Available-for-sale financial assets	6,197,700	2,613	119,165	6,432,499	2,613	61,732
4. Hedging derivatives	–	–	–	–	–	
5. Property, equipment and investment property	–	–	–	–	–	
6. Intangible assets	–	–	–	–	–	
Total	**7,997,722**	**106,100**	**225,849**	**8,692,903**	**107,111**	**126,664**
1. Financial assets held for trading	–	97,310	–	–	98,099	
2. Financial liabilities carried at fair value	–	–	–	–	–	
3. Hedging derivatives	–	–	–	–	–	
Total	**–**	**97,310**	**–**	**–**	**98,099**	**–**

Based on the guiding principles for the classification of financial instruments established in IFRS 13, a number of transfers of fair value from Level 2 to Level 3 were recorded during the year amounting to € 1.087 million of financial assets held for trading.

The impact of the CVA (Credit value adjustment) and the DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because a large part of the exposures are covered by credit support annexes (CSA).

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (Level 3)

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Property, equipment and investment property	Intangible assets
A. **Opening balance**	**61,276**	**3,656**	**61,732**	**–**	**–**	**–**
2. **Increases**	**2,552**	**61,081**	**120,598**	**–**	**–**	**–**
2.1 Purchases	4	61,081	53,423	–	–	–
2.2 Income booked to:	–	–	–	–	–	
2.2.1 Income statement	1,048	–	–	–	–	–
of which realized gains	800	–	–	–	–	–
2.2.2 Equity	–	–	43,440	–	–	–
2.3 Transfers from other levels	1,087	–	260	–	–	–
2.4 Other increases	413	–	23,475	–	–	–
3. **Decreases**	**21,347**	**535**	**63,165**	**–**	**–**	**–**
3.1 Sales	–	–	–	–	–	–
3.2 Reimbursements	7,053	–	1,450	–	–	–
3.3 Losses booked to:	–	–	–	–	–	
3.3.1 Income statement	174	535	7,290	–	–	–
of which realized losses	174	535	7,290	–	–	–
3.3.2 Equity	–	–	633	–	–	–
3.4 Transfers to other levels	–	–	–	–	–	–
3.5 Other decreases	14,120	–	53,792	–	–	–
4. **Closing balance**	**42,481**	**64,202**	**119,165**	**–**	**–**	**–**

A.4.5.3 Annual changes in liabilities carried at fair value on a recurring basis (Level 3)

There are no financial liabilities carried at a level 3 fair value.

A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2015				31/12/2014			
	B V	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity investments	125,777	126,712	–	14,689	148,620	135,063	–	27,019
2. Loans and receivables with banks	2,001,898	–	–	2,001,898	1,591,501	–	–	1,591,501
3. Loans to customers	20,021,407	–	–	20,785,125	20,535,826	–	–	20,914,725
4. Investment property	–	–	–	–	–	–	–	–
5. HFS non-current assets and disposal groups	–	–	–	–	–	–	–	–
Total	**22,149,082**	**126,712**	**-**	**22,801,712**	**22,275,947**	**135,063**	**-**	**22,533,245**
1. Due to banks	2,077,165	–	–	2,077,165	2,305,354	–	–	2,305,354
2. Customer deposits	23,614,088	–	–	23,614,088	23,733,700	–	–	23,733,700
3. Securities issued	3,013,033	984,991	2,069,733	–	3,290,924	518,968	2,842,706	
4. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–
Total	**28,704,286**	**984,991**	**2,069,733**	**25,691,253**	**29,329,978**	**518,968**	**2,842,706**	**26,039,054**

Key:
BV: Book value
L1: Level 1
L2: Level 2
L3: Level 3

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

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

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

PART B Information on the balance sheet

Assets

Section 1 Cash and cash equivalents - line item 10

1.1 Cash and cash equivalents: analysis

	31/12/2015	31/12/2014
a) Cash	96,965	108,352
b) Unrestricted deposits with central banks	–	–
Total	**96,965**	**108,352**

Section 2 Financial assets held for trading - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2015			31/12/2014		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	1,525,252	–	41,394	2,086,591	–	61,276
1.1 Structured securities	15,317	–	41,175	46,659	–	46,534
1.2 Other fixed-yield securities	1,509,935	–	219	2,039,932	–	14,742
2. Variable-yield securities	124,999	–	1,087	54,710	2,133	–
3. Mutual funds	55,276	–	–	34,124	–	–
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**1,705,527**	**–**	**42,481**	**2,175,425**	**2,133**	**61,276**
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	
1. Financial derivatives:	–	103,487	–	277	102,365	–
1.1 for trading	–	103,487	–	277	102,365	–
1.2 connected with the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives:	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total B	**–**	**103,487**	**–**	**277**	**102,365**	**–**
Total (A+B)	**1,705,527**	**103,487**	**42,481**	**2,175,702**	**104,498**	**61,276**

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

Items/Amounts	**31/12/2015**	**31/12/2014**
A. **Cash assets**		
1. Fixed-yield securities	1,566,646	2,147,867
a) Governments and central banks	1,303,110	1,931,167
b) Other public entities	17	17
c) Banks	213,316	157,358
d) Other issuers	50,203	59,325
2. Variable-yield securities	126,086	56,843
a) Banks	28,099	20,910
b) Other issuers:	97,987	35,933
- insurance companies	7,819	785
- financial companies	1,651	1,790
- non-financial companies	88,517	33,358
- other	–	–
3. Mutual funds	55,276	34,124
4. Loans	–	–
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**1,748,008**	**2,238,834**
B. **Derivatives**		
a) Banks	83,676	74,469
b) Customers	19,811	28,173
Total B	**103,487**	**102,642**
Total (A + B)	**1,851,495**	**2,341,476**

Mutual funds are made up of: equity funds and sicavs for € 52.953 million, bond funds and sicavs for € 0.781 million, flexible funds for € 1.011 million and real estate funds for € 0.531 million.

Section 3 *Financial assets at fair value through profit or loss - line item 30*

3.1 Financial assets at fair value through profit or loss: breakdown by sector

	31/12/2015			31/12/2014		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**–**	**–**	**–**	**494**	**–**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	–	–	–	494	–	–
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**94,495**	**–**	**64,203**	**84,208**	**–**	**3,656**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total	**94,495**	**–**	**64,203**	**84,702**	**–**	**3,656**
Cost	**87,876**	**–**	**64,737**	**80,209**	**–**	**3,714**

This portfolio includes all securities, other than those booked to the trading portfolio, which the bank has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.

3.2 Financial assets at fair value through profit or loss: breakdown by debtor/issuer

Items/Amounts	31/12/2015	31/12/2014
1. **Fixed-yield securities**	**–**	**494**
a) Governments and central banks	–	494
b) Other public entities	–	–
c) Banks	–	–
d) Other issuers	–	–
2. **Variable-yield securities**	**–**	**–**
a) Banks	–	–
b) Other issuers	–	–
- insurance companies	–	–
- financial companies	–	–
- non-financial companies	–	–
- other	–	–
3. **Mutual funds**	**158,698**	**87,864**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**158,698**	**88,358**

Mutual funds are made up of: bond funds and sicavs for € 35.925 million, equity funds and sicavs for € 53.707 million, real estate funds for € 65.530 million and flexible funds for € 3.536 million.

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

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

	31/12/2015			31/12/2014		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**6,015,408**	**–**	**5,362**	**6,035,797**	**–**	**6,725**
1.1 Structured securities	622,751	–	3,293	768,884	–	3,293
1.2 Other fixed-yield securities	5,392,657	–	2,069	5,266,913	–	3,432
2. **Variable-yield securities**	**12,660**	**2,613**	**86,637**	**12,285**	**2,613**	**40,246**
2.1 Carried at fair value	12,660	2,613	74,510	12,285	2,613	-
2.2 Carried at cost	–	–	12,127	–	–	40,246
3. **Mutual funds**	**169,632**	**–**	**27,166**	**384,417**	**–**	**14,761**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**6,197,700**	**2,613**	**119,165**	**6,432,499**	**2,613**	**61,732**

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

A comparison between the cost and net equity of other unlisted equities based on the latest available financial statements only identified impairment losses in relation to Release spa.

Variable-yield securities include € 3.100 million in profit-sharing transactions pursuant to art. 2549 of the Civil Code relating to the production and exploitation of cinematographic work.

Mutual funds consist of closed-end unlisted equity funds for € 9.854 million, bond funds for € 154.675 million and a real estate funds for € 7.240 million, balanced funds for € 15.185 million and a flexible fund for € 9.844 million. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV), adjusted for any subscriptions and redemptions that have taken place between the date of the NAV received and the reporting date.

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

Items/Amounts	31/12/2015	31/12/2014
1. **Fixed-yield securities**	**6,020,770**	**6,042,522**
a) Governments and central banks	6,015,408	6,035,797
b) Other public entities	–	1,304
c) Banks	–	–
d) Other issuers	5,362	5,421
2. **Variable-yield securities**	**101,910**	**55,144**
a) Banks	48,530	15,249
b) Other issuers:	53,380	39,895
- insurance companies	1,918	1,927
- financial companies	33,362	21,508
- non-financial companies	18,100	16,460
- other	–	–
3. **Mutual funds**	**196,798**	**399,178**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**6,319,478**	**6,496,844**

This item passes from € 6,496.844 million to € 6,319.478 million.

As stated in IAS/IFRS, assets held for sale are tested to check if there is any objective evidence of a reduction in value in conformity with the Bank's policies adopted. The rules adopted for handling impairment set quantitative and time thresholds beyond which any reduction in the fair value of variable-yield securities entails booking the loss immediately to the income statement.

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

5.1 Held-to-maturity investments: breakdown by sector

	31/12/2015				31/12/2014			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**125,777**	**126,712**	**–**	**14,689**	**148,620**	**135,063**	**–**	**27,019**
- structured	11,989	–	–	11,963	16,895	–	–	16,707
- other	113,788	126,712	–	2,726	131,725	135,063	–	10,312
2. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

In 2008 we transferred securities held for trading to this portfolio for a total par value of € 242.686 million, taking advantage of the amendment issued by IASB on 13/10/2008 and adopted by the European Commission with Regulation 1004/2008 on 15/10/2008.

If the securities transferred, which are currently in portfolio at an amount of € 51.952 million at par, had been carried at fair value at the date of the financial statements, they would have been worth € 51.674 million with a loss of € 0.278 million.

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

Type of transaction/Amounts	31/12/2015	31/12/2014
1. **Fixed-yield securities**	**125,777**	**148,620**
a) Governments and central banks	25,043	22,403
b) Other public entities	–	–
c) Banks	30,899	53,673
d) Other issuers	69,835	72,544
2 **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**125,777**	**148,620**
Total fair value	**141,401**	**162,082**

Section 6 *Loans and receivables with banks - line item 60*

6.1 Loans and receivables with banks: breakdown by sector

	31/12/2015				31/12/2014			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**258,395**	**–**	**–**	**258,395**	**267,799**	**–**	**–**	**267,799**
1. Time deposits	–	–	–	–	–	–	–	–
2. Compulsory reserve	258,395	–	–	–	267,799	–	–	–
3. Repurchase agreements	–	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–	–
B. **Loans and receivables with banks**	**1,743,503**	**–**	**–**	**1,743,503**	**1,323,702**	**–**	**–**	**1,323,702**
1. Loans	1,743,503	–	–	1,743,503	1,323,702	–	–	1,323,702
1.1 Current accounts and sight deposits	306,832	–	–	–	256,617	–	–	–
1.2 Time deposits	1,337,662	–	–	–	965,677	–	–	
1.3 Other loans:	99,009	–	–	–	101,408	–	–	–
- Repurchase agreements	–	–	–	–	–	–	–	–
- Financial leases	–	–	–	–	–	–	–	–
- Other	99,009	–	–	–	101,408	–	–	–
2. Fixed-yield securities	–	–	–	–	–	–	–	–
2.1 Structured securities	–	–	–	–	–	–	–	–
2.2 Other fixed-yield securities	–	–	–	–	–	–	–	–
Total	**2,001,898**	**–**	**–**	**2,001,898**	**1,591,501**	**–**	**–**	**1,591,501**

These receivables are not specifically hedged.
Their fair value is equal to their book value as they are short-term loans repayable on demand.

Section 7 *Loans and receivables with customers - line item 70*

7.1 Loans and receivables with customers: breakdown by sector

	31/12/2015						31/12/2014					
	Book value			Fair Value			Book value			Fair Value		
Type of transaction/Amounts	Non impaired	Impaired Purchased	Impaired Other	L1	L2	L3	Non impaired	Impaired Purchased	Impaired Other	L1	L2	L3
Loans	**17,477,512**	**-**	**2,298,093**	**-**	**-**	**20,538,728**	**18,356,194**	**-**	**2,013,413**	**-**	**-**	**20,747,907**
1. Current accounts	4,493,043	-	1,036,552	-	-	-	5,211,474	-	941,117	-	-	-
2. Repurchase agreements	706,060	-	-	-	-	-	587,505	-	-	-	-	-
3. Mortgage loans	8,118,402	-	1,058,146	-	-	-	8,314,578	-	866,734	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	193,963	-	11,582	-	-	-	173,703	-	11,827	-	-	-
5. Financial lease	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other loans	3,966,044	-	191,813	-	-	-	4,068,934	-	193,735	-	-	-
Fixed-yield securities	**245,802**	**-**	**-**	**-**	**-**	**246,397**	**166,219**	**-**	**-**	**-**	**-**	**166,818**
8. Structured securities	245,802	-	-	-	-	-	166,219	-	-	-	-	-
9. Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**17,723,314**	**-**	**2,298,093**	**-**	**-**	**20,785,125**	**18,522,413**	**-**	**2,013,413**	**-**	**-**	**20,914,725**

These receivables are not specifically hedged.

Reference should be made to Part E «Information on risks and related hedging policies, Section 1, Credit risk» with regard to impaired assets.

Mortgage loans include € 815 million of residential mortgages, which were the subject of a covered bond transaction.

The related securitisation was closed out early, in October. This transaction has previously involved the sale without recourse of mortgage loans to the SPV Centro delle Alpi RMBS S.r.l., whose senior and junior securities issued in connection with this operation were purchased by the Bank.

The covered bond transaction involved the sale to the SPV POPSO Covered Bond s.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers.

Given that the Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

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

7.2 Loans and receivables with customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2015 Non impaired	31/12/2015 Impaired Purchased	31/12/2015 Impaired Other	31/12/2014 Non impaired	31/12/2014 Impaired Purchased	31/12/2014 Impaired Other
1. **Fixed-yield securities**	**245,802**	**–**	**–**	**166,219**	**–**	**–**
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	245,802	–	–	166,219	–	–
- non-financial companies	–	–	–	–	–	–
- financial companies	245,802	–	–	166,219	–	–
- insurance companies	–	–	–	–	–	–
- other	–	–	–	–	–	–
2. **Loans to**	**17,477,512**	**–**	**2,298,093**	**18,356,194**	**–**	**2,013,413**
a) Governments	–	–	–	279	–	–
b) Other public entities	115,319	–	–	130,827	–	6
c) Other parties	17,362,193	–	2,298,093	18,225,088	–	2,013,407
- non-financial companies	10,678,713	–	1,828,165	11,252,428	–	1,602,946
- financial companies	2,996,512	–	30,038	3,261,027	–	33,072
- insurance companies	25	–	–	1,462	–	–
- other	3,686,943	–	439,890	3,710,171	–	377,389
Total	**17,723,314**	**–**	**2,298,093**	**18,522,413**	**–**	**2,013,413**

Section 10 *Equity investments - line item 100*

10.1 Equity investments: disclosure

Name	Registered offices of the company	Operational office	% holding	% of votes
A. **Investments in wholly-owned subsidiaries**				
1. BANCA POPOLARE DI SONDRIO (SUISSE) SA	Lugano	Lugano	100,000	100,000
2. FACTORIT S.p.a.	Milan	Milan	60.500	60.500
3. SINERGIA SECONDA S.r.l.	Milan	Milan	100.000	100.000
4. PIROVANO STELVIO S.p.a.	Sondrio	Sondrio	100.000	100.000
5. POPSO COVERED BOND S.r.l.	Conegliano	Conegliano	60.000	60.000
B. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l.	Sondrio	Sondrio	50.000	50.000
C. **Associated companies (subject to significant influence)**				
1. ALBA LEASING S.p.a.	Milan	Milan	19.264	19.264
2. ARCA VITA S.p.a.	Verona	Verona	14.837	14.837
3. BANCA DELLA NUOVA TERRA S.p.a.	Milan	Milan	19.609	19.609
4. UNIONE FIDUCIARIA S.p.a.	Milan	Milan	24.000	24.000
5. POLIS FONDI SGR PA	Milan	Milan	19.600	19.600
6. ARCA SGR S.p.a.	Milan	Milan	21.137	21.137
7. BORMIO GOLF S.p.a.	Bormio	Bormio	26.578	26.578
8. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.r.l.	Milan	Milan	33.333	33.333

With limited exceptions, the above equity investments are held to complement the activities of the bank, since they provide supplementary services or help to support the local territories served.

10.5 Equity investments: changes during the year

	31/12/2015	31/12/2014
A. **Opening balance**	**411,566**	**411,740**
B. **Additions**	**79,453**	**474**
B.1 Purchases	28,390	9
B.2 Write-backs	–	
B.3 Revaluations	–	
B.4 Other changes	51,063	465
C. **Decreases**	**2,424**	**648**
C.1 Disposals	–	
C.2 Adjustments	2,424	648
C.3 Other changes	–	
D. **Closing balance**	**488,595**	**411,566**
E. **Total revaluations**	**–**	
F. **Total writedowns**	**(33,350)**	**(30,926)**

This item passes from € 411.566 million to € 488.595 million.

The increase refers to:

- an increase of € 28.390 million for the subscription of the increase in capital of Banca Popolare di Sondrio (SUISSE) SA;
- an increase of €50.329 million due to the transfer from the AFS portfolio of the interest in ARCA SGR spa after the percentage increase in the equity investment;
- an increase of € 0.249 million for the transfer from the AFS portfolio of the interest in Bormio Golf spa following the increase of the holding;
- coverage of loss of Pirovano Stelvio spa of € 0.485 million.

The decreases refer to:

- a writedown of € 1.999 million of Banca Nuova Terra spa;
- the writedown of Pirovano Stelvio spa for € 0.425 million.

10.6 - 10.7 - 10.8 - 10.9 Commitments relating to investments in subsidiaries, companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing spa granted when this company started up as part of the reorganisation of Banca Italease spa, against which the Bank has made a specific risk provision.

Section 11 *Property, equipment and investment property - line item 110*

11.1 Property, equipment and investment property used for business purposes: analysis of assets valued at cost

Assets/Values	31/12/2015	31/12/2014
1. **owned**	**143,127**	**130,511**
a) land	44,801	44,446
b) buildings	79,246	67,714
c) furniture	5,985	6,314
d) IT equipment	1,394	1,413
e) other	11,701	10,624
2. **purchased under finance leases**	**27,839**	**28,859**
a) land	6,803	6,803
b) buildings	21,036	22,056
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
Total	**170,966**	**159,370**

Property, equipment and investment property are valued at cost. Buildings have a fair value of € 309,093 million, as determined by an internal appraisal. Buildings used for business purposes are worth € 145.703 million.

Property, equipment and investment property are free from restrictions and commitments guaranteeing liabilities.

Assets purchased under finance leases are represented by buildings used as bank branches.

11.5 Property, equipment and investment property used for business purposes: changes during the year

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	**Total**
A. **Opening gross amount**	**51,249**	**164,526**	**23,831**	**14,671**	**51,208**	**305,485**
A.1 Total net reductions in value	–	(74,756)	(17,517)	(13,258)	(40,584)	(146,115)
A.2 Opening net amount	51,249	89,770	6,314	1,413	10,624	159,370
B. **Additions**	**355**	**15,550**	**1,398**	**912**	**6,929**	**25,144**
B.1 Purchases	355	13,109	1,398	912	6,929	22,703
B.2 Capitalised improvement expenditure	–	2,441	–	–	–	2,441
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	–	–	–	–	–	–
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**5,038**	**1,727**	**931**	**5,852**	**13,548**
C.1 Disposals	–	–	–	–	–	–
C.2 Depreciation	–	5,038	1,727	931	5,852	13,548
C.3 Impairment charges booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Fair value decreases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) investment property	–	–	–	–	–	–
b) assets related to discontinued operations	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**51,604**	**100,282**	**5,985**	**1,394**	**11,701**	**170,966**
D.1 Total net reductions in value	-	(79,794)	(19,244)	(14,158)	(45,930)	(159,126)
D.2 Closing gross amount	51,604	180,076	25,229	15,552	57,631	330,092
E. **Valuation at cost**	**51,604**	**100,282**	**5,985**	**1,394**	**11,701**	**170,966**

This item totals € 170.966 million, an increase of € 11.596 million, + 7.28%.

The principal changes relate to:

- owned buildings:
  purchases in Genoa via XXV April, Milan via Sforza, Mantua, Lodi of buildings to be used as branches, a flat in Abbiategrasso and a plot of land in Berbenno;
  restructuring of the international unit offices in Sondrio, Lungo Mallero Cadorna;
  in San Pietro Berbenno, Novate Mezzola, Dongo, Domaso, Bergamo-via G.d'Alzano and Abbiategrasso for restructuring work;
- furniture, installations and other:
  increases relate to head office and branch IT equipment, furniture and fittings and miscellaneous equipment for newly-opened branches.

Depreciation is provided over the estimated useful lives of the fixed assets concerned, as summarised below:

property, equipment and investment property	depreciation period (years)
buildings	33
furniture and fittings	7
IT equipment	3
miscellaneous machinery and equipment	5
vehicles	3
security counters	3
photovoltaic plant	12
safes	8

In accordance with article 10 of Law 72 of 19 March 1983, an appendix to this report provides information on the buildings still owned by the bank for which monetary revaluations were carried out in the past.

11.7 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 5.220 million, compared with € 8.304 million the previous year.

Section 12 Intangible assets - line item 120

12.1 Intangible assets: breakdown by type

	31/12/2015		31/12/2014	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**–**	**–**	**–**
A.2 **Other intangible assets**	**12,960**	**–**	**11,917**	**–**
A.2.1 Carried at cost:	12,960	–	11,917	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	12,960	–	11,917	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**12,960**	**–**	**11,917**	**–**

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:

	31/12/2015	31/12/2014
recorded in 2012	–	1
recorded in 2013	1	3,813
recorded in 2014	4,052	8,103
recorded in 2015	8,907	–
Total	**12,960**	**11,917**

12.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets generated internally		Other intangible assets: other		Total
		Specified	Unspecified	Specified	Unspecified	31/12/2015
A. **Opening gross amount**	**–**	**–**	**–**	**96,420**	**–**	**96,420**
A.1 Total net reductions in value	–	–	–	(84,503)	–	(84,503)
A.2 Opening net amount	–	–	–	11,917	–	11,917
B. **Additions**	**–**	**–**	**–**	**13,360**	**–**	**13,360**
B.1 Purchases	–	–	–	13,360	–	13,360
B.2 Increases in internally generated intangible assets	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**12,317**	**–**	**12,317**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	12,317	–	12,317
- Amortisation and depreciation	–	–	–	12,317	–	12,317
- Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
C.4 Transfers to discontinued operations due for disposal	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**–**	**–**	**–**	**12,960**	**–**	**12,960**
D.1 Total net reductions in value	–	–	–	(96,818)	–	(96,818)
E. **Closing gross amount**	**–**	**–**	**–**	**109,778**	**–**	**109,778**
F. **Valuation at cost**	**–**	**–**	**–**	**12,960**	**–**	**12,960**

Key:
Specified: specified duration
Unspecified: unspecified duration

12.3 Other information

Contractual commitments to purchase software user rights amount to € 2.810 million, compared with € 7.144 million in the prior year.

Section 13 *Tax assets and liabilities- asset line item 130 and liability line item 80*

13.1 Deferred tax assets: breakdown

	31/12/2015	31/12/2014
Loan writedowns	353,003	320,198
Provisions for risks and charges	17,185	16,007
Deferred charges	2,176	2,617
Securities and equity investments	1,089	270
Administrative expenses	10,370	11,506
Amortisation and depreciation	1,670	1,525
Total	**385,493**	**352,123**

The deferred tax assets recorded in relation to the provisions for risks and charges concern the provision for legal disputes, the provision for guarantees given and the provision for personnel charges. Deferred tax assets have been recognised in relation to all deductible timing differences.

13.2 Deferred tax liabilities: breakdown

	31/12/2015	31/12/2014
Owned buildings	5,718	5,718
Accelerated depreciation	1,885	2,042
Leased buildings	1,780	1,833
Revaluation of securities and gains	38,651	35,976
Administrative expenses	275	276
Loans	–	-
Total	**48,309**	**45,845**

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)

	31/12/2015	31/12/2014
1. **Opening balance**	**340,602**	**264,685**
2. **Increases**	**41,281**	**157,431**
2.1 Deferred tax assets arising during the year	41,281	157,431
a) relating to prior years	1,284	451
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	39,997	156,980
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**7,627**	**81,514**
3.1 Deferred tax assets eliminated during the year	7,546	74,733
a) reversals	7,546	74,733
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	81	6,781
a) transformation into tax credits as per Law 214/2011	–	–
b) other	81	6,781
4. **Closing balance**	**374,256**	**340,602**

Deferred tax assets have not been converted into tax credits in accordance with art. 9 of Decree Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011 as the conditions for doing so do not exist.

13.3.1 Change in deferred tax assets as per Law 214/2011 (with contra-entry to the income statement)

	31/12/2015	31/12/2014
1. **Opening balance**	**320,198**	**243,012**
2. **Increases**	**32,886**	**150,615**
3. **Decreases**	**81**	**73,429**
3.1 Reversals	–	68,337
3.2 Transformation into tax credits	–	–
a) resulting from operating losses	–	–
b) arising from tax losses	–	–
3.3 Other decreases	81	5.092
4. **Closing balance**	**353,003**	**320,198**

Deferred tax assets have not been converted into tax credits in accordance with art. 9 of Decree Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011 as the conditions for doing so do not exist.

13.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2015	31/12/2014
1. **Opening balance**	**9,992**	**10,311**
2. **Increases**	**2**	**4**
2.1 Deferred tax liabilities arising during the year	2	4
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	2	4
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**313**	**323**
3.1 Deferred tax liabilities eliminated during the year	311	318
a) reversals	311	318
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	2	5
4. **Closing balance**	**9,681**	**9,992**

13.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2015	31/12/2014
1. **Opening balance**	**11,521**	**7,312**
2. **Increases**	**1,005**	**6,827**
2.1 Deferred tax assets arising during the year	1,005	6,827
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	1,005	6,827
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
- of which: business combinations	–	–
3. **Decreases**	**1,289**	**2,618**
3.1 Deferred tax assets eliminated during the year	1,191	2,618
a) reversals	1,191	2,618
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	98	–
4. **Closing balance**	**11,237**	**11,521**

This amount relates for € 1.089 million to losses on securities available for sale booked to equity, and for € 8.831 million to actuarial losses recognised in the measurement of long-term employee benefits, i.e. pension fund and termination indemnities booked to equity as provided by IAS 19 Revised, as well as for € 1.318 million to expenses related to the increase in capital.

13.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2015	31/12/2014
1. **Opening balance**	**35,854**	**17,645**
2. **Increases**	**7,025**	**18,929**
2.1 Deferred tax liabilities arising during the year	7,025	18,929
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	7,025	18,929
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**4,251**	**720**
3.1 Deferred tax liabilities eliminated during the year	4,251	720
a) reversals	4,251	720
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**38,628**	**35,854**

This amount relates to the tax on the gains on securities available for sale booked to equity.

Section 15 Other assets - line item 150

15.1 Other assets: breakdown

	31/12/2015	31/12/2014
Advances paid to tax authorities	55,940	48,628
Withholdings on interest due to customers	843	3,491
Tax credits and related interest	26,755	22,868
Current account cheques drawn on third parties	26,205	31,165
Current account cheques drawn on Group banks	11,173	13,575
Transactions in customers' securities	1,590	4,383
Inventories	923	973
Costs pertaining to the subsequent year	805	1,262
Advances to suppliers	592	331
Advances to customers awaiting collections	18,817	17,927
Miscellaneous debits in transit	44,946	45,870
Liquidity of pension fund	13,527	33,283
Accrued expenses not allocated	35,155	29,880
Prepayments not allocated	4,203	3,884
Residual items	81,484	61,639
Total	**322,958**	**319,159**

Liabilities and equity

Section 1 *Due to banks - line item 10*

1.1 Deposits from banks: breakdown by type

Type of transaction/Amounts	31/12/2015	31/12/2014
1. **Due to central banks**	**1,099,856**	**1,107,248**
2. **Due to banks**	**977,308**	**1,198,106**
2.1 Current accounts and sight deposits	242,113	456,673
2.2 Time deposits	523,378	522,409
2.3 Loans	150,977	167,771
2.3.1 Repurchase agreements	–	–
2.3.2 Other	150,977	167,771
2.4 Payables for commitments to repurchase own equity instruments	–	–
2.5 Other payables	60,840	51,253
Total	**2,077,164**	**2,305,354**
Fair value - level 1	**–**	**–**
Fair value - level 2	**–**	**–**
Fair value - level 3	**2,077,164**	**2,305,354**
Total fair value	**2,077,164**	**2,305,354**

These payables are not specifically hedged.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO). The first, for € 350 million, was obtained in September 2014 and the second, for € 748 million, was granted in December 2014. Both are repayable in September 2018, subject to obligatory early repayment in September 2016 if the lending thresholds established by the ECB have not been met. These loans are secured by bonds, mainly Government bonds.

«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

	31/12/2015	31/12/2014
Payables for finance leases	456	1,114
Total	**456**	**1,114**

Payables for finance leases at floating rates amount to €3.087 million, of which € 0.456 million relating to banks and € 2.631 million relating to customers against a total of € 4.294 million in the previous year, -28.11%; they relate to buildings used as banking branches.

Total outstanding lease commitments, including interest, amount to € 3.126 million. These payables fall due as follows:

within 1 months	715	1.283
1 to 5 years	2,284	2,892
over 5 years	127	194

Section 2 *Due to customers - line item 20*

2.1 Customer deposits: breakdown by sector

Type of transaction/Amounts	31/12/2015	31/12/2014
1. **Current accounts and sight deposits**	**21,426,014**	**20,899,453**
2, **Time deposits**	**1,348,302**	**2,371,066**
3. **Loans**	**795,509**	**410,399**
3.1 Repurchase agreements	727,070	383,722
3.2 Other	68,439	26,677
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**
5. **Other payables**	**44,263**	**52,782**
Total	**3,614,088**	**23,733,700**
Fair value - level 1	**–**	**–**
Fair value - level 2	**–**	**–**
Fair value - level 3	**23,614,088**	**23,733,700**
Fair value	**23,614,088**	**23,733,700**

These payables are not specifically hedged.

Their fair value corresponds to their book value as they are amounts due on demand or with short-term restrictions.

2.5 Payables for finance leases

	31/12/2015	31/12/2014
Payables for finance leases	2,631	3,180
Total	**2,631**	**3,180**

Section 3 *Securities issued - line item 30*

3.1 Securities issued: breakdown by sector

	31/12/2015				31/12/2014			
	Book	*Fair Value*			Book	*Fair Value*		
Type of security/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	2,943,488	984,991	2,000,188	–	3,212,469	518,968	2,764,251	–
1.1 structured	223,382	–	223,382	–	86,180	–	86,180	–
1.2 other	2,720,106	984,991	1,776,806	–	3,126,289	518,968	2,678,071	–
2. Other securities	69,545	–	69,545	–	78,455	–	78,455	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 Other	69,545	–	69,545	–	78,455	–	78,455	–
Total	**3,013,033**	**984,991**	**2,069,733**	**–**	**3,290,924**	**518,968**	**2,842,706**	**–**

The fair value of the «other securities» is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

3.2 Details of line item 30 «Securities issued»: subordinated securities

The voluntary exchange offer of Tier II subordinated bonds issued by the Bank in 2014 for a total of 350 million euro ended in October 2015; this was promoted to optimise the composition of the Bank's Class 2 liabilities (Tier II), given the new regulatory framework introduced by EU Regulation no. 575/2013 (CRR). As part of the exchange transaction, securities for a total of over 274 million euro have been transferred, i.e. a 78.32% subscription.

Subordinated securities amount to € 918.155 million and are made up of the loans indicated below:

- bond loan of € 143.967 million from 26/2/2010 and maturity on 26/2/2017 with a forecast annual repayment of 20% from 26/2/2013. This loan was issued with an interest rate of 4% which will gradually rise to 5%; the coupon current at year end is 4.50%.
- bond loan of € 224.154 million from 23/12/2011 and maturity on 23/12/2018 with a forecast annual repayment of 20% from 23/12/2014. It has an interest rate of 4.50% which will gradually rise to 6%; the coupon current at year end is 5.50%.
- bond loan of € 17.066 million from 8/8/2014 and maturity on 8/8/2021 with a forecast annual repayment of 20% from 8/8/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2%.
- bond loan of € 26.628 million from 30/9/2014 and maturity on 30/9/2021 with a forecast annual repayment of 20% from 30/9/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2%.
- bond loan of € 27.940 million from 29/12/2014 and maturity on 29/12/2021 with a forecast annual repayment of 20% from 29/12/2017. The interest rate commenced at 2.25% and will gradually rise to 4%; the coupon current at year end is 2.25%.
- bond loan € 202.722 million from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%
- a bond of € 275.678 million from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%.

Section 4 *Financial liabilities held for trading - line item 40*

4.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/Amounts	31/12/2015					31/12/2014				
		Fair Value					Fair Value			
	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Customer deposits	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Other	–	–	–	–	–	–	–	–	–	–
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivatives**										
1. Financial derivatives	–	–	97,310	–	–	–	–	98,099	–	–
1.1 for trading	–	–	97,310	–	–	–	–	98,099	–	–
1.2 connected with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 For trading	–	–	–	–	–	–	–	–	–	–
2.2 Connected with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–	–	–	–	–
Total B	**–**	**–**	**97,310**	**–**	**–**	**–**	**–**	**98,099**	**–**	**–**
Total A+B	**–**	**–**	**97,310**	**–**	**–**	**–**	**–**	**98,099**	**–**	**–**

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*

The balance of € 48.309 million relates entirely to deferred taxation. There is no current taxation due to the considerable increase in advances paid, which resulted in the excess payments reported in asset line item 130.

As regards the composition and amount of deferred taxes, please read Assets Section 13 of these notes.

The tax years up to 2009 have been closed. The Bank was previously involved in a dispute relating to the 2006, 2007 and 2008 tax years for IRES and IRAP purposes, which has been settled by legal mediation. The dispute concerned the deductibility of interest paid to counterparty customers and banks resident in countries with so-called preferential tax regimes. Additional taxation totalling € 2.770 million had been claimed, but the final payment was € 0.067 million.

For 2010, the Bank received a notice of assessment for VAT purposes for not applying VAT on the commissions received as a custodian bank for the amount of € 0.218 million plus interest. This matter was raised in prior years and a solution was found in Tax Authority Resolution 97/E of 17 December 2013, which formalised a compromise that subjects part of these commissions to VAT at a flat rate, with no penalties in relation to the prior years covered by assessments. Since the assessment for 2010 took account of the above Resolution and did not require the payment of penalties, the Bank decided to terminate the dispute by paying the amount requested.

The Bank is involved in a dispute regarding the flat tax payable on syndicated long-term loans under contracts signed abroad, which were the subject of assessments received in 2013 and 2014. The imminent resolution of this dispute will be almost entirely favourable for the Bank.

Section 10 *Other liabilities - line item 100*

10.1 Other liabilities: breakdown

	31/12/2015	31/12/2014
Amounts at the disposal of third parties	234,944	243,285
Taxes to be paid on behalf of third parties	54,379	44,686
Taxes to be paid	1,138	5,275
Employee salaries and contributions	12,178	25,450
Suppliers	9,919	10,254
Transit accounts for sundry entities	10,162	1,430
Invoices to be received	11,709	10,689
Credits in transit for financial transactions	3,968	321
Value date differentials on portfolio transactions	151,261	141,607
Directors' and statutory auditors' emoluments	1,080	1,003
Loans disbursed to customers to be finalised	18,039	19,313
Miscellaneous credit items being settled	58,390	49,056
Accrued expenses not allocated	723	1,384
Deferred income not allocated	13,772	13,983
Allowance for risks on guarantees and commitments	19,093	18,177
Residual items	32,798	93,383
Total	**633,553**	**679,296**

This line item shows a decrease of 6.73%.

Section 11 *Post-employment benefits - line item 110*

11.1 Post-employment benefits: change in the year

	31/12/2015	31/12/2014
A. **Opening balance**	**42,442**	**38,265**
B. **Additions**	**7,555**	**11,465**
B.1 Provisions	7,555	7,350
B.2 Other changes	–	4,115
C. **Decreases**	**9,133**	**7,288**
C.1 Payments made	1,207	955
C.2 Other changes	7,926	6,333
D. **Closing balance**	**40,864**	**42,442**

11.2 Other information

Other decreases relate to payments to the Arca Previdenza Fund of € 4.703 million, compared with € 4.332 million in the previous year, payments to INPS of € 1.984 million, the actuarial valuation of the liability of € 1.158 million and tax on the annual revaluation of € 0.081 million, compared with € 0.085 million in the previous year. When deciding on the discount rate, we took into account the recommendation made by ESMA in its document 725/2012 of 12 November 2012. Compared with last year, we have chosen to use the AA-rated discount rate, instead of AAA, because the latter comprises just two indices in the technology sector. We also used a yield curve that takes into account the expected average life of the Bank's obligation.

The provision for termination indemnities required under Italian regulations amounts to € 39.648 million. The actuarial measurement of the provision for termination indemnities was carried out on a closed group. The actuarial simulations were carried out according to the Projected Unit Credit Method.

The Projected Unit Credit Method lays down that the costs to be incurred during the year to build up the termination indemnity are determined according to the proportion of services rendered during the same period. According to the accrued benefits method, the company's obligation to the individual employee is based on the services already rendered at the measurement date.

The actuarial calculations were made on the following assumptions:

	31/12/2015	31/12/2014
Discount rate	2.05%	1.88%
Rate of inflation	1.50%	1.50%
Annual rate of increase in termination indemnities	1.50%	1.50%

The discount rate has been chosen according to the I-Boxx Corporates Eurozone AA index with a duration of more than 10 years.

Section 12 Provisions for risks and charges - line item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts	31/12/2015	31/12/2014
1. **Pension and similar obligations**	**117,912**	**117,043**
2. **Other provisions for risks and charges**	**41,690**	**39,098**
2.1 legal disputes	25,114	22,980
2.2 personnel expenses	15,814	15,233
2.3 other	762	885
Total	**159,602**	**156,141**

At year end, the bank is not aware of being exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above.

It is reasonable to conclude that there are no contingent liabilities.

12.2 Provisions for risks and charges: change in the year

	Pension and similar obligations	Other provisions	Total
A. **Opening balance**	**117,043**	**39,098**	**156,141**
B. **Additions**	**6,764**	**23,250**	**30,014**
B.1 Provisions	2,403	22,631	25,034
B.2 Changes due to the passage of time	–	15	15
B.3 Changes due to variations in the discount rate	–	4	4
B.4 Other changes	4,361	600	4,961
C. **Decreases**	**5,895**	**20,658**	**26,553**
C.1 Utilisations during the year	3,555	18,870	22,425
C.2 Changes due to variations in the discount rate	1,164	7	1,171
C.3 Other changes	1,176	1,781	2,957
D. **Closing balance**	**117,912**	**41,690**	**159,602**

12.3 Defined-benefit pension plans

12.3.1. Characteristics of the plans and related risks

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

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 411 employees and 242 pensioners.

Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen. 2,079 employees have joined this fund.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

12.3.2 Defined-benefit pension plans: annual changes

	31/12/2015	31/12/2014
At 1 January	117,043	100,539
service cost	2,321	2,043
interest cost	2,190	3,024
actuarial gains/losses	(1,164)	13,876
payments	(3,555)	(3,530)
other provisions	1,077	1,091
At 31 December	**117,912**	**117,043**

12.3.3 Defined-benefit pension plans – Other information

Details of the assets of the pension plan are summarised in the following table:

	31/12/2015	31/12/2014
Fixed-yield securities	73,825	75,160
Variable-yield securities	4,000	1,142
Mutual funds invested in shares	10,944	7,017
Mutual funds invested in property	15,616	441
Other assets	13,527	33,283
Total	**117,912**	**117,043**

The amount of the fund increases by € 0.869 million, +0.74%.

Payments of benefits amount to € 3.520 million compared with € 3.530 million. The contributions paid by the employees totalled € 0.241 million (€ 0.234 million in the prior year).

12.3.4 Defined-benefit pension plans – Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	31/12/2015	31/12/2014
Discount rate	2.05%	1.88%
Expected increase in salaries	0.50%	0.50%
Underlying rate of pension increases	1.00%	1.00%

The average discount rate was determined with reference to the I-Boxx Corporates Eurozona AA index with a duration in excess of 10 years at the measurement date; we used a AAA rate last year; the decision reflected the composition of the I BOX Corporation index, whose AAA rating only includes two financial stocks of a technological nature, while the AA index is more heterogeneous - including European and non-EU financial and non-financial stocks.

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. The situation reflected in the financial statements was used as the base scenario and the two most significant assumptions (average discount rate and inflation rate) were increased and decreased, obtaining the following results:

Sensitivity

0.25% increase in the discount rate, liability of € 111.309 million

0.25% decrease in the discount rate, liability of € 120.517 million

In addition, the liability in the coming years was also analysed; as a result, the payments for the next five years were estimated, as shown in the following table:

Future payments (millions of euro)

Year	0-1	1-2	2-3	3-4	4-5
Cash flow	3.302	3.452	3.330	3.216	3.198

12.4 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2015	31/12/2014
Provision for legal disputes	25,114	22,980
Provision for personnel expenses	15,814	15,233
Other provisions	762	885
Total	**41,690**	**39,098**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off for € 4.918 million, and other disputes that have arisen in the ordinary course of business for € 20.197 million. The bank makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2015 as the discount rate.

They increase by € 2.135 million for the difference between the provisions for the year of € 8.958 million and the release of prior year provisions of € 6.823 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 € 0.581 million, + 3.81%.

The provision for charitable donations comprises an allocation from profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2014 profit, while the reduction of € 0.223 million was a consequence of payments made during the year.

Section 14 Equity - items 130, 150, 160, 170, 180, 190 and 200

14.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, par value € 3 each, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2015.

At the year-end, the Bank held treasury shares with a carrying value of € 25.322 million.

14.2 Share capital – Number of shares: change in the year

Items/Type	Ordinary	Other
A. **Shares in existence at the start of the year**	**453,385,777**	**–**
- fully paid	453,385,777	–
- not fully paid	–	–
A.1 Treasury shares (-)	(3,550,000)	–
A. 2 **Shares in circulation: opening balance**	**449,835,777**	**–**
B. **Additions**	**–**	**–**
B.1 New issues	–	–
- for payment	–	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- others	–	–
- free of charge	–	–
- to employees	–	–
- to directors	–	–
- other	–	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**(100,000)**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	(100,000)	–
C.3 Business disposals	–	–
C.4 Other changes	–	–
D. **Shares in circulation: closing balance**	**449,735,777**	**–**
D.1 Treasury shares (+)	3,650,000	–
D.2 Shares in existence at the end of the year	453,385,777	–
- fully paid	453,385,777	–
- not fully paid	–	–

14.3 Share capital: other information

Share premium reserve

It amounts to € 79.005 million, unchanged on last year.

14.4 Revenue reserves: other information

Revenue reserves contribute to the capital adequacy of the Bank, considering both current and future operations. They amount to € 735.497 million, + 10.52% on the prior year figure and comprise:

Legal reserve, consisting of profits allocated pursuant to art. 2430 of the Italian Civil Code and art. 60 of the Articles of Association, which amounts to € 202.544 million, +25.37%, following the allocation of € 40.983 million from 2014 profit.

Statutory reserve, required by art. 60 of the Articles of Association, which amounts to € 421.902 million (+7.51%), following the allocation of € 29.266 million out of the 2014 profit and dividends on treasury shares of € 0.219 million.

Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares.

This reserve amounts to € 93 million (it has been used for € 25.322 million), unchanged compared with the previous year.

Reserve pursuant to art. 13 of Decree 124/93, € 0.142 million.

Other reserves of € 17.909 million decreased by € 0.439 million, - 2.39% compared with the previous year. This reflects the change in deferred tax assets recorded in the previous year on the capitalisation of costs related to the increase in share capital, net of tax effect.

We inform you that the individual equity items are freely available and distributable, except for the valuation reserves which are only distributable under the circumstances laid down in art. 6 of Decree 38/2005, the portion of the «share premium reserve» that can only be distributed in its entirety if the legal reserve has reached one-fifth of the share capital (art. 2431 of the Civil Code) and the legal reserve, which is lower than 20% of the share capital.

14.5 Equity instruments: breakdown and change in the year

No equity instruments have been issued.

Other information

1. Guarantees given and commitments

Operations	31/12/2015	31/12/2014
1) **Financial guarantees:**	**711,613**	**746,415**
a) Banks	167,388	173,725
b) Customers	544,225	572,690
2) **Commercial guarantees**	**3,119,746**	**3,394,915**
a) Banks	85,506	78,182
b) Customers	3,034,240	3,316,733
3) **Irrevocable commitments to make loans**	**1,016,507**	**1,003,756**
a) Banks	31,031	71,556
i) certain to be called on	18,298	59,946
ii) not certain to be called on	12,733	11,610
b) Customers	985,476	932,200
i) certain to be called on	353,486	367,812
ii) not certain to be called on	631,990	564,388
4) **Commitments underlying credit derivatives: protection sold**	**–**	**–**
5) **Assets lodged to guarantee the commitments of third parties**	**467,639**	**494,768**
6) **Other commitments**	**9**	**9**
Total	**5,315,514**	**5,639,863**

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2015	31/12/2014
1. Financial assets held for trading	516,624	637,156
2. Financial assets at fair value through profit or loss	–	–
3. Available-for-sale financial assets	2,307,917	1,270,938
4. Held-to-maturity investments	–	–
5. Loans and receivables with banks	–	–
6. Loans and receivables with customers	1,070,686	906,013
7. Property, equipment and investment property	–	–

Assets held for trading mainly comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances; Assets available for sale comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances. These securities are not subject to structured repurchase agreements.

Loans and receivables with customers comprise the residential mortgages used to guarantee the loans obtained from the ECB and secured bank bonds (Covered bonds).

4. Management and intermediation for third parties

Type of service	31/12/2015
1. **Execution of orders on behalf of customers**	
a) Purchases	–
1. settled	–
2. not settled	–
b) Sales	–
1. settled	–
2. not settled	–
2. **Portfolio management**	
a) Individual	1,491,409
b) Collective	–
3. **Custody and administration of securities**	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,343,809
1. securities issued by the reporting bank	–
2. other securities	1,343,809
b) other third-party securities on deposit (excluding portfolio management): other	16,896,637
1. securities issued by the reporting bank	3,181,263
2. other securities	13,715,374
c) third-party securities on deposit with third parties	17,565,166
d) own securities on deposit with third parties	8,446,614
4. **Other transactions**	

5. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at 31/12/2015 (f = c-d-e)**	**Net amount at 31/12/2014**
1. Derivatives	81,851	–	81,851	19,775	59,969	2,107	4,671
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2015	**81,851**	**–**	**81,851**	**19,775**	**59,969**	**2,107**	**–**
Total 31/12/2014	**71,691**	**–**	**71,691**	**16,084**	**50,936**	**–**	**4,671**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements».

In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparts, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The net positive fair value at 31/12/2015 that is not correlated with deposits received in guarantee amounts to € 2.107 million. This amount principally derives from the fact that the margin calls on deposits given in guarantee are made weekly.

Given that fair value changes daily, there may be situations intraweek in which fair value is not fully covered or in which the deposits given in guarantee exceed the value of the related derivatives.

When the «third pillar» of the EMIR regulation (obligatory collateralisation of the Mark-to-Market adjustment of derivative products via a Central Counterparty) becomes mandatory (should be in June 2017), the amount of these differences will diminish considerably, tending to zero, since the CSA margin calls will be made daily.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

6. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets netted in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits given in guarantee (e)	**Net amount at 31/12/2015 (f = c-d-e)**	**Net amount at 31/12/2014**
1. Derivatives	81,725	–	81,725	19,775	61,899	51	1,373
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2015	**81,725**	**–**	**81,725**	**19,775**	**61,899**	**51**	**–**
Total 31/12/2014	**77,193**	**–**	**77,193**	**16,084**	**59,736**	**–**	**1,373**

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 31/12/2015	Total 31/12/2014
1. Financial assets held for trading	14,490	–	–	14,490	30,245
2. Available-for-sale financial assets	56,238	–	–	56,238	72,177
3. Held-to-maturity investments	750	–	–	750	1,395
4. Loans and receivables with banks	–	5,546	–	5,546	6,980
5. Loans and receivables with customers	1,921	625,102	–	627,023	748,865
6. Financial assets measured at fair value	2	–	–	2	4
7. Hedging derivatives	–	–	–	–	–
8. Other assets	–	–	–	–	–
Total	**73,401**	**630,648**	**–**	**704,049**	**859,666**

1.3 Interest and similar income: other information

Interest income decreased significantly, -18.10%, from € 859.666 million to € 704.049 million because of the reduction in interest rates on loans to customers and of financial investments.

1.3.1 Interest and similar income on foreign currency assets

Items	31/12/2015	31/12/2014
Interest and similar income on foreign currency assets	28,412	33,733

1.4 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2015**	**Total 31/12/2014**
1. Due to central banks	(1,705)	–	–	(1,705)	(2,742)
2. Due to banks	(1,178)	–	–	(1,178)	(7,471)
3. Due to customers	(138,267)	–	–	(138,267)	(238,864)
4. Securities issued	–	(83,434)	–	(83,434)	(90,028)
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities carried at fair value	–	–	–	–	–
7. Other liabilities and funds	–	–	–	–	–
8. Hedging derivatives	–	–	–	–	–
Total	**(141,150)**	**(83,434)**	**–**	**(224,584)**	**(339,105)**

1.6 Interest and similar expense: other information

Interest expense has decreased from € 339.105 million to €224.584 million, – 33.77%. The reduction of € 114.521 million reflects the lower cost of funding from customers and in the interbank market.

1.6.1 Interest and similar expense on foreign currency liabilities

	31/12/2015	**31/12/2014**
Interest and similar expense on foreign currency liabilities	182	(2,753)

1.6.2 Interest expense on finance lease transactions

	31/12/2015	**31/12/2014**
Interest expense on finance lease transactions	(25)	(48)

Section 2 *Commissions - line items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2015	31/12/2014
a) **guarantees given**	**28,506**	**28,523**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**73,138**	**64,615**
1. trading in financial instruments	–	–
2. trading in foreign currencies	11,417	9,265
3. portfolio management	8,891	6,762
3.1. individual	8,891	6,762
3.2. collective	–	–
4. custody and administration of securities	1,574	1,720
5. custodian bank	1,854	1,374
6. placement of securities	23,675	20,112
7. order receipt and transmission	11,665	12,427
8. consultancy	–	59
8.1 investments	–	–
8.2 corporate finance	–	59
9. distribution of third-party services	14,062	12,896
9.1 portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2 insurance products	10,606	8,848
9.3 other products	3,456	4,048
d) **collection and payment services**	**66,484**	**64,996**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**–**	**–**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**29,410**	**30,466**
j) **other services**	**67,090**	**69,385**
Total	**264,628**	**257,985**

«Other services» mainly consist of loan commissions of € 57.735 million and international/foreign exchange fees of € 6.492 million.

2.2 Fee and commission income: distribution channels for products and services

Channels/Amounts	31/12/2015	31/12/2014
a) **bank branches**		
1. portfolio management	8,891	6,762
2. placement of securities	23,675	20,112
3. third-party products and services	14,062	12,896
b) **door-to-door sales**		
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party products and services	–	–
c) **other distribution channels**		
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party products and services	–	–

2.3 Fee and commission expense: breakdown

Services/Amounts	31/12/2015	31/12/2014
a) **guarantees received**	**(390)**	**(385)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services**	**(1,610)**	**(1,562)**
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	(1,610)	(1,562)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(9,640)**	**(9,632)**
e) **other services**	**(3,198)**	**(4,168)**
Total (14.838)	**(15,747)**	

«Other services» mainly include commissions on security and lending transactions.

Section 3 *Dividends and similar income - line item 70*

3.1 Dividends and similar income: breakdown

	31/12/2015		31/12/2014	
Items/Income	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	915	208	764	137
B. Available-for-sale financial assets	1,409	315	1,301	1,308
C. Financial assets at fair value through profit or loss	–	–	–	–
D. Equity investments	13,426	–	12,732	–
Total	**15,750**	**523**	**14,797**	**1,445**

Dividends from equity investments amounted to € 6.171 million paid by Factorit spa, €6.850 million by Arca Vita spa, € 0.259 million by Unione Fiduciaria spa and € 0.146 million by Polis Fondi SGRpa.

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net result [(A+B)-(C+D)] **31/12/2015**
1. **Financial assets held for trading**	**10,157**	**45,808**	**(20,969)**	**(2,055)**	**32,941**
1.1 Fixed-yield securities	9,233	5,190	(3,084)	(1,717)	9,622
1.2 Variable-yield securities	386	10,584	(13,484)	(119)	(2,633)
1.3 Mutual funds	39	6,394	(3,924)	(219)	2,290
1.4 Loans	–	–	–	–	–
1.5 Others	499	23,640	(477)	–	23,662
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Others	–	–	–	–	–
3. **Financial Other assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**2,203**
4. **Derivatives**	**5,883**	**50,413**	**(6,659)**	**(39,235)**	**10,441**
4.1 Financial derivatives:	5,883	50,413	(6,659)	(39,235)	10,441
- On debt securities and interest rates	5,499	32,401	(6,001)	(30,656)	1,243
- On equities and equity indices	–	15,619	(277)	(6,254)	9,088
- On currency and gold	–	–	–	–	39
- Other	384	2,393	(381)	(2,325)	71
4.2 Credit derivatives	–	–	–	–	–
Total	**16,040**	**96,221**	**(27,628)**	**(41,290)**	**45,585**

The net trading income amounted to € 45.585 million on € 90.114 million, – 49.41%. The decrease is linked to higher sales made in the prior year, in order to realise significant capital gains, and to the presence of net unrealised losses in 2015 compared with fairly substantial unrealised gains in 2014. Trading profits amount to € 43.753 million on € 58.443 million. Trading income on «other» financial assets of € 23.662 million mainly comprises exchange gains. Unrealised exchange differences, which last year amounted to € 12.598 million, have decreased to € 2.203 million and almost entirely relate to fixed-yield securities and mutual funds denominated in US dollars.

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) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases - breakdown

	31/12/2015			31/12/2014		
Items/income items	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
Financial assets						
1. **Loans and receivables with banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Loans and receivables with customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Available-for-sale financial assets**	**145,500**	**(5,574)**	**139,926**	**95,926**	**(421)**	**95,505**
3.1 Fixed-yield securities	116,438	(789)	115,649	95,023	(284)	94,739
3.2 Variable-yield securities	349	–	349	–	(137)	(137)
3.3 Mutual funds	28,713	(4,785)	23,928	903	–	903
3.4 Loans	–	–	–	–	–	–
4. **Held-to-maturity investments**	**–**	**–**	**–**	**–**	**–**	**–**
Total assets	**145,500**	**(5,574)**	**139,926**	**95,926**	**(421)**	**95,505**
Financial liabilities						
1. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Due to customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Securities issued**	**2,038**	**(1,930)**	**108**	**271**	**(1,622)**	**(1,351)**
Total liabilities	**2,038**	**(1,930)**	**108**	**271**	**(1,622)**	**(1,351)**

Section 7 *Net gains on financial assets and liabilities at fair value through profit or loss - line item 110*

7.1 Net gains on financial assets/liabilities at fair value through profit or loss: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Net result [(A+B)-(C+D)] **31/12/2015**
1. **Financial assets**	**3,711**	**113**	**(542)**	**(1)**	**3,281**
1.1 Fixed-yield securities	–	–	–	(1)	(1)
1.2 Variable-yield securities	–	–	–	–	–
1.3 Mutual funds	3,711	113	(542)	–	3,282
1.4 Loans	–	–	–	–	–
2. **Financial liabilities**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Due to banks	–	–	–	–	–
2.3 Due to customers	–	–	–	–	–
3. **Foreign currency financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**3,013**
4. **Credit and financial derivatives**	**–**	**–**	**–**	**–**	**–**
Total	**3,711**	**113**	**(542)**	**(1)**	**6,294**

Section 8 *Net impairment losses - line item 130*

8.1 Net impairment losses on loans and receivables: breakdown

Transactions/Income items	Adjustments (1)			Adjustments (2)				Total	Total
	Specific			Specific		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B	31/12/2015	31/12/2014
A. **Loans and receivables with banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
B. **Loans and receivables with customers**	**(13,977)**	**(470,237)**	**(61,729)**	**769**	**74,575**	**–**	**89,196**	**(381,403)**	**(454,076)**
Purchased impaired loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
Other receivables	**(13,977)**	**(470,237)**	**(61,729)**	**769**	**74,575**	**–**	**89,196**	**(381,403)**	**(454,076)**
- Loans	(13,977)	(466,224)	(61,729)	769	74,575	–	89,192	(377,394)	(448,723)
- Fixed-yield securities	–	(4,013)	–	–	–	–	4	(4,009)	(5,353)
C. **Total**	**(13,977)**	**(470,237)**	**(61,729)**	**769**	**74,575**	**–**	**89,196**	**(381,403)**	**(454,076)**

Key:
A = interest
B = other write-backs

8.2 Net impairment losses on available-for-sale financial assets: breakdown

Transactions/Income items	Adjustments (1)		Adjustments (2)		Total	Total
	Specific		Specific			
	Write-offs	Other	A	B	31/12/2015	31/12/2014
A. Debt securities	–	–	–	–	–	–
B. Variable-yield securities	–	(7,216)	–	–	(7,216)	(18,473)
C. Mutual funds	–	(987)	–	–	(987)	(835)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. **Total**	**–**	**(8,203)**	**–**	**–**	**(8,203)**	**(19,308)**

Key:
A = interest
B = other write-backs

Adjustments concern listed and unlisted variable-yield securities and certain mutual funds, which have been subjected to impairment testing given that their equity value is lower than the original cost.

The most significant writedowns related to the equity investments in Release spa for € 6.043 million, Aedes for € 0.558 million, Banca Etruria for € 0.260 million, Banca Carige for € 0.234 million.

8.3 Net impairment losses on held-to-maturity investments: breakdown

Transactions/Income items	Adjustments (1)			Riprese di valore (2)				Total	Total
	Specific			Specific		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B	31/12/2015	31/12/2014
A. Debt securities	–	(9,965)	–	–	–	–	–	(9,965)	–
B. Loans to banks	–	–	–	–	–	–	–	–	–
C. Loans to customers	–	–	–	–	–	–	–	–	–
D. **Total**	**–**	**(9,965)**	**–**	**–**	**–**	**–**	**–**	**(9,965)**	**–**

Key:
A = interest
B = other write-backs

8.4 Net impairment losses on other financial transactions: breakdown

Transactions/Income items	Adjustments (1)			Write-backs (2)				Total 31/12/2015	Total 31/12/2014
	Specific			Specific		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B		
A. Guarantees given	–	(1,805)	–	–	–	–	889	(916)	(177)
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to make loans	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	–
E. **Total**	**–**	**(1,805)**	**–**	**–**	**–**	**–**	**889**	**(916)**	**(177)**

Key:
A = interest
B = other write-backs

The adjustments represent net provisions for guarantees given.

Section 9 Administrative expenses - line item 150

9.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2015	31/12/2014
1) **Employees**	**(176,815)**	**(171,104)**
a) Wages and salaries	(108,421)	(105,843)
b) Social security contributions	(31,045)	(29,352)
c) Termination indemnities	–	–
d) Pension expenses	–	–
e) Provision for employee termination indemnities	(7,555)	(7,351)
f) Provision for pension and similar obligations:	(6,643)	(6,286)
- defined contribution	–	–
- defined benefits	(6,643)	(6,286)
g) Payments to external supplementary pension funds:	(2,643)	(2,437)
- defined contribution	(2,643)	(2,437)
- defined benefits	–	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(20,508)	(19,835)
2) **Other working personnel**	**(2,637)**	**(3,034)**
3) **Directors and Statutory auditors**	**(1,548)**	**(1,374)**
4) **Retired personnel**	**–**	**–**
5) **Recovery of expenses for personnel on secondment to other firms**	**205**	**81**
6) **Reimbursement of expenses for personnel on secondment to the company**	**(414)**	**(110)**
Total	**(181,209)**	**(175,541)**

9.2 Average number of employees by category

	31/12/2015	31/12/2014
1) **Employees**	**2,619**	**2,582**
a) Managers	22	21
b) Officials	535	522
c) Other employees	2,062	2,039
2) **Other personnel**	**71**	**77**
Total	**2,690**	**2,659**

	31/12/2015	31/12/2014
- Actual number of employees	2,646	2,596
- Other personnel	73	77

9.3 Defined-benefit pension plans: total costs

Income items/Amounts	31/12/2015	31/12/2014
Service cost	2,321	2,043
Interest cost	2,190	3,025
Contributions from employees	(241)	(234)
Reductions and payments	2,373	1,452
Total charge to income statement (A)	**6,643**	**6,286**
Portion of yield from assets servicing the fund (B)	4,361	4,310
Total charge (A-B)	2,282	1,976

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements. The cost for the Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations. These contributions amounted to € 1.930 million. An additional provision of € 4.361 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». An amount of € 1.164 million corresponding to the actuarial gains has not been charged to the income statement, but instead it has been added to equity in accordance with IAS 19, as reported in the statement of comprehensive income.

9.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

9.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2015	31/12/2014
Telephone, post and data transmission	(11,532)	(12,244)
Maintenance of property, equipment and investment property	(8,442)	(7,662)
Rent of buildings	(25,563)	(25,387)
Security	(5,902)	(5,814)
Transportation	(2,040)	(1,947)
Professional fees	(22,464)	(20,796)
Office materials	(1,942)	(2,014)
Electricity, heating and water	(5,319)	(5,666)
Advertising and entertainment	(2,740)	(3,049)
Legal	(14,370)	(10,345)
Insurance	(1,435)	(1,327)
Company searches and information	(5,883)	(5,506)
Indirect taxes and dues	(49,860)	(50,201)
Software and hardware rental and maintenance	(10,707)	(9,751)
Data entry by third parties	(1,281)	(1,526)
Cleaning	(5,202)	(5,013)
Membership fees	(1,943)	(1,853)
Services received from third parties	(2,841)	(2,913)
Outsourced activities	(20,402)	(18,857)
Deferred charges	(2,798)	(3,794)
Goods and services for employees	(1,054)	(1,024)
Other	(49,722)	(9,635)
Total	**(253,442)**	**(206,324)**

Other expenses include € 39.442 million comprising the ordinary and special contributions paid to the National Resolution Fund and the National Deposit Protection Fund.

Section 10 *Net accruals to provisions for risks and charges - line item 160*

10.1 Net accruals to provisions for risks and charges: breakdown

This line item amounts to € 2.134 million made up of the net balance of allowances made during the year to the provision for legal disputes of € 8.958 million and the use or release of provisions set aside in previous years of € 6.824 million.

Section 11 *Depreciation and net impairment losses on property, equipment and investment property - line item 170*

11.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) 31/12/2015	Net result (a+b-c) 31/12/2014
A. **Property, equipment and investment property**					
A.1 Owned	(12,529)	–	–	(12,529)	(11,731)
- For business purposes	(12,529)	–	–	(12,529)	(11,731)
- For investment purposes	–	–	–	–	–
A.2 Acquired under finance leases	(1,019)	–	–	(1,019)	(1,020)
- For business purposes	(1,019)	–	–	(1,019)	(1,020)
- For investment purposes	–	–	–	–	–
Total	**(13,548)**	**–**	**–**	**(13,548)**	**(12,751)**

The finance lease charges paid during the year amounted to € 0.733 million, compared with € 0.940 million in the prior year.

Section 12 *Amortisation and net impairment losses on intangible assets - line item 180*

12.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) 31/12/2015	Net result (a+b-c) 31/12/2014
A. **Property, equipment and investment property**					
A.1 Owned	(12,317)	–	–	(12,317)	(11,913)
- Internally generated	–	–	–	–	–
- Other	(12,317)	–	–	(12,317)	(11,913)
A.2 Acquired under finance leases	–	–	–	–	–
Total	**(12,317)**	**–**	**–**	**(12,317)**	**(11,913)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year; accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

Section 13 *Other operating income - Line item 190*

This caption amounts to € 69.211 million and comprises other operating income of €72.931 million, net of other operating expenses of € 3.720 million.

13.1 Other operating expenses: breakdown

	31/12/2015	31/12/2014
Out-of-period expense	(3,139)	(2,247)
Other	(581)	(548)
Total	**(3,720)**	**(2,795)**

13.2 Other operating income: breakdown

	31/12/2015	31/12/2014
Recovery of charges on deposits and overdrafts	109	96
Rental income from buildings	1,141	924
Recovery of taxes	43,726	44,263
Financial income of pension and similar obligations plan	4,361	4,310
Out-of-period income - other	3,784	1,761
Other	19,810	22,223
Total	**72,931**	**73,577**

The sub-item«other» includes € 9.895 million for the rapid enquiry fee, which has been allocated to this item in accordance with the Supervisory Authority's interpretation as it is merely a recovery of the costs incurred.

This commission was only charged for a short period in the prior year.

Section 14 Net losses on equity investments - line item 210

14.1 Net losses on equity investments: breakdown

Income item/amount	31/12/2015	31/12/2014
A. **Income**	**3,002**	**–**
1. Revaluations	–	–
2. Gains on disposal	–	–
3. Write-backs	–	–
4. Other income	3.002	–
B. **Charges**	**(2,424)**	**(648)**
1. Write-downs	(425)	(485)
2. Impairment writedowns	(1,999)	(163)
3. Loss from disposals	–	–
4. Other charges	–	–
Profit (loss)	**578**	**(648)**

This line item is positive for € 0.578 million, it was negative last year for € 0.648 million. The balance reflects the difference between writedowns of € 2.424 million, being € 0.425 related to Pirovano Stelvio spa and € 1.999 million related to Banca della Nuova Terra spa, and income of € 3.002 million. This last amount was paid to the Bank, under contractual agreements, to adjust the prices for which its holdings in Arca Vita spa and Arca Assicurazioni spa were sold in 2010.

Section 17 *Net gains on sales of investments - line item 240*

17.1 Net gains on sales of investments: breakdown

Income item/amount	31/12/2015	31/12/2014
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**7**	**11**
- Gains on disposal	7	17
- Losses on disposal	–	(6)
Profit (loss)	**7**	**11**

Section 18 *Income taxes - line item 260*

18.1 Income taxes: breakdown

Income item/amount		31/12/2015	31/12/2014
1.	Current taxes (-)	(78, 000)	(143,000)
2.	Change in prior period income taxes (+/-)	–	2,312
3.	Reduction in current taxes (+)	–	–
3. bis	Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4.	Change in deferred tax assets (+/-)	33,654	75,916
5.	Change in deferred tax liabilities (+/-)	311	320
6.	Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(44,035)	(64,452)

This line item comes in at 44.035 million, down by 31.68%. The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 30.56% compared with 39.78%. The decline reflects the reduction in taxation linked to the changes in IRAP taxation during the year and to the deductibility of loan writedowns and losses.

18.2 Reconciliation between the theoretical and current tax burden

INCOME TAXES	Tax base	Tax
Theoretical tax burden	144,099	39,627
Increases	125,707	34,570
Decreases	(43,988)	(12,097)
Effective tax burden	225,818	62,100

IRAP	Tax base	Tax
Theoretical tax burden	144,099	8,026
Increases	174,951	9,745
Decreases	(33,592)	(1,871)
Effective tax burden	**285,458**	**15,900**
Total effective tax burden	**–**	**78,000**

Income taxes are calculated at 27.50% for IRES and 5.57% for IRAP.

The total tax charge for the year is reconciled with the profit for the year as indicated in the table below.

IRES (CORPORATE INCOME TAXES)

The main add-backs relate to deductible loan adjustments and loan losses deductible over more than one year, non-deductible provisions for risks and charges, interest expense and losses and writedowns of equity investments classified as PEX.

The principal deductions relate to the non-taxable portion of dividends received, the deductible portion of IRAP, the use of taxed provisions and the effect of the ACE regulation.

IRAP (REGIONAL BUSINESS TAX)

The main add-backs concern non-deductible personnel expenses, writedowns of loans over more than one year and equity investments, interest expense, non-deductible amortisation and depreciation and other administrative expenses.

The principal deductions relate to the deductible portion of personnel expenses and other non-taxable income.

Section 21 *Earnings per share*

21.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2015	31/12/2014
number of shares	453,385,777	381,569,217

This is the weighted average used as the denominator in the calculation of basic earnings per share.

21.2 Other information

IAS 33 requires that EPS«earnings per share» be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

Diluted earnings per share was calculated with reference to the number of shares issued for payment at the time of the capital increase.

	31/12/2015	31/12/2014
earnings per share - €	0.221	0.256
diluted eps - €	0.221	0.250

PART D *Comprehensive income*

Statement of comprehensive income

Items/Amounts	Gross amount	Income taxes	Net amount
10. **Profit for the year**	**–**	**–**	**100,064**
Other items of comprehensive income that will not be reclassified to profit or loss	–	–	
20. **Property, equipment and investment property**	**–**	**–**	**–**
30. **Intangible assets**	**–**	**–**	**–**
40. **Defined-benefit plans**	**2,673**	**(663)**	**2,010**
50. **Non-current assets held for sale and discontinued operations**	**–**	**–**	**–**
60. **Share of valuation reserves of equity investments valued at net equity**	**–**	**–**	**–**
Other items of comprehensive income that may be reclassified subsequently to profit or loss	–	–	
70. **Hedges of foreign investments:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
80. **Exchange differences:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
90. **Cash-flow hedges:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
100. **Available-for-sale financial assets:**	**40,793**	**(1,958)**	**38,835**
a) changes in fair value	103,632	(22,725)	80,907
b) transfer to income statement	(62,839)	20,767	(42,072)
- adjustments for impairment	(9)	1	(8)
- gains/losses on disposals	(62,830)	20,766	(42,064)
c) other changes	–	–	–
110. **Non-current assets held for sale and discontinued operations:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
120. **Share of valuation reserves of equity investments valued at net equity:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
- adjustments for impairment	–	–	–
- gains/losses on disposals	–	–	–
c) other changes	–	–	–
130. **Total other income items**	**43,466**	**(2,621)**	**40,845**
140. **Comprehensive income (item 10+130)**	**–**	**–**	**140,909**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Bank's website.

Introduction

The purpose of managing and controlling risks is to ensure the reliable and sustainable generation of value, safeguard the financial solidity and reputation of the Bank, and provide transparent disclosure about the risks accepted. In particular, this activity seeks to verify compliance with the limits placed on the acceptance of risk, to identify criteria and methodologies for the measurement/assessment of risk, to check the consistency of the work performed in each operational area with the risk objectives assigned, if any, and to monitor current and future capital adequacy.

The Board of Directors is responsible for establishing guidelines, the strategic direction and policies for the governance of business risks, in order to ensure that the principal risks to which the Bank is exposed are correctly identified and managed. Consistent with this, the Board establishes the propensity to accept risk and obtains information about the actual exposures recorded, checking that the risk profiles are monitored appropriately by the units made responsible for internal control. In addition, with support from senior management, the Board promotes the development and spread at all levels of a «risk culture», capable of recognising the importance of healthy and prudent business management and facilitating a consistent, integrated and complete understanding of the types of risk that are important for the Bank.

Based on their specific responsibilities, the managing director and the members of general management supervise implementation of the guidance, direction and instructions provided by the Board, translating them into a system of exposure limits, procedures and operations designed to ensure the moderate acceptance of risk; the practical application of significant risk policies is delegated to the central services, offices and branches, depending on how they are organised.

The Board of Statutory Auditors monitors the adequacy of the risk management processes and their consistency with regulatory requirements.

The measurement and control of risks are performed by separate functions that are organisationally independent of the units authorised to accept them. The Planning and Control Department plays a primary role by constantly supervising operations via the Risk Control Office, which makes use of systems, instruments, procedures and methodologies for the identification, assessment and monitoring of risk. The department manager reports to senior management, in an objective and impartial manner, on the outcome of these control activities.

The high-level information describing the risks accepted, prepared by the above department, is organised so that senior management – having regard for the duties and responsibilities of each person – can make an informed, complete and documented assessment of the various types of risk and the related management, control and mitigation mechanisms, as well as of the adequacy of the capital held to cover such risks. The changes in the risk profiles are also communicated to the operational areas, via operational reports designed to make personnel aware of the need to intensify efforts to prevent and attenuate risk.

Section 1 *Credit risk*

QUALITATIVE INFORMATION

1. General matters

In line with its mission as a cooperative, the Bank's lending policy aims to provide support to local economies in the areas that we serve, by granting financial resources to applicants that are pursuing admirable objectives and who meet suitable parameters of credit-worthiness.

The size and composition of the loan portfolio reflect the financial needs of the two specific customer segments: the entrepreneurial spirit of small and medium-sized business owners, mainly located in territory of the Bank, and households. The Bank prefers to lend to SMEs since they do not move in broader financial circles and, consequently, need a point of reference that can understand their requirements and meet them with skill, efficiency and speed, following the evolution of the business over time. However, the needs of bigger counterparties, such as large enterprises and public entities, are not overlooked, providing their credit rating following a rigorous preliminary investigation shows that they are solid and reliable.

In this context, the lending activity is based on principles of healthy and prudent management, fair remuneration of risk and professional, efficient operational conduct, with a view to establishing two-way communications with borrowers based on reciprocal trust and transparency; this in order to enhance the Bank's particular aptitude for building long-term customised relationships with local business owners.

In consideration of the Bank's strategic objectives and approach to operations, its lending strategy is based on a low propensity for risk and full awareness of the risks that are taken on; this involves:

- measurement of the current and prospective risk inherent in the loan portfolio, both as a whole and at various levels of disaggregation;
- diversifying the exposure, so as to reduce concentration;
- refusing to get involved in operations that could jeopardise the Bank's profitability and solidity.

These strategies and policies have not changed since last year.

2. Credit risk management policies

2.1 Organisational aspects

The Bank's approach to credit risk management is based on maximum involvement at all levels of the organisation to ensure timely processing of customers' applications, combined with an analytical assessment of the risk involved in lending money to them.

The various stages that make up the lending process include the planning of credit policies, the preliminary investigation, disbursement of the loan, periodic review, monitoring and management of impaired loans.

Implementing the strategic guidelines established by the Corporate Bodies during the planning process and in compliance with the risk limits set, the lending policy defines the size and composition of the loan book, in order to guarantee an adequate balance between the risk profile accepted and the return earned. The guidelines cover the products, segments, sectors and categories of counterparty that maximise forecast profitability while, at the same time, governing the quality of the portfolio and ensuring capital adequacy on a prospective basis. For planning purposes, the guidelines establish objectives for the operational offices, covering the quality of the portfolio, as well as its growth and profitability. These objectives must be achieved while respecting the capital adequacy requirements and risk limits.

The procedures and organisational structure set up for this purpose have been formalised, clearly specifying activities, roles and responsibilities.

In order to avoid potential conflicts of interest, we ensure that operating functions and control functions are kept separate.

The system of decision-making powers approved by the Board of Directors is based on the principle of «cascade delegation», which means assigning limited powers to the branches, giving preference to control by specialist central units.

The following is an explanation of the bodies and the main corporate functions that are involved in supervising the lending process, also specifying their principal duties.

- *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.
- *The Managing Director* supervises implementation of the decisions taken by the Board of Directors with regard to the management of lending and the related risks. In addition, exercises the powers to make loans granted under the Bank's regulations.
- *The 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* 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.
- *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.
- *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* 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.

- *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 as unlikely-to-pay loans or as non-performing loans.
  This department also administers all impaired positions not classified as non-performing exposures.

- *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.

- *The Risk, Planning and Capital Management Department* defines, develops and maintains, via 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.
  The department also analyses, using various analysis dimensions, the riskiness of the loan portfolio, produces the related information flows and makes them available to the competent bodies and operating functions. From an organisational standpoint, two new central offices were established within the Risk, Planning and Capital Management Department during the year, in order to monitor the quality of the loan portfolio more incisively; in detail:
  - Having regard for the estimate of possible losses, the Large exposures office and rating desk monitors potentially significant exposures, both in advance, by considering their consistency with the RAF (Risk Appetite Framework), and via the periodic analysis of large exposures at Group level; this office also monitors the proper application of lending policies, with specific regard for the concentration profiles within the portfolio, and assesses the proper profitability for the portfolio risk accepted; lastly, this office acts as a central rating desk;
  - the Asset quality office monitors trends in the quality of the loan portfolio via specific aggregated analyses, but considering individual positions when necessary, with a view to promoting constant improvements in the quality of the portfolio by giving branches measurable objectives for reducing the degree to which their positions are impaired; having regard for the risk profile, the office also assesses the consistency of the classifications of performing and impaired loans, the reasonableness of the provisions recorded, and the adequacy and effectiveness of the loan recovery process, taken as a whole.

- *Internal Audit Department*. The Internal Audit Department checks the proper functioning of controls and compliance with rules and procedures. In particular, this department checks that the criteria for the proper classification of loans are correctly applied.

2.2 Systems for managing, measuring and monitoring

Control over credit risk has the support of rating models that have been specifically developed by the Bank.

The Bank has models for the following segments: Private Customers (resident and non-resident consumer households), Small Economic Operators (family businesses, personal businesses and practicing professionals), Small Business (non-financial partnerships and companies with sales unknown or less than € 1.5 million and total credit lines at Group level of less than € 1 million), SMEs (non-financial partnerships and companies with sales between € 1.5 million and € 100 million, or sales unknown or less than € 1.5 million and total credit lines at Group level of € 1 million or more), Corporate non-profit institutions (non-profit entities and associations with sales of € 1.5 million or more or, if less or unknown, with total credit lines of € 1 million or more), Large Enterprises (non-financial partnerships and companies with sales in excess of € 100 million), Public Enterprises and non-resident, non-financial companies.

These models are designed to create a counterparty rating and an associated probability of default (PD), representing the estimated likelihood that the borrower will become insolvent within one year. The rating depends solely on the characteristics of the counterparty and is not influenced by any guarantees that the Bank has acquired. The rating assessments are produced by qualitative statistical models that are prudently integrated by automatic downgrades if further negative elements not handled by the models are identified. These assessments are split into 13 categories for «performing» counterparties and one for those that are insolvent. They are then summarised in seven risk ratings: «Excellent», «Good», «Medium», «Uncertain», «Bad», «Very bad» and «Insolvent».

Together, at the end of December 2015, the sub-portfolios subject to these rating systems account for 75.2% of lending to customers (97.5% in terms of number of counterparties).

Ratings are used in the credit process all the way from policy planning through to performance control. For monitoring purposes, the rating is calculated monthly with reference to the entire population of interest, whereas it is determined on an ad hoc basis when considering new loans or reviewing existing loans.

Estimates of two other important risk factors complete the rating system described above: The rate of the Loss Given Default (LGD) and the estimated Exposure at Default (EAD). These estimates, which are specific for each counterparty, also derive from internal models, and unlike the probability of default, they are heavily influenced by the presence and type of guarantees acquired by the Bank and by the technical form by which the loan is granted.

Having input on such risk factors, updated on a monthly basis, contributes towards a complete assessment of the risk profile, helping to improve the amount of information available to support the lending process.

The PD, LGD and EAD results also make it possible to determine the Expected Loss, which is an estimate of the potential loss associated with a particular loan exposure; and as an element of cost, it also provides useful input for determining prudent loan loss provisions.

The concept of insolvency used when estimating and calibrating includes: non-performing loans, watchlist loans, restructured loans (these two types now grouped together as unlikely-to-pay loans) and loans that are past due and/or overdrawn significantly for more than 90 days. With regard to usage, the release of new Corporate models and recalibrated Retail models during 2015 was intended to achieve full alignment with the definition of insolvency used in the regulations.

Together with the assessments made using internal models, the ratings granted by independent agencies are gathered automatically. These are used in determining the capital requirements for credit and counterparty risk, for which the Bank adopts the so-called «standardised approach»; this involves weighting the exposures on the basis of ratings, where available, assigned to each counterparty by a specialist firm (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, DBRS and Cerved Group).

With regard to the exposures to Italian and foreign banks, the ratings given by leading agencies are used wherever available. Otherwise, an internal rating, based on the application of a simplified model, is used.

More specifically, this model involves the examination of a series of quantitative and qualitative indicators and information, which produce values for the determination of a final score. This score is positioned on a scale of ten classes, the first of which represents a counterpart/issuer with minimal risk, while the ninth highlights maximum risk and the tenth represents a state of insolvency. These ten classes are then grouped into four macro classes for comparison with the ratings given by international agencies.

As regards counterparty risk, in addition to continuously monitoring the main banking groups with credit lines, we periodically carry out a specific analysis of each position that has been taken on. This is performed by taking various indicators into consideration, such as their rating, accounting information and market data.

Risk analyses are carried out periodically on the loan portfolio. These address various dimensions, including the trends in the distribution of counterparties by rating class and by economic and productive sector.

These assessments support the formulation of policy guidelines for lending, help adopt suitable operational measures and provide operational guidelines to the central and branch functions concerned.

With regard to credit risk and the extension of the way it is measured to the various operational areas, the Bank has established objectives for the control of expected loss (cost of credit risk) that branches have applied for some time in the preparation of their annual budgets. The spread and the margin applied on loans are adjusted by a correction factor to take account of the credit risk based on PD and LGD parameters deriving from internal models. The objective is to ensure closer correlation between the profitability performance assigned to each productive unit and its actual ability to accept and manage risk, thus indicating growth paths for lending that are as effective as possible in risk-return terms. The lending process provides for a series of checks aimed at mitigating risk during the various phases that make it up.

The preliminary investigation, which aims to establish whether applicants satisfy certain conditions for credit-worthiness, includes consideration of whether the characteristics of the loan are consistent with its purpose, a check on whether any guarantees being provided are suitable to cover the risk of non-repayment, and a review of the economic aspects of the loan. In this context, the opinion expressed by the internal rating system, if available, and the associated estimates of default are taken into due consideration as essential elements for an overall evaluation of the customer.

Exceptions to the internal rating system are applied to certain operational segments. A change in merit class is proposed at branch level and requires central approval from the Large exposures office and rating desk.

The use of indicators of risk-adjusted value creation (EVA) meets the need to assess more selectively certain loan positions and to control more closely the quality of loans granted. Using a specific application already integrated within the electronic credit line system, it is possible to determine a measure of profitability that is adjusted for credit risk (expected loss based on the customer's rating) and for the opportunity cost of the regulatory capital absorbed. This is applied to the individual lending relationship, resulting in an estimate of the value added by current or potential exposures. By consolidating the controls applied to contain risk in the selection, management and monitoring phases, this tool makes it possible to identify poorly performing accounts more precisely and, therefore, take action to restore profitability. Additionally, it guides the criteria adopted for pricing loans properly when new requests are received or when reviewing the relationships. The decision whether to grant a loan or not is taken by the competent decision-making bodies prior to disbursement, carefully assessing all of the information that emerged during the preliminary investigation, as well as any other element that might be available. In order to ensure maximum control over credit risk, the mechanism for establishing decision-making powers for the bodies at the lower end of the hierarchical ladder now operates alongside the nominal value of the operation with another system of powers that also takes into account an objective assessment of the counterparty risk which is reflected in the internal rating.

Credit lines are then made operative and the funds made available to the borrower, but only after all matters foreseen in the approval have been dealt with, particular emphasis being put on the acquisition of guarantees and their verification and assessment in terms of being suitable to lower the credit risk.

After disbursement, loans of whatever amount are reviewed periodically to check whether all of the conditions established during the preliminary investigation and taken into consideration when granting the loan still exist. Particular attention is paid to reviewing the reasons that led to changes in ratings.

Lines of credit can also be reviewed automatically in the case of positions with low levels of risk, ascertained through a rigorous examination of suitable indicators that are established in advance, where the rating takes on a great deal of importance.

Outstanding loans and guarantees are constantly monitored to ensure that the borrower and any guarantors remain solvent and that the general and specific requisites still apply and that the guarantees are still valid, to ensure that they can be fully and effectively enforced in the event of the debtor's insolvency. This monitoring, which is carried out in accordance with formal company procedures, is designed to spot any negative symptoms as early as possible and to take rapid and effective action to avoid any further deterioration. In this regard, the home branches of the loans concerned play an important role since, by maintaining direct customer relations, they are able to identify any signs of impairment immediately. Operating units are supported in these activities by a series of reports produced internally or by external contributors; with regard to the Parent Bank, particular importance is attached to the report on changes in the risk factors at counterparty level calculated by the rating system. Specific head office units are dedicated to analysing the different information available, in order to assess continuously the merit class of each exposure and identify those potentially subject to excessive risk. The depth of this analysis is linked to the needs expressed. In addition, a range of management information is generated periodically in order to monitor better, via meaningful analysis, the changes in portfolio risk.

With regard to the monitoring of loans that appear anomalous, all overdrawn situations are analysed carefully with a view to taking timely action in relation to problem positions. Indeed, in order to improve control over overdrawn current accounts and the related lending risk, new guidelines have been formalised for their authorisation and management, with the release of a dedicated IT application.

The Watchlist and Lending Control Department makes use of performance measurement and control methodologies that take into consideration internal and industry data, together with the opinion given by the rating system, if available, to build up a monthly summary risk indicator. The positions identified by this indicator as being at risk are analysed appropriately and, where there are clear signs of difficulty, they are placed under observation or classified as «impaired», depending on how serious the situation is.

The task of managing problem loans is given to specific central offices, which carry on their activity with a view to returning the position to «*performing*», if this is possible; otherwise, with a view to recovering the loan in the event of insolvency, operating in close collaboration with the home branches of the problem loans concerned.

Within the Risks, Planning and Capital Management, a separate unit supports the Loans Department by identifying «performing» customers that show initial anomalies and signs of difficulty, as well as those counterparts that are persistently overdrawn. In order to deal promptly with deteriorating relationships and supervise effectively the overall quality of the loans portfolio, the bank has adopted monitoring processes and supporting tools that, over time, are assigning predetermined target values to branches for the key risk parameters associated with their specific loan portfolios.

Checks are performed during the initial assessment, payout, review and monitoring stages with regard to the concentration of risk in relation to individual counterparties or groups of counterparties that are linked by legal or economic relationships.

In accordance with the above regulations, specific procedures are followed for loan applications deemed to be «of greater significance», based on the size of the exposure and the amount of the request for new lines of credit. In particular, these applications and the related investigation report prepared by the loan investigation office are sent to the Large exposures office and rating desk, which assesses the consistency of the operation, at both the individual and consolidated levels, with the system of risk objectives identified in the RAF (Risk Appetite Framework). In addition to the normal analysis by the loan investigation office, large exposures are also examined by the Large exposures office and rating desk in order to provide additional support for the approval process.

2.3 Credit risk mitigation techniques

The Bank obtains the guarantees considered usual for banking activities in order to reduce credit risk: these principally comprise mortgages on buildings, pledges on financial instruments and unsecured guarantees. Unsecured guarantees principally comprise limited, general guarantees given by individuals and companies whose creditworthiness is considered adequate following a specific assessment. Clearly it is fundamental with regard to unsecured guarantees to check the quality of the guarantor's assets. This analysis is not limited to the initial phase of the relationship, but is repeated over the life of the relationship. If the guarantor is found to be economically unsuitable, the Bank reviews the relationship in order to verify the continued reliability of the borrowing counterparty.

The presence of guarantees is taken into consideration when weighting the overall credit lines to be granted to a customer or to the legal or economic group to which it might belong.

The estimated value of the security offered by counterparties is «discounted» on a prudent basis, having regard for the nature of the instrument made available (mortgages on buildings, pledges of cash or other financial instruments).

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, residential and commercial buildings are assessed at least once a year, partly with a view to complying with the supervisory instructions. Property must meet specific requirements in order to mitigate lending risk (value of the property independent of the creditworthiness of the counterparty, loan repayments independent of cash flows deriving from the asset, and residential property used directly or rented). These requirements are checked by the branches and the electronic credit application is processed for subsequent checks by the investigation office and the approval committees.

The value of security given in the form of financial instruments listed on regulated markets is automatically revised each day with reference to the quoted prices, in order to check that the cover remains within the agreed line of credit or, otherwise, to report the situation to the account managers on a timely basis.

The Bank is not party to settlement agreements regarding on- and off-balance sheet transactions.

Suitable arrangements are made when obtaining, assessing and verifying guarantees to ensure that they will prevail over third parties and can be enforced, both at the time and in the future.

At this time, there are no contractual restrictions threatening the legal validity of guarantees received.

The central functions that perform the above checks are different to the functions that grant and review lending; the Internal Audit Department carries out periodic checks to ensure that these activities are performed properly and on a prudent basis.

2.4 Impaired financial assets

Credit risk management is carried out during all stages of lending by means of effective surveillance and monitoring, so that timely assessments can be made as soon as any anomalies arise.

Loans are classified as «impaired» (Non-Performing Exposures), if there are serious signs of tension and, depending on the nature and gravity of the anomaly, in compliance with the

EU Implementation Regulation 2015/227 which approved the implementing Technical Standard (ITS), issued by the *European Banking Authority* (EBA) in October 2013 with reference to the new definitions of Non-Performing Exposures (NPE), when they meet one of the following criteria:

- they are due from counterparties that are not deemed able to meet their loan obligations in full without the enforced collection of guarantees, regardless of whether or not any amounts are overdue, or the number of days that payments are past due;
- the debtor has large exposures (as defined with reference to the thresholds of significance established in the Supervisory regulations) that are past due by more than 90 days.

Depending on the nature and gravity of the anomaly, they are split into the following sub-categories:

- Bad loans, covering the entire exposure to borrowers that are insolvent or in an equivalent state, regardless of the guarantees given and/or any loss forecasts made;
- Unlikely to pay, all exposures to debtors that, in the opinion of the Bank, are unlikely to pay in full (principal and/or interest) their loan obligations without recourse to the enforced collection of guarantees; this assessment is made regardless of whether or not there are any past due amounts (or instalments);
- Past due and/or impaired overdrawn, cash exposure, other than bad or unlikely to pay loans, which have remained unpaid and/or overdrawn continuously for more than 90 days according to the current regulations.

The loans not allocated to the above categories are deemed to be performing exposures.

The management of «impaired» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

More precisely, in the event of positions that are:

- bad loans, suitable procedures are implemented to recover the loans; if circumstances permit, recovery plans are drawn up and/or settlements are proposed on an amicable basis in order to terminate the relationship;
- unlikely to pay, an assessment is made of the probability that the debtor will meet its contractual obligations in full, in order to re-establish the original conditions of reliability and profitability of the relationship, or, if this is impossible, steps are taken to transfer the position to the non-performing category. For unlikely to pay loans subject to restructuring agreements, checks are made continuously to ensure that the agreed conditions are met. On the first occasion that the borrower fails to pay, the loans are transferred to bad loans;
- past due and/or impaired overdrawn exposures are monitored and timely attempts are made to get the situation back to normal; if it is seen that the borrower really is in financial difficulty, the necessary steps are taken to transfer the loan to unlikely-to-pay loan or to bad 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 bad loans and unlikely-to-pay loans, the bank carries out an analysis of each position, which also takes into account the discounting effects of expected recovery.

Overall assessments are made solely with regard to smaller individual loans, being not more than € 10,000 for bad loans and € 15,000 for unlikely-to-pay loans. The objective is to adopt a prudent approach to the control of these impaired assets that, given their intrinsic characteristics (large number of not significant amounts), can be processed rapidly and at low cost on primarily an automated basis, thus ensuring the uniformity of the assessments made.

With reference to past due and/or impaired overdrawn exposures, the adjustment is determined with reference to the historical experience of losses on loans with that type of anomaly.

The Bank has never acquired impaired loans from third parties.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Bad loans	Unlikely to pay loans	Past due exposures, impaired	Past due exposures, not impaired	Other non-impaired exposures	**Total 31/12/2015**
1. Available-for-sale financial assets	–	317	–	–	6,020,453	6,020,770
2. Held-to-maturity investments	–	–	–	–	125,777	125,777
3. Loans and receivables with banks	–	426	–	–	2,001,472	2,001,898
4. Loans and receivables with customers	730,320	1,152,312	415,460	598,639	17,124,675	20,021,406
5. Financial assets at fair value through profit or loss	–	–	–	–	–	–
6. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2015	**730,320**	**1,153,055**	**415,460**	**598,639**	**25,272,377**	**28,169,851**
Total 31/12/2014	**608,499**	**1,030,090**	**375,043**	**957,137**	**25,348,194**	**28,318,963**

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

The 2014 figures do not correspond to the figures in the financial Statements.

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A.1.2 Distribution of financial assets by portfolio and quality of lending (valori lordi e netti)

	Impaired assets			Not impaired assets			
Portfolio/quality	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	**Total (net exposure)**
1. Available-for-sale financial assets	317	–	317	6,020,453	–	6,020,453	6,020,770
2. Held-to-maturity investments	9,965	9,965	–	125,777	–	125,777	125,777
3. Loans and receivables with banks	426	–	426	2,001,472	–	2,001,472	2,001,898
4. Loans and receivables with customers	4,103,694	1,805,602	2,298,092	17,859,226	135,912	17,723,314	20,021,406
5. Financial assets at fair value through profit or loss	–	–	–	–	–	–	–
6. Financial assets being sold	–	–	–	–	–	–	–
Total 31/12/2015	**4,114,402**	**1,815,567**	**2,298,835**	**26,006,928**	**135,912**	**25,871,016**	**28,169,851**
Total 31/12/2014	**3,501,671**	**1,488,039**	**2,013,632**	**26,427,005**	**121,674**	**26,305,331**	**28,318,963**

With reference to financial assets at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial write-offs recorded over the years in relation to the above portfolios total 79.114 million, reflecting the bad loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» presents the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the other financial assets.

	Assets obviously of poor quality		Other assets
Portfolio/quality	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	47	614	1,669,519
2. Hedging derivatives	–	–	–
Total 31/12/2015	**47**	**614**	**1,669,519**
Total 31/12/2014	**45**	**311**	**2,250,199**

A.1.3 Cash and off-balance sheet exposures to banks: gross and net values and past due bands

	Gross exposure							
	Impaired assets							
Type of exposure/Amounts	Up to 3 months	3 to 6 months	6 mesi fino months	6 to 12 1 year	Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**								
a) Bad loans	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
b) Unlikely-to-pay loans	10,391	–	–	–	–	9,965	–	426
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
c) Impaired past due exposures	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
d) Not Impaired past due exposures	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
e) Other not impaired exposure	–	–	–	–	2,245,687	–	–	2,245,687
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
Total A	**10,391**	**–**	**–**	**–**	**2,245,687**	**9,965**	**–**	**2,246,113**
B. **Off-balance sheet exposures**								
a) Impaired	–	–	–	–	–	–	–	–
b) Not impaired	–	–	–	–	817,601	–	–	817,601
Total B	**–**	**–**	**–**	**–**	**817,601**	**–**	**–**	**817,601**
Total (A+B)	**10,391**	**–**	**–**	**–**	**3,063,288**	**9,965**	**–**	**3,063,714**

Cash exposures include the loans and receivables with banks, shown under item 60, as well as other financial assets consisting of bank securities included in items 20, 30, 40, 50 of assets, excluding variable-yield securities. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

A.1.4 Cash exposures to banks: dynamics of impaired exposures

Categories	Bad loans	Unlikely-to-pay loans	Past due exposures, impaired
A. **Opening gross exposure**	**–**	**–**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–
B. **Increases**	**–**	**10,391**	**–**
B.1 transfers from performing loans	–	10,163	–
B.2 transfers from other categories of impaired exposure	–	–	–
B.3 other increases	–	228	–
- of which: business combinations	–	–	–
C. **Decreases**	**–**	**–**	**–**
C.1 transfers to performing loans	–	–	–
C.2 write-offs	–	–	–
C.3 collections	–	–	–
C.4 proceeds from disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposure	–	–	–
C.7 other decreases	–	–	–
- of which: business combinations	–	–	–
D. **Closing gross exposure**	**–**	**10,391**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–

A.1.5 Impaired cash exposures to banks: dynamics of total writedowns

	Bad loans		Unlikely-to-pay loans		Past due exposures, impaired	
Categories	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance
A. **Total opening adjustments**	**–**	**–**	**–**	**–**	**–**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–	–	–	–
B. **Increases**	**–**	**–**	**9,965**	**–**	**–**	**–**
B.1 adjustments	–	–	9,965	–	–	–
B.2 losses on disposal	–	–	–	–	–	–
B.3 transfers from other categories of impaired exposure	–	–	–	–	–	–
B.4 other increases	–	–	–	–	–	–
- business combinations	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 write-backs on valuation	–	–	–	–	–	–
C.2 write-backs due to collections	–	–	–	–	–	–
C.3 gains on disposal	–	–	–	–	–	–
C.4 write-offs	–	–	–	–	–	–
C.5 transfers to other categories of impaired exposure	–	–	–	–	–	–
- business combinations	–	–	–	–	–	–
C.6 other decreases	–	–	–	–	–	–
D. **Total closing adjustments**	**–**	**–**	**9,965**	**–**	**–**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–	–	–	–

A.1.6 Cash and off-balance sheet exposures to customers: gross and net values and past due bands

	Gross exposure							
	Impaired assets							
Type of exposure/Amounts	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**								
a) Bad loans	2,230	5,288	44,420	1,823,283	–	1,144,901	–	730,320
- of which: exposures subject to forbearance	34	–	4,079	25,534	–	18,923	–	10,724
b) Unlikely-to-pay loans	532,552	101,692	277,653	833,497	–	592,764	–	1,152,630
- of which: exposures subject to forbearance	226,605	15,109	27,819	48,686	–	98,849	–	219,370
c) Impaired past due exposures	84,220	79,404	158,537	161,236	–	67,937	–	415,460
- of which: exposures subject to forbearance	2,454	6,249	5,393	5,883	–	2,728	–	17,251
d) Not Impaired past due exposures	–	–	–	–	621,804	–	23,087	598,717
- of which: exposures subject to forbearance	–	–	–	–	29,456	–	1,406	28,050
e) Other not impaired exposure	–	–	–	–	24,706,083	–	112,825	24,593,258
- of which: exposures subject to forbearance	–	–	–	–	224,478	–	2,519	221,959
Total A	**619,002**	**186,384**	**480,610**	**2,818,016**	**25,327,887**	**1,805,602**	**135,912**	**27,490,385**
B. **Off-balance sheet exposures**								
a) Impaired	83,891	–	–	–	–	14,584	–	69,307
b) Not impaired	–	–	–	–	4,536,633	–	4,510	4,532,123
Total B	**83,891**	**–**	**–**	**–**	**4,536,633**	**14,584**	**4,510**	**4,601,430**
Total (A+B)	**702,893**	**186,384**	**480,610**	**2,818,016**	**29,864,520**	**1,820,186**	**140,422**	**32,091,815**

Cash exposures include the customer loans shown in item 70 as well as other financial assets represented by non-bank securities included in items 20, 30, 40, 50 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.7 Cash exposures to customers: dynamics of gross impaired loans

Categories	Bad loans	Unlikely-to-pay loans	Past due exposures, impaired
A. **Opening gross exposure**	**1,516,862**	**1,556,627**	**428,260**
- of which: sold but not eliminated from the balance sheet	9,965	26,108	20,501
B. **Increases**	**530,117**	**726,504**	**409,197**
B.1 transfers from performing loans	54,255	519,575	379,971
B.2 transfers from other categories of impaired exposure	402,545	138,896	13,289
B.3 other increases	73,317	68,033	15,937
C. **Decreases**	**171,758**	**537,737**	**354,060**
C.1 transfers to performing loans	76	29,033	116,163
C.2 write-offs	79,114	–	–
C.3 collections	92,555	126,735	65,149
C.4 proceeds from disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposure	13	381,969	172,748
C.7 other decreases	–	–	–
D. **Closing gross exposure**	**1,875,221**	**1,745,394**	**483,397**
- of which: sold but not eliminated from the balance sheet	725	952	1,768

A.1.8 Cash exposures to customers: dynamics of total writedowns

Categories	Bad loans		Unlikely-to-pay loans		Past due exposures, impaired	
	Total	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance
A. **Total opening adjustments**	**908,286**	**–**	**526,536**	**–**	**53,217**	**–**
- of which: sold but not eliminated from the balance sheet	3,126	–	5,339	–	2,629	–
B. **Increases**	**349,982**	**–**	**234,575**	**–**	**36,667**	**–**
B.1 adjustments	210,245	–	217,677	–	33,695	–
B.2 losses on disposal	–	–	–	–	–	–
B.3 transfers from other categories of impaired exposure	139,737	–	16,898	–	2,972	–
B.4 other increases	–	–	–	–	–	–
C. **Decreases**	**113,367**	**–**	**168,347**	**–**	**21,947**	**–**
C.1 write-backs on valuation	23,905	–	27,566	–	1,145	–
C.2 write-backs due to collections	10,335	–	1,684	–	305	–
C.3 gains on disposal	–	–	–	–	–	–
C.4 write-offs	79,114	–	–	–	–	–
C.5 transfers to other categories of impaired exposure	13	–	139,097	–	20,497	–
C.6 other decreases	–	–	–	–	–	–
D. **Total closing adjustments**	**1,144,901**	**–**	**592,764**	**–**	**67,937**	**–**
- of which: sold but not eliminated from the balance sheet	177	–	157	–	223	–

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of cash loans and off-balance sheet items by external rating class

	External rating classes							Total
Exposure	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	31/12/2015
A. **Cash exposure**	**44,296**	**7,510,921**	**398,380**	**489,049**	**35,813**	**78**	**21,668,733**	**30,147,270**
B. **Derivatives**	**–**	**22,094**	**2,884**	**432**	**–**	**–**	**78,076**	**103,486**
B.1 Financial derivatives	–	22,094	2,884	432	–	–	78,076	103,486
B.2 Credit derivatives	–	–	–	–	–	–	–	–
C. **Guarantees given**	**2,918**	**62,443**	**149,567**	**167,522**	**32,448**	**18**	**3,884,082**	**4,298,998**
D. **Commitments to make loans**	**–**	**–**	**11,737**	**24,206**	**11,000**	**–**	**969,579**	**1,016,522**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**25**	**25**
Total	**47,214**	**7,595,458**	**562,568**	**681,209**	**79,261**	**96**	**26,600,495**	**35,566,301**

The distribution of exposures other than those in variable-yield securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Bank's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	From AAA to AAL	From AH to AL	From BBBH to BBBL	From BBH to BBL	From BH to BL	CCC
Standard &Poor's Rating Services	From AAA to AA-	From A+ to A-	From BBB+ to BBB-	From BB+ to BB	From B+ to B-	From CCC+ down
FitchRatings	From AAA to AA-	From A+ to A-	From BBB+ to BBB-	From BB+ to BB-	From B+to B-	From CCC+ down

A.2.2 Distribution of cash loans and off-balance sheet items by internal rating class

PRIVATE CUSTOMERS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**560,039**	**53,396**	**116,780**	**514,895**	**767,151**	**467,987**	**185,717**
B. **Derivatives**	**78**	**–**	**–**	**195**	**54**	**37**	**388**
B.1 Financial derivatives	78	–	–	195	54	37	388
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**557**	**28**	**38**	**20,803**	**16,770**	**7,041**	**336**
D. **Commitments to make loans**	**183**	**1,006**	**316**	**4,259**	**4,009**	**4,503**	**513**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**560,857**	**54,430**	**117,134**	**540,152**	**787,984**	**479,568**	**186,954**

SMALL ECONOMIC OPERATORS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**6,034**	**372,713**	**95,489**	**173,930**	**795,086**	**242,716**	**113,523**
B. **Derivatives**	**–**	**1**	**21**	**34**	**215**	**9**	**1**
B.1 Financial derivatives	–	1	21	34	215	9	1
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**3,361**	**2,948**	**1,429**	**11,138**	**33,257**	**6,547**	**3,203**
D. **Commitments to make loans**	**–**	**8**	**25**	**1,450**	**6,171**	**2,177**	**454**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**9,395**	**375,670**	**96,964**	**186,552**	**834,729**	**251,449**	**117,181**

SMALL BUSINESSES - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**22,932**	**148,763**	**94,452**	**78,761**	**438,457**	**326,517**	**196,877**
B. **Derivatives**	**–**	**32**	**15**	**66**	**58**	**31**	**37**
B.1 Financial derivatives	–	32	15	66	58	31	37
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**8,748**	**30,614**	**14,692**	**16,110**	**49,534**	**20,193**	**9,041**
D. **Commitments to make loans**	**785**	**269**	**1,390**	**3,042**	**8,703**	**3,411**	**1,040**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**32,465**	**179,678**	**110,549**	**97,979**	**496,752**	**350,152**	**206,995**

08	09	10	11	12	13	Insolvent	Total 31/12/2015
101,823	**49,125**	**26,725**	**22,160**	**13,946**	**76,334**	**376,215**	**3,332,293**
58	**–**	**–**	**–**	**–**	**1**	**340**	**1,151**
58	–	–	–	–	1	340	1,151
–	–	–	–	–	–	–	–
325	**193**	**1,934**	**153**	**80**	**1,405**	**618**	**50,281**
422	**100**	**–**	**–**	**–**	**–**	**553**	**15,864**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
102,628	**49,418**	**28,659**	**22,313**	**14,026**	**77,740**	**377,726**	**3,399,589**

08	09	10	11	12	13	Insolvent	Total 31/12/2015
105,067	**47,519**	**25,269**	**24,296**	**15,234**	**32,250**	**263,040**	**2,312,166**
2	**2**	**3**	**2**	**3**	**3**	**5**	**301**
2	2	3	2	3	3	5	301
–	–	–	–	–	–	–	–
2,623	**1,335**	**539**	**463**	**281**	**499**	**2,514**	**70,137**
409	**90**	**398**	**94**	**–**	**8**	**1,003**	**12,287**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
108,101	**48,946**	**26,209**	**24,855**	**15,518**	**32,760**	**266,562**	**2,394,891**

08	09	10	11	12	13	Insolvent	Total 31/12/2015
169,102	**72,492**	**55,058**	**52,988**	**28,017**	**65,497**	**332,579**	**2,082,492**
29	**8**	**12**	**–**	**5**	**3**	**14**	**310**
29	8	12	–	5	3	14	310
–	–	–	–	–	–	–	–
5,688	**3,571**	**2,366**	**2,360**	**1,821**	**2,653**	**9,250**	**176,641**
686	**350**	**692**	**339**	**40**	**1,297**	**942**	**22,986**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
175,505	**76,421**	**58,128**	**55,687**	**29,883**	**69,450**	**342,785**	**2,282,429**

SMEs - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**164,035**	**169,659**	**366,558**	**383,873**	**536,238**	**702,636**	**683,753**
B. **Derivatives**	**457**	**268**	**1,078**	**267**	**285**	**276**	**480**
B.1 Financial derivatives	457	268	1,078	267	285	276	480
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**131,308**	**102,171**	**114,197**	**107,321**	**113,246**	**148,303**	**104,625**
D. **Commitments to make loans**	**2,381**	**7,771**	**41,250**	**4,540**	**18,367**	**14,880**	**7,806**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**298,181**	**279,869**	**523,083**	**496,001**	**668,136**	**866,095**	**796,664**

LARGE AND PUBLIC ENTERPRISES - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**298,268**	**139,647**	**204,748**	**77,468**	**455,918**	**123,463**	**248,346**
B. **Derivatives**	**1,756**	**43**	**53**	**–**	**8,494**	**–**	**72**
B.1 Financial derivatives	1,756	43	53	–	8,494	–	72
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**333,320**	**166,914**	**141,278**	**42,272**	**230,051**	**158,476**	**143,212**
D. **Commitments to make loans**	**153,432**	**101**	**30,939**	**245**	**41,631**	**6,063**	**5,000**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**786,776**	**306,705**	**377,018**	**119,985**	**736,094**	**288,002**	**396,630**

NON-RESIDENT NON-FINANCIAL BUSINESSES - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**7,618**	**–**	**–**	**–**	**–**	**99,305**	**2,460**
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Financial derivatives	–	–	–	–	–	–	–
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**664**	**–**	**–**	**–**	**–**	**13,772**	**18,501**
D. **Commitments to make loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**8,282**	**–**	**–**	**–**	**–**	**113,077**	**20,961**

08	09	10	11	12	13	Insolvent	Total 31/12/2015
583,478	**412,581**	**388,654**	**323,987**	**253,636**	**451,750**	**1,220,639**	**6,641,477**
313	**719**	**150**	**48**	**18**	**41**	**153**	**4,553**
313	719	150	48	18	41	153	4,553
–	–	–	–	–	–	–	–
81,689	**34,922**	**28,582**	**12,023**	**24,014**	**30,611**	**35,912**	**1,068,924**
18,455	**11,367**	**18,748**	**7,747**	**3,415**	**7,115**	**12,342**	**176,184**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
683,935	**459,589**	**436,134**	**343,805**	**281,083**	**489,517**	**1,269,046**	**7,891,138**

08	09	10	11	12	13	Insolvent	Total 31/12/2015
66,735	**21,448**	**496**	**16,213**	**82**	**–**	**43,841**	**1,696,673**
–	**–**	**–**	**–**	**–**	**–**	**11**	**10,429**
–	–	–	–	–	–	11	10,429
–	–	–	–	–	–	–	–
43,926	**10,015**	**11,484**	**–**	**–**	**7,550**	**3,959**	**1,292,457**
6,000	**–**	**–**	**28**	**–**	**–**	**1,337**	**244,776**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
116,661	**31,463**	**11,980**	**16,241**	**82**	**7,550**	**49,148**	**3,244,335**

08	09	10	11	12	13	Insolvent	Total 31/12/2015
5,025	**8,418**	**1,922**	**5,395**	**18**	**968**	**7,178**	**138,307**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
764	**2,272**	**1,248**	**1,062**	**–**	**753**	**6**	**39,042**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5,789	**10,690**	**3,170**	**6,457**	**18**	**1,721**	**7,184**	**177,349**

CORPORATE NON-PROFIT INSTITUTIONS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**7,033**	**6,008**	**3,324**	**706**	**4,134**	**44,568**	**75,424**
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**155**	**160**
B.1 Financial derivatives	–	–	–	–	–	155	160
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**5,187**	**8,226**	**43,451**	**1,301**	**20,960**	**8,820**	**13,161**
D. **Commitments to make loans**	**–**	**–**	**6,000**	**–**	**–**	**–**	**–**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**12,220**	**14,234**	**52,775**	**2,007**	**25,094**	**53,543**	**88,745**

BANKS - Exposure	01	02	03	04
A. **Cash exposures**	**–**	**257**	**1,204,208**	**24,703**
B. **Derivatives**	**–**	**–**	**58,148**	**39**
B.1 Financial derivatives	–	–	58,148	39
B.2 Credit derivatives	–	–	–	–
C. **Guarantees given**	**–**	**–**	**663,837**	**330**
D. **Commitments to make loans**	**–**	**–**	**–**	**4,141**
E. **Other**	**–**	**–**	**–**	**–**
Total	**–**	**257**	**1,926,193**	**29,213**

The table shows, in rising order of risk, the distribution by rating class of exposures in the Customers portfolio for which the internal rating models are operative.

As regards «Customers», the ratings are split into thirteen classes for performing counterparties and one for those that are insolvent. The first class identifies customers with the lowest risk, while the ninth class indicates the maximum risk; situations of insolvency go into another class.

The «Banks» segment presents the ten classes used by the internal system to classify counterparties. The first class identifies customers with the lowest risk, while the ninth class indicates the maximum risk; situations of insolvency go into the tenth class; the model is applied to those borrowers who do not have a merit assessment issued by a rating agency.

Note that the Bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

08	09	10	11	12	13	Insolvent	**Total 31/12/2015**
48,743	**6,627**	**3,362**	**–**	**–**	**2,868**	**19,555**	**222,352**
–	**–**	**–**	**–**	**–**	**–**	**12**	**327**
–	–	–	–	–	–	12	327
–	–	–	–	–	–	–	–
879	**442**	**–**	**–**	**–**	**–**	**349**	**102,776**
–	**–**	**–**	**–**	**–**	**–**	**8**	**6,008**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
49,622	**7,069**	**3,362**	**–**	**–**	**2,868**	**19,924**	**331,463**

Internal rating classes						
05	06	07	08	09	Insolvent	**Total 31/12/2015**
1,470	**31,351**	**11,365**	**3,997**	**7,614**	**–**	**1,284,965**
5	**–**	**18**	**–**	**55**	**–**	**58,265**
5	–	18	–	55	–	58,265
–	–	–	–	–	–	–
–	**482**	**2,795**	**–**	**166**	**–**	**667,610**
–	**–**	**184**	**–**	**181**	**–**	**4,506**
–	**–**	**–**	**–**	**–**	**–**	**–**
1,475	**31,833**	**14,362**	**3,997**	**8,016**	**–**	**2,015,346**

A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in columns «guarantees» refer to the actual value of the collateral (so-called «fair value»), which can be much higher than the amount guaranteed: this means that the real value of the guarantees may exceed that shown in the table.

A.3.1 Guaranteed exposures to banks

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**149,143**	**–**	**–**	**1,349**	**46,950**
1.1 fully guaranteed	45,240	–	–	1,135	4,409
- of which: impaired	–	–	–	–	–
1.2 partially guaranteed	103,903	–	–	214	42,541
- of which: impaired	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**13,973**	**–**	**–**	**–**	**–**
2.1 fully guaranteed	13,885	–	–	–	–
- of which: impaired	–	–	–	–	–
2.2 partially guaranteed	88	–	–	–	–
- of which: impaired	–	–	–	–	–

A.3.2 Guaranteed exposures to customers

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**13,075,865**	**9,052,212**	**–**	**1,072,730**	**120,002**
1.1. fully guaranteed	12,410,733	9,048,769	–	945,433	87,857
- of which: impaired	1,920,246	1,669,032	–	12,247	3,192
1.2. partially guaranteed	665,132	3,443	–	127,297	32,145
- of which: impaired	128,928	2,925	–	17,300	1,872
2. **Guaranteed off-balance sheet exposures:**	**1,363,248**	**102,318**	**–**	**54,709**	**53,990**
2.1. fully guaranteed	1,165,111	102,318	–	42,175	44,985
- of which: impaired	31,561	4,718	–	505	1,970
2.2. partially guaranteed	198,137	–	–	12,534	9,005
- of which: impaired	5,733	–	–	452	82

Personal guarantees (2)									
Credit derivatives									
	Other derivatives				Guarantees given				
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2015**
–	**–**	**–**	**–**	**–**	**4,918**	**–**	**37,204**	**714**	**91,135**
–	–	–	–	–	4,918	–	34,064	714	45,240
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	3,140	–	45,895
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**12,895**	**–**	**1,061**	**–**	**13,956**
–	–	–	–	–	12,824	–	1,061	–	13,885
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	71	–	–	–	71
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Credit derivatives									
	Other derivatives				Guarantees given				
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2015**
–	**–**	**–**	**–**	**–**	**45,440**	**12,963**	**17,430**	**2,518,108**	**12,838,885**
–	–	–	–	–	22,701	10,817	11,858	2,220,045	12,347,480
–	–	–	–	–	710	2,898	372	214,671	1,903,122
–	–	–	–	–	22,739	2,146	5,572	298,063	491,405
–	–	–	–	–	1,682	785	–	93,216	117,780
–	**–**	**–**	**–**	**–**	**54,597**	**–**	**6,496**	**1,010,395**	**1,282,505**
–	–	–	–	–	1,802	–	1,323	950,640	1,143,243
–	–	–	–	–	–	–	–	17,863	25,056
–	–	–	–	–	52,795	–	5,173	59,755	139,262
–	–	–	–	–	143	–	–	3,123	3,800

B. Distribution and concentration of exposure

Preparation of this section has excluded in the exposures reported in tables A.1.3. and A.1.6., exposures to counterpart risk relating to loans of securities or goods, granted or received.

B.1 Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

	Government			Other public entities		
Exposures/Counterparties	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. **Cash exposures**						
A.1 Bad loans	–	–	–	–	–	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–	–	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.3 Past due exposures, impaired	–	–	–	–	–	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.4 Not impaired exposures	7,343,562	–	–	115,336	–	–
- of which exposures subject to forbearance	–	–	–	–	–	–
Total A	**7,343,562**	**–**	**–**	**115,336**	**–**	**–**
B. **Off-balance sheet exposures**						
B.1 Bad loans	–	–	–	–	–	–
B.2 Unlikely-to-pay loans	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–
B.4 Not impaired exposures	110	–	–	28,334	–	–
Total B	**110**	**–**	**–**	**28,334**	**–**	**–**
Total (A+B) 31/12/2015	**7,343,672**	**–**	**–**	**143,670**	**–**	**–**
Total (A+B) 31/12/2014	**8,041,413**	**–**	**–**	**160,851**	**1**	**–**

B.2 Territorial distribution of the cash and off-balance sheet exposures to customers (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposures**				
A.1 Bad loans	713,652	1,118,279	16,660	22,956
A.2 Unlikely-to-pay loans	1,151,022	592,502	1,493	157
A.3 Past due exposures, impaired	412,522	67,431	1,973	342
A.4 Not impaired exposures	24,889,391	134,509	247,124	1,318
Total A	**27,166,587**	**1,912,721**	**267,250**	**24,773**
B. **Off-balance sheet exposures**				
B.1 Bad loans	12,876	8,222	–	–
B.2 Unlikely-to-pay loans	41,537	6,342	29	2
B.3 Other impaired assets	14,858	17	6	–
B,4 Not impaired exposures	4,289,989	4,196	241,829	314
Total B	**4,359,260**	**18,777**	**241,864**	**316**
Total A+B 31/12/2015	**31,525,847**	**1,931,498**	**509,114**	**25,089**
Total A+B 31/12/2014	**32,513,790**	**1,603,478**	**562,392**	**21,725**

As regards the geographical distribution of exposures to customers resident in Italy, note that assets included under «Loans and receivables with customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West (76.0%) and Centre (15.3%), followed by the North East (7.6%) and the South and Islands (1.1%).

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
8,811	37,993	–	–	–	–	580,903	963,241	–	140,606	143,667	–
–	–	–	–	–	–	9,618	18,089	–	1,106	834	–
20,237	15,105	–	–	–	–	952,170	514,497	–	180,224	63,161	–
7,589	2,787	–	–	–	–	198,697	88,752	–	13,084	7,310	–
990	157	–	–	–	–	295,410	48,371	–	119,060	19,409	–
53	9	–	–	–	–	14,011	2,184	–	3,187	535	–
3,324,876	–	13,087	8,291	–	–	10,712,967	–	114,051	3,686,943	–	8,774
404	–	2	–	–	–	231,169	–	3,885	18,436	–	38
3,354,914	**53,255**	**13,087**	**8,291**	**–**	**–**	**12,541,450**	**1,526,109**	**114,051**	**4,126,833**	**226,237**	**8,774**
–	–	–	–	17	–	12,634	7,713	–	243	492	–
739	67	–	–	–	–	39,610	6,144	–	1,217	133	–
154	–	–	–	–	–	11,722	14	–	2,988	4	–
616,190	–	108	3,462	–	5	3,628,799	–	4,124	255,203	–	273
617,083	**67**	**108**	**3,462**	**17**	**5**	**3,692,765**	**13,871**	**4,124**	**259,651**	**629**	**273**
3,971,997	**53,322**	**13,195**	**11,753**	**17**	**5**	**16,234,215**	**1,539,980**	**118,175**	**4,386,484**	**226,866**	**9,047**
4,063,226	**40,653**	**17,167**	**27,016**	**17**	**16**	**16,860,353**	**1,279,692**	**83,574**	**4,430,159**	**180,500**	**26,280**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
8	14	–	3,629	–	23
–	–	116	104	–	–
921	156	33	6	11	2
46,356	63	7,031	17	2,073	5
47,285	**233**	**7,180**	**3,756**	**2,084**	**30**
–	–	–	–	1	–
–	–	–	–	–	–
–	–	–	–	–	1
123	–	15	–	142	–
123	**–**	**15**	**–**	**143**	**1**
47,408	**233**	**7,195**	**3,756**	**2,227**	**31**
496,866	**129**	**7,468**	**2,527**	**2,502**	**41**

B.3 Territorial distribution of the cash and off-balance sheet exposures to banks (book value)

Exposures/Geographical areas	ITALY Net exposure	ITALY Total writedowns	OTHER EU COUNTRIES Net exposure	OTHER EU COUNTRIES Total writedowns
A. **Cash exposures**				
A.1 Bad loans	–	–	–	–
A.2 Unlikely-to-pay loans	426	9,965	–	–
A.3 Past due exposures, impaired	–	–	–	–
A.4 Not impaired exposuress	890,371	–	1,291,719	–
Total A	**890,797**	**9,965**	**1,291,719**	**–**
B. **Esposizioni «fuori bilancio»**				
B.1 Bad loans	–	–	–	–
B.2 Unlikely-to-pay loans	–	–	–	–
B.3 Other impaired assets	–	–	–	–
B.4 Not impaired exposures	82,993	–	728,471	–
Total B	**82,993**	**–**	**728,471**	**–**
Total A+B 31/12/2015	**973,790**	**9,965**	**2,020,190**	**–**
Total A+B 31/12/2014	**1,034,771**	**35**	**1,467,977**	**–**

B.4 Significant risks

	31/12/2015	**31/12/2014**
Number of positions	10	14
Book value - nominal exposure	12,382,243	13,921,731
Weighted value - risk position	3,244,018	3,300,002

The exposure limit of 10% of own funds - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers, On the other hand, the «risk position», on which the maximum limits are measured for the acceptance of each individual significant risk, is given by the same aggregate, weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

The above positions include the Republic of Italy (nominal exposure, 7,534 million; risk position, 52 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione e Garanzia - Clearing House (nominal exposure, 1,563 million; risk position, 55 million), principally in relation to lending and funding repo transactions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
30,296	–	30,670	–	2,631	–
30,296	**–**	**30,670**	**–**	**2,631**	**–**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1,746	–	3,796	–	595	–
1,746	**–**	**3,796**	**–**	**595**	**–**
32,042	**–**	**34,466**	**–**	**3,226**	**–**
62,443	**–**	**40,537**	**–**	**20,594**	**–**

C. Securitisation transactions

QUANTITATIVE INFORMATION

C.2 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	Cash exposure					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042	–	–	–	–	–	–
Mortgages	70,973	8,767	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045	–	–	–	–	–	–
Lease contracts	174,829	595	–	–	–	–

C.3 Special purpose vehicle for securitisation

Names	Registered offices of the company	Consolidation	Loans
Alba 6 Spv Srl	Conegliano (TV)	NO	239,674
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	319,110

C.4 Non consolidated special purpose vehicle for securitisation

The SPV Alba 6 spv Srl and BNT Portfolio Spv Srl have not been consolidated as there are not the requirements of IFRS 10.

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
–	–	–	–	–	–	–	–	–	–	–	
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Assets		Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior
–	7,729	175,427	–	44,219
–	16,793	333,728	–	–

E. Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

E.1 Financial assets sold and not eliminated from the balance sheet: book value and full value

Technical forms/Portfolio	Financial assets held for trading			Financial assets assets at fair value through profit or loss			Available-for-sale financial assets		
	A	B	C	A	B	C	A	B	C
A. **Cash assets**	**136,022**	**–**	**–**	**–**	**–**	**–**	**587,925**	**–**	**–**
1. Fixed-yield securities	136,022	–	–	–	–	–	587,925	–	–
2. Variable-yield securities	–	–	–	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total 31/12/2015	**136,022**	**–**	**–**	**–**	**–**	**–**	**587,925**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–
Total 31/12/2014	**95,634**	**–**	**–**	**–**	**–**	**–**	**288,539**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–

Key:
A = financial assets sold and recognised in full (book value)
B = financial assets sold and recognised in part (book value)
C = financial assets sold and recognised in part (full value)

These are securities sold under repurchase agreements.

E.2 Financial liabilities associated with assets sold and not eliminated from the balance sheet: book value

Liabilities/Portfolio of assets	Financial assets held for trading	Financial assets at fair value through profit or loss	Available -for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	**Total 31/12/2015**
1. **Due to customers**	**139,300**	**–**	**587,769**	**–**	**–**	**–**	**727,069**
a) for assets recognised in full	139,300	–	587,769	–	–	–	727,069
b) for assets recognised in part	–	–	–	–	–	–	–
2. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in full	–	–	–	–	–	–	–
b) for assets recognised in part	–	–	–	–	–	–	–
Total 31/12/2015	**139,300**	**–**	**587,769**	**–**	**–**	**–**	**727,069**
Total 31/12/2014	**95,621**	**–**	**288,101**	**–**	**–**	**–**	**383,722**

Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			Total	Total
A	B	C	A	B	C	A	B	C	31/12/2015	31/12/2014
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**723,947**	**384,173**
–	–	–	–	–	–	–	–	–	723,947	384,173
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**723,947**	**–**
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**384,173**
–	–	–	–	–	–	–	–	–	–	–

E.3 Disposals with recourse limited solely to the assets sold: fair value

Technical forms/Portfolio	Financial assets held for trading		Financial assets at fair value through profit or loss		Available-for-sale financial assets	
	A	B	A	B	A	B
A. **Cash assets**	**136,022**	**–**	**–**	**–**	**587,925**	**–**
1. Fixed-yield securities	136,022	–	–	–	587,925	–
2. Variable-yield securities	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
Total assets	**136,022**	**–**	**–**	**–**	**587,925**	**–**
C. **Associated liabilities**	**139,300**	**–**	**–**	**–**	**587,769**	**–**
1. Due to customers	139,300	–	–	–	587,769	–
2. Due to banks	–	–	–	–	–	–
Total liabilities	**139,300**	**–**	**–**	**–**	**587,769**	**–**
Net value 31/12/2015	**(3,278)**	**–**	**–**	**–**	**156**	**–**
Net value 31/12/2014	**13**	**–**	**–**	**–**	**438**	**–**

E.4 Covered bond operations

On 6 November 2013, the Board of Directors of the Parent Bank authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Bank. On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million. Under the same contract, a second tranche of mortgage loans totalling € 202 million was assigned on 4 December 2015.

The above securitisation involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operation is not treated as an assignment without recourse pursuant to IAS 39. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue including equipping the Parent Bank with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- planning in good time the replacement of amounts received from the ECB via «LTRO - Long-Term Refinancing Operations»;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparts involved for various reasons, Mazars Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests and preparing an annual report that describes the checks performed and the related results.

Held-to-maturity investments (fair value)		Loans and receivables with banks (fair value)		Loans and receivables with customers (fair value)		Total	
A	B	A	B	A	B	31/12/2015	31/12/2014
-	**-**	**-**	**-**	**-**	**-**	**723,947**	**384,173**
-	-	-	-	-	-	723,947	384,173
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**723,947**	**384,173**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	**-**	**727,069**	**383,722**
-	**-**	**-**	**-**	**-**	**-**	**(3,122)**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**451**

The operation is proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bonds issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, POPSO Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 1
ISIN Code:	IT0005039711
Issue date	05/08/2014
Maturity Date	05/08/2019
Extended maturity	05/08/2020
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	1.375%
Coupon	Annual
Applicable law	Italian

Section 2 *Market risks*

2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The principal source of interest rate risk consists of the fixed-yield securities classified under «financial assets held for trading».

The objectives and strategies for trading activities involving the securities portfolio are designed to maximise its profitability by taking investment opportunities, while working to contain the level of risk. This means that the duration of the bond portfolio is short.

The bank's role in trading activities essentially consists of arbitrage in securities to benefit from short-term trading opportunities, rather than of taking long-term risk positions.

This strategy is consistent with the general approach adopted by the bank, based on the prudent management of all risks.

With regard to the treatment of derivative instruments, the offices deal in untraded options on fixed-yield government securities, while activity regarding other innovative or complex instruments is negligible.

The nature of trading activities did not change significantly over the year.

The main source of price risk consists of variable-yield securities and units in mutual funds classified as «financial assets held for trading», including the investments that service employees' pension and similar obligations.

As with regard to interest rate risk, the strategy for containing price risk as part of the bank's overall risk management strategy is to take a prudent approach.

This is evidenced by the low weighting of variable-yield securities within the entire securities portfolio (excluding those servicing pension and similar obligations of employees), which represent just 9.57% of the overall total of 165.885 million.

Furthermore, variable-yield securities comprise holdings in leading companies with a liquid market.

Once again, trading activity concentrates on benefiting from short-term opportunities while, with regard to derivatives, the transactions in equity options have been both limited.

There were no significant changes during the year.

B. Management and measurement of interest rate risk and price risk

The internal processes for control and management of the interest rate risk associated with the trading portfolio are based on a system for the limitation of risk within the financial activities, especially market risk (exchange rate, share price), which was originally 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 and 8 October 2015 and included in a general regulation on the management of market risks.

This system has the following characteristics. As part of its governance functions, the Board of Directors quantifies the maximum acceptable loss for the period, consistent with the bank's volume of business (Maximum Acceptable Loss) splitting it between market risks and credit risks related to the financial activity. With reference to market risks and the maximum acceptable loss determined by the Board, the Managing Director establishes appropriate potential exposure limits in terms of the Value at Risk. The «Risk control» office, within the Planning and management control department, measures risk on a daily basis, produces the related reports and monitors compliance with limits. The «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets in compliance with the identified exposure limits.

The characteristics of the internal management and control of price risk in relation to the trading portfolio are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk.

The methodology used for the analysis of sensitivity to interest rate risk 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 exchange rates (excluding those on the Qatari riyal), in addition to other financial derivatives (derivatives in a strict sense) traded by the Exchange Centre (options on exchange rates, forward contracts on goods, interest rate swaps); as for price risk, variable-yield securities. Apart from the instruments shown in table 2 below, the VaR model also covers mutual funds and forward contracts traded by the Exchange Centre. The price risk on foreign currency mutual funds also includes exchange risk.

Options have been treated using the delta-gamma methodology, while any warrants would have been treated as variable-yield securities of the same value.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

The policies and procedures for comparison of the model's results with actual results (»back-testing») regarding the trading portfolio for supervisory purposes, limited to debt securities on the one hand, and variable-yield securities and mutual funds on the other, consist of a comparison between the daily VaR and the change in market value on the following day for the same positions used to calculate the VaR (theoretical loss) and the difference between capital gains, write-backs, capital losses, and the realised gains and losses on transactions in the shares held in the portfolio, as reported by the securities procedure (actual loss). For back-testing purposes, the VaR information and the theoretical and actual losses include both the price risk and the exchange risk element deriving from shares, funds and sicavs denominated in foreign currencies.

Simulations (*stress testing*) of the market risks relating to the Bank's trading portfolio (specific and generic risks regarding fixed-yield securities, specific and generic risks regarding variable-yield securities, risks from positions in mutual funds, securitisations, options and commodities) were previously carried out via «sensitivity analyses» designed to check the impact of changes in specific risk factors on the related capital requirements, determined using the standard methodology. This year, they were included in a more integrated «scenario analysis» stress test, designed to assess in economic, financial and equity terms the resistance of the Group to adverse conditions.

The principal methodological assumptions and forecast macroeconomic scenarios used to structure the stress test made reference to the systemic stress testing exercise organised at community level by the EBA (European Banking Authority), in collaboration with the European Central Bank. This activity, carried out as part of the Comprehensive Assessment in 2014, was appropriately customised by the Bank to take account of the special circumstances of the Group and the specific characteristics of the simulation.

Consistent with this general approach and except for the securitisation risks, the above stress test did not focus - as in the past - on checking the impact of risk exposures on the capital absorbed, but rather on the possible impact on the income statement of unfavourable results from trading activities.

In this regard, the intensity of the shock applied to the results of trading was determined, in accordance with the EBA approach, by deducting from the average of the results over the past three years a hypothetical loss based on the historical variability of the results over the past five years. This loss was distributed over the three-year forecasting horizon of the scenario on a decreasing basis: 50% in the first year, 30% in the second year and 20% in the third year.

The simulation took account of the assumed changes in the volume of activity, in order to make prospective estimates of the income statement line item «Profits/losses on trading in securities and unrealised gains/losses on securities».

As for the changes in risk exposure, measured in terms of VaR, compared with the previous year, based on interest rate risk the overall VaR has gone down from 0.790 million to 1.705 mainly because of fixed-yield securities (from 0.782 million to 1.700); based on the price risk, the overall VaR at period end has increased from 3.586 million to 6.355; based on the interest rate and price risk, the overall VaR at period end has increased from 4.166 million to 6.467.

In addition, the ALM procedure generated the following data with regard to the fixed-yield securities held in the trading portfolio for supervisory purposes, funding and lending repo transactions, forward exchange rate agreements, interest rate options and interest rate swaps: the effect of a change in interest rates of +200 basis points over twelve months on the future interest margin – the difference between the future interest income and the future interest expense – would be 26.766 million, whereas a change in interest rates of -200 basis points would decrease in the interest margin by 0.015 million euro; the effect of an instantaneous change in interest rates by +200 basis points on equity – the difference between the present value of assets and liabilities - would be a loss of 38.315 million, whereas a change in interest rates by -200 basis would result in a profit of 6.841 million euro.

Note that all of the figures indicated above are net of repurchase agreements with underlying fixed-yield securities held in the bank book.

The internal model is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The Standardised approach is used in this case.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**1,202,172**	**568,290**	**135,156**	**245,470**	**119,113**	**–**	**–**
1.1 Fixed-yield securities	–	496,112	568,290	135,156	245,470	119,113	–	–
- with early repayment option	–	31,111	–	–	–	–	–	–
- other	–	465,001	568,290	135,156	245,470	119,113	–	–
1.2 Other assets	–	706,060	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**139,300**	**–**	**–**	**–**	**–**	**–**	**–**
2,1 Repurchase agreements	–	139,300	–	–	–	–	–	–
2,2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**3,139,035**	**683,525**	**280,829**	**1,047,370**	**51,466**	**10,102**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	3,139,035	683,525	280,829	1,047,370	51,466	10,102	–
- Options	–	5,939	23,761	41,890	170,889	39,606	2,410	–
+ Long positions	–	2,973	11,897	20,969	85,447	19,803	1,205	–
+ Short positions	–	2,966	11,864	20,921	85,442	19,803	1,205	–
- Other derivatives	–	3,133,096	659,764	238,939	876,481	11,860	7,692	–
+ Long positions	–	1,573,529	331,333	116,661	437,885	5,930	3,846	–
+ Short positions	–	1,559,567	328,431	122,278	438,596	5,930	3,846	–

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1, **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**2,840,488**	**1,572,528**	**483,550**	**1,476,023**	**384,864**	**6,646**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	2,840,488	1,572,528	483,550	1,476,023	384,864	6,646	–
- Options	–	4,445	19,506	26,936	3,680	–	–	–
+ Long positions	–	2,224	9,757	13,473	1,841	–	–	–
+ Short positions	–	2,221	9,749	13,463	1,839	–	–	–
- Other derivatives	–	2,836,043	1,553,022	456,614	1,472,343	384,864	6,646	
+ Long positions	–	1,411,631	775,114	231,197	736,529	192,432	3,323	–
+ Short positions	–	1,424,412	777,908	225,417	735,814	192,432	3,323	–

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	ITALY	UNITED STATES	UNITED KINGDOM	JAPAN	GERMANY	OTHER	
A. **Variable-yield securities**							
- long positions	88,526	130	1,570	–	7,172	27,601	1,087
- Short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**	
- long positions	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**	
- long positions	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**	**–**	**–**	**–**	**–**	**–**	**–**	
- long positions	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in table 2 above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of year

	(in thousands of euro)
1. **Cash assets**	**1,700.1**
1.1 Fixed-yield securities	1,700.1
1.2 Other assets	1.3
2. **Cash liabilities**	**0.3**
2.1 Repurchase agreements	0.3
2.2 Other liabilities	–
3. **Financial derivatives**	**6.8**
3.1 With underlying security	0.0
- Options	–
+ Long positions	–
+ Short positions	–
- Other derivatives	0.0
+ Long positions	0.5
+ Short positions	0.5
3.2 Without underlying security	6.8
- Options	–
- Other derivatives	6.8
+ Long positions	3,081.0
+ Short positions	3,074.7
Total interest rate risk	**1,704.9**
A. **Variable-yield securities**	**5,011.0**
- Long positions	5,011.0
- Short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**–**
- Long positions	–
- Short positions	–
C. **Other derivatives on variable-yield securities**	**–**
- Long positions	–
- Short positions	–
D. **Derivatives on stock indices**	**–**
- Long positions	–
- Short positions	–
Total Price risk transactions table 2	**5,011.0**
Mutual funds	**1,456.8**
Forward contracts on other instruments (goods)	**–**
- Long positions	187.4
- Short positions	187.4
Options on other instruments (goods)	**–**
- Long positions	–
- Short positions	–
Total Price risk	**6,355.0**
Total Interest rate risk and price risk	**6,467.3**

Interest rate risk

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	1,484.1
minimum	578.0
maximum	2,929.9

With regard to the distribution of VaR during the year, the average VaR for each month in 2015 is presented below.

January	846.0
February	735.4
March	824.2
April	1,035.1
May	1,800.3
June	2,366.9
July	2,425.6
August	1,600.8
September	1,430.6
October	1,238.6
November	1,358.9
December	1,957.2

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 17 out of 254 observations, the number of days on which theoretical losses exceeded VaR was 18 out of 254 observations.

Price risk

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	4,663.7
minimum	2,366.3
maximum	8,975.1

With regard to the distribution of VaR during the year, the average VaR for each month in 2015 is presented below.

January	3,238.7
February	2,555.0
March	3,074.7
April	3,846.8
May	4,545.4
June	4,563.4
July	5,652.8
August	5,679.9
September	7,277.9
October	5,684.8
November	4,206.2
December	5,185.1

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 1 out of 254 observations, the number of days on which theoretical losses exceeded VaR was 1 out of 254 observations.

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	5,332.1
minimum	2,683.4
maximum	9,362.7

With regard to the distribution of VaR during the year, the average VaR for each month in 2015 is presented below.

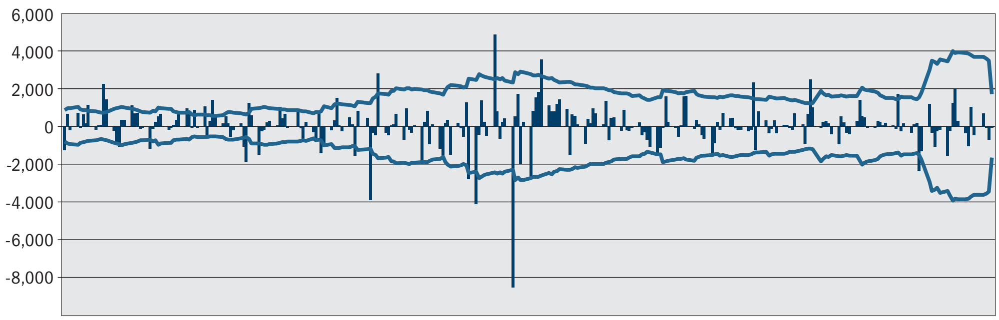
January	3,622.2
February	2,949.2
March	3,564.4
April	4,412.7
May	5,737.2
June	6,077.6
July	7,355.0
August	6,359.5
September	7,365.8
October	5,757.0
November	4,630.4
December	5,622.8

With reference to variable-yield securities and mutual funds forming part of the trading portfolio for supervisory purposes, the number of days on which actual losses exceeded VaR was 5 out of 254 observations, the number of days on which theoretical losses exceeded VaR was 6 out of 254 observations.

The following graphs compare VaR with the daily results.

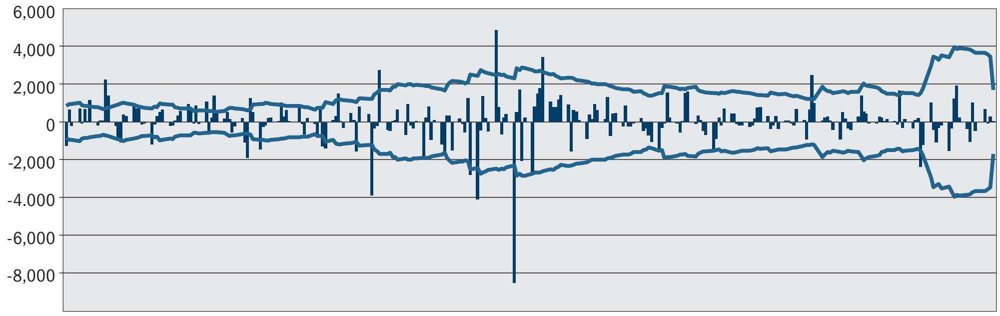
Fixed-yield securities: VaR and actual profits/losses

(in thousands of euro)



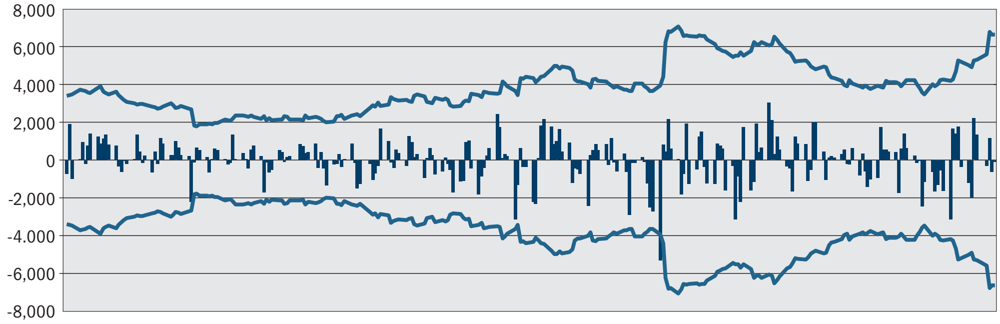
Fixed-yield securities: VaR and theoretical profits/losses

(in thousands of euro)



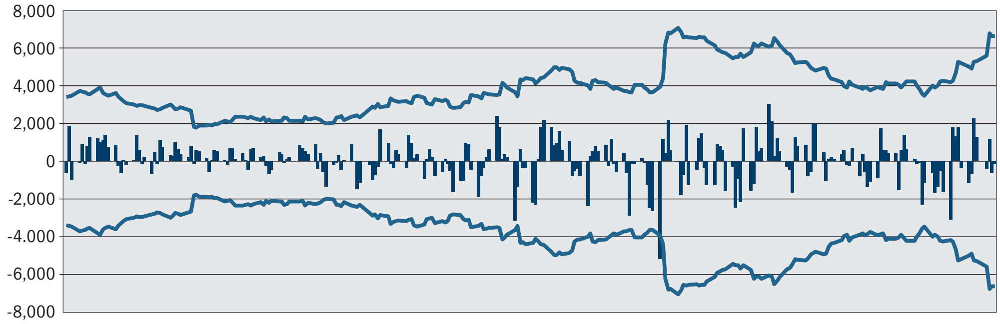
Variable-yield securities and mutual funds: VaR and actual profits/losses

(in thousands of euro)



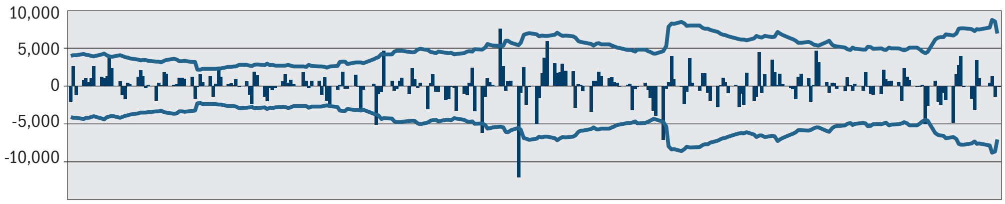
Variable-yield securities and mutual funds: VaR and theoretical profits/losses

(in thousands of euro)



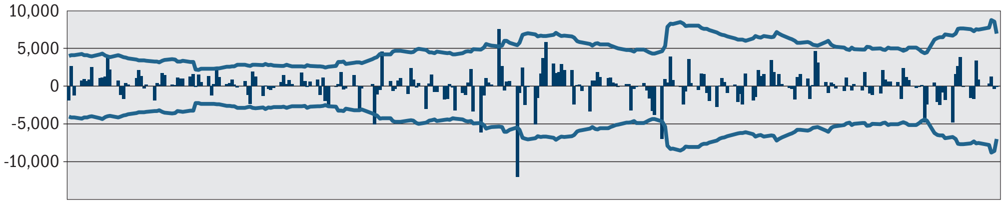
Fixed-yield securities, equities and mutual funds: VaR and actual profits/losses

(in thousands of euro)



Fixed-yield securities, equities and mutual funds: VaR and theoretical profits/losses

(in thousands of euro)



With regard to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates, interest rate swaps. The following information is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to the bank book.

Effects of a change in interest rates by +200 basis points over a twelve-month period on the future interest margin.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date.

Exposure to risk

	(in thousands of euro)
at period end	26,766
average	28,143
minimum	33,110
maximum	14,640

Effects of a change in interest rates by -200 basis points over a twelve-month period on the future interest margin.

Exposure to risk

	(in thousands of euro)
at period end	-15
average	-292
minimum	328
maximum	-804

Effects of an instant change in interest rates of +200 basis points on equity.

Equity is understood as being the difference between the present value assets and liabilities items.

Exposure to risk

	(in thousands of euro)
at period end	-38,315
average	-41,672
minimum	-38,315
maximum	-54,520

Effects of an instant change in interest rates of -200 basis points on equity.

Exposure to risk

	(in thousands of euro)
at period end	6,841
average	9,598
minimum	15,780
maximum	3,447

2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

The principal sources of interest rate risk deriving from fair value are associated with funding transactions (especially the issue of bonds) and lending transactions (principally long-term loans and fixed-yield securities) at a fixed rate; the interest rate risk deriving from cash flows is originated by other sight or indexed rate assets and liabilities, which represent the majority of the total.

The internal processes for the management and control of interest rate risk are based on a system of thresholds, with reference to which, as defined in the context of the Risk Appetite Framework, the propensity to accept interest-rate risk in relation to the bank book is expressed in quantitative terms by the assignment of a value limit to the percentage quotient between the capital required to cover the risk measured using the «*Sensitivity Analysis in Full Evaluation*» method, under stable conditions, with the simulation of a parallel shift in the reference curves by +/- 200 basis points, and total own funds. For 2015, the interest rate limit for the Bank was fixed at 12%, compared with a regulatory limit («maximum risk acceptable») of 20%. Monthly monitoring of this indicator identified an average of 6.03%, a maximum and minimum of 7.16% and 5.47% respectively. The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

With regard to the principal assumptions and underlying parameters, the model used supports «*Sensitivity Analysis in Full Evaluation*» for analysing the sensitivity of equity and the «*Repricing Analysis*» for analysing the sensitivity of net interest income, only from a static standpoint, considering solely the transactions outstanding at the reference date. Specifically, the first methodology is used to determine the flows of principal and interest generated by the individual assets and liabilities held in the bank book. This calculation uses, where necessary, the coupon rate applied to each instruments or, if not predetermined, the market curve associated with the risk factor to which the rate in indexed. Next, the present values of the assets and liabilities concerned are calculated by summing their cash flows as discounted using the yield curves.

Then these curves are subjected to a parallel shock of +/- 200 basis points, in order to simulate other scenarios involving, respectively, an increase and a decrease in market rates. The flows of interest and principal, as redetermined with reference to the modified curves, are discounted with reference to the new rate curves to obtain the «*stressed discounted value*» of each asset and liability.

In the case of a downward shift of the market curves, the intensity of the movement is constrained by the requirement that interest rates cannot be negative.

Then, for each operation, the change in present value is calculated as the difference between the «*stressed present value*» and the «*non-stressed present value*».

In this way, the model estimates the sensitivity of the bank book, in terms of change in the economic value of equity due to an increase or decrease in market rates, by summing for each operation in the bank book the change in present value obtained above.

The results of the model are asymmetrical as, in the case of a downward shift in the curves, the intensity of the shock is limited by the requirement that interest rates cannot be negative; furthermore, the bank book may contain operations with a cap or a floor on the coupon rate. In this case, for the sake of prudence, the risk exposure is taken to be the greatest sensitivity of the bank book obtained from the two rate scenarios.

In addition, euro loan and deposit current accounts and savings deposits, which are highly stable in volume terms and whose rates are not usually established by contract, are represented by behavioural models that take account of the persistence of their volume and their elasticity with respect to changes in market rates.

The above analyses are supplemented by the results of applying the repricing analysis methodology that, following parallel shocks to the market rate curves of +/- 200 basis points, measures the sensitivity of net interest income for the current year to the positioning of the flows of principal at the time when the funding and lending operations start to become sensitive to changes in market interest rates.

Ideally, the bank book - comprising both income-earning items and interest-bearing items – should be subdivided between transactions that are sensitive to changes in interest rates and those that are not. The second type, mostly comprising fixed-rate transactions, is neutral when it comes to determining the sensitivity of net interest income; the first, represented by variable-rate transactions, is conditioned by changes in rates.

The difference between the net interest income generated by each transaction following the application of shocked market curves, and that generated under current market conditions, determines the marginal contribution to overall sensitivity.

Summing this differential for all the operations comprising the bank book determines the total sensitivity of net interest income to the risk of changes in market rates.

The source of price risk lies in the variable-yield securities and mutual funds not included in the trading portfolio for supervisory purposes, excluding treasury shares. It therefore includes the variable-yield securities classified as equity investments and the variable-yield securities and mutual funds classified as «available-for-sale financial assets» or «Financial assets at fair value through profit or loss», including the investments that service employees' pension and similar obligations.

The equity investments held by the bank essentially relate to companies that supply the goods and services which complete the bank's range of commercial services and, therefore, are necessary for the achievement and maintenance of an effective competitive position.

These are stable investments and reflect the established strategy of concentrating the bank's activities on ordinary operations, while also making recourse – for certain, important near-banking activities (mutual funds, insurance, leasing, factoring, stockbroking, trust management etc.) – to specialist operators. The nature of the bank's subsidiaries also reflects in part the above principles, while also having functional importance within the banking group. This is particularly true for Banca Popolare di Sondrio (SUISSE) SA, a Swiss retail bank; Factorit spa, a factoring company that manages and makes advances against domestic and international trade receivables, for the benefit of partner and other banks; Popso Covered Bond srl, a SPV involved in the issue of covered bonds; Sinergia Seconda srl, a property company that principally supports the operational needs of the Group; Pirovano Stelvio spa, a company outside the banking group that is active in hotel management.

These are all companies whose operational guidelines and performance are well known to the Bank, in some cases via a board presence even if the company is not a subsidiary. The strategic and market risks are therefore well monitored.

We would reiterate that «available-for-sale financial assets» include non derivative financial assets not classified as «loans», «financial assets held for trading» or «held-to-maturity assets», while the portfolio of «financial assets carried at fair value» includes those securities to which the Bank decided to apply the fair value option.

The measurement and control of price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties – essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below.

With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known Riskmetrics methodology. It covers the activity in financial instruments exposed to interest rate risk included in the bank book, which no longer has a specific table in these notes: variable-yield securities (including equity investments) and mutual funds. The price risk on foreign currency mutual funds also includes exchange risk.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs; these correlations are estimated by an external consultant appointed by the bank.

Any early redemption options purchased and granted are treated as if not exercised.

The strategies for governing the bank book interest-rate risk (but not price risk) include, as part of the stress testing of the Group's principal economic, financial and equity variables, carrying out joint simulations to determine the impact of adverse shocks on:

- the economic value of equity (risk position)
- the performance of the total net interest income generated by the bank book and the trading portfolio.

With regard to the risk position, we assume a very significant adverse changes in interest rates. In particular, consistent with the «*Sensitivity Analysis in Full Evaluation*» method, the impact on the net economic value of the bank book is assessed consequent to parallel shifts in the rate curve by +/-200 basis points.

The methodology adopted assumes that the shocks are applied to static portfolio volumes at year end that are projected forward without changes in the years covered by the scenario. The demand business of the Bank, comprising euro loan and deposit current accounts and demand savings deposits, is modelled - even under stress conditions - using a behavioural approach defined from the results of an internal statistical model.

The technique used in relation to the interest margin reflects the approach proposed by the EBA during the system stress test carried out in 2014. In particular, the simulation carried out over the scenario forecasting period is based on the margin earned from a static volume of business at the end of the year, having regard for the future volumes expected in the strategic plan and assessing the impact on income deriving from severe macroeconomic shocks to deposits and lending; these would include an increase in the money market risk-free interest rates, together with a significant widening of the BTP-Bund spread and an adverse trend in the structure of forward swap rates. The statistical modelling of the stressed behaviour of demand business rates is similar to that applied to volumes.

B. Fair value hedges

The bank has not arranged any macro hedges, nor has hedging operations outstanding.

C. Cash flow hedges

The Bank has not arranged any cash-flow hedges.

D. Hedges of foreign investments

The bank did not carry out any hedges of foreign investments.

QUANTITATIVE INFORMATION

Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**610**	**98,258**	**1,694**	**1,402**	**46,296**	**64,178**	**77,739**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	610	98,258	1,694	1,402	46,296	64,178	77,739	–
Options	610	98,258	1,694	1,402	46,296	64,178	77,739	–
+ Long positions	–	13,187	499	974	30,472	43,015	54,258	–
+ Short positions	610	85,071	1,195	428	15,824	21,163	23,481	–
Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. **Other off-balance sheet transactions**	**712,081**	**242,486**	**2,599**	**15,013**	**133,240**	**502**	**889**	**–**
+ Long positions	156,176	242,486	2,599	15,013	133,240	502	889	–
+ Short positions	555,905	–	–	–	–	–	–	–

This table only shows financial derivatives as a price risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Bank book - internal models and other methodologies for the analysis of sensitivity

Interest rate risk

With reference to the interest-earning assets and interest-bearing liabilities - except for the fixed-yield securities held in the trading portfolio for supervisory purposes and lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates, interest rate swaps as the information on these is disclosed in the section on the trading portfolio for supervisory purposes - as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

Effects of a change in interest rates by +200 basis points over a twelve-month period on the future interest margin.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date.

Exposure to risk

	(in thousands of euro)
at period end	-83,932
average	-75,874
minimum	-59,358
maximum	-88,553

Effects of a change in interest rates by -200 basis points over a twelve-month period on the future interest margin.

Exposure to risk

	(in thousands of euro)
at period end	-1,245
average	-1,089
minimum	177
maximum	-2,344

Effects of an instant change in interest rates of +200 basis points on equity.

Equity is understood as being the difference between the present value assets and liabilities items.

Exposure to risk

	(in thousands of euro)
at period end	-147,219
average	-155,965
minimum	-144,493
maximum	-188,868

Effects of an instant change in interest rates of -200 basis points on equity.

Exposure to risk

	(in thousands of euro)
at period end	103,350
average	108,019
minimum	133,516
maximum	83,019

Price risk

With reference to the closing date, we report above all the VaR figures specifying that: they refer to transactions that are no longer explicitly foreseen in the standard tables of the notes, but on which we still carry out the calculation; they are consistent with those published last year, also in terms of presentation.

Value at Risk (VaR), end of year

	(in thousands of euro)
Variable-yield securities	14,889.6
- of which equity investments	12,295.3
Mutual funds	4,069.5
Total	**18,268.7**

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	19,573.8
minimum	11,764.5
maximum	39,369.9

With regard to the distribution of VaR during the year, the average VaR for each month in 2015 is presented below.

January	18,299.5
February	14,921.5
March	12,602.9
April	13,010.1
May	16,689.1
June	17,209.3
July	21,216.5
August	24,501.1
September	30,947.8
October	26,707.5
November	18,518.4
December	19,205.6

2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

The principal sources of exchange risk are: the investment in Banca Popolare di Sondrio (Suisse) SA, denominated in Swiss francs, certain other equities, variable-yield securities and mutual funds denominated in foreign currencies and the net foreign currency position managed by the «Exchange Centre», deriving principally from intermediation in repos with private customers and on the interbank market, as well as the implications of the Bank's foreign exchange position deriving from trading in other financial products (difference between premiums on currency options, interest on foreign currency deposits. etc.).

Excluding securities, the Bank's role in foreign currency transactions is largely commercial, with a view to meeting customers' needs.

The characteristics of the internal management and control of exchange risk are the same – in terms of organisational structure and the limitation of risk acceptance – as those described in relation to interest rate risk in section 2.1, to which reference is made.

There were no significant changes during the year in the risk management and control procedures described.

The measurement and control of exchange risk essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described below.

With regard to the principal assumptions and underlying parameters, this model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known riskmetrics methodology. It covers the following assets in terms of financial instruments exposed to exchange rate risk at the balance sheet date: all of the foreign currency assets and liabilities (excluding gold, the African Financial Community franc, the Oman rial, the Peruvian new sol, the Kenyan shilling, the new Bulgarian lev, the Bahraini dinar, the Jordanian dinar and the Qatari riyal) shown in table 1 below, excluding mutual funds in foreign currency where the exchange risk is included in price risk; moreover, the balances used by the internal model do not include accrued income and prepaid expenses, accrued expenses and deferred income, the interest portion of unpaid instalments, the differentials on adoption of the amortised cost principle and loan writedowns. In addition to those shown in table 1 above (options on exchange rates and forward contracts on commodities), the financial derivatives (in a strict sense) traded by the Exchange Centre also include interest rate swaps.

The forward contracts on exchange rates and variable-yield securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

The 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.

Having regard for the «non-structural» nature of the acceptance of exchange-rate risk, the Bank does not use stress tests as part of the strategies adopted to govern this risk.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The standard methodology is used in this case.

B. Hedging of exchange risk

The Bank has not arranged any specific hedges of exchange risk.

The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above.

Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations and the tighter limits on VaR established by General Management.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. **Financial assets**	**591,249**	**43,649**	**22,950**	**737,338**	**7,508**	**23,986**
A.1 Fixed-yield securities	15	–	–	–	–	
A.2 Variable-yield securities	27,095	1,570	–	141,861	–	
A.3 Loans to banks	89,897	40,397	15,097	14,055	7,206	23,826
A.4 Loans to customers	474,242	1,682	7,853	581,422	302	160
A.5 Other financial assets	–	–	–	–	–	
B. **Other assets**	**3,047**	**1,169**	**245**	**3,480**	**52**	**900**
C. **Financial liabilities**	**561,652**	**43,573**	**23,922**	**608,818**	**7,441**	**23,436**
C.1 Due to banks	163,479	4,670	27	461,015	980	12,931
C.2 Due to customers	398,173	38,903	23,895	147,803	6,461	10,505
C.3 Fixed-yield securities	–	–	–	–	–	
C.4 Other financial liabilities	–	–	–	–	–	
D. **Other liabilities**	**9,870**	**93**	**–**	**1,555**	**167**	**19**
E. **Financial derivatives**	**1,288,342**	**308,824**	**53,582**	**260,193**	**9,101**	**263,477**
- Options	53,117	546	–	904	–	–
+ long positions	26,570	273	–	452	–	
+ short positions	26,547	273	–	452	–	
- Other derivatives	1,235,225	308,278	53,582	259,289	9,101	263,477
+ long positions	612,486	154,264	26,820	130,383	4,580	131,402
+ short positions	622,739	154,014	26,762	128,906	4,521	132,075
Total assets	**1,233,352**	**199,355**	**50,015**	**871,653**	**12,140**	**156,288**
Total liabilities	**1,220,808**	**197,953**	**50,684**	**739,731**	**12,129**	**155,530**
Net balance (+/-)	**(12,544)**	**(1,402)**	**669**	**(131,922)**	**(11)**	**(758)**

2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities	–
Variable-yield securities	889.1
Net balance between other assets and liabilities	194.6
Financial derivatives	140.1
- Options	0.3
+ Long positions	377.3
+ Short positions	376.9
- Other derivatives	140.4
+ Long positions	12,081.1
+ Short positions	12,218.2
Total transactions table 1	**913.0**
- Interest Rate Swap	22.5
+ Long positions	14,963.5
+ Short positions	14,941.0
Total	**935.4**

Details of the principal currencies

US Dollars	56.9
Sterling	20.1
Japanese Yen	7.8
Swiss Francs	894.7
Canadian Dollars	0.3
Other currencies	9.7
Total	**935.4**

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	5,953.6
minimum	935.4
maximum	14,486.7

With regard to the distribution of VaR during the year, the average VaR for each month in 2015 is presented below.

January	10,186.3
February	9,707.3
March	6,535.7
April	5,523.3
May	5,248.6
June	5,734.4
July	5,590.5
August	5,802.2
September	6,302.5
October	4,916.0
November	3,427.0
December	3,198.3

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 31/12/2015		Total 31/12/2014	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. **Fixed-yield securities and interest rates**	**3,788,579**	**–**	**3,898,057**	**–**
a) Options	23,821	–	24,964	–
b) Swap	3,764,758	–	3,873,093	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**11**	**–**	**11**	**62,842**
a) Options	11	–	11	62,842
b) Swap	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	**2,077,729**	**–**	**2,142,130**	**–**
a) Options	109,869	–	123,390	–
b) Swap	–	–	–	–
c) Forwards	1,967,860	–	2,018,740	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**15,378**	**–**	**9,087**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**5,881,697**	**–**	**6,049,285**	**62,842**

As foreseen in the Bank of Italy's Circular 262/05, the tables in this section do not include trades in securities, commodities or foreign currencies with settlement by a date in line with market practice for transactions of the same kind or within five working days of the transaction date.

A.3 Financial derivatives: gross positive fair value - breakdown by product

	POSITIVE FAIR VALUE			
	Total 31/12/2015		**Total 31/12/2014**	
Portfolio/Type of derivatives	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**103,487**	**–**	**102,365**	**277**
a) Options	2,022	–	2,213	277
b) Interest rate swap	77,377	–	72,822	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	23,561	–	27,186	–
f) Futures	–	–	–	–
g) Other	527	–	144	–
B. **Bank book - for hedging purposes**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. **Bank book - other derivatives**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**103,487**	**–**	**102,365**	**277**

The positive fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

A.4 Financial derivatives: gross negative fair value - breakdown by product

	NEGATIVE FAIR VALUE			
	Total 31/12/2015		**Total 31/12/2014**	
Portfolio/Type of derivatives	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**97,310**	**–**	**98,098**	**–**
a) Options	1,899	–	2,118	–
b) Interest rate swap	72,714	–	67,681	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	22,196	–	28,179	–
f) Futures	–	–	–	–
g) Other	501	–	120	–
B. **Bank book - for hedging purposes**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. **Bank book - other derivatives**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**97,310**	**–**	**98,098**	**–**

The negative fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

A.5 Over the Counter financial derivatives - trading portfolio for supervisory purposes: notional values, gross positive and negative fair value by counterparty - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. **Fixed-yield securities and interest rates**							
- notional value	–	–	3,615,667	311	–	165,419	7,182
- positive fair value	–	–	65,846	18	–	11,325	254
- negative fair value	–	–	72,748	–	–	31	–
- future exposure	–	–	17,462	1	–	197	16
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	11	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3. **Currency and gold**							
- notional value	18,371	–	1,106,810	103,086	–	648,658	200,804
- positive fair value	–	–	17,772	1,374	–	4,892	1,479
- negative fair value	523	–	12,039	3,267	–	6,202	1,999
- future exposure	184	–	11,497	1,239	–	6,678	2,010
4. **Other assets**							
- notional value	–	–	7,764	–	–	7,613	–
- positive fair value	–	–	57	–	–	470	–
- negative fair value	–	–	455	–	–	46	–
- future exposure	–	–	792	–	–	777	–

A.9 Residual life of OTC financial derivatives: notional values

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	**Total**
A. **Trading portfolio for supervisory purposes**	**2,576,694**	**2,782,118**	**522,885**	**5,881,697**
A.1 Financial derivatives on fixed-yield securities and interest rates	523,319	2,742,375	522,885	3,788,579
A.2 Financial derivatives on variable-yield securities and stock indices	–	11	–	11
A.3 Financial derivatives on exchange rates and gold	2,039,554	38,175	–	2,077,729
A.4 Financial derivatives on other instruments	13,821	1,557	–	15,378
B. **Bank book**	**–**	**–**	**–**	**–**
B.1 Financial derivatives on fixed-yield securities and interest rates	–	–	–	–
B.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
B.3 Financial derivatives on exchange rates and gold	–	–	–	–
B.4 Financial derivatives on other instruments	–	–	–	–
Total 31/12/2015	**2,576,694**	**2,782,118**	**522,885**	**5,881,697**
Total 31/12/2014	**2,625,098**	**2,785,750**	**638,437**	**6,049,285**

Section 3 *Liquidity risk*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Liquidity risk typically reveals itself in the form of an inability to meet payment commitments or an incapacity to finance assets with the necessary punctuality on a cost/effective basis. These negative circumstances can occur as the company finds it impossible:

- to raise funds or obtain them at a reasonable cost (*funding liquidity risk*);
- to sell or reduce its position without severely affecting the price, due to low efficiency or malfunctioning on the part of the market (market liquidity risk*)*.

The Bank's overall strategy for managing liquidity risk, with its low propensity for risk, manifests itself in the adoption of specific operating guidelines that make it possible to reduce the likelihood of such problems arising.

In particular, as regards the first of these sources of risk, the Bank makes considerable efforts to avoid a concentration of funding; its very nature as a cooperative bank is to be close to households and small businesses and this makes it possible to enjoy a wide and stable retail funding base, which by definition is widely diversified.

Another source of funding is the interbank market, on which the Bank has never had problems raising money at market conditions, given its high reputation.

The potential liquidity risk deriving from difficulties in unwinding positions is contained by the decision of the Bank maintain a portfolio of high quality bonds.

Most of this portfolio consists of government securities and, to a lesser extent, of other corporate bonds that are highly liquid as they easily be sold on the market or used, when liquidity is needed, in repurchase agreements with banks or in refinancing operations held by the European Central Bank as most of them are eligible.

Another element that contributes positively to the reserve availability known as the «counterbalancing capacity» is represented by the loans granted to the European Central Bank, in addition to eligible fixed-yield securities, in the form of collateral, so-called A.BA. CO. loans (A.BA. CO stands for Attivi BAncari COllateralizzati or collateralised bank assets).

Control over liquidity risk is carried out by various units: the first level control is performed by the operating functions that provide for a timely check that they carry out their duties properly and report the results in summary form on a daily basis. Then there is systematic monitoring of the expected liquidity position by the Risk Control Department using a variety of indicators and different analytical time horizons. Focusing on the principal indicators used for short-term analysis, the profile of liquidity mismatches is determined and highlighted in specific tables, covering the following three months, using operational treasury and similar data and the counterbalancing capacity. These tables are made available to the Bank of Italy on a weekly basis. The long-term liquidity position is also monitored monthly, with no time limits. The short and long-term regulatory indicators envisaged by the Basel Committee (Liquidity Coverage Ratio and Net Stable Funding Ratio) are also quantified with the frequency established by the Supervisory Authorities.

We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5, complies with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**5,938,557**	**1,134,269**	**1,075,727**	**904,983**	**860,017**	**1,406,008**	**1,901,939**	**10,005,113**	**5,717,878**	**258,712**
A.1 Government securities	–	–	45,724	–	117,911	17,906	1,077,417	4,754,420	1,280,075	–
A.2 Other fixed-yield securities	3,321	–	7,115	3,154	26,988	11,692	8,427	159,623	453,240	317
A.3 Mutual funds	372,077	–	–	–	–	–	–	–	–	–
A.4 Loans	5,563,159	1,134,269	1,022,888	901,829	715,118	1,376,410	816,095	5,091,070	3,984,563	258,395
- Banks	254,552	95,437	51,043	228,031	203,561	620,087	1,053	100,000	–	258,395
- Customers	5,308,607	1,038,832	971,845	673,798	511,557	756,323	815,042	4,991,070	3,984,563	–
Cash liabilities	**21,194,596**	**1,027,601**	**101,581**	**343,729**	**399,836**	**216,718**	**495,536**	**2,940,290**	**754,398**	**–**
B.1 Current and deposit accounts	21,017,399	262,193	95,891	287,108	247,382	157,422	182,743	21,870	–	–
- Banks	122,662	–	–	–	–	–	–	–	–	–
- Customers	20,894,737	262,193	95,891	287,108	247,382	157,422	182,743	21,870	–	–
B.2 Fixed-yield securities	70,069	142	5,365	56,208	133,491	52,141	296,935	1,728,292	707,992	–
B.3 Other liabilities	107,128	765,266	325	413	18,963	7,155	15,858	1,190,128	46,406	–
Off-balance sheet transactions	**596,657**	**159,235**	**140,460**	**744,778**	**673,926**	**243,098**	**328,963**	**215,972**	**87,664**	**–**
C.1 Financial derivatives with exchange of capital	–	154,667	138,796	572,739	667,475	232,655	240,738	30,237	120	–
- Long positions	–	80,020	73,488	284,817	335,439	117,795	117,584	14,766	120	–
- Short positions	–	74,647	65,308	287,922	332,036	114,860	123,154	15,471	–	–
C.2 Financial derivatives without exchange of capital	39,556	–	–	–	–	–	–	–	–	–
- Long positions	19,928	–	–	–	–	–	–	–	–	–
- Short positions	19,628	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to make loans	556,065	4,488	1,646	172,005	6,148	9,879	86,579	183,433	86,567	–
- Long positions	160	4,488	1,646	172,005	6,148	9,879	86,579	183,433	86,567	–
- Short positions	555,905	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	1,036	80	18	34	303	564	1,646	2,302	977	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Line item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «sight» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Bank for financial statement purposes. Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**221,884**	**31,473**	**68,567**	**176,642**	**195,727**	**81,369**	**50,704**	**200,473**	**282,636**	**-**
A.1 Government securities	-	-	-	-	-	-	-	13	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	38,694	-	-	-	-	-	-	-	-	-
A.4 Loans	183,190	31,473	68,567	176,642	195,727	81,369	50,704	200,460	282,636	-
- Banks	134,624	13,551	6,606	5,200	7,462	7,654	9,284	-	6,302	-
- Customers	48,566	17,922	61,961	171,442	188,265	73,715	41,420	200,460	276,334	-
Cash liabilities	**663,653**	**198,559**	**111,569**	**109,796**	**155,744**	**16,282**	**12,879**	**325**	**-**	**-**
B.1 Current and deposit accounts	663,653	198,559	111,569	109,796	155,744	16,009	12,879	325	-	-
- Banks	119,452	195,948	102,961	93,969	130,456	-	-	-	-	-
- Customers	544,201	2,611	8,608	15,827	25,288	16,009	12,879	325	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	273	-	-	-	-
Off-balance sheet transactions	**125,815**	**178,025**	**153,352**	**588,841**	**701,707**	**257,206**	**274,460**	**38,645**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	174,740	146,293	588,831	700,904	254,762	274,413	38,645	-	-
- Long positions	-	84,717	69,077	296,151	349,050	125,988	140,101	19,681	-	-
- Short positions	-	90,023	77,216	292,680	351,854	128,774	134,312	18,964	-	-
C.2 Financial derivatives without exchange of capital	111,693	-	-	-	-	-	-	-	-	-
- Long positions	58,041	-	-	-	-	-	-	-	-	-
- Short positions	53,652	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	14,122	3,285	7,059	10	803	2,444	47	-	-	-
- Long positions	237	3,285	7,059	10	803	2,444	47	-	-	-
- Short positions	13,885	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Securitisation transactions and disposal of assets

Securitisation transactions

The securitisation arranged in April 2012 was closed out early, in October 2015. This operation consisted in the sale without recourse, pursuant to Law 130/1999, of € 1,630 million of performing residential mortgage loans to Centro delle Alpi RMBS srl, the SPV formed specifically for this purpose. The SPV issued securities for € 1,678 million, made up of € 1,385 million of «Senior» securities and € 293 million of «Junior» securities, all of which were purchased by the Bank. consequently, repayment of the related securities for the residual amount of € 1,031 million.

Section 4 Operational risks

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes. The scope of operational risk includes legal risk and IT risk, if this causes and economic or balance sheet loss, but excludes strategic and reputational risks.

The Bank is fully aware that in addition to the unfavourable economic effects, loss events could also give rise to considerable damage to its image and reputation. It has therefore adopted a suitable governance and operational risk management and measurement system, which is being constantly refined, to minimise the impact.

The model adopted by the Bank for the governance of operational risks makes the Risk Control function responsible for defining, maintaining and coordinating the processes of managing and measuring it. This function provides the necessary guidelines to the central offices and subsidiaries which, to the extent of their responsibilities, gather information about operational risk events, as well as about the assessment and monitoring of the potential exposure to that risk.

The system adopted for the management of operational risk applies methodology for the quali-quantitative identification, measurement and mitigation of risk. This system is capable of identifying the losses actually incurred as a result of operational risk and observing and estimating the risks that the Bank might encounter. The above system comprises the following principal components:

- a process of loss data collection in order to identify and catalogue the losses generated by operational risk events and any related recoveries, as appropriately supplemented by external data made available by the ABI-DIPO Consortium, of which the Group is a contributing member;
- a risk self-assessment process regarding the potential exposure to operational risk that, periodically, seeks to identify and quantify the principal risks to which the Group is exposed, in order to facilitate the activation of work to prevent and mitigate the exposures identified;
- periodic checks on the actual and prospective exposure to operational risk, in order to ensure that the causes and course of loss events are monitored, as well as to identify action areas designed to mitigate and/or transfer risk;
- periodic information flows about operational risk trends, which are provided to the competent corporate bodies and functions involved in the identification and management of operational risk.

In order to identify the exposure to operational risk fully and completely, the Risk Control function supplements the information obtained from the operational risk management system with evidence deriving from the processes used to manage and assess IT risk. Specifically, the Risk Control function collaborates regularly with the business functions responsible for designing and implementing the IT risk management system. The objective is to identify the IT incidents associated with operational risk and to analyse the prospective assessment of the exposure to IT risk.

The Bank adopts a Basic Indicator Approach (BIA) to the measurement of operational risk, in order to identify the minimum capital required to cover that risk. The approach involves applying a single regulatory coefficient (15%) to the average of the last three observations of the Significant Indicators, calculated in compliance with the EC regulations.

In the current year, the Bank took action to strengthen the system for the management and measurement of operational risk. This work involved the definition and application of a new methodology and process for the annual self-assessment of the potential exposure to operational risk, as well as the identification of any necessary action to strengthen the process for identifying operational losses. In addition, the Bank defined rules, methodologies and processes for the identification, cataloguing and containment of event that originated, or might originate, from procedural and/or IT equipment malfunctions, such as the interruption of optical fibre networks, the non-availability of ScrignoBps home banking and errors in the applications dedicated to branch operations.

Legal risk

As part of the Loss Data Collection process, the operational losses associated with legal risk include the prudent accounting provisions recorded in relation to the legal disputes faced by the Bank.

In this regard, these relate to legal disputes that began in prior years – mainly relating to transactions in financial instruments – while the current provisions principally related to specific operational risks (e.g. usury and compounding interest).

IT risk

Consistent with the general approach to the management of operational risk, the approach to the management of IT risk involves, on the one hand, the collection and classification of IT «incidents» (quantitative approach) - where an incident means the unplanned interruption of IT services, a deterioration in their quality or events arising due to system errors or faults - and, on the other, the identification and assessment of possible IT risks - having regard for the controls in place - with a view to determining the residual risk (qualitative approach).

In particular, the process of managing IT incidents envisages the initial receipt of reports from monitoring systems or the organisational contexts in which they occurred. Follow-up action includes an assessment of the impact / urgency and the definition of priorities, in order to identify the action areas and the specialist groups to involve in the resolution of the anomaly. In addition, the incidents with a potential impact on operational risk are analysed in order to identify and report any losses arising.

This is followed by a qualitative assessment of the IT risks to which the Bank may be exposed, with the identification of «critical» processes and the selection of supporting applications and technological infrastructure. The potential impact of the specific IT risks is then estimated, via the preparation and compilation of targeted questionnaires.

This process is completed by an analysis of the controls in place to mitigate the risks concerned (e.g. appropriate data back-up procedures) and a consequent estimate of the residual risk.

Assessment of the IT risk profile is completed by analysing the most significant ways in which it is governed, such as the externalisation of services, infrastructure and processing resources, the availability of knowledge, skills and human resources, disaster recovery. This risk is, in fact, mitigated by specific controls, instruments and methods for the management of operational processes that are applied by the IT department.

By implementing this approach and carrying out periodic assessments, the Bank seeks to monitor continuously the total exposure to IT risk, ensuring maximum control - with reference to the essential services supplied to customers and the significant interbank services that might have a significant impact on the banking system – via the identification of steps to be taken to maintain an appropriate risk profile over time (e.g. update of disaster recovery solutions, strengthening of the network architecture).

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The most frequently recurring errors and those with the greatest individual impact in terms of overall amount are errors in the execution of day-to-day transactions, usually promptly corrected, mainly when making payments and in trading transactions.

Also involved are prudent provisions for legal disputes and settlements reached with customers as well as events of an external nature, such as bank robberies, cloning debit and credit cards, forging cheques, which are normally mitigated by arranging insurance policies.

The following chart shows the operational losses identified by the Parent Bank over the past five years (2011 – 2015) as part of the Loss Data Collection process, using the regulatory classification for operational risk events:

Internal fraud – Events perpetrated by persons within the Bank in order to obtain a personal advantage and resulting in a loss for the Bank.

External fraud – Events perpetrated by persons outside of the Bank, such as fraud, theft and improper appropriation in order to obtain a personal advantage and resulting in a loss for the Bank.

Employment and safety at work – Action contrary to the instructions governing employment, health and safety in the workplace, as well as such related events as discrimination or failure to apply equal conditions.

Customers, products and business practices – Events connected with the violation of regulations and/or the adoption of improper commercial practices in relations with customers.

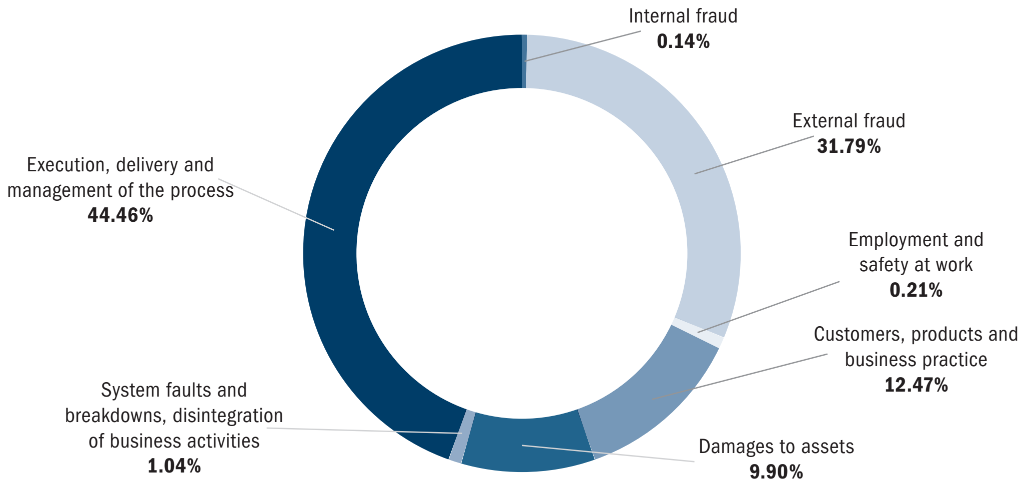
Damage to material assets – External events deriving from natural or accidental causes that result in damage to physical assets or their defective functioning.

System faults and breakdowns, disintegration of business activities – Events relating to the non-availability, inefficiency, malfunctioning or blockage of the Bank’s IT systems and/or their components.

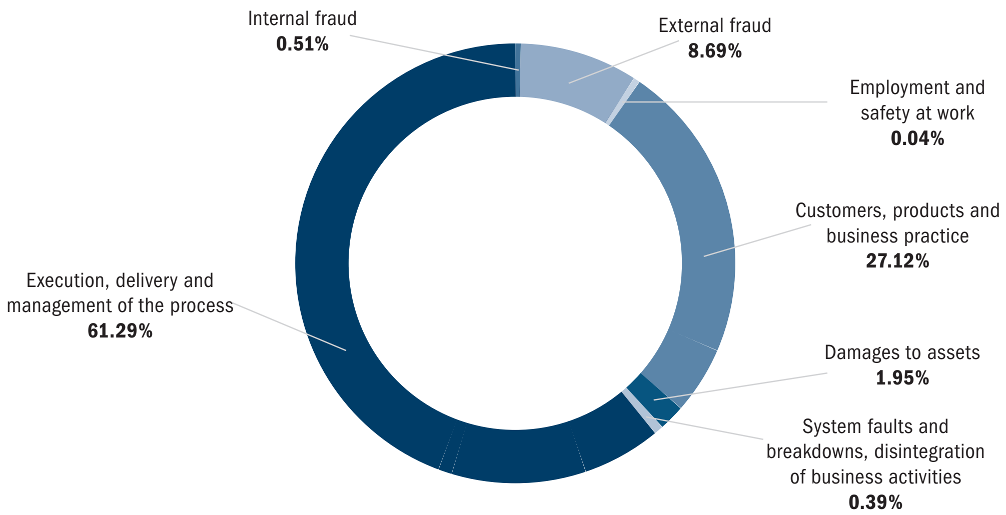
Process execution, delivery and management – Unintentional errors / delays in the daily execution and management of operational and supporting processes, as well as disputes with commercial counterparties and suppliers.

Banca Popolare di Sondrio – Sources of operational losses (from 01/01/2011 – 31/12/2015)

Number of operational loss events - breakdown by Event Type



Impact of the events of operational losses - Breakdown by Event Type



Information on exposure to sovereign debt

CONSOB with communication no. DEM/11070007 of 05/08/2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard, the overall exposure of the bank at 31/12/2015 amounted to

€ 7,991 million and was structured as follows:

a) Italian government securities: € 7,344 million;

b) Securities of other issuers: € 9 million;

c) Loans to government departments: € 60 million;

d) Loans to state-owned or local government-owned enterprises: € 523 million;

e) Loans to other public administrations and miscellaneous entities: € 55 million.

PART F *Information on equity*

Section 1 *Capital*

QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for banks to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects their reputation.

The need for capital adequacy has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery.

The Bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the bank to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

The crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit Spa with a view to providing specialist tools in support of the real economy. The Bank decided to prepare for a capital increase given the lowering of market tensions and the need to strengthen the level of capitalisation that might derive from the ECB's assessment of the banking system, as well as from the subsequent stress tests that all banks supervised by the ECB had to carry out during the year. This capital increase was carried out in the period from 9 June to 5 July 2014 by issuing of 30,814,798 bonus shares and 114,422,994 shares at € 3. The operation ended with the collection of € 343.269 million.

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

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	31/12/2015	31/12/2014
1. **Share Capital**	**1,360,157**	**1,360,157**
2. **Share premium reserve**	**79,005**	**79,005**
3. **Reserves**	**735,498**	**665,469**
- retained earnings	735,498	665,469
a) legal	202,544	161,561
b) statutory	421,902	392,417
c) treasury shares	93,000	93,000
d) other	18,052	18,491
- other	–	–
4. **Equity instruments**	**–**	**–**
5. **(Treasury shares)**	**(25,322)**	**(25,031)**
6. **Valuation reserves**	**85,112**	**44,267**
- available-for-sale financial assets	112,940	74,105
- Property, equipment and investment property	–	–
- Intangible assets	–	–
- Hedges of foreign investments	–	–
- Cash-flow hedges	–	–
- Exchange differences	–	–
- Non-current assets and disposal groups held for sale	–	–
- Actuarial profits (losses) related to defined-benefit pension plans	(27,828)	(29,838)
- Portions of valuation reserves related to subsidiaries carried at equity	–	–
- Special revaluation regulations	–	–
7. **Profit (loss)**	**100,064**	**97,552**
Total	**2,334,514**	**2,221,419**

B.2 Valuation reserves for available-for-sale financial assets: breakdown

	Total 31/12/2015		Total 31/12/2014	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	59,381	(1,522)	57,568	(382)
2. Variable-yield securities	43,538	–	2,454	–
3. Mutual funds	12,224	(681)	14,630	(165)
4. Loans	–	–	–	–
Total	**115,143**	**(2,203)**	**74,652**	**(547)**

B.3 Valuation reserves for available-for-sale financial assets: change in the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. **Opening balance**	**57,186**	**2,454**	**14,465**	**–**
2. **Positive changes**	**36,792**	**41,128**	**4,819**	**–**
2.1 Increases in fair value	35,658	41,128	4,819	–
2.2 Release to the income statement of negative reserves	1,134	–	–	–
- from impairment	–	–	–	–
- from disposals	1,134	–	–	–
2.3 Other changes	–	–	–	–
3. **Negative changes**	**36,119**	**44**	**7,741**	**–**
3.1 Reductions in fair value	–	–	698	–
3.2 Impairment writedowns	–	8	–	–
3.3 Transfer to income statement from positive reserves: from disposals	36,119	36	7,043	–
3.4 Other changes	–	–	–	–
4. **Closing balance**	**57,859**	**43,538**	**11,543**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans is negative by € 27.828 million.

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

Section 2 *Capital and capital adequacy ratios*

2.1 Own funds

QUALITATIVE INFORMATION

Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36 EU (CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

The CRR applies directly at national level, while the CRD IV must be adopted at that level: these measures were implemented via the issue of Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to own funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the related EU instructions.

Own funds

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds (previously, capital for supervisory purposes being the sum of «core capital» and «supplementary capital») comprise:

– Tier 1 Capital;

– Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:

– Common Equity Tier 1 - CET1;
– Additional Tier 1 – AT1.

The Tier 1 capital (CET1) is made up of the following positive and negative components:
– Share capital;
– Share premium reserve;
– Retained earnings;
– Negative valuation reserves - OCI;
– Other reserves;
– Previous CET 1 instruments subject to transitional instructions (grandfathering);
– Prudential filters;
– Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

Additional Tier 1 capital (AT1) consists of the following positive and negative components:
– Equity instruments and related premiums;
– Previous AT1 instruments subject to transitional instructions (grandfathering);
– Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:
– Equity instruments, subordinated loans and related premiums;
– Positive measurement reserves - OCI;
– Previous T2 instruments subject to transitional instructions (grandfathering);
– Deductions.

The new supervisory regulations envisage a transition period from 2014 to 2017, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

The regulatory framework introduced by Regulation (EU) 575/13, on the requirements for including subordinated loans in Tier 2 capital, excluded all subordinated loans whose contractual redemption schedules commence before five years have elapsed from their issue dates. Given this situation and in order to optimise the composition of liabilities and Tier II capital, the Bank launched a public exchange offer for the subordinated bonds issued in 2014 for a total of € 350 million.

This transaction ended on last 23 October and securities for over € 274 million were transferred, i.e. a 78.32% subscription.

The «Transitional instructions regarding own funds» section of the Bank of Italy's Circular 285 allows banks an option to exclude from their own funds any unrealised gains or losses on exposures to central administrations classified as «available-for-sale financial assets» pursuant to IAS 39. This option had to be exercised by 31 January 2014. The Bank has opted not to include in its own funds the positive and negative reserves arising on exposures to central administrations that are classified as «Available-for-sale financial assets», consistent with the approach settled pursuant to the Bank of Italy instruction dated 18 May 2010. This decision has resulted in not recognising as part of own funds capital gains of about 58 million, net of tax effect.

QUANTITATIVE INFORMATION

	31/12/2015	31/12/2014
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,207,558**	**2,134,438**
of which: CET1 instruments subject to transitional instructions	–	–
B. **Prudential filters of CET1 (+/-)**	**–**	**–**
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,207,558**	**2,134,438**
D. **Elements to be deducted from CET1**	**40,787**	**41,849**
E. **Transitional instructions - Impact on CET1 (+/-)**	**4**	**305**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,166,775**	**2,092,894**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions**	**–**	**–**
of which: AT1 instruments subject to transitional instructions	–	
H. **Elements to be deducted from AT1**	**–**	
I. **Transitional instructions - impact on AT1 (+/-)**	**–**	**–**
L. **Total Additional Tier 1 - AT1 (G - H +/- I)**	**–**	**–**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions**	**501,689**	**8,459**
of which: T2 instruments subject to transitional instructions	27,540	8,459
N. **Elements to be deducted from T2**	**6,153**	**223**
O. **Transitional instructions - Impact on T2 (+/-)**	**184,696**	**353,659**
P. **Total Tier 2 - T2 (M - N +/- O)**	**680,232**	**361,895**
Q. **Total Own funds (F + L + P)**	**2,847,007**	**2,454,789**

The composition of own funds takes account of the profit for the period, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

2.2 Capital adequacy

QUALITATIVE INFORMATION

The capital ratios are calculated under the new Basel 3 rules.

The regulation introduced by the Bank of Italy in Circular 285/2013 establishes the following minimum ratios for banking groups:

- CET 1 of 4.50%;
- Tier 1 of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions have been introduced:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; this is currently not implemented but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;
- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significant may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding

maximum threshold of 2% is envisaged for the others;
- Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which is indicated below:
- CET 1 of 7%;
- Tier 1 of 8.5%;
- Total Capital Ratio of 10.5%.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

For larger EU banks, which includes the Banca Popolare di Sondrio Group, the European Central Bank has imposed (with a note of 23 October 2013) a 1% add-on to the CET 1 Ratio, the minimum value of which is therefore 8%, a stricter limit compared with the previous values.

During the course of 2015, the European Central Bank, which is the authority responsible for the supervision of Banca Popolare di Sondrio, carried out a new Supervisory Review and Evaluation Process (SREP), after which the bank was asked to maintain a minimum Group CET 1 ratio of 9.25%.

At 31 December 2015, the parameters of the bank under the new regulations are as follows:
- CET 1 Capital ratio 10.50%;
- Tier 1 Capital ratio 10.50%;
- Total Capital ratio 13.80%.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/ requirements	
	31/12/2015	**31/12/2014**	**31/12/2015**	**31/12/2014**
A. **Assets at risk**				
A.1 Credit and counterparty risk	–	–	–	–
1. Standardised approach	32,428,485	33,025,961	18,000,009	18,330,087
2. Approach based on internal ratings	–	–	–	
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	245,802	170,600	220,738	162,835
B. **Capital adequacy requirements**	**–**	**–**	**–**	
B.1 Credit and counterparty risk	–	–	1,457,660	1,479,434
B.2 Loan adjustment risk	–	–	861	976
B.3 Regulation risks	–	–	–	
B.4 Market risks	–	–	–	
1. Standard methodology	–	–	57,910	94,762
2. Internal models	–	–	–	–
3. Concentration risk	–	–	–	–
B.5 Operational risk	–	–	–	
1. Basic method	–	–	134,445	131,890
2. Standardised approach	–	–	–	–
3. Advanced method	–	–	–	–
B.6 Other calculation requirements	–	–	–	–
B.7 Total precautionary requirements	–	–	1,650,876	1,707,062
C. **Risk assets and capital ratios**	**–**	**–**	**–**	**–**
C.1 Risk-weighted assets	–	–	20,635,950	21,338,275
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)	–	–	10.50	9.81
C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	–	–	10.50	9.81
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)	–	–	13.80	11.50

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in office	Expiry of office	Emoluments for the office held in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	Chairman	1/1/2015-31/12/2015	31/12/2015	251	-	-	44
STOPPANI LINO ENRICO	Deputy Chairman	1/1/2015-31/12/2015	31/12/2016	140	-	-	12
PEDRANZINI MARIO ALBERTO (*)	Director	1/1/2015-31/12/2015	31/12/2016	152	-	-	123
MELAZZINI PIERO (**)	Director	1/1/2015-30/11/2015	31/12/2016	46	-	-	82
BENEDETTI CLAUDIO	Director	1/1/2015-18/04/2015	18/04/2015	13	-	-	-
BIGLIOLI PAOLO	Director	1/1/2015-31/12/2015	31/12/2016	46	-	-	-
CREDARO LORETTA	Director	18/4/2015-31/12/2015	31/12/2017	28	-	-	
FALCK FEDERICO	Director	1/1/2015-31/12/2015	31/12/2015	45	-	-	-
FERRARI ATTILIO PIERO	Director	1/1/2015-31/12/2015	31/12/2017	45	-	-	-
FONTANA GIUSEPPE	Director	1/1/2015-31/12/2015	31/12/2017	40	-	-	-
GALBUSERA CRISTINA	Director	1/1/2015-31/12/2015	31/12/2015	47	-	-	-
MELZI DI CUSANO NICOLÒ	Director	1/1/2015-31/12/2015	31/12/2015	42	-	-	-
PROPERSI ADRIANO	Director	1/1/2015-31/12/2015	31/12/2017	46	-	-	-
RAINOLDI ANNALISA	Director	1/1/2015-31/12/2015	31/12/2016	42	-	-	-
SOZZANI RENATO	Director	1/1/2015-31/12/2015	31/12/2017	77	-	-	3
TRIACCA DOMENICO	Director	1/1/2015-31/12/2015	31/12/2015	59	-	-	-
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	1/1/2015-31/12/2015	31/12/2017	98	-	-	8
BERSANI PIO	Auditor	1/1/2015-18/04/2015	18/04/2015	19	-	-	23
DEPPERU DONATELLA	Auditor	18/4/2015-31/12/2015	31/12/2017	54	-	-	
VITALI MARIO	Auditor	1/1/2015-31/12/2015	31/12/2017	82	-	-	25
PEDRANZINI MARIO ALBERTO (*)	General Manager	1/1/2015-31/12/2015		-	88	48	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2015-31/12/2015		-	49	149	903

(*) also Managing Director.
(**) deceased.

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 2.707 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.119 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it. No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	437	6,192	16	103	–	–
Statutory auditors	298	358	12	5	–	–
Management	–	1,113	–	10	8	–
Family members	1,138	25,206	46	251	36	6,529
Subsidiaries	2,059,012	446,272	33,746	- 54	797,394	11,954
Associated companies	565,466	167,936	5,198	1,166	105,510	2,529
Other related parties	276,393	35,412	2,906	247	12,837	32,709

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 € 475 million to Alba Leasing SpA and for € 80 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 154 million granted to the affiliate Release spa.

APPENDICES:

The appendices listed below contain additional information with respect to the notes to the financial statements, of which they form an integral part:

– list of revalued assets still owned by the Bank (article 10, Law 72 of 19/3/1983);

– Schedule of the Independent Auditors' fees for the year (as per art. 149 duodecies of the Issuers' Regulations;

– financial statements of the subsidiaries Banca Popolare di Sondrio (Suisse) SA., Factorit spa, Pirovano Stelvio spa and Sinergia Seconda srl.

LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)

(in euro)

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total at 31/12/2015	Accumulated depreciation as of 31/12/2015	Net book value as of 31/12/2015
ABBIATEGRASSO - Via S. Maria - Ang P. Garibaldi	2,171,779	0	0	0	2,171,779	139,074	2,032,705
APRICA - Corso ROME, 140	450,765	0	356,355	146,929	954,049	614,683	339,366
BERBENNO DI VALTELLINA - Via Raneè, 542	14,305,495	0	0	99,417	14,404,912	5,662,466	8,742,446
BERGAMO - Via Broseta, 64/B	3,794,328	0	0	0	3,794,328	958,380	2,835,948
BERGAMO - Via G. D'alzano, 5	2,324,744	0	0	0	2,324,744	271,051	2,053,693
BERGAMO - Via Ghislandi Vittore, 4	1,288,525	0	0	0	1,288,525	57,984	1,230,541
BORMIO - Via ROME, 64	439,238	46,481	573,267	136,524	1,195,510	285,066	910,444
BORMIO - Via ROME angolo Via Don Peccedi	2,966,333	0	361,520	301,774	3,629,627	1,535,692	2,093,935
BRENO - Piazza Ronchi, 4	1,529,470	0	0	87,467	1,616,937	751,912	865,025
CHIAVENNA - Via Dolzino, 67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	2,281,457	1,180,832
CHIESA VALMALENCO - Via Roma, 138	800,868	17,560	664,795	133,250	1,616,473	671,562	944,911
COLICO - Piazza Cavour, 11	177,749	0	0	96,488	274,237	250,775	23,462
DELEBIO - Piazza S. Carpoforo, 7/9	844,205	23,241	645,773	688,773	2,201,992	1,415,185	786,807
DERVIO - Via Don Invernizzi, 2	1,270,219	0	0	329,276	1,599,495	924,002	675,493
DOMASO - Via Statale Regina, 71	342,070	0	0	53,817	395,887	149,877	246,010
DONGO - Piazza V. Matteri, 14	3,132,995	0	0	415,551	3,548,546	1,205,066	2,343,480
EDOLO - Piazza Martiri della Libertà, 16	1,058,736	0	0	509,161	1,567,897	1,363,125	204,772
GENOA - Via XXV Aprile, 7	10,226,931	0	0	0	10,226,931	1,949,063	8,277,868
GERA LARIO - Via Statale Regina, 14	292,667	0	131,677	227,733	652,077	366,211	285,866
GRAVEDONA - Piazza Garibaldi, 10/12	3,400,645	0	0	223,957	3,624,602	884,970	2,739,632
GRAVEDONA - Via Tagliaferri, 5	309,900	0	0	0	309,900	32,540	277,360
GROSIO - Via Roma, 67	26,372	7,230	229,791	51,484	314,877	246,960	67,917
GROSOTTO - Via Statale, 73	452,238	12,911	147,146	42,099	654,394	289,251	365,143
ISOLACCIA VALDIDENTRO - Via Nazionale, 31	403,788	0	290,229	272,602	966,619	633,512	333,107
LECCO - Corso Martiri della Liberazione, 63/65	9,574,332	0	351,191	2,124,557	12,050,080	7,038,038	5,012,042
LECCO - Via Galandra, 28	168,623	0	0	41,959	210,582	151,619	58,963
LIVIGNO - Via S. Antoni, 135 - Via Prestefan	5,946,629	0	345,487	358,828	6,650,944	1,791,557	4,859,387
LODI - Via Garibaldi, 23/25 - angolo Via Marsala	2,151,413	0	0	0	2,151,413	32,271	2,119,142
MADESIMO - Via Carducci, 3	493,542	0	0	203,733	697,275	622,147	75,128
MANTOVA - Corso Vittorio Emanuele, 26	5,623,642	0	0	0	5,623,642	84,355	5,539,287
MARCHIROLO - Via Cav, Emilio Busetti, 7/A	1,089,019	0	0	0	1,089,019	432,718	656,301
MAZZO VALTELLINA - Via S, Stefano, 18	641,635	16,010	163,550	48,833	870,028	235,024	635,004
MELEGNANO - Piazza Garibaldi, 1	2,274,058	0	0	0	2,274,058	170,554	2,103,504
MILAN - Piazza Borromeo, 1	38,217	0	0	213,722	251,939	182,543	69,396
MILAN - Via A. Messina, 22	150,000	0	0	0	150,000	24,750	125,250
MILAN - Via Compagnoni, 9	51,141	0	0	6,842	57,983	57,983	0
MILAN - Via Lippi, 25	53,970	0	0	1,635	55,605	55,605	0
MILAN - Via Morigi, 2/A	73,590	0	0	123,930	197,520	171,843	25,677
MILAN - Via Porpora, 104	5,318,962	0	0	165,381	5,484,343	1,686,751	3,797,592
MILAN - Via S. Maria Fulcorina, 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	5,685,624	10,864,226
MILAN - Via S. Maria Fulcorina, 11	493,165	0	0	0	493,165	414,258	78,907
MILAN - Via Sangallo, 16	4,752	0	0	11,915	16,667	14,500	2,167
MILAN - Via Sforza, 48	2,665,873	0	0	0	2,665,873	39,988	2,625,885

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total at 31/12/2015	Accumulated depreciation as of 31/12/2015	Net book value as of 31/12/2015
MILAN - Via Solari, 15	422,156	0	0	0	422,156	164,641	257,515
MONTAGNA IN VALTELLINA - Via Stelvio, 30	472,050	0	328,458	398,008	1,198,516	731,095	467,421
MORBEGNO - Piazza Caduti della Libertà, 6	2,101,004	0	1,088,606	704,283	3,893,893	2,263,710	1,630,183
MORBEGNO - Via Nani, 13	54,709	0	0	17,739	72,448	67,376	5,072
MORBEGNO - Via Garibaldi, 81	435,688	25,823	0	56,050	517,561	399,983	117,578
MOZZO - Via G. D'annunzio, 4	26,424	0	0	14,259	40,683	30,512	10,171
NOVATE MEZZOLA - Via Roma, 13	935,746	0	251,282	89,219	1,276,247	290,509	985,738
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	817,509	109,083
PONTE VALTELLINA - Piazza della Vittoria, 1	51,496	12,911	258,098	86,540	409,045	266,791	142,254
REGOLEDO DI COSIO VALTELLINO - Via ROME, 7	134,617	0	0	78,405	213,022	155,337	57,685
ROME - Piazza Filippo II Macedone, 75	2,400,000	0	0	0	2,400,000	828,000	1,572,000
ROME - Via della Farnesina, 154	928,169	0	0	0	928,169	208,838	719,331
ROME - Via di Propaganda Fide, 27	155,625	0	350,503	88,926	595,054	595,054	0
S. CASSIANO VALCHIAVENNA - Via Spluga, 108	397,672	0	0	103,093	500,765	327,320	173,445
S. PIETRO BERBENNO - Via Nazionale Ovest, 110	1,288,306	22,208	328,181	122,795	1,761,490	558,986	1,202,504
S. SIRO - Via Statale Regina	467,692	0	0	0	467,692	219,275	248,417
SEREGNO - Via Wagner, 137/A	123,950	0	0	13,282	137,232	115,275	21,957
SESTO CALENDE - Piazza Mazzini, 10	443,111	0	0	0	443,111	33,233	409,878
SONDALO - Via Zubiani, 2/4/6/8/10	21,757	25,823	312,456	158,005	518,041	402,235	115,806
SONDRIO - Corso V. Veneto, 7	858,944	0	0	1,190,813	2,049,757	784,884	1,264,873
SONDRIO - Largo Pedrini, 8	363,862	0	0	22,527	386,389	202,999	183,390
SONDRIO - Lungo Mallero Cadorna, 24	3,411,450	0	196,254	451,249	4,058,953	1,190,196	2,868,757
SONDRIO - Piazzale Tocalli - Via Delle Prese	348,608	0	0	0	348,608	266,685	81,923
SONDRIO - Piazza Garibaldi, 1	16,056,897	0	0	0	16,056,897	639,737	15,417,160
SONDRIO - Piazza Garibaldi, 16	1,563,597	351,191	7,810,125	3,142,651	12,867,564	7,292,777	5,574,787
SONDRIO - Via Bernina, 1	181,930	0	82,385	45,795	310,110	172,101	138,009
SONDRIO - Via Caimi, 29	357,915	0	0	46,342	404,257	398,440	5,817
SONDRIO - Via Cesura, 4	156,991	0	0	64,149	221,140	132,338	88,802
SONDRIO - Via Lusardi, 53	247,506	0	0	0	247,506	178,204	69,302
SONDRIO - Via Tonale, 6	56,297	0	243,248	54,643	354,188	354,188	0
SONDRIO - Via Pio Rajna, 1	16,195	0	0	40,221	56,416	45,697	10,719
TALAMONA - Via Cusini, 29	223,475	0	313,640	203,691	740,806	586,576	154,230
TEGLIO - Piazza S. Eufemia, 2	40,150	13,944	546,700	148,165	748,959	495,521	253,438
TIRANO - Località Valchiosa	139,352	0	0	0	139,352	91,743	47,609
TIRANO - Piazza Cavour, 20	392,571	0	1,736,322	718,576	2,847,469	1,927,656	919,813
TURIN - Via XX Settembre, 37	6,473,624	0	0	0	6,473,624	679,558	5,794,066
TRESCORE BALNEARIO - Piazza Cavour, 6	1,292,789	0	0	0	1,292,789	96,959	1,195,830
TRESENDA DI TEGLIO - Via Nazionale, 57	192,524	0	193,671	67,596	453,791	406,578	47,213
VALMADRERA - Via S. Rocco, 31/33	1,348,914	0	0	0	1,348,914	60,701	1,288,213
VERCELLI - Piazza Mazzucchelli, 12	1,773,241	0	0	0	1,773,241	79,796	1,693,445
VILLA DI CHIAVENNA - Via Roma, 39	197,712	0	0	7,639	205,351	205,351	0
VILLA DI TIRANO - Traversa Foppa, 25	440,817	0	0	7,651	448,468	250,302	198,166
GRAND TOTAL	**148,530,260**	**781,632**	**22,496,863**	**19,084,124**	**190,892,879**	**66,846,658**	**124,046,221**

SCHEDULE OF THE INDEPENDENT AUDITORS' FEES FOR THE YEAR (AS PER ART. 149 DUODECIES OF THE ISSUERS' REGULATIONS)

Type of services	Service provided by	Recipient	Fees (thousands of euro)
Audit of the financial statements	KPMG spa	Banca Popolare di Sondrio	443
Other emoluments	KPMG spa	Banca Popolare di Sondrio	58
Audit of the financial statements	KPMG SA	Banca Popolare di Sondrio (SUISSE) SA	420
Audit of the financial statements	KPMG spa	Factorit spa	70
Audit of the financial statements	KPMG spa	Popso Covered Bond srl	31
Audit of the financial statements	KPMG spa	Sinergia Seconda srl	21
Audit of the financial statements	KPMG spa	Pirovano Stelvio spa	12
Consultancy services	KPMG Advisory spa*	Banca Popolare di Sondrio	1,134

* Company belonging to the same network as the independent auditors.

These amounts do not include the reimbursement of out-of-pocket expenses and VAT.

FINANCIAL STATEMENTS:

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

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2015

(in Swiss francs)

ASSETS	2015	2014
Liquid assets	725,000,488	187,724,344
Loans and receivables with banks	500,026,746	505,156,554
Loans and receivables with customers	471,300,093	580,224,674
Mortgage loans	3,053,192,850	2,886,726,457
Positive replacement value of derivative products	20,036,429	11,354,743
Financial assets	50,003,939	58,204,440
Accrued income and prepayments	5,751,318	7,166,609
Equity investments	1,122,881	611,356
Property, equipment and investment property	24,969,186	28,961,929
Other assets	63,482,012	63,468,622
Total assets	**4,914,885,942**	**4,329,599,728**
Total amounts due from Group companies and holders of qualifying equity investments	0	0

The 2014 figures have been restated for comparison purposes.

LIABILITIES	2015	2014
Due to banks	1,221,024,754	770,027,422
Customer deposits	2,919,018,697	2,991,733,357
Negative replacement value of derivative products	62,596,323	63,334,543
Treasury liabilities	181,862,000	149,344,000
Due to issuers of construction bonds and loans	161,900,000	32,200,000
Accrued liabilities and deferred	17,344,327	12,757,675
Other liabilities	9,272,701	12,507,547
Reserves	6,855,164	6,779,840
Reserve for general banking risks	15,000,000	15,000,000
Share capital	180,000,000	150,000,000
Legal reserve from profits	125,915,344	117,750,119
Profit for the year	14,096,632	8,165,225
Total liabilities	**4,914,885,942**	**4,329,599,728**
Total subordinated commitments	0	0

OFF-BALANCE SHEET TRANSACTIONS	2015	2014
Contingent liabilities	204,682,006	341,946,288
Undrawn lines of credit	193,065,688	213,804,036
Irrevocable commitments	19,141,500	28,126,500
Derivative products	3,543,278,363	3,134,154,403
- Gross positive replacement value	20,036,429	11,354,743
- Gross negative replacement value	62,596,323	63,334,543
Fiduciary transactions	39,931,346	101,173,976

INCOME STATEMENT
(in Swiss francs)

	2015	2014
Interest income:		
- Interest income and discounts	64,888,685	77,829,675
- Interest income and dividends from equity investments	780	-
- Interest and dividends from trading activity	601,224	535,095
Interest expense	(29,180,129)	(39,804,338)
Gross interest income	**36,310,560**	**38,560,432**
Change in adjustments for loss risks and losses from interest-earning operations	(6,999,663)	(5,134,500)
Net interest income	**29,310,897**	**33,425,932**
Fee and commission income:		
- on trading in securities and investments	25,978,526	30,844,165
- on lending transactions	1,602,241	1,816,949
- on services	8,495,676	7,910,018
Fee and commission expense	(3,084,772)	(2,841,545)
Net fee and commission income and income from services	**32,991,671**	**37,729,587**
Profits from financial transactions and fair value option	**29,097,253**	**13,338,100**
Profit (loss) on disposal of financial investments	61,507	167,369
Income from equity investments	-	-
Net proceeds from properties	215,173	184,223
Other ordinary income	53,079	622,812
Other ordinary charges	(970,162)	(936,833)
Sub-total: other ordinary result	**(640,403)**	**37,571**
Operating expenses		
Personnel costs	(43,970,131)	(42,268,830)
Other operating expenses	(22,228,236)	(22,138,070)
Operating expenses	**(66,198,367)**	**(64,406,900)**

	2015	2014
Adjustments to equity investments and depreciation of property, equipment and investment property and amortisation of intangible assets	(5,123,539)	(5,477,444)
Change in provisions and other adjustments and losses	(351,547)	(3,276,458)
Result of the year	**19,085,965**	**11,370,388**
Extraordinary income	89,481	1,152,649
Extraordinary charges	(423,814)	(1,334,812)
Change in reserve for general banking risks	–	–
Income taxes	(4,655,000)	(3,023,000)
Profit for the year	**14,096,632**	**8,165,225**
ALLOCATION OF PROFIT		
Profit for the year	14,096,632	8,165,225
Retained earnings	–	–
Earnings available for allocation	**14,096,632**	**8,165,225**
Proposal of the Board of Directors to allocate the 2015 profit of CHF 14,096,632 to the legal reserve from profits.		
Balance carried forward	**–**	**–**

FACTORIT SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2015

(in euro)

ASSET ITEMS	31/12/2015	31/12/2014
10. Cash and cash equivalents	3,838	3,856
40. Available-for-sale financial assets	1,060,000	1,750,000
60. Receivables	1,596,359,245	1,705,343,435
100. Property, equipment and investment property	394,390	418,577
110. Intangible assets	118,658	149,618
120. Tax assets	39,299,204	42,528,672
a) current	11,617,422	14,257,046
b) deferred	27,681,782	28,271,626
of which as per Law 214/2011	26,566,924	26,251,658
140. Other assets	9,671,063	7,527,213
TOTAL ASSETS	**1,646,906,398**	**1,757,721,371**

EQUITY AND LIABILITY ITEMS	31/12/2015	31/12/2014
10. Payables	1,390,556,917	1,506,022,548
70. Tax liabilities	10,813,828	13,717,898
a) current	8,774,666	11,674,467
b) deferred	2,039,162	2,043,431
90. Other liabilities	20,595,891	20,509,424
100. Post-employment benefits	2,350,613	2,324,262
110. Provisions for risks and charges:	3,303,372	6,422,740
b) other provisions	3,303,372	6,422,740
120. Share capital	85,000,002	85,000,002
150. Share premium reserve	11,030,364	11,030,364
160. Reserves	102,670,876	87,355,759
170. Valuation reserves	(175,138)	(176,743)
180. Profit for the year	20,759,673	25,515,117
TOTAL LIABILITIES AND EQUITY	**1,646,906,398**	**1,757,721,371**

INCOME STATEMENT	31/12/2015	31/12/2014
10. Interest and similar income	35,382,640	49,949,202
20. Interest and similar expense	(6,380,014)	(12,089,104)
NET INTEREST INCOME	**29,002,626**	**37,860,098**
30. Fee and commission income	27,609,358	31,981,482
40. Fee and commission expense	(4,757,824)	(5,233,824)
NET FEE AND COMMISSION INCOME	**22,851,534**	**26,747,658**
60. Net trading income	18,362	29,021
TOTAL INCOME	**51,872,522**	**64,636,777**
100. Net impairment losses on:	(2,830,058)	(5,449,783
a) financial assets	(2,905,813)	(7,173,687)
b) other financial operations	75,755	1,723,904
110. Administrative expenses:	(22,522,246)	(23,055,605)
a) personnel expenses	(12,747,770)	(12,060,178)
b) other administrative expenses	(9,774,476)	(10,995,427)
120. Depreciation and net impairment losses on property, equipment and investment property	(148,614)	(157,033)
130. Amortisation and net impairment losses on intangible assets	(64,162)	(1,172,688)
150. Net accruals to provisions for risks and charges	1,349,289	378,454
160. Other operating income and expenses	2,462,574	2,827,463
OPERATING PROFIT (LOSS)	**30,119,305**	**38,007,585**
180. Net gains on sales of investments	0	16,418
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	**30,119,305**	**38,024,003**
190. Income taxes	(9,359,632)	(12,508,886)
POST-TAX PROFIT FROM CONTINUING OPERATIONS	**20,759,673**	**25,515,117**
PROFIT FOR THE YEAR	**20,759,673**	**25,515,117**

PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2015

(in euro)

ASSETS	31/12/2015	31/12/2014
B) **NON-CURRENT ASSETS**		
I Intangible assets		
03 Industrial patent rights and intellectual property rights	837	2.280
Total I	***837***	***2.280***
II Property, equipment and investment property		
01 Land and buildings	2,766,192	2,836,848
02 Equipment and machinery	86,773	120,665
03 Industrial and commercial equipment	25,997	35,391
04 Other assets	3,344	9,073
05 Assets under construction and advances	7,676	7,676
Total II	***2,889,982***	***3,009,653***
III Financial assets		
01 Equity investments		
b) in associated companies	345,279	333,983
d) in other companies	1,992	2,199
Total 1	*347,271*	*336,182*
Total III	***347,271***	***336,182***
TOTAL NON-CURRENT ASSETS	**3,238,090**	**3,348,115**
C) **CURRENT ASSETS**		
I Inventories		
04 Finished products and merchandise	20,653	24,877
Totale I	***20,653***	***24,877***
II Receivables		
01 Loans and receivables with customers		
a) due within 12 months	9,004	36,882
Total 01	*9,004*	*36,882*
04 Due from parent companies		
a) due within 12 months	156,898	175,058
Total 04	*156,898*	*175,058*
04-bis Due from tax authorities		
a) due within 12 months	29,570	33,824
Total 04-bis	*29,570*	*33,824*
05 Due from others		
a) due within 12 months	8,115	8,980
Total 05	*8,115*	*8,980*
Total II	***203,587***	***254,744***
IV Cash and banks		
01 Bank and post office deposits	44	212
03 Cash and cash equivalents on hand	345	523
Total IV	***389***	***735***
TOTAL CURRENT ASSETS	**224,629**	**280,356**
D) **ACCRUED INCOME AND PREPAYMENTS**		
02 Accrued income and prepayments	8,593	6,572
TOTAL ACCRUED INCOME AND PREPAYMENTS	**8,593**	**6,572**
TOTAL ASSETS	**3,471,312**	**3,635,043**

LIABILITIES AND EQUITY	31/12/2015	31/12/2014
A) **EQUITY**		
I Share capital	2,064,000	2,064,000
III Valuation reserves	192,104	192,104
IV Legal reserve	5,959	5,959
VII Other reserves		
01 Voluntary reserve	232,397	232,397
08 Rounding reserves	2	2
Total VII	***232,399***	***232,399***
IX Loss for the year	(425,283)	(485,086)
TOTAL EQUITY	**2,069,179**	**2,009,376**
C) **POST-EMPLOYMENT BENEFITS**	**159,161**	**148,907**
D) **PAYABLES**		
7 Trade payables		
a) due within 12 months	81,016	66,032
Total 07	***81,016***	***66,032***
10 Due to associated companies		
a) due within 12 months	6,750	7,800
Total 10	***6,750***	***7,800***
11 Due to parent companies		
a) due within 12 months	1,109,163	1,355,153
Total 11	***1,109,163***	***1,355,153***
12 Taxes payable		
a) due within 12 months	8,876	8,375
Total 12	***8,876***	***8,375***
13 Due to social security institutions		
a) due within 12 months	7,924	8,155
Total 13	***7,924***	***8,155***
14 Other payables		
a) due within 12 months	25,243	27,245
Total 14	***25,243***	***27,245***
TOTAL PAYABLES	**1,238,972**	**1,472,760**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
2 Accrued expenses and deferred income	4,000	4,000
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**4,000**	**4,000**
TOTAL LIABILITIES	**3,471,312**	**3,635,043**

MEMORANDUM ACCOUNTS	31/12/2015	31/12/2014
05 RISKS AND COMMITMENTS		
c) Commitments taken by third parties	6,733	6,733
Total 05	**6,733**	**6,733**
TOTAL MEMORANDUM ACCOUNTS	**6,733**	**6,733**

INCOME STATEMENT	31/12/2015	31/12/2014
A) **PRODUCTION VALUE**		
01 Revenues from sales and services	1,097,829	1,134,743
05 Other revenues and income		
a) other revenues and income	41,476	184,552
Total 05	***41,476***	***184,552***
TOTAL PRODUCTION VALUE	**1,139,305**	**1,319,295**
B) **PRODUCTION COSTS**		
06 Raw materials, consumables and goods	(262,941)	(287,058)
07 Services	(669,706)	(817,853)
09 Personnel costs		
a) Wages and salaries	(457,609)	(488,633)
b) Social security contributions	(141,521)	(151,106)
c) termination indemnities	(26,553)	(26,529)
e) other costs	(149)	(637)
Total 09	***(625,832)***	***(666,905)***
10 Depreciation, amortisation and writedowns		
a) amortisation of intangible assets	(1,443)	(10,513)
b) depreciation of property, equipment and investment property	(123,592)	(140,808)
Total 10	***(125,035)***	***(151,321)***
11 Change in raw materials, consumables and goods	(4,224)	(3,914)
14 Sundry operating costs	(55,093)	(57,518)
TOTAL PRODUCTION COSTS	**(1,742,831)**	**(1,984,569)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**(603,526)**	**(665,274)**
C) **FINANCIAL INCOME AND CHARGES**		
15 Income from equity investments		
b) in associated companies	12,766	10,942
Total 15	***12,766***	***10,942***
17 Interest and other financial charges		
c) versus parent companies	(469)	(1,758)
d) versus others	(780)	(756)
Total 17	***(1,249)***	***(2,514)***
TOTAL FINANCIAL INCOME AND CHARGES	**11,517**	**8,428**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
18 Revaluations		
a) of equity investments	11,297	940
Total 18	***11,297***	***940***
TOTAL ADJUSTMENTS	**11,297**	**940**
E) **EXTRAORDINARY ITEMS**		
20 Income		
c) rounding differences	(0)	1
Total 20	***(0)***	***1***
21 Charges		
c) other extraordinary charges	(1,467)	(4,239)
d) rounding differences	(2)	(0)
Total 21	***(1,469)***	***(4,239)***
TOTAL EXTRAORDINARY ITEMS	**(1,469)**	**(4,238)**
PRE-TAX PROFIT (LOSS)	**(582,181)**	**(660,144)**
22 current income taxes and change in deferred tax assets and liabilities		
a) Current taxes	156,898	175,058
Total 22	***156,898***	***175,058***
23 **PROFIT (LOSS)**	**(425,283)**	**(485,086)**

SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2015

(in euro)

ASSETS	31/12/2015	31/12/2014
A) **AMOUNTS RECEIVABLE FROM SHAREHOLDERS**	**–**	**–**
Of which already called €		
B) **NON-CURRENT ASSETS**		
I - Intangible assets	–	–
II - Property, equipment and investment property		
1) Land and buildings		
1 - owned	64,678,307	65,632,968
2) Equipment and machinery		
1 - owned	96,041	114,550
5) Assets under construction and advances		
1 - owned	–	17,481
Total property, equipment and investment property	***64,774,348***	***65,764,999***
III - Financial assets		
1) equity investments in		
a) subsidiary companies	10,108,857	6,808,857
Total financial assets	***10,108,857***	***6,808,857***
TOTAL NON-CURRENT ASSETS	**74,883,205**	**72,573,856**
C) **CURRENT ASSETS**		
I - Inventories	–	–
II - Receivables		
1) loans and receivables with customers		
a) due within 12 months	15,374	13,772
2) due from subsidiary companies		
a) due within 12 months	5,544	58,962
4 bis) due from tax authorities		
a) due within 12 months	9,281	19,499
5) due from others		
a) due within 12 months	41,125	–
Total receivables	***71,324***	***92,233***
III - Financial assets not held as non-current assets	–	–
IV - Cash and banks		
3) cash and cash equivalents on hand	33	33
Total cash and banks	***33***	***33***
TOTAL CURRENT ASSETS	**71,357**	**92,266**
D) **ACCRUED INCOME AND PREPAYMENTS**		
TOTAL ACCRUED INCOME AND PREPAYMENTS	**–**	**–**
TOTAL ASSETS	**74,954,562**	**72,666,122**

LIABILITIES AND EQUITY	31/12/2015	31/12/2014
A) **EQUITY**		
I - Share capital	60,000,000	60,000,000
II - Share premium reserve	-	-
III - Valuation reserves	-	-
IV - Legal reserve	2,040,000	2,040,000
V - Statutory reserves	-	-
VI - Reserve for treasury shares	-	-
VII - Other Reserves		
d) rounding differences on conversion to euro	2	1
VIII - Retained Earnings	3,979,588	5,319,831
IX - Profit/Loss for the year	638,849	-1,340,243
TOTAL EQUITY	**66,658,439**	**66,019,589**
B) **RESERVES FOR RISKS AND CHARGES**		
TOTAL RESERVES FOR RISKS AND CHARGES	**-**	**-**
C) **POST-EMPLOYMENT BENEFITS**	**-**	**-**
D) **PAYABLES**		
06) Advance payments		
a) Due within 12 months	100,458	-
07) Due to suppliers		
a) Due within 12 months	174,271	136,535
09) Due to subsidiary companies		
a) Due within 12 months	139,779	215,281
11) Due to parent companies		
a) Due within 12 months	7,829,683	6,258,768
12) Taxes payable		
a) Due within 12 months	24,137	6,916
14) Other payables		
a) Due within 12 months	941	3,735
TOTAL PAYABLES	**8,269,269**	**6,621,235**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
1) Accrued expenses and deferred income	26,854	25,298
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**26,854**	**25,298**
TOTAL LIABILITIES AND EQUITY	**74,954,562**	**72,666,122**

INCOME STATEMENT	31/12/2015	31/12/2014
A) **PRODUCTION VALUE**		
01) revenues from sales and services		
d) residential rents	7,000	-
e) office rents	3,569,760	3,416,920
f) residential property expense reimbursements	316	-
g) office expense reimbursements	17,671	17,012
05) Other revenues and income		
c) other revenues	1	5,001
TOTAL PRODUCTION VALUE	**3,594,748**	**3,438,933**
B) **PRODUCTION COSTS**		
07) for services		
c) residential property management expenses	1,144	-
d) office management expenses	339,827	411,328
10) depreciation, amortisation and writedowns		
b) depreciation of property, equipment and investment property	1,692,951	1,632,959
14) sundry operating costs		
a) other operating costs and charges	120,643	107,605
b) non-deductible charges	309,418	308,363
TOTAL PRODUCTION COSTS	**2,463,983**	**2,460,255**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**1,130,765**	**978,678**
C) **FINANCIAL INCOME AND CHARGES**		
17) interest and other financial charges		
b) parent banks	102,795	173,595
c) third parties	140	-
TOTAL FINANCIAL INCOME AND CHARGES	**-102,935**	**-173,595**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
19) Write-downs		
a) of equity investments	-	1,845,548
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	**-**	**-1,845,548**
E) **EXTRAORDINARY ITEMS**		
20) income		
b) other extraordinary income	291	62,566
21) charges		
b) other charges	-	3,541
c) taxes relating to prior years	-	49,818
d) rounding differences on conversion to euro	-	1
TOTAL EXTRAORDINARY ITEMS	**291**	**9,206**
PRE-TAX PROFIT (LOSS)	**1,028,121**	**-1,031,259**
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	332,666	258,021
b) IRAP (Regional business tax)	56,606	50,963
23) **PROFIT (LOSS) FOR THE YEAR**	**638,849**	**-1,340,243**

The 2014 figures have been adjusted for comparison purposes.

Attestation pursuant to art. 154-bis, para. 5, of Decree 58/98 on the separate financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Financial Reporting Officer of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Decree 58 of 24 February 1998, confirm:

– the adequacy in relation to the characteristics of the company and
– the effective application

of the administrative and accounting procedures for the formation of the separate financial statements during the course of the period between 1 January 2015 and 31 December 2015.

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 2015:
– 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, 14 March 2016

The Managing Director Mario Alberto Pedranzini	The Financial Reporting Officer Maurizio Bertoletti

KPMG

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

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

Report on the separate financial statements

We have audited the accompanying separate financial statements of Banca Popolare di Sondrio S.C.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2015, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto.

Directors' responsibility for the separate financial statements

The bank's directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Independent auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11.3 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the bank's preparation of separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the bank's financial position as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the separate financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the bank's directors, with the separate financial statements. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of Banca Popolare di Sondrio S.C.p.A. as at and for the year ended 31 December 2015.

Milan, 1 April 2016

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

Banca Popolare di Sondrio

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

REPORT ON OPERATIONS

Shareholders,

As parent 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, 180,000,000 CHF, which is fully paid-up.

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

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

Popso Covered Bond srl – Conegliano
The Parent bank holds 60% of the capital of Popso Covered Bond srl, 10,000 euro.

Equity investments are consolidated as follows:

FULLY CONSOLIDATED SHAREHOLDINGS:

Names	Head office	Share capital (in thousands)	% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000	100
Factorit spa	Milan	85,000	60.5
Sinergia Seconda srl	Milan	60,000	100
Pirovano Stelvio spa *	Sondrio	2,064	100
Immobiliare San Paolo srl *	Tirano	10	100
Immobiliare Borgo Palazzo srl *	Tirano	10	100
Popso Covered Bond srl	Conegliano	10	60

* equity investments not included in the banking group.

SHAREHOLDINGS MEASURED USING THE EQUITY METHOD:

Names	Head office	Share capital (in thousands)	% held
Alba Leasing spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Banca della Nuova Terra spa	Milan	50,000	19.609
Arca SGR spa	Milan	50,000	21.137
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Rajna Immobiliare srl	Sondrio	20	50.000
Sofipo SA *	Lugano	(CHF) 2,000	30.000

* held by Banca Popolare di Sondrio (SUISSE) SA

GENERAL ECONOMIC CONTEXT

The report on operations accompanying the parent bank's financial statements contains information on the international, Swiss and Italian economic situation during the year 2015.

TERRITORIAL EXPANSION

The policy of expanding and developing in established territories continued throughout the year, in accordance with the guidelines set for the Group.

Banca Popolare di Sondrio opened 6 branches, raising the total to 333. At the end of 2015, the Group had a total of 354 branches.

GROUP PERFORMANCE - FUNDING

In a general context featuring abundant liquidity thanks to expansionary monetary policies and interest rates at all-time lows, our Group has been able to make use of a commercial offer in line with market requirements.

Direct funding from customers amounts to 29,528 million, -0.63%.

Although the year-end total is slightly lower, average direct funding throughout the year was more than 5% higher.

Indirect funding from customers amounted to 28,237 million, -1.11%.

Direct funding from insurance premiums came to 1,100 million, +22.54%.

Total funding from customers therefore amounted to 58,865 million, -0.51%.

Amounts due to banks amounted to 2,302 million, -0.51%, whereas indirect deposits from banks came to 2,460 million, +43.32%.

Total deposits from customers and banks therefore came to 63,628 million, +0.68%.

The table «Direct funding from customers» shows the various components in more detail with respect to the Notes.

Euro and currency current accounts rise to 23,795 million, +2.30%, while time deposit accounts have fallen to 1,253 million, -40.77%. Euro and currency accounts represent 80.58% of total direct deposits. Repo transactions climbed sharply to 727 million, +89.48%; savings deposits increased at a slower pace to 572 million, +3.68%. Bonds have contracted, -6.49%, to 3,112 million. The end of the voluntary exchange offer of Tier II subordinated bonds issued by the Parent Bank in 2014 for a total of 350 million euro ended on 23 October 2015; this was promoted to optimise the composition of the Bank's Class 2 liabilities (Tier II), given the new regulatory framework introduced by EU Regulation no. 575/2013 (CRR). As part of the exchange transaction, securities for a total of over 274 million euro have been transferred, i.e. a 78.32% subscription.

Certificates of deposit dropped to 5 million, -40%, and remain entirely marginal. Bank drafts amount to 64 million, -7.60%.

DIRECT FUNDING FROM CUSTOMERS

(thousands of euro)	2015	%	2014	%	% Change
Savings deposits	571,509	1.94	551,236	1.85	3.68
Certificates of deposit	5,395	0.02	8,991	0.03	-40.00
Bonds	3,111,549	10.54	3,327,681	11.20	-6.49
Repo transactions	727,070	2.46	383,722	1.29	89.48
Bank drafts and similar	64,242	0.22	69,526	0.23	-7.60
Current accounts	21,277,751	72.05	20,829,606	70.10	2.15
Time deposit accounts	1,253,473	4.24	2,116,369	7.12	-40.77
Foreign currency accounts	2,517,406	8.53	2,429,909	8.18	3.60
TOTAL	**29,528,395**	**100.00**	**29,717,040**	**100.00**	**-0.63**

TOTAL DEPOSITS

(thousands of euro)	2015	%	2014	%	% Change
Total direct funding from customers	29,528,395	46.41	29,717,040	47.02	-0.63
Total indirect funding from customers	28,237,275	44.38	28,553,277	45.18	-1.11
Total insurance-related deposits	1,099,735	1.73	897,468	1.42	22.54
Total	**58,865,405**	**92.52**	**59,167,785**	**93.62**	**-0.51**
Due to banks	2,302,136	3.62	2,314,035	3.66	-0.51
Indirect deposits from banks	2,460,008	3.86	1,716,455	2.72	43,32
Grand total	**63,627,549**	**100.00**	**63,198,275**	**100.00**	**0.68**

LENDING

The awaited economic recovery has finally arrived, although it was partial and uneven.

A good thing of course, but that cannot detract from the need to protect credit quality by any means possible, which is essential to ensure that operations are profitable.

Loans and receivables with customers total 23,997 million, down by 0.06% with respect to the prior year. This reflects the repayment of major positions as they fell due, despite a substantial flow of new lending. The ratio of loans to customers deposits is 81.27% compared with 80.80% last year.

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.

Mortgage loans increase by 2.67% to 9,212 million and represent the largest percentage (38.03%) of total loans and receivables with customers. They benefited from the steady increase in demand for home loans helped by the very low level of interest rates and the containment of market prices. This line item includes loans assigned but not derecognised of 816 million in relation to the issue of covered bonds carried out in 2014 by the Parent Bank. These loans have not been derecognised because the requirements of IAS 39 have not been met.

The prior-year balance included 1,165 million in relation to the securitisation arranged by the Parent Bank that was terminated early, on 16 October 2015. Current account overdrafts have decreased from 5,947 to 5,261

LOANS AND RECEIVABLES WITH CUSTOMERS

(thousands of euro)	2015	%	2014	%	% Change
Current accounts	5,261,348	21.93	5,946,569	24.76	-11.52
Foreign currency loans	1,355,350	5.65	1,407,998	5.86	-3.74
Advances	427,592	1.78	417,065	1.74	2.52
Advances subject to collection	217,489	0.91	237,070	0.99	-8.26
Discounted portfolio	6,459	0.03	9,066	0.04	-28.76
Artisan loans	36,047	0.15	25,647	0.11	40.55
Agricultural loans	25,867	0.11	31,614	0.13	-18.18
Personal loans	199,710	0.83	179,206	0.75	11.44
Other unsecured loans	4,062,907	16.93	3,767,919	15.69	7.83
Mortgage loans	9,211,530	38.39	8,972,075	37.36	2.67
Bad loans	734,682	3.06	614,513	2.56	19.56
Repo transactions	706,060	2.94	587,505	2.45	20.18
Fixed-yield securities	245,802	1.02	166,219	0.69	47.88
Factoring	1,505,700	6.27	1,649,459	6.87	-8.72
Total	**23,996,543**	**100.00**	**24,011,925**	**100.00**	**-0.06**

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(thousands of euro)		31/12/2015	31/12/2014	(+/-)	% change
Impaired loans	Gross exposure	4,253,913	3,644,290	609,623	16.73
	Adjustments	1,891,705	1,574,856	316,849	20.12
	Net exposure	**2,362,208**	**2,069,434**	**292,774**	**14.15**
– Bad loans	Gross exposure	1,927,608	1,581,305	346,303	21.90
	Adjustments	1,192,926	966,792	226,134	23.39
	Net exposure	**734,682**	**614,513**	**120,169**	**19.56**
– Unlikely to pay loans	Gross exposure	1,840,192	1,634,054	206,138	12.62
	Adjustments	630,597	554,787	75,810	13.66
	Net exposure	**1,209,595**	**1,079,267**	**130,328**	**12.08**
– Past due and/or impaired overdrawn exposures	Gross exposure	486,113	428,931	57,182	13.33
	Adjustments	68,182	53,277	14,905	27.98
	Net exposure	**417,931**	**375,654**	**42,277**	**11.25**
Performing	Gross exposure	21,793,988	22,088,057	-294,069	-1.33
	Adjustments	159,653	145,566	14,087	9,68
	Net exposure	**21,634,335**	**21,942,491**	**-308,156**	**-1.40**
Total loans and receivables with customers	Gross exposure	26,047,901	25,732,347	315,554	1.23
	Adjustments	2,051,358	1,720,422	330,936	19.24
	Net exposure	**23,996,543**	**24,011,925**	**-15,382**	**-0.06**

million, -11.52%. Other unsecured loans showed a positive trend, Euro 4,063 million, +7.83%; repo transactions with institutional counterparty rose to 706 million, +20.18%; advances, 428 million, +2.52%; personal loans, 200 million, +11.44%. Loans in foreign currency decreased, 1,355 million, -3.74% as well as advances subject to collection, 217 million, -8.26% and factoring loans, granted by Factorit spa, 1,506 million, -8.72%. Fixed-yield securities total Euro 246 million at the end of 2015, +47.88%. They derive from the securitisation of loans to customers made by Banca della Nuova Terra spa e Alba Leasing spa.

Continuation of the still fragile situation has resulted in further growth in impaired loans within the banking system, although the rate of increase has slowed significantly.

The Implementing Technical Standards, issued by the European Banking Authority on 24 July 2014 and approved by the European Commission on 9 January 2015, have provided a new definition of impaired loans known as «Non Performing Exposures». Under this definition, impaired financial assets are grouped into the following categories: non-performing, unlikely to pay, past due and/or impaired overdrawn. In this regard, please read the Notes to the financial statements – Accounting policies – Loans. For consistency, the impaired loans at 31 December 2014 are analysed below in accordance with the new classification.

Total impaired loans amount to 2,362 million, +14.15%, representing 9.84% of loans and receivables with customers, compared with 8.62% at the end of 2014.

The increase is in line with the prior year and follows, in part, from the contraction of total loans and receivables with customers and, in part, from the application of particularly prudent policies with regard to the classification of loans and the related provisions.

Writedowns of impaired loans totalled 1,892 million, representing 44.47% of the gross amount, compared with 43.21% at the end of 2014. The table gives an overview of impaired and performing loans.

Net non-performing loans amount to 735 million, +19.56%, corresponding to 3.06% of total loans and receivables with customers, compared with 2.56% at 31 December 2014. Although higher, net non-performing loans increased by less than in the prior year, when the rise was 33.39%, and were significantly lower with respect to the banking system as a whole. In part, this reflects the substantial adjustments made in application of the extremely prudent criteria recommended in the past by the Supervisory Authorities, especially with regard to those positions that are secured against property. The adjustments to cover estimated losses on bad loans have risen to 1,193 million, +23.39%, representing 61.89% of the gross amount compared with 61.14% last year. Considering the amounts written off in prior years against bad loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 71.99%.

Unlikely-to-pay loans relate to exposures, excluding non-performing loans, that the debtor is deemed unlikely to settle in full, without recourse by the bank to the collection of guarantees or similar forms of protection. These have risen to 1,210 million, +12.08%, corresponding to 5.04% of total loans and receivables with customers, compared with 4.49% in the previous year. The related adjustments totalled 631 million, +13.66%, with coverage of 34.27% compared with 33.95% at the end of 2014.

Past due and/or impaired overdrawn exposures, other than non-performing or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 418 million, +11.25%, and represent 1.74% of total loans and receivables with customers compared with 1.56% in the previous year. The related adjustments amounted to 68 million, +27.98%.

In addition to the adjustment of impaired loans, provisions against performing loans totalled 159.653 million, +9.68%, representing coverage of 0.73% compared with 0.66% in the previous year. This increase was due to the update of certain variables used in the models, especially those that take account of economic trends.

Adjustments totalled 2,051 million, +19.24%. As required by Consob Communication no. DEM/RM11070007 of 5 August 2011, we note that loans to customers include loans to central and local government for 73 million, local or state-owned enterprises for 527 million and various other entities for 64 million.

TREASURY AND TRADING OPERATIONS

The performance of the financial markets is discussed in the report on operations presented by the parent bank.

The net interbank position at the end of 2015 reflected a negative balance of 1,322 million, which was up by 96 million from 1,226 million at 31 December 2014. The Group has benefited from good liquidity throughout the period, even though it has fallen.

At year end, there were two T-LTRO outstanding with the ECB totalling 1,098 million. These were arranged in 2014 and expire 26 September 2018, subject to early mandatory repayment in September 2016 if the lending thresholds established by the ECB have not been met.

Based on the latest report filed, these thresholds have been met in full and the Parent Bank will be able to maintain access to these funds. In view of the good liquidity position, the Bank did not participate in the 4 auctions organised under the T-LTRO programme during the year. Once again, the ECB's objective was to stimulate the real economy by guaranteeing additional liquidity to the banking system.

Ignoring the above T-LTRO loans, the net interbank position at the end of 2015 would have been negative for only 224 million.

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

The ratios required by Basel, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are considerably higher than the established minimums. The Group has a substantial portfolio of refinanceable assets that, net of the haircuts applied, total 8,365 million, of which 5,857 available and 2,508 committed.

The Group's portfolios of financial assets at the end of 2015 total 8,401 million, -7.38%. The following schedule analyses these assets and indicates the change between years:

FINANCIAL ASSETS

(thousands of euro)	2015	2014	% Change
Financial assets held for trading (HFT)	1,859,435	2,338,630	-20.49
of which, derivatives	*64,058*	*59,908*	*6.93*
Financial assets carried at fair value (CFV - Carried at Fair Value)	94,495	84,702	11.56
Available-for-sale financial assets (AFS - Available For Sale)	6,321,023	6,498,605	-2.73
Held-to-maturity investments (HTM - Held to Maturity)	125,777	148,620	-15.37
Total	**8,400,730**	**9,070,557**	**-7.38**

Consistent with the past, the portfolio mostly comprises domestic government securities, although the amount has contracted considerably following disposals, especially of securities about to mature. The intensive volume of trading during the year exceeded that in the comparative period, with a particular emphasis on the HFT and AFS portfolios.

The good market tone, especially in the first part of the year, facilitated the disposal of securities, mostly government bonds, with the realisation of substantial disposal/trading profits. At the same time, similar new securities with a limited duration were purchased.

The ECB's expansionary policy has caused the yields on public debt securities to fall to historical minimums, being zero or even negative in the case of shorter maturities. In order to obtain better yields, we purchased longer-dated securities and, as a result, the duration of the portfolio has risen from just over 3 years to about 4. Purchases concerned BTPs and CTZs.

As required by Consob communication no. DEM/RM11070007 of 5 August 2011, we note that on 31 December 2015 these portfolios contain so-called «sovereign debt» bonds, issued by central governments, local governments and other government entities, totalling 7,385 million.

The portfolios did not include any securities issued by other peripheral countries within the Eurozone.

Financial assets held for trading

Financial assets held for trading (HFT), as shown in the following table, amount to 1,859 million and have decreased by 20.49%.

(thousands of euro)	2015	2014	% change
Floating-rate Italian government securities	810,126	1,039,213	-22.04
Fixed-rate Italian government securities	492,905	892,521	-44.77
Bank bonds	222,632	164,745	35.14
Bonds of other issuers	55,260	52,175	5.91
Securitisations	31,265	37,406	-16.42
Variable-yield securities and mutual funds	183,189	92,662	97.69
Net book value of derivative contracts	64,058	59,908	6.93
Total	**1,859,435**	**2,338,630**	**-20.49**

The composition of the HFT portfolio is essentially unchanged, being both simple and transparent. Italian government securities are preferred, representing 70.08% of the portfolio despite the reduction to 1,303 million from 1,932 previously.

As mentioned, the positive performance of the financial markets resulted in good trading results, especially during the first part of the year. However, turbulence at year end resulted in unrealised losses exceeding unrealised gains.

The net profit from HFT portfolio activities was 65.714 million, compared with 99.818 million in 2014, comprising 8.237 million from security activities and 57.477 million from currency, exchange rate and derivative operations.

Analysing «net trading income» in detail with regard to fixed-yield securities as a whole, net trading profits totalled 3.182 million, while unrealised gains and losses amounted to 9.409 million and 3.940 million respectively. Then we have to add profits of € 16.625 million and net losses of € 17.039 million on variable-yield securities and mutual funds. In 2014, the following results were generated by the securities element of the portfolio: profits of € 41.794 million; unrealised gains of 25.383 million; unrealised losses of 10.127 million.

As mentioned, the HFT portfolio continues to largely comprise CCTs, 810 million representing 43.57% of the total.

Corporate bonds amount to 278 million, up by 61 million, of which 223 million relate to bank issues, mostly covered bonds. Securities that are part of securitisations are all senior and have decreased to 31 million. Fixed-rate government securities have declined to 493 million, -44.77%, following the sale of BTPs and BOTs. While variable-yield securities and mutual funds have doubled, they remain little more than marginal at 183 million. Derivatives show a slight increase; +6.93% at € 64 million and are made up of: derivatives on debt securities and interest rates, 19 million; derivatives on variable-yield securities, stock indices, currency, gold and precious metals, 45 million.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (CFV) amount to 94 million, +11.56%, and almost entirely relate to various types of funds and sicavs.

Available-for-sale financial assets

Available-for-sale financial assets (AFS) total 6,321 million, -2.73%. The decrease reflects the different dynamics of the various components. Within the total, Italian government securities have increased to 6,015 million, while all the dollar-denominated US government securities have been sold, together with the mutual funds denominated in that currency.

In accordance with the usual operational guidelines, this portfolio holds part of the liquidity invested largely in Italian government securities, partly to replace similar securities within the HFT portfolio that are sold or redeemed. The objective is to contain, at least in part, the effect on the income statement of the volatility present in the financial markets.

With a view to currency diversification, the Parent Bank subscribed for dollar-denominated mutual funds and treasuries in the prior year. As mentioned, these substantial holdings were sold during the year. The considerable disposals made during the period resulted in the realisation of substantial profits. The portfolio also includes fixed-yield securities of banks and other issuers amounting to 5 million, variable-yield securities of 104 million and units in UCITS of 197 million. The available-for-sale financial assets were subjected to careful appraisal in order to identify any impairment that might require the recognition of writedowns in the income statement. The valuation reserve reported in equity includes the net change in unrealised gains of 38.835 million, after tax effect, which increased the year-end balance from 74.105 a 112.940 million.

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

The changes included: purchases of fixed-yield securities for 3,516 million, referred to Government securities and bonds, mutual funds for 14 million and equities for 41 million; in addition, positive changes in fair value came to 111 million. Other changes of 229 million included income from the sale of securities of 145 million, coupon income of 41 million, discount income of 7 million, the positive effect of measurement at amortised cost of 10 million and capital increases and corporate transactions of 26 million.

Decreases included the disposal of fixed-yield securities of 3,103 million, mutual funds of 234 million and equities of 1 million. Redemptions totalled 571 million; impairment adjustments totalled 8 million, of which 6 million related to the investment in Release spa. The balance related to other listed and unlisted securities and units in UCITS; decrease in fair value of 4 million; transfer to other portfolios of 51 million which involved the equity investments in ARCA SGR spa and Bormio Golf spa. Other decreases of 117 million related to the collection of coupons, 38 million; reclassifications from equity from disposals, 56 million; amortised costs, 2 million; elimination of shares following special transactions and the expiry of profit-sharing agreements, 5 million, losses, 5 million; as well as the redemption of quotas and reclassifications from equity in relation to UCITS, 11 million.

With regard to the principal minority interests held for operational purposes by the Parent Bank, note that the interest held in ARCA SGR spa has been reclassified as an equity investment, since the holding has risen from 12.906% to 21.137% following the exercise of the Parent Bank's pre-emption rights on the withdrawal of two other shareholder banks. The interests were acquired at a price of 9.6 euro per share.

As discussed during the year, the members of the shareholders' agreement that controlled Istituto Centrale delle Banche Popolari Italiane spa, holding 93.7% of the share capital, arranged to sell the ICBPI in December to a consortium of investment funds comprising Bain Capital, Advent International and Clessidra SGR. The purchasers also made a purchase offer to the investors that were not signatories of the shareholders' syndicate.

The Parent Bank, which holds 1.997% of ICBPI and 1.249% of CartaSi spa, decided not to accept this offer. The carrying amount of these investments was aligned with the disposal price, with the recognition in equity of a capital gain of 39.554 million.

Held-to-maturity investments

At year end, the portfolio of held-to-maturity investments (HTM) amounts to 126 million, down by 15.37%, following redemptions and writedowns of 9.965 million linked to the impairment of a subordinated bond. Investments comprise prime bonds and government securities, about half of which relate to the employee pension fund of the Parent Bank.

With regard to the contents of this portfolio, readers are reminded that the anomalous performance of the equity and bond markets in 2008 persuaded the Bank to take advantage of the amendment to IAS 39, issued by the International Accounting Standards Board (IASB) on 13 October 2008 and endorsed by the European Commission with Regulation (EC) 1004/2008 of 15 October 2008, which amended Regulation (EC) 1725/2003. In exceptional circumstances, this measure allows companies to disregard the ban on transferring financial assets (apart from derivatives) from the category of those designated at fair value through profit and loss to another category where securities are booked at amortised cost. As a result, we transferred from the HFT portfolio to the HTM portfolio unlisted bonds that were illiquid and not expected to be sold. These had a par value of 243 million and were carried at 233 million, whereas their fair value at 31 December 2008 was 193 million, generating a theoretical loss, prior to the tax effect, of 40 million.

At 31 December 2015, the above securities amount to 52 million, following redemptions, with a similar fair value, compared with 73 million in the prior year, -29.28%.

Asset management

The Italian asset management sector performed at record levels, facilitated by substantial net inflows and the positive conditions in the financial markets.

At year end, the assets managed in various forms totalled 4,604 million, up by 5.16% from 31 December 2014. Specifically, asset management totals 1,868 million -3.22%, while other forms of investment, mainly mutual funds and Sicavs, amount to 2,736 million, +11.77%.

BPS stock

The price for BPS stock, which is listed on the MTA, the screen-based market, Blue Chips segment, of the Italian Stock Exchange, rose by 34.11% over the year.

Banca Popolare di Sondrio (Suisse) SA, Factorit spa, Sinergia Seconda srl and Popso Covered Bond srl did not carry out any transactions in their own shares or those of the Parent Bank.

The other consolidated companies did not carry out any transactions in their own or the parent bank's shares either.

There are no cross-holdings among the companies included within the scope of consolidation.

EQUITY INVESTMENTS

Equity investments amount to 198 million, with a rise of 42 million, because of the transfer to this specific item of the interest in Arca SGR spa of 50.3 million and of the holding in Bormio Golf spa of 0.2 million, and due to the valuation at equity of the investments, except for the less relevant ones.

The reader is referred to the report accompanying the Parent Bank's 2015 financial statements and to Part A, section 3 and Part B, section 10 of the explanatory notes for the related comments.

Related-party transactions

Related party transactions, as identified in accordance with IAS 24 and with the «Regulation on related party transactions», issued by Consob with resolution 17221 and subsequent amendments, form part of the Group's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred.

In compliance with disclosure obligations prescribed in article 5 of the Consob Regulation, during the period 1 January to 31 December 2015, the parent bank's corporate bodies decided the following transactions of greater relevance:

- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; granting of a financial credit limit for guarantee deposits in the form of securities of € 7,000,000, available until revoked; resolution of 22/01/2015;
- Alba Leasing spa, associated company; commitment to subscribe for senior securities deriving from securitisations for € 200,000,000; resolution of 10/02/2015;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of currency conversion facilities of € 1,050,000,000 available until revoked; resolution of 8/05/2015;
- Factorit spa, subsidiary; grant of revolving facility for guarantees in favour of residents of Euro 10,000,000 available until revoked, renewal of lines of credit for a total of Euro 2,265,000,000 available until revoked; resolutions of 02/09/2015;
- Alba Leasing spa, associated company; renewal of lines of credit totalling € 470,528,202 available until revoked; resolution of 10/11/2015;
- Release spa, associated company; renewal of lines of credit totalling € 171,000,000 available until revoked; resolution of 10/11/2015;
- Factorit spa, subsidiary; grant of revolving facility for guarantees in favour of residents of Euro 40,000,000 available until revoked; resolution of 21/12/2015.

During 2015, 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. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Group's balance sheet or results with regard to related party transactions carried out during 2014; in any case none were atypical, unusual or not on market terms.

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

During 2015 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

Goodwill booked for 7.847 million refers to the acquisition of Factorit spa. This goodwill has been tested for impairment to identify any losses in value. Details are explained in part B of the notes. Together, the evaluation processes did not highlight any need to write down the balance of goodwill on the books.

HUMAN RESOURCES

At the end of 2015 the Group has 3,115 employees, an increase of 53 persons compared with 3,062 at the end of the previous year.

The personnel department has been heavily involved in selecting, training and managing the staff to ensure that the necessary professional resources are available for the Group's operational development and growth.

A breakdown of personnel by individual category is contained in the notes.

CAPITAL AND RESERVES

Consolidated shareholders' equity at 31 December 2015, inclusive of valuation reserves and the profit for the period, amounts to 2,562.829 million, being an increase of 155.595 million, +6.46%.

The share capital, which consists of 453,385,777 ordinary shares with a par value of 3 euro, amounts to 1,360.157 million, which amount has remained unchanged with respect to the comparative period, during which there had been a capital increase through a combined bonus and rights issue.

The share premium reserve remained unchanged at 79.005 million.

The line item reserves rose to 930.273 million, +12.09%, due to the allocation of a significant portion of the 2014 profit for the year. In this regard, note that the Parent Bank's Shareholders' Meeting of 18 April 2015 approved the result for 2014 and the proposed distribution of a dividend of 0.06 euro for each of the 453,385,777 shares outstanding at 31 December 2014.

TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

(in thousands of euro)

	Associated companies of the parent company		Associated companies of subsidiaries	
	2015	2014	2015	2014
ASSETS				
Loans and receivables with banks	–	–	–	–
Loans and receivables with customers	564,683	528,142	784	929
Other financial assets	–	13,510	–	–
LIABILITIES AND EQUITY				
Due to banks	2,333	2,933		
Due to customers	165,322	179,113	281	270
Other financial liabilities	–	–	–	–
GUARANTEES AND COMMITMENTS				
Guarantees given	105,413	105,912	98	98
Commitments	126,481	15,649	–	–

The valuation reserves, representing the net unrealised gains and losses recorded on AFS financial assets and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a net positive balance of 89.416 million, up from the positive balance of 47.941 million reported at the end of 2014 (+86.51%).

The significant increase that has taken place - despite the negative changes resulting from reversals to the income statement after the sale of securities in the AFS portfolio - is due to a capital gain of 39.554 million, net of the tax effect, resulting from the revaluation of investments held by the Parent Bank in ICBPI spa, and Cartasì spa. For the two companies, the value was based on an appraisal made in connection with the sale of ICBPI spa, which took place last December, by the current shareholders that are part of the shareholders' agreement in which Banca Popolare di Sondrio does not participate.

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

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to € 3,126.019 million at 31 December 2015.

Set out below are the Group's adequacy requirements at 31 December 2015 and the minimum requirements:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	10.49%	9.25%
Tier 1 Capital Ratio	10.50%	8.50%*
Total Capital Ratio	**13.44%**	**10.50%***

* minimum requirements.

In accordance with the provisions of the ESMA document no. 725/2012, which originated from the observation that the market value of various listed companies was lower than their book value, the Parent Bank carried out an impairment test on the entire structure. The results of this test showed that the Group was worth 2,910 million, 347 million more than its consolidated equity, which amounted to 2,563 million. Further details are provided in Part F «Information on equity» of the notes.

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2014:

– *capital/direct funding from customers*
  8.68% v. 8.10%

– *capital/customer loans*
  10.68% v. 10.03%

– *capital/financial assets*
  30.51% v. 26.54%

– *capital/total assets*
  7.21% v. 6.76%

– *net bad loans/capital*
  28.67% v. 25.53%

RECONCILIATION BETWEEN THE PARENT BANK'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following table reconciles «profit for the year» and «equity» as shown in the parent bank's financial statements and the equivalent figures in the consolidated financial statements.

RECONCILIATION OF THE EQUITY AND PROFIT FOR THE YEAR REPORTED BY THE PARENT BANK WITH THE CONSOLIDATED FINANCIAL STATEMENTS

(thousands of euro)

	Equity	of which: Profit for the year
Equity of the Parent Bank as of 31.12.2015	2,334,514	100,064
Consolidation adjustments	(10,468)	(10,468)
Difference with respect to carrying values of equity investments in:		
– companies consolidated on a line-by-line basis	222,057	28,997
– companies measured using the equity method	16,726	10,707
Balance as of 31.12.2015, as reported in the consolidated financial statements	**2,562,829**	**129,300**

INCOME STATEMENT

In a general context in which the long-awaited recovery has turned out to be less strong and less widespread than hoped, the Group managed to achieve a satisfactory result.

The net profit for the year amounted to 129.300 million, a growth of 12.24% on the previous year. This outcome would have been much better without the charges deriving from the rescues of 4 banks, which required a special payment of 27.444 million, in addition to the normal contribution to the Single Resolution Fund of 9.148 million.

Following the growth seen in 2014, albeit at a rate that slowed during the year, net interest income amounted to 543.371 million in 2015 compared with 590.923 million in the prior year, -8.05%. This was partly due to the contracting spread.

Interest income fell by 16.92% to 796.812 million. The ECB's expansionary monetary policy has caused interest rates to fall to historical minimums, with negative rates on deposits and government securities. This had an inevitable impact on the flow of coupon income from the securities portfolio, which largely comprises Italian government bonds. The falling rates in the monetary and financial markets were, equally inevitably, reflected in the lending conditions applied to customers.

Interest expense, on the other hand, fell to 253.441 million, -31.16%.

This percentage was greater than the reduction in interest income, but not enough to counter the decline in net interest income.

Net fee and commission income increase slightly: +1.15%, from 300.021 to 303.468 million. Good contributions were made by asset management, the placement of securities, funds and insurance products, and currency conversion; the income from collections, payments and guarantees given was more or less stable; however the results from the acceptance of instructions, current accounts and loans deteriorated.

Dividends amounted to 2.860 million, down -18.84%.

The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 211.984 million compared with 199.288 million, +6.37%. Beyond the modest increase, it is worth noting that the results in both years were very good; the results from HFT portfolio were better in 2014, whereas those from the AFS portfolio were better in the period under review.

The net trading income of the HFT portfolio amounted to 65.714 million, compared with 99.818 million, - 34.17%. This portfolio has declined considerably in recent years, following the restructuring of the Parent Bank's overall portfolio, which now prefers AFS financial assets. Analysing its component parts, net trading income from securities declined to 19.807 from 41.794 million; net unrealised gains totalled 15.256 million in 2014, but net unrealised losses of 11.570 million were reported in 2015; derivatives come to 4.106 million, compared with 2.630 million. Income from currency conversion and exchange differences rose from 40.138 to 53.371 million, with the former performing well but the latter dropping considerably, due to the valuation of dollar-denominated securities.

Sales and repurchases of available-for-sale financial assets, loans and financial liabilities generated 140.034 million, compared with 94.154 million, essentially due to the profits earned on the sale of Italian government securities, US treasuries and dollar-denominated funds. The result from assets carried at fair value was 6.731 million, compared with 5.187 a million last year, while net hedging losses amounted to 0.495 million.

A reasonable performance on the part of financial management and net commission income was not able to offset the decline in net interest income, so that the total income decreased by 2.93% to 1,061.683 million. Within this aggregate, the weighting of net interest income decreased to 51.18% from 54.03%.

Despite the signs of economic recovery and improved access to credit, the amount of impaired loans remains high, although their growth has slowed sharply. As a result, considerable adjustments were again necessary during the year. This implemented the prudent criteria adopted, taking account of the considerations emerging from constant discussions with the Supervisory Authorities.

Net adjustments to loans, available-for-sale financial assets, held-to-maturity investments and other financial transactions came to 409.135

SUMMARY CONSOLIDATED INCOME STATEMENT

(thousands of euro)	2015	2014	(+/-)	% change
Net interest income	543,371	590,923	-47,552	-8.05
Dividends	2,860	3,524	-664	-18.84
Net fee and commission income	303,468	300,021	3,447	1.15
Results of financial activities	211,984	199,288	12,696	6.37
Total income	**1,061,683**	**1,093,756**	**-32,073**	**-2.93**
Net adjustments to loans and financial assets	-409,135	-481,895	72,760	-15.10
Net financial income	**652,548**	**611,861**	**40,687**	**6.65**
Personnel costs	-235,800	-223,125	-12,675	5.68
Other Administrative Expenses	-282,005	-234,148	-47,857	20.44
Other operating income/expense	80,533	73,849	6,684	9.05
Net accruals to provisions for risks and charges	982	1,934	-952	-49.22
Adjustments to property, equipment and investment property and intangible assets	-32,043	-30,394	-1,649	5.43
Operating costs	**-468,333**	**-411,884**	**-56,449**	**13.71**
Operating profit (loss)	**184,215**	**199,977**	**-15,762**	**-7.88**
Net losses on equity investments and other investments	12,230	6,742	5,488	81.40
Goodwill writedowns	–	-1,112	1,112	-100.00
Profit (loss) before tax	**196,445**	**205,607**	**-9,162**	**-4.46**
Income taxes	-58,945	-80,325	21,380	-26.62
Profit (loss)	**137,500**	**125,282**	**12,218**	**9.75**
Profit pertaining to minority interests	-8,200	-10,079	1,879	-18.64
Profit pertaining to the Parent Bank	**129,300**	**115,203**	**14,097**	**12.24**

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

million compared with 481.985 million (-15.10%).

Within it, the element relating to customer loans fell by 15.97% from 464.084 to 389.983 million. As mentioned, this total reflects the difficulties impeding the economic upturn and causing the riskiness of borrowers to remain high. The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has fallen from 1.93% to 1.63%. Losses from the impairment of securities have increased from 19.308 to 8.203 million. Of this amount, 6.043 million relates to the writedown of the investment in Release spa (already written down in the prior year by 12.184 million), while 2.160 million relates to certain AFS shares and mutual funds whose stock market prices are objectively lower than their original carrying amounts. Adjustments in relation to other financial transactions amount to 0.984 million, whereas in the comparison period it included the release of provisions against guarantees given, 1.497 million.

In addition, there is a figure of 9.965 million relating to a subordinated bond.

The net financial income therefore comes to 652.548 million, +6.65%.

Operating costs amounted to 468.333 million, +13.71%. This increase, partly due to the normal expansion of activities, is also attributable to charges associated with the new regulation on deposit protection funds and bank rescues.

The ratio of operating costs/total income, i.e. the «cost income ratio», has risen to 44.11% from 37.66% in the previous year.

Considering the various components of this ratio, administrative expenses amounted to 517.805 million, +13.24%; of these, personnel expenses rose from 223.125 to 235.800 million, +5.68%, partly as a consequence of contractual increases; whereas other administrative expenses increased from 234.148 to 282.005 million, +20.44%.

This significant increase was partly attributable to the payment of 2.849 million made to the National Deposit Guarantee Fund envisaged by Directive 2014/49/EU (DGS), which corresponds to the Interbank Deposit Protection Fund, and of 36.592 million to the National Resolution Fund required by Directive 2014/59/EU (BRRD), comprising a special contribution of 27.444 million and the normal contribution of 9.148 million. This last Fund participated in the rescue of Banca delle Marche spa, Banca dell'Etruria e del Lazio soc. coop. p.a., Cassa di Risparmio della Provincia di Chieti s.p.a. and Cassa di Risparmio di Ferrara s.p.a.

The costs associated with normal operations were monitored closely, as always, with significant increases in the areas of IT, consultancy and legal advice.

As early as 2014, net provisions for risks and charges showed a release for funds posted in previous years and used or freed up for 0.982 million compared with 1.934 million.

The depreciation of property, equipment and investment property and amortisation of software amounted to 32.043 million, +5.43%.

Other operating income, net of other operating expenses, contributed 80,533 million, +9.05%.

The operating profit therefore came to 184.215 million, -7.88%.

Profits from equity investments and other investments, 12.230 million compared with 5.630 million, and include 3.002 million relating to the Parent Bank, on the basis of contractual agreements, to integrate the price for the sale of the subsidiaries Arca Vita spa and Arca Assicurazioni spa, which took place in 2010.

Profit before income taxes therefore totalled 196.445 million, -4.46%. After deducting income taxes of 58.945 million, which have decreased by 26.62%, benefiting from changes during the year in IRAP and the deductibility of loan writedowns and losses and the net profit of minority interests of 8.200 million, the net profit for the year was 129.300 million compared with 115.203 million the previous year, +12.24%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 30.01% compared with 39.07% in the previous year.

SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the parent bank's financial statements for information on events that took place after 31 December 2014.

There is nothing worth noting with regard to Banca Popolare di Sondrio (SUISSE) SA, Factorit spa and Sinergia Seconda srl.

In the current uncertain situation generally, characterised by a recovery that is still exposed to numerous risks, our Group should be able to continue along the path of development begun some time ago, providing there are no unforeseeable events affecting financial markets. While the results from security trading of last year seems hard to replicate, it is not easy to predict the performance of net interest income, although it should benefit from the action taken to contain the cost of funding. In addition, the rise in fee and commission income may make a contribution, while loan adjustments should fall and operating costs will be contained even further.

Sondrio, 15 March 2016

THE BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2015

CONSOLIDATED BALANCE SHEET
(in thousands of euro)

ASSET ITEMS			31-12-2015		31-12-2014
10.	CASH AND CASH EQUIVALENTS		**766,097**		**264,482**
20.	FINANCIAL ASSETS HELD FOR TRADING		**1,859,435**		**2,338,630**
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		**94,495**		**84,702**
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**6,321,023**		**6,498,605**
50.	HELD-TO-MATURITY INVESTMENTS		**125,777**		**148,620**
60.	LOANS AND RECEIVABLES WITH BANKS		**980,339**		**1,088,388**
70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**23,996,543**		**24,011,925**
100.	EQUITY INVESTMENTS		**198,176**		**155,986**
120.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**324,180**		**254,303**
130.	INTANGIBLE ASSETS		**22,246**		**21,572**
	Of which:				
	- Goodwill	7,847		7,847	
140.	TAX ASSETS		**491,938**		**403,851**
	a) current	64,592		10,691	
	b) deferred	427,346		393,160	
	b1) of which as per Law 214/2011	379,570		346,451	
160.	OTHER ASSETS		**357,399**		**347,783**
	TOTAL ASSETS		**35,537,648**		**35,618,847**

THE CHAIRMAN
Francesco Venosta

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

EQUITY AND LIABILITY ITEMS			31-12-2015		31-12-2014
10.	DUE TO BANKS		**2,302,136**		**2,314,035**
20.	DUE TO CUSTOMERS		**26,347,209**		**26,310,842**
30.	SECURITIES ISSUED		**3,181,186**		**3,406,198**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**48,709**		**56,136**
60.	HEDGING DERIVATIVES		**53,483**		**45,562**
80.	TAX LIABILITIES		**68,208**		**61,778**
	a) current	4,059		2,104	
	b) deferred	64,149		59,674	
100.	OTHER LIABILITIES		**678,166**		**722,835**
110.	POST-EMPLOYMENT BENEFITS		**43,374**		**44,915**
120.	PROVISIONS FOR RISKS AND CHARGES:		**165,725**		**166,849**
	a) pension and similar obligations	117,912		117,043	
	b) other provisions	47,813		49,806	
140.	VALUATION RESERVES		**89,416**		**47,941**
170.	RESERVES		**930,273**		**829,959**
180.	SHARE PREMIUM RESERVE		**79,005**		**79,005**
190.	SHARE CAPITAL		**1,360,157**		**1,360,157**
200.	TREASURY SHARES (-)		**(25,322)**		**(25,031)**
210.	MINORITY INTERESTS		**86,623**		**82,463**
220.	PROFIT (LOSS) FOR THE YEAR (+/-)		**129,300**		**115,203**
	TOTAL LIABILITIES AND EQUITY		**35,537,648**		**35,618,847**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

ITEMS			2015		2014
10.	INTEREST AND SIMILAR INCOME		796,812		959,077
20.	INTEREST AND SIMILAR EXPENSE		(253,441)		(368,154)
30.	**NET INTEREST INCOME**		**543,371**		**590,923**
40.	FEE AND COMMISSION INCOME		324,504		322,022
50.	FEE AND COMMISSION EXPENSE		(21,036)		(22,001)
60.	**NET FEE AND COMMISSION INCOME**		**303,468**		**300,021**
70.	DIVIDENDS AND SIMILAR INCOME		2,860		3,524
80.	NET TRADING INCOME		65,714		99,818
90.	NET HEDGING GAINS (LOSSES)		(495)		129
100.	GAINS/LOSSES FROM SALES OR REPURCHASE OF:		140,034		94,154
	b) available-for-sale financial assets	139,926		95,505	
	d) financial liabilities	108		(1,351)	
110.	NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		6,731		5,187
120.	**TOTAL INCOME**		**1,061,683**		**1,093,756**
130.	NET IMPAIRMENT LOSSES ON:		(409,135)		(481,895)
	a) loans and receivables	(389,983)		(464,084)	
	b) available-for-sale financial assets	(8,203)		(19,308)	
	c) held-to-maturity investments	(9,965)		–	
	d) other financial transactions	(984)		1,497	
140.	**NET FINANCIAL INCOME**		**652,548**		**611,861**
170.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**		**652,548**		**611,861**
180.	ADMINISTRATIVE EXPENSES		(517,805)		(457,273)
	a) personnel expenses	(235,800)		(223,125)	
	b) other administrative expenses	(282,005)		(234,148)	
190.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		982		1,934
200.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(18,117)		(17,037)
210.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(13,926)		(13,357)
220.	OTHER OPERATING CHARGES/INCOME		80,533		73,849
230.	**OPERATING COSTS**		**(468,333)**		**(411,884)**
240.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		13,719		6,715
250.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS		(1,496)		-
260.	ADJUSTMENTS TO GOODWILL		-		(1,112)
270.	NET GAINS ON SALES OF INVESTMENTS		7		27
280.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**196,445**		**205,607**
290.	INCOME TAXES		(58,945)		(80,325)
300.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**137,500**		**125,282**
320.	**PROFIT (LOSS) FOR THE YEAR**		**137,500**		**125,282**
330.	PROFIT (LOSS) OF THE PERIOD OF MINORITY INTERESTS		(8,200)		(10,079)
340.	**PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT BANK**		**129,300**		**115,203**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items		2015	2014
10.	**Profit (loss) for the year**	**137,500**	**125,282**
	Other income items net of income taxes that will not be reclassified to profit or loss		
40.	Defined-benefit plans	2,012	(13,007)
60.	Share of valuation reserves of equity investments valued at net equity	(102)	182
	Other income items net of income taxes that will not be reclassified to profit or loss		
100.	Available-for-sale financial assets	38,835	41,792
120.	Share of valuation reserves of equity investments valued at net equity	731	2,143
130.	**Total other income items net of income taxes**	**41,476**	**31,110**
140.	**Comprehensive income (Item 10+130)**	**178,976**	**156,392**
150.	Consolidated comprehensive income pertaining to minority interests	(8,201)	(10,030)
160.	**Consolidated comprehensive income pertaining to the Parent Bank**	**170,775**	**146,362**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2014	Change in opening balances	Opening balance at 1.1.2015	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,746	–	1,393,746	–	–	–	–
c) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,365**	**–**	**83,365**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	859,315	–	859,315	94,169	–	12,195	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**47,834**	**–**	**47,834**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,031)**	**–**	**(25,031)**	**–**	**–**	**–**	**–**
Profit for the year	**125,282**	**–**	**125,282**	**(94,169)**	**(31,113)**	**–**	**–**
Equity attributable to the group	**2,407,234**	**–**	**2,407,234**	**–**	**(27,084)**	**12,195**	**–**
Equity attributable to minority interests	**82,463**	**–**	**82,463**	**–**	**(4,029)**	**–**	**–**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2013	Change in opening balances	Opening balance at 1.1.2014	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	958,019	10	958,029	–	–	–	435,717
c) other shares	–	–	–	–	–	–	–
Share premium reserve	**175,807**	**2**	**175,809**	**–**	**–**	**–**	**(92,444)**
Reserves							
a) from earnings	819,511	–	819,511	42,369	–	(2,565)	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**16,728**	**–**	**16,728**	**–**	**–**	**(4)**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(24,316)**	**–**	**(24,316)**	**–**	**–**	**–**	**–**
Profit for the year	**60,677**	**–**	**60,677**	**(42,369)**	**(18,308)**	**–**	**–**
Equity attributable to the group	**1,936,174**	**–**	**1,936,174**	**–**	**(15,286)**	**(2,569)**	**343,268**
Equity attributable to minority interests	**75,438**	**12**	**75,450**	**–**	**(3,022)**	**–**	**5**

Changes during the year								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of distribution of	Change in equity instruments	Derivatives on treasury shares	Stock options	Change equity investments	Comprehensive income	**Equity attributable to the group at 31.12.2015**	**Equity pertaining to minority interests at 31.12.2015**
(10)	–	–	–	–	–	–	**1,360,157**	**33,579**
–	–	–	–	–	–	–	**–**	**–**
(2)	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	**927,044**	**38,635**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**41,476**	**89,416**	**(106)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(291)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,322)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**137,500**	**129,300**	**8,200**
(291)	**–**	**–**	**–**	**–**	**–**	**170,775**	**2,562,829**	**–**
(12)	**–**	**–**	**–**	**–**	**–**	**8,201**	**–**	**86,623**

Changes during the year								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of distribution of	Change in equity instruments	Derivatives on treasury shares	Stock options	Change equity investments	Comprehensive income	**Equity attributable to the group at 31.12.2014**	**Equity pertaining to minority interests at 31.12.2014**
–	–	–	–	–	–	–	**1,360,157**	**33,589**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,360**
–	–	–	–	–	–	–	**826,730**	**32,585**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**31,110**	**47,941**	**(107)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(715)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,031)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**125,282**	**115,203**	**10,079**
(715)	**–**	**–**	**–**	**–**	**–**	**146,362**	**2,407,234**	**–**
–	**–**	**–**	**–**	**–**	**–**	**10,030**	**–**	**82,463**

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

	31/12/2015	31/12/2014
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**640,201**	**649,355**
- profit for the period (+/-)	129,300	115,203
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	(19,895)	(41,466)
- net hedging gains (losses) (-/+)	495	(129)
- net impairment losses (+/-)	408,009	492,037
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	32,044	31,506
- provisions for risks and charges and other costs/revenues (+/-)	28,388	24,390
- income taxes and tax credits not settled (+)	58,945	80,326
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	–	–
- other adjustments (+/-)	2,915	(52,512)
2. **Cash generated/absorbed by financial assets**	**797,278**	**(3,031,814)**
- financial assets held for trading	507,398	877,097
- financial assets at fair value through profit or loss	(2,819)	(1,041)
- available-for-sale financial assets	196,706	(3,102,792)
- Loans and receivables with banks: sight	(40,620)	(57,359)
- Loans and receivables with banks: other receivables	203,605	(277,451)
- loans and receivables with customers	(66,929)	(500,879)
- other assets	(63)	30,611
3. **Cash generated/absorbed by financial liabilities**	**(801,838)**	**2,127,690**
- Due to banks: sight	(119,315)	178,651
- Due to banks: other payables	33,282	(924,192)
- due to customers	(233,130)	2,564,125
- securities issued	(236,612)	439,065
- financial liabilities held for trading	(14,481)	(7,896)
- financial liabilities carried at fair value	–	–
- other liabilities	(231,582)	(122,063)
Net cash generated/absorbed by operating activities	**635,641**	**(254,769)**

	31/12/2015	31/12/2014
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**24,511**	**43,122**
- sales of equity investments	–	–
- dividends collected from equity investments	7,255	8,103
- sales and reimbursements of held-to-maturity investments	16,000	35,000
- sale of property, equipment and investment property	1,256	19
- sale of intangible assets	–	–
- sale of business divisions	–	–
2. **Cash absorbed by**	**(145,160)**	**(39,163)**
- purchases of equity investments	(39,608)	–
- purchases of held-to-maturity investments	(2,596)	–
- purchases of property, equipment and investment property	(88,545)	(25,045)
- purchases of intangible assets	(14,411)	(14,118)
- purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**(120,649)**	**3,959**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	(290)	334,583
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(31,013)	(18,208)
Net cash generated/absorbed by financing activities	**(31,303)**	**316,375**
NET CASH GENERATED/ABSORBED IN THE PERIOD	**483,689**	**65,565**

Key:

(+) generated (-) absorbed

RECONCILIATION

Line items	31/12/2015	31/12/2014
Cash and cash equivalents at beginning of the year	264,482	196,517
Total net cash generated/absorbed in the year	483,689	65,565
Cash and cash equivalents: effect of change in exchange rates	17,926	2,400
Cash and cash equivalents at end of year	766,097	264,482

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

Section 1 Declaration of compliance with International Financial Reporting Standards

Banca Popolare di Sondrio s.c.p.a. declares that these consolidated financial statements have been prepared in accordance with all the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2015 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 Legislative Decree 38/2005 and subsequent updates.

Section 2 Basis of preparation

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

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations. Considering the structure of deposits based essentially on customer current accounts, repurchase agreements and loans, mainly to retail customers and SMEs which the Group monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the difficulties encountered by sovereign debt securities in the recent past, management is of the opinion that there are no critical areas that could negatively influence the Group's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent updates.

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

The financial statements are prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 136/2015, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

All figures reported in the consolidated financial statements and explanatory notes are stated in thousands of euro.

Section 3 ***Scope of consolidation and methodology***

The consolidated financial statements present the economic and financial position at 31.12.2015 of the Banca Popolare di Sondrio banking group, which comprises the Parent bank, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.a., Sinergia Seconda, Popso Covered Bond S.r.l. and the entities that are controlled by the Group pursuant to IFRS 10.

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

Names	Location	Type of relationship (1)	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 180,000	100	100
Factorit S.p.a.	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	1	60,000	100	100
Pirovano Stelvio S.p.a. **	Sondrio	1	2,064	100	100
Immobiliare San Paolo S.r.l. **	Tirano	1	10*	100	100
Immobiliare Borgo Palazzo S.r.l.**	Tirano	1	10*	100	100
Popso Covered Bond srl	Conegliano V.	1	10	60	60

(1) 1 = majority of voting rights at ordinary shareholders' meeting.
4= other form of control
* held by Sinergia Seconda S.r.l.
** equity investments not included in the banking group

Compared with 31 December 2014, the scope of consolidation has not changed as it already included the special purpose vehicle of Centro delle Alpi RMBS S.r.l., established in 2011, held 100% by SVM Securitisation Vehicles Management S.r.l., following the early closure of the securitisation of performing residential mortgage loans.

In addition, Fondo Immobiliare Centro delle Alpi Real Estate, which is held 100% by the Parent Bank, has been fully consolidated in compliance with the definition of control laid down in IFRS 10.

The joint venture shown below is valued at equity:

Names	Location	Type of relationship (1)	Share capital (in thousands)	% held	% of votes
Rajna Immobiliare srl	Sondrio	7	20	50	50

(1) 7 = joint control.

The scope of consolidation also includes the equity investments where the parent bank exercises a significant influence in that the shareholding is between 20% and 50%; or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

a) it has a representative on the Board of Directors or the equivalent body of the affiliate;

b) it takes part in the decision-making process, including decisions regarding dividends;

c) there are significant transactions between the parent company and the affiliate;

d) there is an exchange of managers;

e) essential technical information is being provided.

These holdings are valued using the equity method, except for insignificant interests which are valued at cost.

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the company's net result for the year pertaining to the group is shown in a specific item in the income statement.

The ownership percentages are specified in the following table:

Names	Location	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Banca della Nuova Terra S.p.a.	Milan	50,000	19.609
Arca SGR S.p.a.	Milan	50,000	21.137
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi Srgpa	Milan	5,200	19.600
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milan	75	33.333
Bormio Golf S.p.a.	Bormio	631	26.578
Sofipo S.A.	Lugano	(CHF) 2,000*	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27.000
Sifas S.p.a.	Bolzano	1,209**	21.614

* held by Banca Popolare di Sondrio (Suisse) SA
** held by Pirovano Stelvio S.p.a.

With line-by-line consolidation, the book value of the investments is eliminated against the related equity and all of the assets and liabilities, guarantees, commitments and other memorandum accounts are included, as are the revenues and costs of the subsidiaries.

Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated. The financial statements of these group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the group.

Companies in which the bank does not have an investment, but for which it has received pledged voting shares are not consolidated, because the pledge is designed to protect the loans granted and not to influence the company's operating policies to obtain economic benefits.

The significant evaluations and assumptions adopted to establish the existence of control are also given in paragraph 7 «Equity Investments» in «A.2 Part relating to the main line items in the financial statements».

There are no restrictions concerning Group assets/liabilities referred to in paragraph 13 of IFRS 12.

Translation of financial statements in currencies other than the euro

The financial statements of Banca Popolare di Sondrio (Suisse) SA are translated into euro at the official year-end exchange rate for balance sheet items, while costs and revenues are translated into euro at average exchange rate. Differences arising on translation are booked to «reserves».

Section 4 *Subsequent events*

No events have taken place between the reference date for these consolidated financial statements and the date of their approval by the Board of Directors on 15/03/2016 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 5 *Other aspects*

The accounting policies adopted for the reporting period are consistent with those used in 2014, with the sole exception resulting from the applicability as from 1 January 2015 of the requirements of Regulation (EU) 1361/2014, which adopted certain international accounting standards in compliance with Regulation (EU) 1606/2002 of the European Parliament and of the Council, with regard to IFRS 3 and 13 and IAS 40.

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

Preparing consolidated financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, and the use of valuation models for identifying the fair value of instruments that are not listed on active markets. These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Parent Bank and other Group companies defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2015, 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 2015. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a reduced growth and high levels of uncertainty about the prospects for recovery, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment which could, as in the previous year, experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2015.

Standards already in force whose application became mandatory from the 2015 financial year or later:

- Regulation (EU) no. 28/2015 dated 17 December 2014 that adopted amendments to the following international accounting standards: IFRS 2 «Share-based payment», IFRS 3 «Business combinations», IFRS 8 «Operating segments», IAS 16 «Property, plant and equipment», IAS 24 «Related parry disclosures», IAS 37 «Provisions, contingent liabilities and contingent assets», IAS 38 «Intangible assets» and IAS 39 «Financial instruments: Recognition and measurement». They apply from 1 January 2016
- Regulation (EU) no. 29/2015 that amends IAS 19 «Employee benefits» applies from 1 January 2016
- Regulation (EU) 1361/2014 of 18/12/2014 which amends Regulation (EU) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EU) 1606/2002 of the European Parliament and of the Council with regard to IFRS 3, IFRS 13 and IAS 40. It applies from 1/1/2015 (first financial year starting on or after 1/1/2015)
- Regulation (EU) no. 2113/2015 dated 23 November 2015 that, by modifying earlier regulations, amends IAS 16 «Property, plant and equipment» and IAS 41 «Agriculture». These amendments apply to financial years starting on or after 1 January 2016.
- Regulation (EU) no. 2173/2015 dated 24 November 2015 which specifies that the references to IFRS 9 in IFRS 11 «Joint arrangements», regarding the classification and measurement of financial assets, cannot be applied for the moment, as IFRS 9 has not yet been endorsed by the EU, and must be read as references to the «corresponding» IAS 39 «Financial instruments: Recognition and measurement». The amendments envisaged in this regulations apply to financial years starting on or after 1 January 2016.
- Regulation (EU) no. 2231/2015 dated 2 December 2015 that amends Regulation (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 16 and IAS 38. Clarifications are provided about the acceptable methods of depreciation and amortisation. This applies from 1/1/2016.
- Regulation (EU) no. 2343/2015 dated 15 December 2015 that amends Regulation (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IFRS 5, IFRS 7, IAS 19 and IAS 34. This applies from 1/1/2016.
- Regulation (EU) no. 2406/2015 dated 18 December 2015 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 1. The objective is to promote the use of professional judgement in the required disclosures, in order to make them more effective. This applies from 1/1/2016.
- Regulation (EU) no. 2441/2015 dated 18 December 2015 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 27. The equity method can now be used in separate financial statements, in addition to the cost and fair value methods, to measure the investments held on subsidiaries, joint ventures and associates. This applies from 1/1/2016.

IFRS 9 «Financial instruments»

On 24 July 2014, the IASB published the final version of IFRS 9 «Financial instruments». IFRS 9 replaces IAS 39 and contains a series of innovations that, in particular, introduce new approaches to «classification and measurement», «impairment» and «hedge accounting», and also relate to financial liabilities. The new standard, not yet endorsed by the EU, will apply from 1 January 2018, but early adoption is allowed.

Among the effects of the global financial crisis, operators believed that the accounting rules had contributed to the acceleration and intensification of the crisis, particularly with regard to the delayed recognition of losses on loans and other financial assets. As a result, the IASB commenced a project in 2008 to replace IAS 39 in a number of stages. In relation to the above, the Group deemed it necessary to take appropriate action. Firstly, a gap analysis was carried out to identify the possible effects of applying the new standard, both with regard to the classification and measurement of financial instruments, and in relation to the new impairment model for calculating the adjustments to loans, based on an «expected losses» approach (rather than the «incurred losses» approach required by IAS 39). It will be necessary to review the classification of certain financial instruments held in the Group's portfolios, with the possibility of transfers between portfolios and changes in the method adopted for their measurement from amortised cost to fair value; this will require decisions about the composition of each portfolio and will increase the volatility of the income statement. There may also be significant effects on the FTA regulatory capital due to changes in the classification criteria and, in particular, to the expected future loan losses. At the time of preparing this report, it is not yet possible to estimate reliably the economic and financial effects of adopting the new standard. Its impact on the Bank's processes, models, organisational structure and risk management will however be significant. Amendments of the policies regarding new products and pricing will also be necessary.

IFRS 15 «Revenues from contracts with customers»

IFRS 15, published on 28 May 2014, introduces a new model for the recognition of revenues deriving from contracts with customers, and replaces the current standards on the subject, being IAS 18, IAS 11 and the related interpretations. Entities are required to recognise revenues based on the remuneration expected from the products or services provided, which is calculated in five steps: identification of the contract, identification of the individual obligations arising under the contract, determination of the price of the transaction, allocation of the price to each of the individual obligations and recognition of the revenue when control over the product or service is transferred to the customer. This standard will apply from 1 January 2018. The Group has commenced a project that, during 2015, involved analysing its principal contracts with reference to the new rules. No estimate was made of the economic effects of the new standard, but it is reasonable to believe that they will not be significant. It will however be necessary to amend processes, policies and IT systems in order implement the new accounting rules.

In the 4th update to Circular 262 of 15 December 2015, the Bank of Italy adopted the disclosure requirements specified by certain accounting standards that came into force from 2015. In particular, the Circular amended the disclosures about asset quality in the notes to the financial statements to take account of the new definitions for impaired financial assets, consistent with the concepts of non-performing exposures and forborne exposures established by the European Commission in Regulation no. 2015/227. Further, it rationalised the notes to the financial statements in order to improve their usability, consistent with international best practices for the preparation of financial statements.

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

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

1. Financial assets held for trading

Classification

This caption comprises fixed-yield and variable-yield securities and units in mutual funds held for trading. It also includes derivative contracts with a positive fair value, excluding hedges but including those recorded separately from the underlying structured financial instrument, when the requirements for making this distinction are met.

A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index; it is settled on maturity and requires a limited initial net investment. A derivative is separated from a complex financial instrument when its economic characteristics and risks are not strictly related to the characteristics of the underlying contract, when the embedded instruments comply with the definition of a derivative even after separation, and the hybrid instruments to which they belong are not measure at fair value through the income statement.

Recognition

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

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

Accounting policies

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

If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

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

Recognition of components affecting the income statement

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

Interest income and dividends are reported in the income statement under «Interest and similar income» and «Dividends and similar income» respectively.

Derecognition

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

2. Available-for-sale financial assets

Classification

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

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

Recognition

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

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

Accounting policies

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

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

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

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

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

Recognition of components affecting the income statement

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

Income and charges deriving from changes in fair value, net of the related deferred tax effect, are recorded in specific equity reserves, known as «Valuation reserves», until the asset is derecognised or its value is impaired; the accumulated gains or losses are released to the income statement at the time of derecognition or the recognition of impairment. Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within equity.

Derecognition

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

3. Held-to-maturity investments

Classification

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

Recognition

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

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

Accounting policies

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

Recognition of components affecting the income statement

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

Derecognition

Held-to-maturity investments are derecognised on expiry of the contractual rights over the related financial flows.

4. Receivables

4.1 Cash loans and deposits

Classification

Receivables comprise deposits with banks and loans to customers, made directly or acquired from third parties, which have fixed or determinable payments, are not listed on an active market. Receivables also include trade receivables, repo transactions, loans originating from finance leases and securities not listed on an active market that were acquired as a result of subscriptions or private placements, with payment amounts that are known or determinable.

Recognition

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

Loans include the advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables assigned to the company and booked in the name of the assigned debtor for which the related risks and benefits have all been substantially transferred to the assignee.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method. Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them.

The initially recorded value includes any transaction costs and revenues directly associated with each loan.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans without a specific repayment date and loans repayable on demand are booked at their historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this value. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount the expected cash flows, even if the loan is later restructured and changes are made to the contractual rate.

Loans are subjected to impairment testing at each reporting date to check for any loss in value due to deterioration in the solvency of borrowers.

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

The European Banking Authority issued Implementing Technical Standards (ITS) on 24 July 2014 that have amended the definition of non-performing exposure (NPE»). On 9 January 2015, the European Commission approved amendments to the definition of impaired financial assets for consistency with the new notions introduced by implementing technical standards for harmonised supervisory reporting purposes established by the European Banking Authority. According to the new definitions, impaired financial assets are categorised as «bad loans», «unlikely to pay loans» and «past due and/or impaired overdrawn exposures»; the sum of these categories corresponds to the total Non-Performing Exposures in the ITS. The previous watchlist and restructured exposures categories have been eliminated.

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

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

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

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

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

Bad loans are assessed on either a detailed or an overall basis. The specific analysis of bad loans takes the following parameters into account:

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

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

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

a) recoveries forecast by the offices concerned;
b) expected timing of recoveries based on historical-statistical data;
c) original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

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

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

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

Recognition of components affecting the income statement

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

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

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

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

4.2 Endorsement loans

Classification

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

Recognition and measurement

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

Recognition of components affecting the income statement

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

5. Financial assets at fair value through profit or loss

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

The income elements relating to instruments classified as financial assets at fair value through profit or loss booked to the income statement in the period when they arise to «net gains on financial assets and liabilities at fair value through profit or loss».

6. Hedging transactions

Classification and recognition

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

The hedging of market risks can take two different forms:

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

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

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

Measurement and recognition of components affecting the income statement

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

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

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

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

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

Derecognition

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

7. Equity investments

Classification

The portfolio of equity investments comprises the holdings in subsidiary companies, associated companies and companies under joint control. Control is presumed to exist when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control is therefore deemed to exist in the following circumstances:

a) availability of actual and potential voting rights at a shareholders' meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;
b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;

c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

A company is an associated company if the Group exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

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

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

Recognition

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

Accounting policies

Investments are subsequently valued at equity, determined with reference to the value indicated in the latest approved financial statements.

The initially-recorded value of each equity investment is increased or decreased in proportion to the profit or loss for the year of the company concerned, and is reduced by the amount of any dividends collected. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

The negative differences on initial recognition, the interest in profits or losses for the year, gains and losses on disposal and impairment losses are recorded in the «share of profit/loss of equity investments» caption of the income statement.

Derecognition

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

8. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery. As required by IAS 17, assets held under finance leases are also classified in this caption. In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation.

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

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

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

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

Derecognition

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

9. Intangible assets

Classification

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

Intangible assets comprise software and goodwill.

Recognition

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

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

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

Accounting policies

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

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

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

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

Recognition of components affecting the income statement

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

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

Derecognition

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

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

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

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

11. Current and deferred taxation

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

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

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

12. Provisions for risks and charges

This caption comprises the following provisions:

a) Provisions for other long-term employee benefits. These are included in «Provisions for risks and charges» based on the valuation of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of post-employment benefits; once again, the actuarial gains and losses deriving from actuarial estimates are treated in accordance with the provisions of the revised version of IAS 19 endorsed by EC Regulation 475 of 5 June 2012, i.e. booked to equity as shown in the statement of comprehensive income. These are:
   1) Pension and similar obligations. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Parent bank is responsible for any unfunded liabilities.
   2) Provision for long-service bonuses. This represents the liability for bonuses to employees who reached a period of service of 30 years. It is recorded under «other provisions».

b) Other provisions. This caption comprises the provision for long-service bonuses mentioned above and provisions recorded for liabilities whose timing and extent cannot be determined, which can be recognised in the financial statements when:
   1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
   2) it is likely that settlement of the obligation will involve the use of economic resources;
   3) a reliable estimate can be made of the amount necessary to settle the obligation.

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

13. Payables and securities issued

Classification

Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the Group's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions and the value of the consideration still to be paid to the assignor in factoring transactions that involve an assignment of receivables with the transfer of the related risks and benefits versus the assignee.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected. The amount initially recorded includes any transaction costs and revenues that are directly related to each liability; this amount does not include the charges made to creditors in order to recover administrative costs.

The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected. Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

Recognition of components affecting the income statement

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

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

Derecognition

Financial liabilities are derecognised when they expire or are settled.

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

14. Financial liabilities held for trading

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

15. Financial liabilities carried at fair value

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

16. Currency transactions

Classification

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

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

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

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

Derecognition

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

17. Termination indemnities

Termination indemnities are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, in order to estimate the amount that will be paid upon termination of the employment relationship and determine the present value of this amount.

The actuarial calculations are performed using the projected unit credit method, under which each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out every six months by an independent actuary.

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

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

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

18. Other information

The Parent Bank and other Group companies have not established any stock option plans.

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

Dividends are recorded upon collection.

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

Securitisations

The related securitisation was closed out early, in October. This transaction has previously involved the sale without recourse of performing residential mortgage loans to the SPV Centro delle Alpi RMBS S.r.l., whose senior and junior securities issued in connection with this operation were purchased by the Parent Bank. The economic effects were recognised consistently, giving prevalence to substance over form.

Covered bonds

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

On 30 May 2014, a portfolio of performing loans totalling € 802 million was assigned without recourse to POPSO Covered Bond s.r.l., the vehicle company, in relation to the first series of covered bonds amounting to € 500 million issued on 5 August 2014. A second assignment of performing loans totalling € 202 million took place on 4 December 2015.

Resolution mechanism and deposit guarantee system

By Directives 2014/49/EU dated 16 April 2014 and 2014/59/EU dated 15 May 2014, respectively known as the «Deposit Guarantee Schemes Directive (DGS)» and the «Bank Recovery and Resolution Directive (BRDD)», and by establishing the Single Resolution Mechanism (Regulation (EU) no. 806/2014 dated 15 July 2014), the European legislator made significant amendments to the governance of banking crises in order to strengthen the single market and systemic stability.

Directive 2014/49/EU (DGS) harmonises the levels of protection offered by the national deposit protection funds and makes amendments to the system of contributions; for Italian banks, this means moving from an «ex post» system of contributions to a mixed system that envisages making an advance contribution in order to reach, over ten years, a minimum fund size of 0.8% of the deposits guaranteed. Contributions may include payment pledges up to a maximum of 30% of the total. For 2015, the advance contribution requested by the Interbank Deposit Protection Fund was set at 50% of the annual amount. The amount paid was 2.850 million.

Directive 2014/59/EU (BRRD) defines new resolution rules to be applied to all EU banks in serious difficulties. Under these rules and on certain conditions, the National Resolution Fund to be established by each member State will participate in funding the resolution. The Directive was transposed into Italian legislation by Decree no. 180 dated 16 November 2015 and, subsequently, the Bank of Italy, as the national resolution authority, established the National Resolution Fund. The new Fund participated immediately in the failures of Cassa di Risparmio di Ferrara S.p.a., Banca delle Marche S.p.a., Banca dell'Etruria e del Lazio Soc. Coop. p.a. and Cassa di Risparmio della Provincia di Chieti S.p.a. With regard to 2015, the Bank was asked to make an ordinary contribution of 9.148 million and a special contribution of 27.444 million, being three times the ordinary amount.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

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

Type of financial instruments (1)	Portfolio of origin (2)	Portfolio of destination (3)	Net book value as of 31.12.2015 (4)	Fair value at 31.12.2015 (5)	Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
					Valuation (6)	Others (7)	Valuation (8)	Others (9)
A. Debt securities	HFT	HTM	51,952	51,674	7,141	284	9,499	284

Income items include securities service employees' pension and similar obligations.
The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those not transferred.

A.3.3 Transfer of financial assets held for trading

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

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

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

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument.

With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the CVA (Credit value adjustment) and represents the potential loss associated with the counterparty credit risk, while the DVA (Debit value adjustment) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

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

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

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

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

A.4.2 Processes and sensitivity of the measurements

The Parent Bank determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices.

If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, as envisaged in IAS 39, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;

b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;

c) the rate applicable to risk-free monetary assets of similar duration;

d) the risk premium;

e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful.

With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities carried at cost, or through prices of previous transactions, or information from third parties without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact

For those Level 3 instruments whose fair value is determined using unobservable quantitative inputs, the economic results are not significantly affected by changes in one or more of the unobservable parameters, such as the credit spreads associated with the counterparties that were used for measurement purposes.

For changes of +/- 1 basis point in the credit spread or changes in other input parameters, the fair value of the financial instruments changes by about € 13 thousand.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets - according the definition of IAS 39 – for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Group.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used. Following the entry into force of IFRS 13, which strengthened the guidelines underlying the classification of financial instruments, the Bank revised such classifications during the year and transferred its financial instruments to the most appropriate fair value level.

A.4.4 Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

Assets/liabilities carried at fair value on a recurring basis	31/12/2015			31/12/2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	1,752,896	64,058	42,481	2,215,590	61,764	61,276
2. Financial assets at fair value through profit or loss	94,495	–	–	84,702	–	–
3. Available-for-sale financial assets	6,197,700	2,613	120,710	6,432,499	2,613	63,493
4. Hedging derivatives	–	–	–	–	–	–
5. Property, equipment and investment property	–	–	62,765	–	–	3,425
6. Intangible assets	–	–	–	–	–	–
Total	**8,045,091**	**66,671**	**225,956**	**8,732,791**	**64,377**	**128,194**
1. Financial assets held for trading	–	48,709	–	–	56,136	–
2. Financial liabilities carried at fair value	–	–	–	–	–	–
3. Hedging derivatives	–	53,483	–	–	45,562	–
Total	**–**	**102,192**	**–**	**–**	**101,698**	**–**

A number of transfers of fair value from Level 2 to Level 3 of financial assets held for trading amounting to Euro 1.087 million were recorded during the year.

The impact of the CVA (Credit value adjustment) and the DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because a large part of the exposures are covered by credit support annexes (CSA).

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (Level 3)

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. **Opening balance**	**61,276**	**–**	**63,493**	**–**	**3,425**	**–**
2. **Increases**	**2,552**	**–**	**122,070**	**–**	**60,836**	**–**
2.1. Purchases	4	–	54,895	–	60,836	–
2.2. Income booked to:	–	–	–	–	–	–
2.2.1. Income statement	1,048	–	–	–	–	–
of which realized gains	800	–	–	–	–	–
2.2.2. Equity	–	–	43,440	–	–	–
2.3. Transfers from other levels	1,087	–	260	–	–	–
2.4. Other increases	413	–	23,475	–	–	–
3. **Decreases**	**21,347**	**–**	**64,853**	**–**	**1,496**	**–**
3.1. Sales	–	–	–	–	–	–
3.2. Reimbursements	7,053	–	2,740	–	–	–
3.3. Losses booked to:	–	–	–	–	–	–
3.3.1. Income statement	174	–	7,290	–	1,496	–
of which realized losses	174	–	7,290	–	1,496	–
3.3.2. Equity	–	–	633	–	–	–
3.4. Transfers to other levels	–	–	–	–	–	–
3.5. Other decreases	14,120	–	54,190	–	–	–
4. **Closing balance**	**42,481**	**–**	**120,710**	**–**	**62,765**	**–**

A.4.5.3 Changes during the year in financial liabilities carried at fair value (level 3)

There are no financial liabilities carried at a level 3 fair value.

A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a recurring basis	31/12/2015				31/12/2014			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity investments	125,777	126,712	–	14,689	148,620	135,063	–	27,019
2. Loans and receivables with banks	980,339	–	–	980,339	1,088,388	–	–	1,088,388
3. Loans to customers	23,996,543	–	–	24,800,997	24,011,925	–	–	24,404,742
4. Investment property	–	–	–	–	–	–	–	–
5. Non-current assets and disposal groups held for sale	–	–	–	–	–	–	–	–
Total	**25,102,659**	**126,712**	**–**	**25,796,025**	**25,248,933**	**135,063**	**–**	**25,520,149**
1. Due to banks	2,302,136	–	–	2,302,136	2,314,035	–	–	2,314,035
2. Customer deposits	26,347,209	–	–	26,347,209	26,310,842	–	–	26,310,842
3. Securities issued	3,181,186	984,991	2,237,886	–	3,406,198	518,968	2,957,980	–
4. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–
Total	**31,830,531**	**984,991**	**2,237,886**	**28,649,345**	**32,031,075**	**518,968**	**2,957,980**	**28,624,877**

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

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

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

PART B *Information on the balance sheet*

Section 1 *Cash and cash equivalents - line item 10*

1.1 Cash and cash equivalents: analysis

	31/12/2015	31/12/2014
a) Cash	109,239	121,053
b) Unrestricted deposits with central banks	656,858	143,429
Total	**766,097**	**264,482**

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

2.1 Financial assets held for trading: breakdown by sector

	31/12/2015			31/12/2014		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	1,570,794	–	41,394	2,124,783	–	61,276
1.1 Structured securities	15,317	–	41,175	46,659	–	46,534
1.2 Other fixed-yield securities	1,555,477	–	219	2,078,124	–	14,742
2. Variable-yield securities	124,999	–	1,087	54,710	2,133	–
3. Mutual funds	57,103	–	–	35,820	–	–
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**1,752,896**	**–**	**42,481**	**2,215,313**	**2,133**	**61,276**
B. **Derivatives**						
1. Financial derivatives:	–	64,058	–	277	59,631	–
1.1 for trading	–	64,058	–	277	59,631	–
1.2 connected with the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives:	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total B	**–**	**64,058**	**–**	**277**	**59,631**	**–**
Total (A+B)	**1,752,896**	**64,058**	**42,481**	**2,215,590**	**61,764**	**61,276**

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

Items/Amounts	31/12/2015	31/12/2014
A. **Cash assets**		
1. **Fixed-yield securities**	**1,612,188**	**2,186,059**
a) Governments and central banks	1,325,271	1,954,228
b) Other public entities	10,438	5,315
c) Banks	222,632	164,745
d) Other issuers	53,847	61,771
2. **Variable-yield securities**	**126,086**	**56,843**
a) Banks	28,099	20,910
b) Other issuers:	97,987	35,933
- insurance companies	7,819	785
- financial companies	1,651	1,790
- non-financial companies	88,517	33,358
- other	–	–
3. **Mutual funds**	**57,103**	**35,820**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**1,795,377**	**2,278,722**
B. **Derivatives**		
a) Banks	43,455	30,564
b) Customers	20,603	29,344
Total B	**64,058**	**59,908**
Total (A + B)	**1,859,435**	**2,338,630**

Mutual funds are made up of: equity funds and sicavs for € 55.791 million, bond funds for € 0.781 million and real estate funds for € 0.531 million.

Section 3 *Financial assets at fair value through profit or loss - line item 30*

3.1 Financial assets at fair value through profit or loss: breakdown by sector

	31/12/2015			31/12/2014		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**–**	**–**	**–**	**494**	**–**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	–	–	–	494	–	–
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**94,495**	**–**	**–**	**84,208**	**–**	**–**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total	**94,495**	**–**	**–**	**84,702**	**–**	**–**
Cost	**87,876**	**–**	**–**	**80,209**	**–**	**–**

This portfolio includes all securities, other than those booked to the trading portfolio, which the Parent Bank has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.

3.2 Financial assets at fair value through profit or loss: breakdown by debtor/issuer

Items/Amounts	31/12/2015	31/12/2014
1. **Fixed-yield securities**	**–**	**494**
a) Governments and central banks	–	494
b) Other public entities	–	–
c) Banks	–	–
d) Other issuers	–	–
2. **Variable-yield securities**	**–**	**–**
a) Banks	–	–
b) Other issuers:	–	–
- insurance companies	–	–
- financial companies	–	–
- non-financial companies	–	–
- other	–	–
3. **Mutual funds**	**94,495**	**84,208**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**94,495**	**84,702**

Mutual funds are made up of: bond funds and sicavs for € 35.925 million, equity funds and sicavs for € 53.707 million, real estate funds for € 1.327 million and flexible funds for € 3.536 million.

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

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

	31/12/2015			31/12/2014		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**6,015,408**	**–**	**5,362**	**6,035,797**	**–**	**6,725**
1.1 Structured securities	622,751	–	3,293	768,884	–	3,293
1.2 Other fixed-yield securities	5,392,657	–	2,069	5,266,913	–	3,432
2. **Variable-yield securities**	**12,660**	**2,613**	**88,182**	**12,285**	**2,613**	**42,007**
2.1 Carried at fair value	12,660	2,613	74,510	12,285	2,613	-
2.2 Carried at cost	–	–	13,672	–	–	42,007
3. **Mutual funds**	**169,632**	**–**	**27,166**	**384,417**	**–**	**14,761**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**6,197,700**	**2,613**	**120,710**	**6,432,499**	**2,613**	**63,493**

Given the difficulties in determining a precise fair value, unlisted variable-yield securities are usually retained at cost, as adjusted for possible losses where applicable.

During the year, an exception was made to this approach with regard to the interests held in Istituto Centrale delle Banche Popolari Italiane spa and Cartasì spa. In particular, following the sale of the ICBPI Group to a consortium of investment funds by the controlling shareholders, these interests were revalued with reference to the sale price.

A comparison between the cost and net equity of other unlisted equities based on the latest available financial statements only identified impairment losses in relation to Release spa.

Variable-yield securities include € 4.160 million in profit-sharing transactions pursuant to art. 2549 of the Civil Code relating to the production and exploitation of cinematographic work.

Mutual funds consist of closed-end unlisted equity funds for € 9.854 million, bond funds for € 154.675 million and a real estate funds for € 7.240 million, balanced funds for € 15.185 million and a flexible fund for € 9.844 million.

These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV), adjusted for any subscriptions and redemptions that have taken place between the date of the NAV received and the reporting date.

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

Items/Amounts	31/12/2015	31/12/2014
1. **Fixed-yield securities**	**6,020,770**	**6,042,522**
a) Governments and central banks	6,015,408	6,035,797
b) Other public entities	–	1,304
c) Banks	–	–
d) Other issuers	5,362	5,421
2. **Variable-yield securities**	**103,455**	**56,905**
a) Banks	49,013	15,258
b) Other issuers:	54,442	41,647
- insurance companies	1,918	1,927
- financial companies	33,362	21,508
- non-financial companies	19,160	18,210
- other	2	2
3. **Mutual funds**	**196,798**	**399,178**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**6,321,023**	**6,498,605**

As stated in IAS/IFRS, assets held for sale are tested to check if there is any objective evidence of a reduction in value in conformity with the Bank's policies adopted. The rules adopted for handling impairment set quantitative and time thresholds beyond which any reduction in the fair value of variable-yield securities entails booking the loss immediately to the income statement.

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

5.1 Held-to-maturity investments: breakdown by sector

	31/12/2015				31/12/2014			
	Book	Fair value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**125,777**	**126,712**	**–**	**14,689**	**148,620**	**135,063**	**–**	**27,019**
- Structured	11,989	–	–	11,963	16,895	–	–	16,707
- other	113,788	126,712	–	2,726	131,725	135,063	–	10,312
2. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

In 2008 we transferred securities held for trading to this portfolio for a total par value of € 242.686 million, taking advantage of the amendment issued by IASB on 13/10/2008 and adopted by the European Commission with Regulation 1004/2008 on 15/10/2008.

If the securities transferred, which are currently in portfolio at an amount of € 51.952 million at par, had been carried at fair value at the date of the financial statements, they would have been worth € 51.674 million with a loss of € 0.278 million.

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

Type of transaction/Amounts	31/12/2015	31/12/2014
1. **Fixed-yield securities**	**125,777**	**148,620**
a) Governments and central banks	25,043	22,403
b) Other public entities	–	–
c) Banks	30,899	53,673
d) Other issuers	69,835	72,544
2. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**125,777**	**148,620**
Total fair value	**141,401**	**162,082**

Section 6 Loans and receivables with banks - line item 60

6.1 Loans and receivables with banks: breakdown by sector

	31/12/2015				31/12/2014			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**260,704**	**–**	**–**	**260,704**	**269,622**	**–**	**–**	**269,622**
1. Time deposits	–	–	–	–	–	–	–	–
2. Compulsory reserve	258,395	–	–	–	267,799	–	–	–
3. Repurchase agreements	–	–	–	–	–	–	–	–
4. Other	2,309	–	–	–	1,823	–	–	–
B. **Loans and receivables with banks**	**719,635**	**–**	**–**	**719,635**	**818,766**	**–**	**–**	**818,766**
1. Loans	719,635	–	–	719,635	818,766	–	–	818,766
1.1 Current accounts and sight deposits	360,372	–	–	–	296,707	–	–	–
1.2 Time deposits	254,037	–	–	–	413,184	–	–	–
1.3 Other loans:	105,227	–	–	–	108,875	–	–	–
- Repurchase agreements	–	–	–	–	–	–	–	–
- Financial leases	–	–	–	–	–	–	–	–
- Other	105,227	–	–	–	108,875	–	–	–
2. Fixed-yield securities	–	–	–	–	–	–	–	–
2.1 Structured securities	–	–	–	–	–	–	–	–
2.2 Other fixed-yield securities	–	–	–	–	–	–	–	–
Total	**980,339**	**–**	**–**	**980,339**	**1,088,388**	**–**	**–**	**1,088,388**

These receivables are not specifically hedged.
Their fair value is equal to their book value as they are short-term loans repayable on demand.

Section 7 *Loans and receivables with customers - line item 70*

7.1 Loans and receivables with customers: breakdown by sector

	31/12/2015						31/12/2014					
	Book value			Fair Value			Book value			Fair Value		
		Impaired						Impaired				
Type of transaction/Amounts	Non impaired	Purchased	Other	L1	L2	L3	Non impaired	Purchased	Other	L1	L2	L3
Loans	**21,388,533**	**-**	**2,362,208**	**-**	**-**	**24,554,600**	**21,776,273**	**-**	**2,069,433**	**-**	**-**	**24,237,924**
1. Current accounts	4,646,985	-	1,046,578	-	-	-	5,363,010	-	948,754	-	-	-
2. Repurchase agreements	706,060	-	-	-	-	-	587,505	-	-	-	-	-
3. Mortgage loans	10,959,808	-	1,083,562	-	-	-	10,737,430	-	888,032	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	193,963	-	11,582	-	-	-	173,703	-	11,827	-	-	-
5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	1,479,180	-	28,277	-	-	-	1,625,791	-	26,249	-	-	-
7. Other loans	3,402,537	-	192,209	-	-	-	3,288,834	-	194,571	-	-	-
Fixed-yield securities	**245,802**	**-**	**-**	**-**	**-**	**246,397**	**166,219**	**-**	**-**	**-**	**-**	**166,818**
8. Structured securities	245,802	-	-	-	-	-	166,219	-	-	-	-	-
9. Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**21,634,335**	**-**	**2,362,208**	**-**	**-**	**24,800,997**	**21,942,492**	**-**	**2,069,433**	**-**	**-**	**24,404,742**

These receivables are partially specifically hedged.

Reference should be made to Part E «Information on risks and related hedging policies, Section 1, Credit risk» with regard to impaired assets.

Mortgage loans include € 815 million of residential mortgages, which were the subject of a covered bond transaction.

The related securitisation was closed out early, in October. This transaction has previously involved the sale without recourse of mortgage loans to the SPV Centro delle Alpi RMBS S.r.l., whose senior and junior securities issued in connection with this operation were purchased by the Bank.

The covered bond transaction involved the sale to the SPV POPSO Covered Bond s.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers.

Given that the Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

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

7.2 Loans and advances to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2015 Non impaired	31/12/2015 Impaired Purchased	31/12/2015 Impaired Other	31/12/2014 Non impaired	31/12/2014 Impaired Purchased	31/12/2014 Impaired Other
1. **Fixed-yield securities:**	**245,802**	**–**	**–**	**166,219**	**–**	**–**
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	245,802	–	–	166,219	–	–
- non-financial companies	–	–	–	–	–	–
- financial companies	245,802	–	–	166,219	–	–
- insurance companies	–	–	–	–	–	–
- other	–	–	–	–	–	–
2. **Loans to:**	**21,388,533**	**–**	**2,362,208**	**21,776,273**	**–**	**2,069,433**
a) Governments	–	–	8,051	510	–	9,046
b) Other public entities	123,677	–	125	138,533	–	169
c) Other issuers	21,264,856	–	2,354,032	21,637,230	–	2,060,218
- non-financial companies	12,781,505	–	1,857,232	13,394,516	–	1,630,477
- financial companies	2,193,427	–	30,740	2,299,648	–	33,431
- insurance companies	28	–	–	1,476	–	–
- other	6,289,896	–	466,060	5,941,589	–	396,310
Total	**21,634,335**	**–**	**2,362,208**	**21,942,492**	**–**	**2,069,433**

7.3 Loans and receivables with customers: covered by micro hedges

	31/12/2015	31/12/2014
1. **Loans covered by micro fair-value hedges**	**1,194,991**	**1,191,166**
a) interest rate risk	1,194,991	1,191,166
b) exchange risk	–	–
c) credit risk	–	–
d) multiple risks	–	–
2. **Loans covered by micro cash-flow hedges**	**–**	**–**
a) interest rate risk	–	–
b) exchange risk	–	–
c) expected transactions	–	–
d) Other hedged assets	–	–
Total	**1,194,991**	**1,191,166**

Section 10 *Equity investments - line item 100*

10.1 Equity investments: disclosure

Name	Registered offices of the company	Operational office	Type of relationship	Parent company	% holding	% of votes
A. **Investments in companies under joint control**						
RAJNA IMMOBILIARE SRL	Sondrio	Sondrio	7	Banca Popolare di Sondrio SCPA	50.000	50.000
B. **Associated companies**						
ALBA LEASING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.264	19.264
ARCA VITA SPA	Verona	Verona	8	Banca Popolare di Sondrio SCPA	14.837	14.837
BANCA DELLA NUOVA TERRA SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.609	19.609
ARCA SGR SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	21.137	21.137
UNIONE FIDUCIARIA SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	24.000	24.000
POLIS FONDI SGR	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.600	19.600
SOFIPO SA	Lugano	Lugano	8	Banca Popolare di Sondrio (SUISSE) SA	30.000	30.000
BORMIO GOLF SPA	Bormio	Bormio	8	Banca Popolare di Sondrio SCPA	26.578	26.578
SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL	Milan	Milan	8	Banca Popolare di Sondrio SCPA	33.333	33.333
ACQUEDOTTO DELLO STELVIO SRL	Bormio	Bormio	8	Pirovano Stelvio spa	27.000	27.000
SIFAS SPA	Bormio	Bormio	8	Pirovano Stelvio spa	21.614	21.614

Key
1 = control as per art. 2359 C.C., para. 1, no. 1 (majority of voting rights at ordinary shareholders' meetings).
2 = control as per art. 2359 D.C., para. 1, no. 2 (dominant influence at the ordinary shareholders' meeting).
3 = control as per art. 23 T.U., para. 2, no. 1 (agreements with other shareholders).
4 = other forms of control.
5 = single management as per art. 26.1 of Decree 87/92.
6 = single management as per art. 26.2 of Decree 87/92.
7 = joint control.
8 = associated company.

10.2 Relevant equity investments: book value, fair value and dividends received

Name	Book value	Fair value	Dividends received
A. **Investments in companies under joint control**			
1, RAJNA IMMOBILIARE S.r.l.	486	–	–
B. **Associated companies**			
1. ALBA LEASING S.p.A.	76,624	–	–
2. ARCA VITA S.p.A.	60,382	–	6,850
3. BANCA DELLA NUOVA TERRA S.p.A.	6,147	–	–
4. ARCA SGR S.p.A.	43,641	–	–
5. UNIONE FIDUCIARIA S.p.A.	8,568	–	259
6. POLIS FONDI SGR PA	1,478	–	146
7. SOFIPO SA	224	–	–

The fair value is not shown for companies that are not listed on active markets.

10.3 Relevant equity investments: disclosure

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues
A. **Investments in companies under joint control**						
1. RAJNA IMMOBILIARE S.r.l.	225	2	757	-	11	113
B. **Associated companies**						
1. ALBA LEASING S.p.A.	11	4,642,766	190,088	4,396,594	38,511	105,426
2. ARCA VITA S.p.A.	85,636	7,864,962	116,297	7,643,958	13,601	1,870,152
3. BANCA DELLA NUOVA TERRA S.p.A.	3	25,505	11,114	2,269	1,661	797
4. ARCA SGR S.p.A.	3	125,326	201,407	87,283	32,986	289,072
5. UNIONE FIDUCIARIA S.p.A.	5	26,698	50,524	15,000	26,544	35,882
6. POLIS FONDI SGR PA	4	6,896	3,164	1,242	1,284	4,879
7. SOFIPO SA	-	2,250	-	1,118	385	557

The above figures are taken from the most recent financial investments available.

The accounting information presented in the financial statements of associated companies is reconciled below with the carrying amounts of the related equity investments, as required by IFRS 12.

Name	Equity value	Share of equity value	Book value
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S.r.l.	973	486	486
B. **Associated companies**			
1. ALBA LEASING S.p.A.	397,760	76,624	76,624
2. ARCA VITA S.p.A.	406,971	60,382	60,382
3. BANCA DELLA NUOVA TERRA S.p.A.	31,350	6,147	6,147
4. ARCA SGR S.p.A.	206,467	43,641	43,641
5. UNIONE FIDUCIARIA S.p.A.	35,700	8,568	8,568
6. POLIS FONDI SGR PA	7,539	1,478	1,478
7. SOFIPO SA	747	224	224

10.4 Insignificant equity investments: accounting information

Name	Book value of equity investments	Total assets	Total liabilities
Associated companies	626	4,153	1,531

The above figures are taken from the most recent financial investments available.

Net interest income	Net adjustments to property, equipment and investment property and intangible assets	Profit (loss) on current operations before income taxes	Post-tax profit from continuing operations	Profit (loss) after tax on non-current assets held for sale	Profit (loss) for the year (1)	Other income items net of income taxes (2)	Comprehensive income (3) = (1)+(2)
–	(37)	53	37	–	37	–	37
64,035	(950)	(655)	(494)	–	(494)	173	(321)
165,532	–	59,910	37,188	–	37,188	5,408	42,596
249	(54)	(3,478)	(3,480)	–	(3,480)	(6)	(3,486)
(2,326)	(5,656)	42,257	27,596	–	27,596	(1,205)	26,391
142	(2,452)	5,219	3,477	–	3,477	–	3,477
10	(131)	(2,135)	(1,634)	–	(1,634)	478	(1,155)
(33)	–	(240)	(246)	–	(246)	–	(246)

Total revenues	Post-tax profit from continuing operations	Profit (loss) after tax on non-current assets held for sale	Profit (loss) for the year	Other income items net of income taxes	Comprehensive income
2,900	216	–	64	–	64

10.5 Equity investments: changes during the year

	31/12/2015	31/12/2014
A. **Opening balance**	**155,986**	**156,404**
B. **Additions**	**45,435**	**1,771**
B.1 Purchases	–	–
B.2 Purchases	–	–
B.3 Revaluations	–	–
B.4 Other changes	45,435	1,771
C. **Decreases**	**3,245**	**2,189**
C.1 Disposals	–	–
C.2 Adjustments	–	–
C.3 Other changes	3,245	2,189
D. **Closing balance**	**198,176**	**155,986**
E. **Total revaluations**	**–**	**–**
F. **Total writedowns**	**(277)**	**(229)**

This item passes from € 155.986 million to € 198.176 million.

Increases arise from the valuation at equity of investments, from the transfer from the AFS portfolio of the interest in Arca SGR spa after the percentage increase in the equity investment, from the transfer from the AFS portfolio of the interest in Bormio Golf spa following the increase of the holding.

Decreases arise from the valuation at equity of investments.

10.6 Considerations and significant assumptions to determine the existence of joint control or significant influence

The existence of joint control or significant influence is determined on the basis described in Part A – Accounting policies.

10.7 - 10.8 Commitments relating to investments in companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing spa granted when this company started up as part of the reorganisation of Banca Italease spa, against which the Parent Bank has made a specific risk provision.

Section 12 *Property, equipment and investment property - line item 120*

12.1 Property, equipment and investment property used for business purposes: analysis of assets valued at cost

Assets/Values	31/12/2015	31/12/2014
1. **Owned assets**	**233,576**	**222,019**
a) land	61,208	60,594
b) buildings	147,391	136,780
c) furniture	7,014	7,567
d) IT equipment	4,512	4,951
e) other	13,451	12,127
2. **purchased under finance leases**	**27,839**	**28,859**
a) land	6,803	6,803
b) buildings	21,036	22,056
c) furniture	–	–
d) IT equipment	–	–
e) Other	–	–
Total	**261,415**	**250,878**

12.4 Investment property: analysis of assets carried at fair value

	31/12/2015			31/12/2014		
Assets/Values	L1	L2	L3	L1	L2	L3
1. **Owned assets**	**–**	**–**	**62,765**	**–**	**–**	**3,425**
a) land	–	–	–	–	–	–
b) buildings	–	–	62,765	–	–	3,425
2. **Assets purchased under finance leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**62,765**	**–**	**–**	**3,425**

These are owned buildings of the Fondo Immobiliare Centro delle Alpi Real Estate, which was fully consolidated.

12.5 Property, equipment and investment property used for business purposes: changes during the year

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	**Total 31/12/2015**
A. **Opening gross amount**	**67,479**	**254,843**	**33,934**	**32,695**	**69,981**	**458,932**
A.1 Total net reductions in value	(82)	(96,007)	(26,367)	(27,744)	(57,854)	(208,054)
A.2 Opening net amount	67,397	158,836	7,567	4,951	12,127	250,878
B. **Additions**	**614**	**18,439**	**1,571**	**1,531**	**8,038**	**30,193**
B.1 Purchases	355	13,690	1,456	1,133	7,924	24,558
B.2 Capitalised improvement expenditure	–	3,151	–	–	–	3,151
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	259	1,598	115	398	114	2,484
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**8,848**	**2,124**	**1,970**	**6,714**	**19,656**
C.1 Disposals	–	1,258	–	–	–	1,258
C.2 Depreciation	–	7,309	2,124	1,970	6,714	18,117
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	–	281	–	–	–	281
D. **Closing net amount**	**68,011**	**168,427**	**7,014**	**4,512**	**13,451**	**261,415**
D.1 Total net reductions in value	(82)	(104,076)	(28,897)	(29,904)	(65,019)	(227,978)
D.2 Closing gross amount	68,093	272,503	35,911	34,416	78,470	489,393
E. **Valuation at cost**	**68,011**	**168,427**	**7,014**	**4,512**	**13,451**	**261,415**

12.6 Investment property: changes during the year

	Total 31/12/2015	
	Land	Buildings
A. **Opening balance**	**–**	**3,425**
B. **Additions**	**–**	**60,836**
B.1 Purchases	–	60,836
B.2 Capitalised improvement expenditure	–	–
B.3 Positive changes in fair value	–	–
B.4 Write-backs	–	–
B.5 Exchange gains	–	–
B.6 Transfer of buildings for business purposes	–	–
B.7 Other changes	–	–
C. **Decreases**	**–**	**1,496**
C.1 Disposals	–	–
C.2 Depreciation	–	–
C.3 Negative changes in fair value	–	1,496
C.4 Impairment writedowns	–	–
C.5 Exchange losses	–	–
C.6 Transfer of assets to other portfolios	–	–
a) Assets used in business	–	–
b) Non-current assets held for sale and discontinued operations	–	–
C.7 Other changes	–	–
D. **Closing balance**	**–**	**62,765**
E. **Valuation at fair value**	**–**	**62,765**

12.7 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 5.220 million.

Section 13 *Intangible assets - line item 130*

13.1 Intangible assets: breakdown by type

	31/12/2015		31/12/2014	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**7,847**	**–**	**7,847**
A.1.1 attributable to the banking group	–	7,847	–	7,847
A.1.2 pertaining to minority interests	–	–	–	–
A.2 **Other intangible assets:**	**14,399**	**–**	**13,725**	**–**
A.2.1 Carried at cost	14,399	–	13,725	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	14,399	–	13,725	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**14,399**	**7,847**	**13,725**	**7,847**

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years, amounting to € 7.847 million. The accounting treatment is in accordance with IFRS 3 on business combinations. This standard requires that the acquisition and therefore the first consolidation of the acquired entity has to take place on the date when the purchaser effectively obtains control over the other business.

This goodwill relates to the acquisition of control of Factorit Spa in 2010.

Based on IFRS 3, the allocation took place according to the purchase method, which says that allocation of the identifiable assets and liabilities acquired has to take place with reference to the acquisition date. The difference between the acquisition price and the fair value of the assets and liabilities has to be recognised as goodwill and allocated to the CGU concerned.

It is particularly important to identify as accurately as possible the fair value of the assets and liabilities so that only the residual portion of the purchase cost that cannot be allocated to specific assets or liabilities gets booked as goodwill; for this reason, the standard makes it possible to book goodwill on a provisional basis by the end of the year in which the combination takes place. A definitive value then has to be booked within 12 months of the acquisition date. The Parent Bank therefore booked a provisional figure of € 7.847 million, which was the difference between the price paid and the book net equity at the acquisition date, with the possibility of establishing a more accurate fair value for the assets and liabilities within 12 months of the acquisition date.

From a careful review, there were no differences in fair value attributable to assets and liabilities which involved corrections of the values attributed at the time of the acquisition, which meant that there was no need to adjust the value of goodwill booked on a provisional basis.

No impairment of goodwill has been recorded as the tests carried out in accordance with IAS 36, which requires annual impairment testing for goodwill to identify any impairment loss, did not show any loss in value. In this case we have used the Dividend Discount Model (DDM), which assumes that the economic value of a financial intermediary is equal to the sum of the present value of the future cash flows generated in the chosen time horizon of the plan and distributable to shareholders while maintaining an adequate level of capitalisation to ensure future growth and perpetual capitalisation of a dividend considered after the explicit planning period. We assumed a rate of the dividend growth after the explicit planning period of 2% per year and a cost of capital used to discount future dividends of 7.86%. The value in use was approximately € 206 million with an excess of the carrying amount of € 104 million.

13.2 Intangible assets: change during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		Specified	Unspecified	Specified	Unspecified	31/12/2015
A. **Opening gross amount**	**8,959**	**–**	**–**	**127,781**	**–**	**136,740**
A.1 Total net reductions in value	(1,112)	–	–	(114,056)	–	(115,168)
A.2 Opening net amount	7,847	–	–	13,725	–	21,572
B. **Additions**	**–**	**–**	**–**	**14,602**	**–**	**14,602**
B.1 Purchases	–	–	–	14,411	–	14,411
B.2 Increases in internally g 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	–	–	–	191	–	191
B.6 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**13,928**	**–**	**13,928**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	13,926	–	13,926
- Amortisation	–	–	–	13,926	–	13,926
- 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	–	–	–	2	–	2
D. **Closing net amount**	**7,847**	**–**	**–**	**14,399**	**–**	**22,246**
D.1 Total net reductions in value	(1,112)	–	–	(127,982)	–	(129,094)
E. **Closing gross amount**	**8,959**	**–**	**–**	**142,381**	**–**	**151,340**
F. **Valuation at cost**	**7,847**	**–**	**–**	**14,399**	**–**	**22,246**

Key
Specified: Specified duration
Unspecified: unspecified duration

Section 14 *Tax assets and liabilities - asset line item 140 and liability line item 80*

14.1 Deferred tax assets: breakdown

	31/12/2015	31/12/2014
- Loan writedowns	379,576	346,480
- Provisions for risks and charges	18,206	17,933
- Deferred charges	16,341	15,352
- Securities and equity investments	1,089	270
- Administrative expenses	10,464	11,600
- Amortisation and depreciation	1,670	1,525
Total	**427,346**	**393,160**

14.2 Deferred tax liabilities: breakdown

	31/12/2015	31/12/2014
- Owned buildings	5,964	5,921
- Accelerated depreciation	1,885	2,042
- Leased buildings	1,780	1,833
- Revaluation of securities and gains	38,907	36,205
- Administrative expenses	276	280
- Loans	15,337	13,393
Total	**64,149**	**59,674**

14.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2015	31/12/2014
1. **Opening balance**	**381,545**	**301,472**
2. **Increases**	**43,148**	**165,377**
2.1 Deferred tax assets arising during the year	41,748	165,170
a) relating to prior years	1,284	451
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	40,464	164,719
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	1,400	207
3. **Decreases**	**8,679**	**85,304**
3.1 Deferred tax assets eliminated during the year	8,598	78,523
a) reversals	8,598	78,523
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	81	6,781
a) transformation into tax credits as per Law 214/2011	–	–
b) other	81	6,781
4. **Closing balance**	**416,014**	**381,545**

14.3.1 Change in deferred tax assets as per Law 214/2011 (with contra-entry to the income statement)

	31/12/2015	31/12/2014
1. **Opening balance**	**346,451**	**269,858**
2. **Increases**	**33,200**	**152,513**
3. **Decreases**	**81**	**75,920**
3.1 Reversals	–	70,828
3.2 Transformation into tax credits	–	–
a) resulting from operating losses	–	–
b) arising from tax losses	–	–
3.3 Other decreases	81	5,092
4. **Closing balance**	**379,570**	**346,451**

14.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2015	31/12/2014
1. **Opening balance**	**21,781**	**16,543**
2. **Increases**	**2,023**	**5,942**
2.1 Deferred tax liabilities arising during the year	739	5,761
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	739	5,761
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	1,284	181
3. **Decreases**	**322**	**704**
3.1 Deferred tax liabilities eliminated during the year	320	699
a) reversals	316	698
b) due to changes in accounting policies	–	–
c) other	4	1
3.2 Reduction in tax rates	–	–
3.3 Other decreases	2	5
4. **Closing balance**	**23,482**	**21,781**

14.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2015	31/12/2014
1. **Opening balance**	**11,615**	**7,359**
2. **Increases**	**1,005**	**6,874**
2.1 Deferred tax assets arising during the year	1,005	6,874
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	1,005	6,874
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**1,288**	**2,618**
3.1 Deferred tax assets eliminated during the year	1,191	2,618
a) reversals	1,191	2,618
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	97	–
4. **Closing balance**	**11,332**	**11,615**

This amount relates for € 1.089 million to losses on securities available for sale booked to equity, and for € 8.925 million to actuarial losses recognised in the measurement of long-term employee benefits, i.e. pension fund and termination indemnities booked to equity as provided by IAS 19 Revised, as well as for € 1.318 million to expenses related to the increase in capital.

14.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2015	31/12/2014
1. **Opening balance**	**37,893**	**19,684**
2. **Increases**	**7,025**	**18,929**
2.1 Deferred tax liabilities arising during the year	7,025	18,929
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	7,025	18,929
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**4,251**	**720**
3.1 Deferred tax liabilities eliminated during the year	4,251	720
a) reversals	4,251	720
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**40,667**	**37,893**

This amount relates to the tax on the gains on securities available for sale booked to equity.

Section 16 *Other assets - line item 160*

16.1 Other assets: breakdown

	31/12/2015	31/12/2014
Advances paid to tax authorities	56,409	49,184
Withholdings on interest due to customers	843	3,491
Tax credits and related interest	28,031	24,384
Current account cheques drawn on third parties	26,205	31,165
Current account cheques drawn on Group banks	11,173	13,575
Transactions in customers' securities	1,590	4,383
Inventories	13,518	10,264
Costs pertaining to the subsequent year	805	1,262
Advances to suppliers	851	523
Advances to customers awaiting collections	18,817	17,927
Miscellaneous debits in transit	53,515	51,870
Liquid assets serving pension and similar obligations	13,527	33,283
Accrued expenses not allocated	35,927	30,877
Prepayments not allocated	9,102	9,417
Differences on elimination	1,473	1,334
Residual items	85,613	64,844
Total	**357,399**	**347,783**

Liabilities and equity

Section 1 *Due to banks - line item 10*

1.1 1.1 Due to banks: breakdown by type

Type of transaction/Amounts	31/12/2015	31/12/2014
1. **Due to central banks**	**1,099,856**	**1,107,248**
2. **Due to banks**	**1,202,280**	**1,206,787**
2.1 Current accounts and sight deposits	251,887	418,632
2.2 Time deposits	343,978	289,861
2.3 Loans	598,765	492,373
2.3.1 Repurchase agreements	–	–
2.3.2 Other	598,765	492,373
2.4 Payables for commitments to repurchase own equity instruments	–	–
2.5 Other payables	7,650	5,921
Total	**2,302,136**	**2,314,035**
Fair value - Level 1	**–**	**–**
Fair value - Level 2	**–**	**–**
Fair value - Level 3	**2,302,136**	**2,314,035**
Total Fair value	**2,302,136**	**2,314,035**

These payables are not specifically hedged.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO). The first, for € 350 million, was obtained in September 2014 and the second, for € 748 million, was granted in December 2014. Both are repayable in September 2018, subject to obligatory early repayment in September 2016 if the lending thresholds established by the ECB have not been met. These loans are secured by bonds, mainly Government bonds and receivables.

«Other loans» principally comprise funding from the EIB in connection with loans granted by the bank under agreements signed with the EIB, as well as special forms of loan drawn down by Factorit Spa.

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

1.5 Payables for finance leases

	31/12/2015	31/12/2014
- Payables for finance leases	456	1,114
Total	**456**	**1,114**

Section 2 *Due to customers - line item 20*

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2015	31/12/2014
1. **Current accounts and sight deposits**	**23,918,440**	**23,142,217**
2. **Time deposits**	**1,585,576**	**2,700,506**
3. **Loans**	**795,509**	**410,399**
3.1 Repurchase agreements	727,070	383,722
3.2 Other	68,439	26,677
4. **Payables for commitments to repurchase own equity instruments**	**-**	**-**
5. **Other payables**	**47,684**	**57,720**
Total	**26,347,209**	**26,310,842**
Fair value - Level 1	**-**	**-**
Fair value - Level 2	**-**	**-**
Fair value - Level 3	**26,347,209**	**26,310,842**
Fair value	**26,347,209**	**26,310,842**

These payables are not specifically hedged.

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

2.5 Payables for finance leases

	31/12/2015	31/12/2014
- Payables for finance leases	2,631	3,180
Total	**2,631**	**3,180**

Section 3 *Securities issued - line item 30*

3.1 Securities issued: breakdown by sector

Type of security/Amounts	31/12/2015				31/12/2014			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	3,111,549	984,991	2,168,249	-	3,327,681	518,968	2,879,463	-
1.1 Structured	223,382	-	223,382	-	86,180	-	86,180	-
1.2 Others	2,888,167	984,991	1,944,867	-	3,241,501	518,968	2,793,283	-
2. Other securities	69,637	-	69,637	-	78,517	-	78,517	-
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Other	69,637	-	69,637	-	78,517	-	78,517	-
Total	**3,181,186**	**984,991**	**2,237,886**	**-**	**3,406,198**	**518,968**	**2,957,980**	**-**

The fair value of the «other securities» is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

Level 1 securities refer to covered bonds and subordinated bonds listed on the Hi-mtl (a multilateral trading facility).

3.2 Details of line item 30 «Securities issued»: subordinated securities

The voluntary exchange offer of Tier II subordinated bonds issued by the Bank in 2014 for a total of 350 million euro ended in October 2015; this was promoted to optimise the composition of the Bank's Class 2 liabilities (Tier II), given the new regulatory framework introduced by EU Regulation no. 575/2013 (CRR). As part of the exchange transaction, securities for a total of over 274 million euro have been transferred, i.e. a 78.32% subscription.

Subordinated securities amount to € 918.155 million and are made up of the loans indicated below:

- bond loan of € 143.967 million from 26/2/2010 and maturity on 26/2/2017 with a forecast annual repayment of 20% from 26/2/2013. This was issued with an interest rate of 4% which will gradually rise to 5%; the coupon current at year end is 4.50%.
- bond loan of € 224.154 million from 23/12/2011 and maturity on 23/12/2018 with a forecast annual repayment of 20% from 23/12/2014. The interest rate commenced at 4.50% and will gradually rise to 6%; the coupon current at year end is 5.50%.
- bond loan of € 17.066 million from 8/8/2014 and maturity on 8/8/2021 with a forecast annual repayment of 20% from 8/8/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2%.
- bond loan of € 26.628 million from 30/9/2014 and maturity on 30/9/2021 with a forecast annual repayment of 20% from 30/9/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2%.
- bond loan of € 27.940 million from 29/12/2014 and maturity on 29/12/2021 with a forecast annual repayment of 20% from 29/12/2017. The interest rate commenced at 2.25% and will gradually rise to 4%; the coupon current at year end is 2.25%.
- bond loan € 202.722 million from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%.
- a bond of € 275.678 million from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%.

Section 4 *Financial liabilities held for trading - line item 40*

4.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/ Members of the Group	31/12/2015					31/12/2014				
		Fair Value					Fair Value			
	VN	Level 1	Level 2	Level 3	FV*	VN	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Customer deposits	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Other	–	–	–	–	–	–	–	–	–	–
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivatives**										
1. Financial derivatives	–	–	48,709	–	–	–	–	56,136	–	–
1.1 for trading	–	–	48,709	–	–	–	–	56,136	–	–
1.2 connected with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–	–	–	–	–
Total B	**–**	**–**	**48,709**	**–**	**–**	**–**	**–**	**56,136**	**–**	**–**
Total A+B	**–**	**–**	**48,709**	**–**	**–**	**–**	**–**	**56,136**	**–**	**–**

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

underlying	Fair Value 31/12/2015 Level 1	Fair Value 31/12/2015 Level 2	Fair Value 31/12/2015 Level 3	**Nominal Value 31/12/2015**	Fair Value 31/12/2014 Level 1	Fair Value 31/12/2014 Level 2	Fair Value 31/12/2014 Level 3	**Nominal Value 31/12/2014**
A. **Financial derivatives**	**–**	**53,483**	**–**	**1,146,377**	**–**	**45,562**	**–**	**1,148,120**
1) Fair value	–	53,483	–	1,146,377	–	45,562	–	1,148,120
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**–**	**53,483**	**–**	**1,146,377**	**–**	**45,562**	**–**	**1,148,120**

6.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transaction/ Type of hedge	Fair Value						Financial flows		
	Micro								
	interest rate risk	exchange risk	credit risk	price risk	multiple risk	Macro	Micro	Macro	Foreign investments
1. Available-for-sale financial assets	–	–	–	–	–	–	–	–	–
2. Loans	53,483	–	–	–	–	–	–	–	–
3. Held-to-maturity investments	–	–	–	–	–	–	–	–	–
4. Portfolio	–	–	–	–	–	–	–	–	–
5. Other transactions	–	–	–	–	–	–	–	–	–
Total assets	**53,483**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	–	–	–	–	–	–
2. Portfolio	–	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	–	–	–	–	–	–	–	–	–
2. Portfolio of financial assets and liabilities	–	–	–	–	–	–	–	–	–

Section 8 *Tax Liabilities - line item 80*

This line item shows a balance of € 68.208 million consisting of € 64.149 million of deferred taxes and € 4.059 million of current taxes

As regards the composition and amount of deferred taxes, please read «Assets - Section 14» of these notes.

The Parent Bank's tax years up to 2009 have been closed. The Parent Bank was previously involved in a dispute relating to the 2006, 2007 and 2008 tax years for IRES and IRAP purposes, which has been settled by legal mediation. The dispute concerned the deductibility of interest paid to counterparty customers and banks resident in countries with so-called preferential tax regimes. Additional taxation totalling € 2.770 million had been claimed, but the payment was € 0.067 million.

For 2010, the Parent Bank received a notice of assessment for VAT purposes for not applying VAT on the commissions received as a custodian bank for the amount of € 0.218 million plus interest. This matter was raised in prior years and a solution was found in Tax Authority Resolution 97/E of 17 December 2013, which formalised a compromise that subjects part of these commissions to VAT at a flat rate, with no penalties in relation to the prior years covered by assessments. Since the assessment for 2010 took account of the above Resolution and did not require the payment of penalties, the Parent Bank decided to terminate the dispute by paying the amount requested.

The Parent Bank is involved in a dispute regarding the flat tax payable on syndicated long-term loans under contracts signed abroad, which were the subject of assessments received in 2013 and 2014. The imminent resolution of this dispute will be almost entirely favourable for the Parent Bank.

Section 10 *Other liabilities - line item 100*

10.1 Other liabilities: breakdown

	31/12/2015	31/12/2014
Amounts at the disposal of third parties	235,311	243,488
Taxes to be paid on behalf of third parties	57,502	49,559
Taxes to be paid	1,648	5,717
Employee salaries and contributions	12,937	26,160
Suppliers	15,173	15,981
Transit accounts for sundry entities	10,162	1,430
Invoices to be received	12,555	12,353
Credits in transit for financial transactions	3,968	321
Value date differentials on portfolio transactions	151,261	141,607
Directors' and statutory auditors' emoluments	1,179	1,020
Loans disbursed to customers to be finalised	18,039	19,313
Miscellaneous credit items being settled	71,868	60,469
Accrued expenses not allocated	9,619	7,726
Deferred income not allocated	13,798	14,008
Allowance for risks on guarantees and commitments	20,160	19,120
Differences on elimination	6,246	6,327
Residual items	36,740	98,236
Total	**678,166**	**722,835**

Section 11 *Post-employment benefits - line item 110*

11.1 Post-employment benefits: change in the year

	2015	2014
A. **Opening balance**	**44,915**	**40,527**
B. **Additions**	**7,609**	**11,729**
B.1 Provisions	7,609	7,444
B.2 Other changes	–	4,285
C. **Decreases**	**9,150**	**7,341**
C.1 Payments made	1,214	984
C.2 Other changes	7,936	6,357
D. **Closing balance**	**43,374**	**44,915**

Section 12 *Provisions for risks and charges - line item 120*

12.1 Provisions for risks and charges: breakdown

Items/Components	2015	2014
1. **Pension and similar obligations**	**117,912**	**117,043**
2. **Other provisions for risks and charges**	**47,813**	**49,806**
2.1 Legal disputes	29,054	30,225
2.2 Personnel expenses	16,676	16,120
2.3 Other	2,083	3,461
Total	**165,725**	**166,849**

At year end, the Group is not exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above. It is reasonable to conclude that there are no contingent liabilities.

12.2 Provisions for risks and charges: change in the year

Items/Components	Pension and similar obligations	Other provisions
A. **Other provisions**	**117,043**	**49,806**
B. **Additions**	**6,764**	**25,372**
B.1 Provisions	2,403	24,235
B.2 Changes due to the passage of time	–	15
B.3 Changes due to variations in the discount rate	–	4
B.4 Other changes	4,361	1,118
C. **Decreases**	**5,895**	**27,365**
C.1 Utilisations during the year	3,555	23,491
C.2 Changes due to variations in the discount rate	1,164	7
C.3 Other changes	1,176	3,867
D. **Closing balance**	**117,912**	**47,813**

12.3 Defined-benefit pension plans

12.3.1. Characteristics of the plans and related risks

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

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 411 employees and 242 pensioners.

Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen. 2,079 employees have joined this fund.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

12.3.2 Defined-benefit pension plans - Changes in net (assets) liabilities and redemption rights

	2015	**2014**
At 1 January	117,043	100,539
service cost	2,321	2,043
interest cost	2,190	3,024
actuarial gains/losses	(1,164)	13,876
payments	(3,555)	(3,530)
other provisions	1,077	1,091
At 31 December	**117,912**	**117,043**

12.3.3 Defined-benefit pension plans – Other information

Details of the assets of the pension plan are summarised in the following table:

	2015	2014
Fixed-yield securities	73,825	75,160
Variable-yield securities	4,000	1,142
Mutual funds invested in shares	10,944	7,017
Mutual funds invested in property	15,616	441
Other assets	13,527	33,283
Total	**117,912**	**117,043**

The amount of the fund increases by € 0.869 million, +0.74%.

Payments of benefits amount to € 3.520 million compared with € 3.530 million. The contributions paid by the employees totalled € 0.241 million (€0.234 million last year).

12.3.4 Defined-benefit pension plans – Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	2015	2014
Discount rate	2.05%	1.88%
Expected increase in salaries	0.50%	0.50%
Underlying rate of pension increases	1.00%	1.00%

See the Bank's financial statements for an explanation of how the discount rate was chosen.

12.4 Provisions for risks and charges: other provisions

Items/Amounts	31/12/2015	31/12/2014
Provision for legal disputes	29,054	30,225
Provision for personnel expenses	16,676	16,120
Provision for charitable donations	2,083	3,461
Total	**47,813**	**49,806**

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 31/12/2015 as the discount rate.

This decrease of € 1.171 million arises from the difference between the provision of the year and the release of provisions set aside in prior years.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. It increases by € 0.556 million, + 3.45%.

Other provisions include the provision for charitable donations consisting of an allocation of profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2014 profit, while the reduction of € 0.223 million was a consequence of payments made during the year.

Section 15 *Group equity - Items 140, 160, 170, 180, 190, 200 and 220*

The share capital is fully subscribed and paid in and comprises 453,385,777 issued and fully paid ordinary shares, par value € 3 each, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2015.

At the year-end, the Parent Bank held treasury shares with a carrying value of € 25.322 million.

15.2 Share capital - Number of shares of the Parent Bank: change during the year

	Ordinary	Other
A. **Shares in existence at the start of the year**	**453,385,777**	**–**
- fully paid	453,385,777	–
- not fully paid	–	–
A.1 Treasury shares (-)	(3,550,000)	–
A.2 Shares in circulation opening balance	449,835,777	–
B. **Additions**	**–**	**–**
B.1 New issues	–	–
- for payment	–	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- others	–	–
- free of charge	–	–
- to employees	–	–
- to directors	–	–
- other	–	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**(100,000)**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	(100,000)	–
C.3 Business disposals	–	–
C.4 Other changes	–	–
D. **Shares in circulation: closing balance**	**449,735,777**	**–**
D.1 Treasury shares (+)	3,650,000	–
D.2 Shares in existence at the end of the year	453,385,777	–
- fully paid	453,385,777	–
- not fully paid	–	–

Share premium reserve

It amounts to € 79.005 million, unchanged on last year.

15.4 Profit reserves: other information

Profit reserves contribute to the capital adequacy of the Group, considering both current and future operations. They amount to € 927.044 million and increase by € 100.314 million, + 12.13%. Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to € 93.000 million (it has been used for € 25.322 million).

There are also € 3.229 million of reserves from capital contributions.

Therefore, the line item 170 «Reserves» amounts to € 930.273 million and increases by 12.09%.

Section 16 Equity pertaining to minority interests - Line item 210

16.1 Details of line item 210 «equity of minority interests»

It amounts to € 86.623 million and refers to the subsidiaries Factorit spa and Popso Covered Bond srl. It consists of the share capital for € 33.579 million, share premium reserve for € 4.358 million, reserves for € 40.592 million, valuation reserves for € - 0.106 million and profits for € 8.200 million.

16.2 Equity instruments: breakdown and change in the year

There were no issues of financial instruments that contribute to the formation of capital issued by group companies not subject to total control.

Other information

1. Guarantees given and commitments

Operations	31/12/2015	31/12/2014
1) **Financial guarantees**	**364,786**	**386,283**
a) Banks	13,561	40,593
b) Customers	351,225	345,690
2) **Commercial guarantees**	**3,273,270**	**3,587,813**
a) Banks	84,946	75,969
b) Customers	3,188,324	3,511,844
3) **Irrevocable commitments to make loans**	**1,310,888**	**1,235,734**
a) Banks	31,031	71,556
i) certain to be called on	18,298	59,946
ii) not certain to be called on	12,733	11,610
b) Customers	1,279,857	1,164,178
i) certain to be called on	357,833	384,592
ii) not certain to be called on	922,024	779,586
4) **Commitments underlying credit derivatives: protection sold**	–	–
5) **Assets lodged to guarantee the commitments of third parties**	**28,092**	**26,861**
6) **Other commitments**	**23,651**	**79,560**
Total	**5,000,687**	**5,316,251**

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	**31/12/2015**	**31/12/2014**
1. Financial assets held for trading	516,624	659,526
2. Financial assets at fair value through profit or loss	–	–
3. Available-for-sale financial assets	2,307,917	1,270,938
4. Held-to-maturity investments	–	–
5. Loans and receivables with banks	–	–
6. Loans and receivables with customers	1,070,686	998,605
7. Property, equipment and investment property	–	–

Assets held for trading mainly comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances; Assets available for sale comprise the securities sold to customers under repurchase agreements and those lodged with the Bank of Italy to guarantee advances. These securities are not subject to structured repurchase agreements.

The amount due from customers comprises the residential mortgages used to guarantee the loans obtained from the ECB and secured bank bonds (Covered bonds).

5. Management and intermediation for third parties

Type of service	Amount
1. **Execution of orders on behalf of customers**	
a) Purchases	1,115,387
1. settled	1,113,718
2. not settled	1,669
b) Sales	990,341
1. settled	988,172
2. not settled	2,169
2. **Portfolio management**	
a) Individual	1,868,069
b) Collective	–
3. **Custody and administration of securities**	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,343,809
1. securities issued by consolidated companies	–
2. other securities	1,343,809
b) Third-party securities on deposit (excluding portfolio management): other	16,970,892
1. securities issued by consolidated companies	3,255,779
2. other securities	13,715,113
c) Third-party securities on deposit with third parties	18,839,631
d) Own securities on deposit with third parties	8,381,539
4. **Other transactions**	**–**

6. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet		**Net amount at 31/12/2015 (f = c-d-e)**	**Net amount at 31/12/2014**
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	32,659	–	32,659	21,377	6,341	4,941	5,699
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2015	**32,659**	**–**	**32,659**	**21,377**	**6,341**	**4,941**	**–**
Total 31/12/2014	**24,276**	**–**	**24,276**	**17,254**	**1,323**	**–**	**5,699**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements».

In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparts, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The net positive fair value at 31/12/2015 that is not correlated with deposits received in guarantee amounts to € 4.941 million. This amount principally derives from the fact that the margin calls on deposits given in guarantee are made weekly.

Given that fair value changes daily, there may be situations intraweek in which fair value is not fully covered or in which the deposits given in guarantee exceed the value of the related derivatives.

When the «third pillar» of the EMIR regulation (obligatory collateralisation of the Mark-to-Market adjustment of derivative products via a Central Counterparty) becomes mandatory (should be in June 2017), the amount of these differences will diminish considerably, tending to zero, since the CSA margin calls will be made daily.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

7. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount a 31/12/2015 (f = c-d-e)**	**Net amount at 31/12/2014**
1. Derivatives	83,327	–	83,327	21,377	61,899	51	1,374
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2015	**83,327**	**–**	**83,327**	**21,377**	**61,899**	**51**	**–**
Total 31/12/2014	**78,390**	**–**	**78,390**	**17,254**	**59,762**	**–**	**1,374**

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 31/12/2015**	**Total 31/12/2014**
1. Financial assets held for trading	15,047	–	–	15,047	30,445
2. Financial assets at fair value through profit or loss	2	–	–	2	4
3. Available-for-sale financial assets	56,238	–	–	56,238	72,177
4. Held-to-maturity investments	750	–	–	750	1,395
5. Loans and receivables with banks	–	11,080	–	11,080	8,533
6. Loans and receivables with customers	1,921	711,774	–	713,695	846,523
7. Hedging derivatives	–	–	–	–	–
8. Other assets	–	–	–	–	–
Total	**73,958**	**722,854**	**–**	**796,812**	**959,077**

1.3 Interest and similar income: other information

1.3.1 Interest and similar income on foreign currency assets

Items	**31/12/2015**	**31/12/2014**
Interest and similar income on foreign currency assets	90,883	91,303

1.4 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other liabilities	**Total 31/12/2015**	**Total 31/12/2014**
1. Due to central banks	(1,705)	–	–	(1,705)	(2,742)
2. Due to banks	(4,702)	–	–	(4,702)	(11,416)
3. Due to customers	(144,058)	–	–	(144,058)	(248,726)
4. Securities issued	–	(84,217)	–	(84,217)	(91,293)
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities carried at fair value	–	–	–	–	–
7. Other liabilities and funds	–	–	(4)	(4)	–
8. Hedging derivatives	–	–	(18,755)	(18,755)	(13,977)
Total	**(150,465)**	**(84,217)**	**(18,759)**	**(253,441)**	**(368,154)**

1.5 Interest and similar expense: differential on hedging transactions

Items	31/12/2015	31/12/2014
A. Positive differentials on hedging transactions	–	–
B. Negative differentials on hedging transactions	(18,755)	(13,977)
C. **Balance (A-B)**	**(18,755)**	**(13,977)**

1.6 Interest and similar expense: other information

1.6.1 Interest and similar expense on foreign currency liabilities

	31/12/2015	31/12/2014
Interest and similar expense on foreign currency liabilities	(26,335)	(31,266)

1.6.2 Interest expense on finance lease transactions

	31/12/2015	31/12/2014
Interest expense on finance lease transactions	(25)	(48)

Section 2 Commissions - line items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2015	31/12/2014
a) **guarantees given**	**28,205**	**28,362**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**96,260**	**88,843**
1. trading in financial instruments	14,816	14,941
2. trading in foreign currencies	11,403	9,228
3. portfolio management	8,891	6,762
3.1. individual	8,891	6,762
3.2. collective	–	–
4. custody and administration of securities	9,726	10,673
5. custodian bank	1,854	1,374
6. placement of securities	23,675	20,112
7. order receipt and transmission	11,665	12,427
8. consultancy	–	59
8.1 investments	–	–
8.2 corporate finance	–	59
9. distribution of third-party services	14,230	13,267
9.1 portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2 insurance products	10,879	9,100
9.3 other products	3,351	4,167
d) **collection and payment services**	**68,614**	**66,878**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**25,116**	**29,790**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**29,410**	**30,466**
j) **other services**	**76,899**	**77,683**
Total	**324,504**	**322,022**

The sub-item «other services» is essentially made up of loan commissions and commissions generated by the foreign currency exchange activities.

2.2 Fee and commission expense: breakdown

Services/Amounts	31/12/2015	31/12/2014
a) **guarantees received**	**(390)**	**(385)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(4,045)**	**(3,458)**
1. trading in financial instruments	(2,196)	(1,700)
2. trading in foreign currencies	–	–
3. portfolio management:	–	–
3.1 own	–	–
3.2 delegated by third parties	–	–
4. custody and administration of securities	(1,849)	(1,758)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(9,933)**	**(9,998)**
e) **other services**	**(6,668)**	**(8,160)**
Total	**(21,036)**	**(22,001)**

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	31/12/2015		31/12/2014	
Items/Income	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	915	208	767	137
B. Available-for-sale financial assets	1,409	315	1,301	1,308
C. Financial assets at fair value through profit or loss	–	–	–	–
D. Equity investments	13	–	11	–
Total	**2,337**	**523**	**2,079**	**1,445**

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Unrealized gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit loss [(A+B)-(C+D)]
1. **Financial assets held for trading**	**37,822**	**45,919**	**(21,882)**	**(2,472)**	**59,387**
1.1 Fixed-yield securities	9,409	5,278	(3,940)	(2,096)	8,651
1.2 Variable-yield securities	386	10,584	(13,484)	(119)	(2,633)
1.3 Mutual funds	40	6,417	(3,981)	(257)	2,219
1.4 Loans	–	–	–	–	–
1.5 Other	27,987	23,640	(477)	–	51,150
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. **Other financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**2,221**
4. **Derivatives**	**384**	**29,471**	**(5,308)**	**(20,480)**	**4,106**
4.1 Financial derivatives:	384	29,471	(5,308)	(20,480)	4,106
- On debt securities and interest rates	–	11,459	(4,650)	(11,901)	(5,092)
- On equities and equity indices	–	15,619	(277)	(6,254)	9,088
- On currency and gold	–	–	–	–	39
- Other	384	2,393	(381)	(2,325)	71
4.2 Credit derivatives	–	–	–	–	–
Total	**38,206**	**75,390**	**(27,190)**	**(22,952)**	**65,714**

The net trading income passes from € 99.818 million to € 65.714 million.

The decrease is linked to higher sales made in the prior year, in order to realise significant capital gains, and to the presence of net unrealised losses in 2015 compared with fairly substantial unrealised gains in 2014.

Trading income on other financial assets is mainly made up of exchange gains. Exchange differences consist almost entirely of fixed-yield securities and mutual fund units in US dollars.

This table does not include the result of the securities in the pension fund, which is shown under another item.

Section 5 *Net hedging gains (losses) - line item 90*

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31/12/2015	31/12/2014
A. **Income from:**		
A.1 Fair value hedging derivatives	–	–
A.2 Hedged financial assets (fair value)	856	20,931
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Cash-flow hedges	–	–
A.5 Assets and liabilities in foreign currency	–	–
Total income from hedging activities (A)	**856**	**20,931**
B. **Charges from:**		
B.1 Derivatives hedging fair value	(1,351)	(20,802)
B.2 Hedged financial assets (fair value)	–	–
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Cash-flow hedges	–	–
B.5 Assets and liabilities in foreign currency	–	–
Total charges from hedging activities (B)	**(1,351)**	**(20,802)**
C. **Net hedging gains (losses) (A-B)**	**(495)**	**129**

Income includes € 0,856 million for the valuation at fair value of the loans being hedged, versus a negative valuation of hedging derivatives of € 1.351 million at fair value.

The net result of measuring the hedging structure at fair value is a negative balance of € 0.495 million.

Section 6 *Gains (losses) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases - breakdown

	31/12/2015			31/12/2014		
Items/income items	Profits	Losses	Profit	Profits	Losses	Profit
Financial assets						
1. **Loans and receivables with banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Loans and receivables with customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Available-for-sale financial assets**	**145,500**	**(5,574)**	**139,926**	**95,926**	**(421)**	**95,505**
3.1 Fixed-yield securities	116,438	(789)	115,649	95,023	(284)	94,739
3.2 Variable-yield securities	349	–	349	–	(137)	(137)
3.3 Mutual funds	28,713	(4,785)	23,928	903	–	903
3.4 Loans	–	–	–	–	–	–
4. **Held-to-maturity investments**	**–**	**–**	**–**	**–**	**–**	**–**
Total assets	**145,500**	**(5,574)**	**139,926**	**95,926**	**(421)**	**95,505**
Financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**
1. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Due to customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Securities issued**	**2,038**	**(1,930)**	**108**	**271**	**(1,622)**	**(1,351)**
Total liabilities	**2,038**	**(1,930)**	**108**	**271**	**(1,622)**	**(1,351)**

Section 7 *Net gains on financial assets and liabilities at fair value through profit or loss - line item 110*

7.1 Net gains on financial assets/liabilities at fair value through profit or loss: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Profit [(A+B)-(C+D)] **31/12/2015**
1. **Financial assets**	**3,711**	**113**	**(105)**	**(1)**	**3,718**
1.1 Fixed-yield securities	–	–	–	(1)	(1)
1.2 Variable-yield securities	–	–	–	–	-
1.3 Mutual funds	3,711	113	(105)	–	3,719
1.4 Loans	–	–	–	–	-
2. **Financial liabilities**	**–**	**–**	**–**	**–**	**-**
2.1 Fixed-yield securities	–	–	–	–	-
2.2 Due to banks	–	–	–	–	-
2.3 Customer deposits	–	–	–	–	-
3. **Other financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**3,013**
4. **Credit and financial derivatives**	**–**	**–**	**–**	**–**	**-**
Total	**3,711**	**113**	**(105)**	**(1)**	**6,731**

Section 8 *Net impairment losses - line item 130*

8.1 Net impairment losses on loans and receivables: breakdown

Transactions/Income items	Adjustments (1)			Write-backs (2)				**Total**	**Total**
	Specific			Specific		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B	**31/12/2015**	**31/12/2014**
A. **Loans and receivables with banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
- Loans	–	–	–	–	–	–	–	–	-
- Fixed-yield securities	–	–	–	–	–	–	–	–	-
B. **Loans and receivables with customers**	**(14,030)**	**(488,959)**	**(65,120)**	**769**	**81,945**	**–**	**95,412**	**(389,983)**	**(464,084)**
Purchased impaired loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
- Loans	–	–	–	–	–	–	–	–	-
- Fixed-yield securities	–	–	–	–	–	–	–	–	-
Other receivables	**(14,030)**	**(488,959)**	**(65,120)**	**769**	**81,945**	**–**	**95,412**	**(389,983)**	**(464,084)**
- Loans	(14,030)	(484,946)	(65,120)	769	81,945	–	95,408	(385,974)	(458,731)
- Fixed-yield securities	–	(4,013)	–	–	–	–	4	(4,009)	(5,353)
C. **Total**	**(14,030)**	**(488,959)**	**(65,120)**	**769**	**81,945**	**–**	**95,412**	**(389,983)**	**(464,084)**

Key:
A = interest
B = other write-backs

8.2 Net impairment losses on available for sale financial assets: breakdown

Transactions/Income items	Adjustments (1) Specific Write-offs	Adjustments (1) Specific Other	Write-backs (2) Specific A	Write-backs (2) Specific B	Total 31/12/2015	Total 31/12/2014
A. Debt securities	–	–	–	–	–	–
B. Variable-yield securities	–	(7,216)	–	–	(7,216)	(18,473)
C. Mutual funds	–	(987)	–	–	(987)	(835)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. **Total**	**–**	**(8,203)**	**–**	**–**	**(8,203)**	**(19,308)**

Key:
A = Interest
B = other write-backs

8.3 Net impairment losses on held-to-maturity investments: breakdown

Transactions/Income items	Adjustments (1) Specific Write-offs	Adjustments (1) Specific Other	Adjustments (1) Portfolio	Write-backs (2) Specific A	Write-backs (2) Specific B	Write-backs (2) Portfolio A	Write-backs (2) Portfolio B	Total 31/12/2015	Total 31/12/2014
A. Debt securities	–	(9,965)	–	–	–	–	–	(9,965)	–
B. Loans to banks	–	–	–	–	–	–	–	–	–
C. Loans to customers	–	–	–	–	–	–	–	–	–
D. **Total**	**–**	**(9,965)**	**–**	**–**	**–**	**–**	**–**	**(9,965)**	**–**

Key:
A = Interest
B = other write-backs

8.4 Net impairment losses on other financial transactions: breakdown

Transactions/Income items	Adjustments (1) Specific Write-offs	Adjustments (1) Specific Other	Adjustments (1) Portfolio	Write-backs (2) Specific A	Write-backs (2) Specific B	Write-backs (2) Portfolio A	Write-backs (2) Portfolio B	Total 31/12/2015	Total 31/12/2014
A. Guarantees given	–	(2,046)	(144)	–	317	–	889	(984)	1,497
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to make loans	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	–
E. **Total**	**–**	**(2,046)**	**(144)**	**–**	**317**	**–**	**889**	**(984)**	**1,497**

Key:
A = Interest
B = other write-backs

Section 11 Administrative expenses - line item 180

11.1 Personnel expenses: breakdown

Type of expenses/Sectors	31/12/2015	31/12/2014
1) **Employees**	**(230,524)**	**(217,881)**
a) Wages and salaries	(149,941)	(142,158)
b) Social security contributions	(36,687)	(34,321)
c) Termination indemnities	(16)	(16)
d) Pension expenses	(4,348)	(3,652)
e) Provision for employee termination indemnities	(7,609)	(7,445)
f) Provision for pension and similar obligations:	(6,643)	(6,286)
- defined contribution	–	–
- defined benefits	(6,643)	(6,286)
g) Payments to external supplementary pension funds:	(3,388)	(3,092)
- defined contribution	(3,388)	(3,092)
- defined benefits	–	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(21,892)	(20,911)
2) **Other working personnel**	**(3,004)**	**(3,162)**
3) **Directors and Statutory auditors**	**(2,272)**	**(2,082)**
4) **Retired personnel**	**–**	**–**
Total	**(235,800)**	**(223,125)**

11.2 Average number of employees by category

	31/12/2015	31/12/2014
1) **Employees**	**3,098**	**3,068**
a) Managers	31	32
b) Officials	739	721
c) Other employees	2,328	2,315
2) **Other personnel**	**80**	**85**

	31/12/2015	31/12/2014
- Actual number of employees	3,115	3,062
- Other personnel	80	86

11.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2015	31/12/2014
Service cost	2,321	2,043
Interest cost	2,190	3,025
Contributions from employees	(241)	(234)
Reductions and payments	2,373	1,452
Total charge to income statement (A)	**6,643**	**6,286**
Portion of yield from assets servicing the fund (B)	4,361	4,310
Total charge (A-B)	2,282	1,976

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements. The cost for the Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations. These contributions amounted to € 1.930 million. An additional provision of € 4.361 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». An amount of € 1.164 million corresponding to the actuarial gains has not been charged to the income statement, but instead it has been added to equity in accordance with IAS 19, as reported in the statement of comprehensive income.

11.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

11.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2015	31/12/2014
Telephone, post and data transmission	(14,294)	(14,718)
Maintenance of property, equipment and investment property	(10,096)	(9,392)
Rent of buildings	(27,817)	(27,385)
Security	(6,385)	(6,285)
Transportation	(4,143)	(4,021)
Professional fees	(24,454)	(22,901)
Office materials	(2,657)	(2,705)
Electricity, heating and water	(5,852)	(6,179)
Advertising and entertainment	(4,278)	(4,196)
Legal	(16,381)	(13,732)
Insurance	(1,981)	(1,764)
Company searches and information	(5,883)	(5,506)
Indirect taxes and dues	(54,049)	(53,674)
Software and hardware rental and maintenance	(15,113)	(13,388)
Data entry by third parties	(1,800)	(2,033)
Cleaning	(5,719)	(5,487)
Membership fees	(2,146)	(2,039)
Services received from third parties	(2,953)	(3,010)
Outsourced activities	(21,468)	(20,069)
Deferred charges	(2,862)	(3,886)
Goods and services for employees	(1,054)	(1,024)
Other	(50,620)	(10,754)
Total	**(282,005)**	**(234,148)**

Other expenses include € 39.442 million comprising the ordinary and special contributions paid to the National Resolution Fund and the National Deposit Protection Fund.

Section 12 Net accruals to provisions for risks and charges line item 190

12.1 Net accruals to provisions for risks and charges: breakdown

The positive balance of € 0.982 million reflects the excess of amounts released during the year over new provisions.

Section 13 Depreciation and net impairment losses on property, equipment and investment property - line item 200

13.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) 31/12/2015
A. **Property, equipment and investment property**				
A.1 Owned	(17,098)	–	–	(17,098)
- for business purposes	(17,098)	–	–	(17,098)
- for investment purposes	–	–	–	–
A.2 Acquired under finance leases	(1,019)	–	–	(1,019)
- for business purposes	(1,019)	–	–	(1,019)
- for investment purposes	–	–	–	–
Total	**(18,117)**	**–**	**–**	**(18,117)**

Section 14 *Amortisation and net impairment losses on intangible assets - line item 210*

14.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) **31/12/2015**
A. **Intangible assets**				
A.1 Owned	(13,926)	–	–	(13,926)
- Internally generated	–	–	–	–
- Other	(13,926)	–	–	(13,926)
A.2 Acquired under finance leases	–	–	–	–
Total	**(13,926)**	**–**	**–**	**(13,926)**

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

	31/12/2015	**31/12/2014**
Out-of-period expense	(3,313)	(2,565)
Other	(602)	(2,237)
Consolidation differences	(930)	(856)
Total	**(4,845)**	**(5,658)**

15.2 Other operating income: breakdown

	31/12/2015	**31/12/2014**
Recovery of charges on deposits and overdrafts	109	96
Recovery of expenses	898	1,375
Rental income from buildings	3,962	1,345
Recovery of taxes	43,958	44,537
Financial income of pension and similar obligations plan	4,459	4,310
Out-of-period income - other	4,304	2,372
Out-of-period income - overprovisions	–	10
Other	22,024	24,589
Consolidation differences	5,664	873
Total	**85,378**	**79,507**

Section 16 *Net losses on equity investments - line item 240*

16.1 Net losses on equity investments: breakdown

Income item/Segments	31/12/2015	31/12/2014
1) **Joint-ventures**		
A. **Income**	**18**	**20**
1. Revaluations	18	20
2. Gains on disposal	–	–
3. Write-backs	–	–
4. Other income	–	–
B. **Charges**	**–**	**–**
1. Write-downs	–	–
2. Impairment writedowns	–	–
3. Loss from disposals	–	–
4. Other charges	–	–
Profit	**18**	**20**
2) **Associated companies**	**–**	**–**
A. **Income**	**15,137**	**7,846**
1. Revaluations	12,135	7,845
2. Gains on disposal	–	–
3. Write-backs	–	1
4. Other income	3,002	–
B. **Charges**	**(1,436)**	**(1,151)**
1. Write-downs	(1,436)	(1,151)
2. Impairment writedowns	–	–
3. Loss from disposals	–	–
4. Other charges	–	–
Profit	**13,701**	**6,695**
Total	**13,719**	**6,715**

Section 17 *Net result of fair value measurement of property, equipment and investment property and intangible assets*

17.1 Net result of fair value measurement (or at revalued amount) of property, equipment and investment property and intangible assets: breakdown

			Exchange differences		
Asset/Income item	Revaluations (a)	Writedowns (b)	Positive (c)	Negative (d)	Net result (a+b+c) 31/12/2015
A. **Property, equipment and investment property**	**–**	**(1,496)**	**–**	**–**	**(1,496)**
A.1 Owned:	–	(1,496)	–	–	(1,496)
- for business purposes	–	–	–	–	–
- for investment purposes	–	(1,496)	–	–	(1,496)
A.2 Purchased under finance leases	–	–	–	–	–
- for business purposes	–	–	–	–	–
- for investment purposes	–	–	–	–	–
B. **Intangible assets**	**–**	**–**	**–**	**–**	**–**
B.1 Owned	–	–	–	–	–
- B.1.1 Internally generated	–	–	–	–	–
- B.1.2 Other	–	–	–	–	–
B.2 Purchased under finance leases	–	–	–	–	–
Total	**–**	**(1,496)**	**–**	**–**	**(1,496)**

Section 19 *Net gains on sales of investments - line item 270*

19.1 Net gains on sales of investments: breakdown

Income items/Segments	31/12/2015	31/12/2014
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**7**	**27**
- Gains on disposal	7	33
- Losses on disposal	–	(6)
Profit	**7**	**27**

Section 20 *Income taxes - line item 290*

20.1 Income taxes: breakdown

Income items/Segments	31/12/2015	31/12/2014
1. Current taxes (-)	(91,587)	(157,473)
2. Change in prior period income taxes (+/-)	–	2,312
3. Reduction in current taxes (+)	–	–
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4. Change in deferred tax assets (+/-)	33,059	80,074
5. Change in deferred tax liabilities (+/-)	(417)	(5,238)
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(58,945)	(80,325)

This line item comes in at 58.945 million, down by 26.62%. The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 30.01% compared with 39.07%. The decline reflects the reduction in taxation linked to the changes in IRAP taxation during the year and to the deductibility of loan writedowns and losses.

20.2 Reconciliation between the theoretical and effective tax burden

Income taxes are calculated on the basis of the specific tax legislation in the country where each company is resident.

The total tax charge for the year can be reconciled as follows:

INCOME TAXES	Tax base	Tax
Theoretical tax burden	196,445	(53,248)
Tax credit	–	–
Increases	123,819	(37,257)
Decreases	(60,606)	16,536
Effective tax burden	**259,658**	**(73,969)**

IRAP (REGIONAL BUSINESS TAX)	Tax base	Tax
Theoretical tax burden	175,294	(9,670)
Tax credit	–	–
Increases	191,654	(10,745)
Decreases	(50,209)	2,797
Effective tax burden	**316,739**	**(17,618)**
Total effective tax burden	**–**	**(91,587)**

Section 22 *Profit (loss) of the period of minority interests - line item 330*

22.1 Detail of line «Profit (loss) of the period of minority interests»

Name of the businesses	31/12/2015	31/12/2014
Equity investments in consolidated companies with significant minority interests		
FACTORIT SPA	8,200	10,079
Total	**8,200**	**10,079**

Section 24 *Earnings per share*

24.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2015	**31/12/2014**
number of shares	453,385,777	381,569,217

This is the weighted average used as the denominator in the calculation of basic earnings per share.

24.2 Other information

IAS 33 requires that EPS «earnings per share» be reported in accordance with the following definitions: «Basic EPS», determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue. «Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares. Diluted earnings per share was calculated with reference to the number of shares issued for payment at the time of the capital increase.

	31/12/2015	**31/12/2014**
earnings per share - €	0,285	0,302
diluted eps - €	0,285	0,296

Analytical statement of consolidated comprehensive income

Items/Amounts	31/12/2015 Gross amount	Income taxes	Net amount
10. **Profit (loss) for the year**	**–**	**–**	**137,500**
Other items of comprehensive income that will not be reclassified to profit or loss	**–**	**–**	**–**
20. **Property, equipment and investment property**	**–**	**–**	**–**
30. **Intangible assets**	**–**	**–**	**–**
40. **Defined-benefit plans**	**2,675**	**(663)**	**2,012**
50. **Non-current assets held for sale and discontinued operations**	**–**	**–**	**–**
60. **Share of valuation reserves of equity investments valued at net equity**	**(140)**	**38**	**(102)**
Other items of comprehensive income that may be reclassified subsequently to profit or loss	**–**	**–**	**–**
70. **Hedges of foreign investments:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
80. **Exchange differences:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
90. **Cash-flow hedges:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
100. **Available-for-sale financial assets:**	**40,793**	**(1,958)**	**38,835**
a) changes in fair value	103,632	(22,725)	80,907
b) transfer to income statement	(62,839)	20,767	(42,072)
- adjustments for impairment	(9)	1	(8)
- gains/losses on disposals	(62,830)	20,766	(42,064)
c) other changes	–	–	–
110. **Non-current assets held for sale and discontinued operations:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
120. **Share of valuation reserves of equity investments valued at net equity:**	**1,010**	**(279)**	**731**
a) changes in fair value	1,010	(279)	731
b) transfer to income statement	–	–	–
- adjustments for impairment	–	–	–
- gains/losses on disposals	–	–	–
c) other changes	–	–	–
130. **Total other income items**	**44,338**	**(2,862)**	**41,476**
140. **Comprehensive income (Item 10+130)**	**–**	**–**	**178,976**
150. **Consolidated comprehensive income pertaining to minority interests**	**–**	**–**	**(8,201)**
160. **Consolidated comprehensive income pertaining to the Parent Bank**	**–**	**–**	**170,775**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Parent Bank's website.

Introduction

The Parent Bank has the task of ensuring effective risk management through proper articulation of the roles and responsibilities of key decision-making departments, as well as the integrity and completeness of the Group's system of controls. This principle involves the centralisation of essential choices in terms of risk management, in order to ensure the harmonisation of all systems of risk assessment and control developed within the Group and to implement a risk management policy that is as integrated and consistent as possible.

The strategic guidelines for risk exposure are established by the governing bodies of the Parent Bank, evaluating the overall operations of the Group and the actual risks that it runs, based on the specific type of operations and risk profiles of each company. The decisions are supported by mechanisms for monitoring and control inherent in the evolution of the various risks assumed within the perimeter of the Group and their compatibility with respect to the pursuit of sound and prudent management.

The governing bodies of subsidiaries, according to each one's powers, are responsible for implementing the risk management policies defined by the Parent Bank in a manner that is consistent with their company's situation, ensuring the functioning of suitable internal control procedures and a constant flow of information to the Parent Bank on individual cases of significant risk.

Section 1 Risks of the Banking Group

1.1 Credit risk

QUALITATIVE INFORMATION

1. General matters

The Parent Bank manages and coordinates the activities of the Swiss subsidiary, thereby ensuring harmonisation of credit policies at group level and a standard approach to risk management.

As outlined in the equivalent section of the notes to the Parent Bank's separate financial statement, the lines of strategy that are followed are geared to sustaining local economies, in particular small and medium-sized businesses and households, maintaining low levels of risk and concentration. These policies are applied by the subsidiaries in ways that respect the peculiarities of their counterparties and the particular types of products being offered, as well as the characteristics of the market in question.

2. Credit risk management policies

2.1 Organisational aspects

The process of credit risk management adopted by the Parent Bank and the structure set up to implement it are explained in detail in the corresponding section of the notes relating to the Bank.

The organisational structure of the subsidiaries complies with that of the Parent Bank, allowing for differences in size and the area in which they operate.

2.2 Systems for managing, measuring and monitoring

As part of its coordination activities, the Parent Bank requires the subsidiaries to apply the control methodology already discussed in detail in the corresponding section of the notes relating to the Bank.

In this regard, it is worth pointing out that the Swiss subsidiary has its own rating system which it applies to customer loans. This system is based entirely on the subjective assessment and discretion of the credit and loans department: this approach involves gathering various set indicators and information of a financial and qualitative nature, depending on the type of customer. The combined evaluation of these elements results in a score, which is used by the person making the final evaluation to assign a rating. This methodology has been analysed by the independent auditors, who consider it appropriate given the scale, complexity and risks involved in the activities performed. Factorit, on the other hand, does not have its own rating system. The company does however make reference to the ratings assigned by the Parent Bank to common customers and, for these, can check their risk status and trends at any time.

2.3 Credit risk mitigation techniques

As part of its functions of coordination and control, the Parent Bank requires the subsidiaries to adopt credit risk mitigation techniques able to ensure efficient management and prudent valuation of the guarantees obtained.

This risk is controlled by the subsidiary Banca Popolare di Sondrio (SUISSE) SA by means of monitoring tools that are substantially similar to those of the Parent Bank, as described in the corresponding Section in the explanatory notes. Note that lending with mortgage backing or financial collateral is long-standing practice in Switzerland: in confirmation, more than 80% of loans to customers are guaranteed by mortgages, almost exclusively on residential property.

As regards Factorit's operations, on the other hand, particular tools for mitigating the risk assumed by the factor can be found in the techniques used to consolidate the transfer of risk versus the assigned debtor and in fragmenting it over the series of other persons or entities, a typical approach in operations of this kind. The shorter average maturity and, therefore, faster turnover of factoring loans with respect to normal banking transactions ensures a certain flexibility in the recovery of the resources invested.

2.4 Impaired financial assets

As part of its functions of coordination and control, the Parent Bank requires the subsidiaries to bring their loans classification criteria and management methods into line with those of the Parent Bank, as explained in the corresponding section of the notes on the Bank. Impaired loans have never been acquired from third parties.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Bad loans	Unlikely-to-pay loans	Past due exposures, impaired	Past due exposures, not impaired	Other non-impaired exposures	**Total 31/12/2015**
1. Available-for-sale financial assets	–	317	–	–	6,020,453	6,020,770
2. Held-to-maturity investments	–	–	–	–	125,777	125,777
3. Loans and receivables with banks	–	426	–	91	979,822	980,339
4. Loans and receivables with customers	734,682	1,209,594	417,931	811,310	20,823,026	23,996,543
5. Financial assets at fair value through profit or loss	–	–	–	–	–	–
6. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2015	**734,682**	**1,210,337**	**417,931**	**811,401**	**27,949,078**	**31,123,429**
Total 31/12/2014	**614,513**	**1,079,487**	**375,654**	**1,153,966**	**28,068,329**	**31,291,949**

The word exposures is understood as excluding equities and mutual funds.
The 2014 figures do not correspond to the figures in the financial Statements.

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

	Impaired assets			Not impaired assets			
Portfolio/quality	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	**Total net exposure**
1. Available-for-sale financial assets	317	–	317	6,020,453	–	6,020,453	6,020,770
2. Held-to-maturity investments	9,965	9,965	–	125,777	–	125,777	125,777
3. Loans and receivables with banks	426	–	426	979,913	–	979,913	980,339
4. Loans and receivables with customers	4,253,913	1,891,706	2,362,207	21,793,990	159,654	21,634,336	23,996,543
5. Financial assets at fair value through profit or loss	–	–	–	–	–	–	–
6. Financial assets being sold	–	–	–	–	–	–	–
Total 31/12/2015	**4,264,621**	**1,901,671**	**2,362,950**	**28,920,133**	**159,654**	**28,760,479**	**31,123,429**
Total 31/12/2014	**3,644,510**	**1,574,856**	**2,069,654**	**29,367,862**	**145,567**	**29,222,295**	**31,291,949**

With reference to financial assets at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial writeoffs recorded over the years in relation to the above portfolios total € 109.081 million, reflecting the bad loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» presents the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the other financial assets.

	Assets obviously of poor quality		Other assets
Portfolio/quality	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	47	614	1,675,632
2. Hedging derivatives	–	–	–
Total 31/12/2015	**47**	**614**	**1,675,632**
Total 31/12/2014	**45**	**311**	**2,245,656**

A.1.3 Banking Group - Cash and off-balance sheet exposures to banks: gross and net values and past due bands

Type of exposure/Amounts	Gross exposure - Impaired assets - Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**								
a) Bad loans	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
b) Unlikely-to-pay loans	10,391	–	–	–	–	9,965	–	426
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
c) Impaired past due exposures	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
d) Not Impaired past due exposures	–	–	–	–	91	–	–	91
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
e) Other not impaired exposure	–	–	–	–	1,230,954	–	–	1,230,954
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
Total A	**10,391**	**–**	**–**	**–**	**1,231,045**	**9,965**	**–**	**1,231,471**
B. **Off-balance sheet exposures**								
a) Impaired	–	–	–	–	–	–	–	–
b) Not impaired	–	–	–	–	172,993	–	–	172,993
Total B	**–**	**–**	**–**	**–**	**172,993**	**–**	**–**	**172,993**
Total (A+B)	**10,391**	**–**	**–**	**–**	**1,404,038**	**9,965**	**–**	**1,404,464**

Cash exposures include the loans and receivables with banks, shown under item 60, as well as other financial assets consisting of bank securities included in items 20, 30, 40, 50 of assets, excluding variable-yield securities. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

A.1.4 Banking Group - Cash exposures to customers: dynamics of gross impaired loans

Categories	Bad loans	Unlikely-to-pay loans	Past due exposures, impaired
A. **Opening gross exposure**	**–**	**–**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–
B. **Increases**	**–**	**10,391**	**–**
B.1 transfers from performing loans	–	10,163	–
B.2 transfers from other categories of impaired exposure	–	–	–
B.3 other increases	–	228	–
C. **Decreases**	**–**	**–**	**–**
C.1 transfers to performing loans	–	–	–
C.2 write-offs	–	–	–
C.3 collections	–	–	–
C.4 proceeds from disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposure	–	–	–
C.7 other decreases	–	–	–
D. **Closing gross exposure**	**–**	**10,391**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–

A.1.5 Banking group - Impaired cash exposures to banks: dynamics of total writedowns

	Bad loans		Unlikely-to-pay loans		Past due exposures, impaired	
Categories	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance
A. **Total opening adjustments**	**–**	**–**	**–**	**–**	**–**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–	–	–	–
B. **Increases**	**–**	**–**	**9,965**	**–**	**–**	**–**
B.1 adjustments	–	–	9,965	–	–	–
B.2 losses on disposal	–	–	–	–	–	–
B.3 transfers from other categories of impaired exposure	–	–	–	–	–	–
B.4 other increases	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 write-backs on valuation	–	–	–	–	–	–
C.2 write-backs due to collections	–	–	–	–	–	–
C.3 gains on disposal	–	–	–	–	–	–
C.4 write-offs	–	–	–	–	–	–
C.5 transfers to other categories of impaired exposure	–	–	–	–	–	–
C.6 other decreases	–	–	–	–	–	–
D. **Total closing adjustments**	**–**	**–**	**9,965**	**–**	**–**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–	–	–	–

A.1.6 Banking group - Cash and off-balance sheet exposures to customers: gross and net values and past due bands

	Gross exposure							
	Impaired assets							
Type of exposure/Amounts	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**								
a) Bad loans	2,455	5,466	45,164	1,874,522	–	1,192,925	–	734,682
- of which: exposures subject to forbearance	40	–	4,079	25,534	–	18,929	–	10,724
b) Unlikely-to-pay loans	559,496	152,322	279,944	848,748	–	630,599	–	1,209,911
- of which: exposures subject to forbearance	243,886	15,182	28,076	49,115	–	109,878	–	226,381
c) Impaired past due exposures	85,147	80,301	159,087	161,578	–	68,182	–	417,931
- of which: exposures subject to forbearance	2,454	6,249	5,393	5,883	–	2,728	–	17,251
d) Not Impaired past due exposures	–	–	–	–	835,878	–	24,490	811,388
- of which: exposures subject to forbearance	–	–	–	–	29,456	–	1,406	28,050
e) Other not impaired exposure	–	–	–	–	28,466,443	–	135,163	28,331,280
- of which: exposures subject to forbearance	–	–	–	–	224,478	–	2,519	221,959
Total A	**647,098**	**238,089**	**484,195**	**2,884,848**	**29,302,321**	**1,891,706**	**159,653**	**31,505,192**
B. **Off-balance sheet exposures**								
a) Impaired	84,423	–	–	–	–	14,912	–	69,511
b) Not impaired	–	–	–	–	4,827,527	–	5,249	4,822,278
Total B	**84,423**	**–**	**–**	**–**	**4,827,527**	**14,912**	**5,249**	**4,891,789**
Total (A+B)	**731,521**	**238,089**	**484,195**	**2,884,848**	**34,129,848**	**1,906,618**	**164,902**	**36,396,981**

Cash exposures include the customer loans shown in item 70 as well as other financial assets represented by non-bank securities included in items 20, 30, 40, 50 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.7 Banking Group - Cash exposures to customers: dynamics of gross impaired loans

Categories	Bad loans	Unlikely-to-pay loans	Past due exposures, impaired
A. **Opening gross exposure**	**1,581,382**	**1,634,273**	**428,931**
- of which: sold but not eliminated from the balance sheet	9,965	26,108	20,501
B. **Increases**	**537,928**	**955,688**	**432,451**
B.1 transfers from performing loans	55,806	544,741	397,954
B.2 transfers from other categories of impaired exposure	405,123	139,824	13,790
B.3 other increases	76,999	271,123	20,707
C. **Decreases**	**191,703**	**749,451**	**375,271**
C.1 transfers to performing loans	679	41,805	118,055
C.2 write-offs	92,484	880	–
C.3 collections	97,245	313,801	83,644
C.4 proceeds from disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposure	117	385,048	173,572
C.7 other decreases	1,178	7,917	–
D. **Closing gross exposure**	**1,927,607**	**1,840,510**	**486,113**
- of which: sold but not eliminated from the balance sheet	725	952	1,768

A.1.8 Banking group - Cash exposures to customers: dynamics of total writedowns

	Bad loans		Unlikely-to-pay loans		Past due exposures, impaired	
Categories	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance
A. **Total opening adjustments**	**966,792**	**–**	**554,786**	**–**	**53,277**	**–**
- of which: sold but not eliminated from the balance sheet	3,126	–	5,339	–	2,629	–
B. **Increases**	**356,910**	**–**	**251,320**	**–**	**36,923**	**–**
B.1 adjustments	214,148	–	233,484	–	33,886	–
B.2 losses on disposal	–	–	–	–	–	–
B.3 transfers from other categories of impaired exposure	141,004	–	17,081	–	3,024	–
B.4 other increases	1,758	–	755	–	13	–
C. **Decreases**	**130,777**	**–**	**175,507**	**–**	**22,018**	**–**
C.1 write-backs on valuation	24,609	–	28,754	–	1,159	–
C.2 write-backs due to collections	12,619	–	4,788	–	305	–
C.3 gains on disposal	–	–	–	–	–	–
C.4 write-offs	92,482	–	856	–	–	–
C.5 transfers to other categories of impaired exposure	154	–	140,416	–	20,539	–
C.6 other decreases	913	–	693	–	15	–
D. **Total closing adjustments**	**1,192,925**	**–**	**630,599**	**–**	**68,182**	**–**
- of which: sold but not eliminated from the balance sheet	177	–	157	–	223	–

A.2 Classification of exposures based on external and internal ratings

A.2.1 Banking Group - Distribution of cash loans and off-balance sheet items by external rating class

	External rating classes							Total
Exposure	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	31/12/2015
A. **Cash exposure**	**90,787**	**7,546,497**	**398,675**	**489,049**	**35,813**	**78**	**24,586,537**	**33,147,436**
B. **Derivatives**	**–**	**22,094**	**2,884**	**432**	**–**	**–**	**38,647**	**64,057**
B.1 Financial derivatives	–	22,094	2,884	432	–	–	38,647	64,057
B.2 Credit derivatives	–	–	–	–	–	–	–	–
C. **Guarantees given**	**2,918**	**62,443**	**149,567**	**167,522**	**32,448**	**18**	**3,240,787**	**3,655,703**
D. **Commitments to make loans**	**–**	**46,310**	**11,737**	**24,206**	**11,000**	**–**	**1,251,744**	**1,344,997**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**25**	**25**
Total	**93,705**	**7,677,344**	**562,863**	**681,209**	**79,261**	**96**	**29,117,740**	**38,212,218**

The distribution of exposures other than those in variable-yield securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Group's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	From AAA to AAL	From AH to AL	From BBBH to BBBL	From BBH to BBL	From BH to BL	CCC
Standard &Poor's Rating Services	From AAA to AA-	From A+ to A-	From BBB+ to BBB-	From BB+ to BB	From B+ to B-	from CCC+ down
FitchRatings	From AAA to AA-	From A+ to A-	From BBB+ to BBB-	From BB+ to BB-	From B+ to B-	from CCC+ down

A.2.2 Banking Group - Distribution of cash loans and off-balance sheet items by internal rating class

Tables analysing the distribution of the cash and «off-balance sheet» exposures of Banca Popolare di Sondrio by internal rating class are presented in the corresponding section of the notes to the financial statements of the Parent Bank.

Banca Popolare di Sondrio (SUISSE) SA uses its own rating system, which distributes customers on a scale of risk classes from 1 to 10. The first category identifies customers with the lowest risk, while the categories from R6 to R8 indicate various levels of insolvency, depending on how serious it is.

Banca Popolare di Sondrio (Suisse) - CUSTOMERS – EXPOSURE		R1	R2	R3	R3G
A. **Cash exposures**		**–**	**–**	**468,276**	**527,129**
B. **Derivatives**		**–**	**–**	**–**	**–**
B.1 Financial derivatives		–	–	–	–
B.2 Credit derivatives		–	–	–	–
C. **Guarantees given**		**–**	**–**	**64**	**1,008**
D. **Commitments to make loans**		**–**	**–**	**6**	**1,292**
E. **Other**		**–**	**–**	**–**	**–**
Total		**–**	**–**	**468,346**	
529,429	**1,952,256**	**291,844**	**110,871**	**31,060**	
43 2,499	**3,386,348**				

Note that the Bank does not use these internal rating when calculating the capital

Internal rating classes						
R4	R4G	R5	R6	R7	R8	**Total 31/12/2015**
1,887,442	**273,618**	**110,748**	**31,060**	**43**	**2,499**	**3,300,815**
–	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
57,569	**11,385**	**75**	**–**	**–**	**–**	**70,101**
7,245	**6,841**	**48**	**–**	**–**	**–**	**15,432**
–	**–**	**–**	**–**	**–**	**–**	**–**

requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in columns «guarantees» refer to the actual value of the collateral (so-called «fair value»), which can be much higher than the amount guaranteed: this means that the real value of the guarantees may exceed that shown in the table.

A.3.1 Banking group - Guaranteed cash exposure to banks

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures**	**44,698**	**–**	**–**	**1,349**	**–**
1.1 fully guaranteed	40,831	–	–	1,135	–
- of which: impaired	–	–	–	–	–
1.2 partially guaranteed	3,867	–	–	214	–
- of which: impaired	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**13,973**	**–**	**–**	**–**	**–**
2.1 fully guaranteed	13,885	–	–	–	–
- of which: impaired	–	–	–	–	–
2.2 partially guaranteed	88	–	–	–	–
- of which: impaired	–	–	–	–	–

A.3.2 Banking group - Guaranteed cash exposure to customers

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**16,322,427**	**12,060,110**	**–**	**1,176,377**	**173,754**
1.1. fully guaranteed	15,657,295	12,056,667	–	1,049,080	141,609
- of which: impaired	1,931,532	1,680,260	–	12,254	3,243
1.2. partially guaranteed	665,132	3,443	–	127,297	32,145
- of which: impaired	128,928	2,925	–	17,300	1,872
2. **Guaranteed off-balance sheet exposures:**	**1,516,040**	**103,236**	**–**	**70,850**	**85,767**
2.1. fully guaranteed	1,317,903	103,236	–	58,316	76,762
- of which: impaired	31,561	4,718	–	505	1,970
2.2. partially guaranteed	198,137	–	–	12,534	9,005
- of which: impaired	5,733	–	–	452	82

Personal guarantees (2)									
Credit derivatives									
Other derivatives					Guarantees given				
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2015**
–	**–**	**–**	**–**	**–**	**4,918**	**–**	**37,204**	**714**	**44,185**
–	–	–	–	–	4,918	–	34,064	714	40,831
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	3,140	–	3,354
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**12,895**	**–**	**1,061**	**–**	**13,956**
–	–	–	–	–	12,824	–	1,061	–	13,885
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	71	–	–	–	71
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Credit derivatives									
Other derivatives					Guarantees given				
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2015**
–	**–**	**–**	**–**	**–**	**45,440**	**12,963**	**17,430**	**2,518,108**	**16,004,182**
–	–	–	–	–	22,701	10,817	11,858	2,220,045	15,512,777
–	–	–	–	–	710	2,898	372	214,671	1,914,408
–	–	–	–	–	22,739	2,146	5,572	298,063	491,405
–	–	–	–	–	1,682	785	–	93,216	117,780
–	**–**	**–**	**–**	**–**	**54,597**	**–**	**6,496**	**1,010,395**	**1,331,341**
–	–	–	–	–	1,802	–	1,323	950,640	1,192,079
–	–	–	–	–	–	–	–	17,863	25,056
–	–	–	–	–	52,795	–	5,173	59,755	139,262
–	–	–	–	–	143	–	–	3,123	3,800

B. Distribution and concentration of exposure

Preparation of this section has excluded in the exposures reported in tables A.1.3. and A.1.6., exposures to counterpart risk relating to loans of securities or goods, granted or received.

B.1 Banking group - Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

	Government			Other public entities		
Exposures/Counterparties	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. **Cash exposures**						
A.1 Bad loans	–	–	–	–	–	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.2 Unlikely-to-pay loans	8,051	4,649	–	–	22	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.3 Past due exposures, impaired	–	–	–	125	12	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.4 Not impaired exposures	7,365,723	–	–	134,114	–	66
- of which exposures subject to forbearance	–	–	–	–	–	–
Total A	**7,373,774**	**4,649**	**–**	**134,239**	**34**	**66**
B. **Off-balance sheet exposures**						
B.1 Bad loans	–	–	–	–	–	–
B.2 Unlikely-to-pay loans	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–
B.4 Not impaired exposures	46,420	–	–	28,465	–	–
Total B	**46,420**	**–**	**–**	**28,465**	**–**	**–**
Total (A+B) 31/12/2015	**7,420,194**	**4,649**	**–**	**162,704**	**34**	**66**
Total (A+B) 31/12/2014	**8,127,960**	**3,654**	**2**	**175,700**	**474**	**39**

Financial companies			Insurance companies			Non-financial companies			Other parties		
Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
8,817	38,028	–	–	–	–	585,229	1,006,554	–	140,636	148,343	–
–	–	–	–	–	–	9,618	18,095	–	1,106	834	–
20,933	16,307	–	–	–	–	974,565	539,703	–	206,362	69,918	–
7,589	2,787	–	–	–	–	204,985	99,534	–	13,807	7,557	–
990	157	–	–	–	–	297,756	48,604	–	119,060	19,409	–
53	9	–	–	–	–	14,011	2,184	–	3,187	535	–
2,525,179	–	13,625	8,294	–	–	12,819,461	–	128,038	6,289,897	–	17,924
404	–	2	–	–	–	231,169	–	3,885	18,436	–	38
2,555,919	**54,492**	**13,625**	**8,294**	**–**	**–**	**14,677,011**	**1,594,861**	**128,038**	**6,755,955**	**237,670**	**17,924**
–	–	–	–	17	–	12,634	7,735	–	243	492	–
739	67	–	–	–	–	39,814	6,450	–	1,217	133	–
154	–	–	–	–	–	11,722	14	–	2,988	4	–
517,050	–	146	3,504	–	5	3,959,041	–	4,778	267,773	–	320
517,943	**67**	**146**	**3,504**	**17**	**5**	**4,023,211**	**14,199**	**4,778**	**272,221**	**629**	**320**
3,073,862	**54,559**	**13,771**	**11,798**	**17**	**5**	**18,700,222**	**1,609,060**	**132,816**	**7,028,176**	**238,299**	**18,244**
3,073,376	**41,056**	**18,496**	**27,038**	**17**	**16**	**19,274,419**	**1,353,955**	**98,985**	**6,701,176**	**188,927**	**33,930**

B.2 Banking group - Territorial distribution of cash and off-balance sheet exposures to customers (book value)

Exposures/Geographical areas	ITALY Net exposure	ITALY Total writedowns	OTHER EU COUNTRIES Net exposure	OTHER EU COUNTRIES Total writedowns
A. **Cash exposures**				
A.1 Bad loans	715,479	1,150,760	19,194	38,499
A.2 Unlikely-to-pay loans	1,176,779	618,762	33,015	11,733
A.3 Past due exposures, impaired	414,991	67,675	1,975	342
A.4 Not impaired exposures	25,397,075	145,333	3,682,122	14,218
Total A	**27,704,324**	**1,982,530**	**3,736,306**	**64,792**
B. **Off-balance sheet exposures**				
B.1 Bad loans	12,876	8,244	–	–
B.2 Unlikely-to-pay loans	41,739	6,645	31	5
B.3 Other impaired assets	14,858	17	6	–
B.4 Not impaired exposures	4,338,371	4,230	478,919	1,008
Total B	**4,407,844**	**19,136**	**478,956**	**1,013**
Total (A+B) 31/12/2015	**32,112,168**	**2,001,666**	**4,215,262**	**65,805**
Total (A+B) 31/12/2014	**32,853,791**	**1,683,999**	**3,965,834**	**52,717**

B.3 Banking group - Territorial distribution of cash and off-balance sheet exposures to banks (book value)

Exposures/Geographical areas	ITALY Net exposure	ITALY Total writedowns	OTHER EU COUNTRIES Net exposure	OTHER EU COUNTRIES Total writedowns
A. **Cash exposures**				
A.1 Bad loans	–	–	–	–
A.2 Unlikely-to-pay loans	426	9,965	–	–
A,3 Past due exposures, impaired	–	–	–	–
A.4 Not impaired exposures	900,181	–	262,011	–
Total A	**900,607**	**9,965**	**262,011**	**–**
B. **Off-balance sheet exposures**				
B.1 Bad loans	–	–	–	–
B.2 Unlikely-to-pay loans	–	–	–	–
B.3 Other impaired assets	–	–	–	–
B.4 Not impaired exposures	82,993	–	83,863	–
Total B	**82,993**	**–**	**83,863**	**–**
Total A+B 31/12/2015	**983,600**	**9,965**	**345,874**	**–**
Total A+B 31/12/2014	**1,047,540**	**36**	**295,989**	**–**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
8	14	–	3,629	1	23
–	–	116	104	1	–
921	156	33	6	11	3
51,060	75	10,126	22	2,285	5
51,989	**245**	**10,275**	**3,761**	**2,298**	**31**
–	–	–	–	1	–
–	–	–	–	–	–
–	–	–	–	–	1
2,789	11	1,998	–	176	–
2,789	**11**	**1,998**	**–**	**177**	**1**
54,778	**256**	**12,273**	**3,761**	**2,475**	**32**
508,714	**183**	**48,795**	**2,611**	**2,535**	**41**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
30,296	–	32,205	–	6,352	–
30,296	**–**	**32,205**	**–**	**6,352**	**–**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1,746	–	3,796	–	595	–
1,746	**–**	**3,796**	**–**	**595**	**–**
32,042	**–**	**36,001**	**–**	**6,947**	**–**
68,421	**–**	**41,153**	**–**	**20,950**	**–**

B.4 Significant risks

	31/12/2015	31/12/2014
Number of positions	8	13
Exposure	12,021,007	14,196,420
Risk position	2,885,046	3,427,061

the exposure limit of 10% of own funds - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers, On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

The above positions include the Republic of Italy (nominal exposure, 7,534 million; risk position, 52 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione e Garanzia - Clearing House (nominal exposure, 1,563 million; risk position, 55 million), principally in relation to lending and funding repo transactions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

C. Securitisation transactions

C.1 Securitisation transactions

QUANTITATIVE INFORMATION

C.2 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	Cash exposure					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042	–	–	–	–	–	–
Mortgage loans	70,973	8,767	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045	–	–	–	–	–	–
Lease contracts	174,829	595	–	–	–	–

C.3 Banking group – Non-consolidated special purpose vehicle for securitisation

Names	Registered offices of the company	Consolidation	Loans
Alba 6 Spv Srl	Conegliano (TV)	NO	239,674
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	319,110

C.4 Banking group – Non-consolidated special purpose vehicle for securitisation

The SPV Alba 6 Spv Srl and BNT Portfolio Spv Srl have not been consolidated as there are not the requirements of IFRS 10.

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Assets		Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior
–	7,729	175,427	–	44,219
–	16,793	333,728	–	–

D. Information about structured entities (other than securitisation vehicles)

No situations arose during the year that would have required the disclosures envisaged in IFRS 12, paras. 14-17 and 26-27.

Following the entry into force of IFRS 10 on the subject of control, Fondo Centro delle Alpi Real Estate was consolidated for the first time in the prior year since the relevant conditions were met.

E. Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

E.1 Banking group – Financial assets sold and not eliminated from the balance sheet: book value and full value

	Financial assets held for trading			Financial assets at fair value through profit or loss			Available-for-sale financial assets		
Technical forms/Portfolio	A	B	C	A	B	C	A	B	C
A. **Cash assets**	**136,022**	**–**	**–**	**–**	**–**	**–**	**587,925**	**–**	**–**
1. Fixed-yield securities	136,022	–	–	–	–	–	587,925	–	–
2. Variable-yield securities	–	–	–	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total 31/12/2015	**136,022**	**–**	**–**	**–**	**–**	**–**	**587,925**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–
Total 31/12/2014	**95,634**	**–**	**–**	**–**	**–**	**–**	**288,539**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–

Key:
A = financial assets sold and recognised in full (book value)
B = financial assets sold and recognised in part (book value)
C = financial assets sold and recognised in part (full value)

These are securities sold under repurchase agreements.

E.2 Banking group - Financial liabilities associated with assets sold and not eliminated from the balance sheet: book value

Liabilities/Portfolio of assets	Financial assets held for trading	Financial assets at fair value through profit or loss	Available -for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	**Total 31/12/2015**
1. **Due to customers**	**139,300**	**–**	**587,769**	**–**	**–**	**–**	**727,069**
a) for assets recognised in full	139,300	–	587,769	–	–	–	727,069
b) for assets recognised in part	–	–	–	–	–	–	–
2. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in full	–	–	–	–	–	–	–
b) for assets recognised in part	–	–	–	–	–	–	–
3. **Securities issued**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in full	–	–	–	–	–	–	–
b) for assets recognised in part	–	–	–	–	–	–	–
Total 31/12/2015	**139,300**	**–**	**587,769**	**–**	**–**	**–**	**727,069**
Total 31/12/2014	**95,621**	**–**	**288,101**	**–**	**–**	**–**	**383,722**

Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			Total	Total
A	B	C	A	B	C	A	B	C	31/12/2015	31/12/2014
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**723,947**	**384,173**
–	–	–	–	–	–	–	–	–	723,947	384,173
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**723,947**	**–**
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**384,173**
–	–	–	–	–	–	–	–	–	–	–

E.3 Banking group - Disposals with recourse limited solely to the assets sold: fair value

Technical forms/Portfolio	Financial assets held for trading		Financial assets at fair value through profit or loss		Available-for-sale financial assets	
	A	B	A	B	A	B
A. **Cash assets**	**136,022**	**–**	**–**	**–**	**587,925**	**–**
1. Fixed-yield securities	136,022	–	–	–	587,925	–
2. Variable-yield securities	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
Total assets	**136,022**	**–**	**–**	**–**	**587,925**	**–**
C. **Associated liabilities**	**139,300**	**–**	**–**	**–**	**587,769**	**–**
1. Due to customers	139,300	–	–	–	587,769	–
2. Due to banks	–	–	–	–	–	–
3. Securities issued	–	–	–	–	–	–
Total liabilities	**139,300**	**–**	**–**	**–**	**587,769**	**–**
Net value 31/12/2015	**(3,278)**	**–**	**–**	**–**	**156**	**–**
Net value 31/12/2014	**13**	**–**	**–**	**–**	**438**	**–**

Key:

A = financial assets sold and recognised in full
B = financial assets sold and recognised in part

E.4 Covered bond operations

On 6 November 2013, the Board of Directors of the Parent Bank authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Bank. On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million. Under the same contract, a second tranche of mortgage loans totalling € 202 million was assigned on 4 December 2015. The above securitisation involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operation is not treated as an assignment without recourse pursuant to IAS 39. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue including equipping the Parent Bank with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- planning in good time the replacement of amounts received from the ECB via «LTRO - Long-Term Refinancing Operations»;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the

Held-to-maturity investments (fair value)		Loans and receivables with banks (fair value)		Loans and receivables with customers (fair value)		Total	
A	B	A	B	A	B	**31/12/2015**	**31/12/2014**
–	**–**	**–**	**–**	**–**	**–**	**723,947**	**384,173**
–	–	–	–	–	–	723,947	384,173
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**723,947**	**384,173**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**727,069**	**383,722**
–	**–**	**–**	**–**	**–**	**–**	**(3,122)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**451**

tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparts involved for various reasons, Mazars Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests and preparing an annual report that describes the checks performed and the related results.

The operation is proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bonds issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, POPSO Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 1
ISIN Code:	IT0005039711
Issue date	05/08/2014
Maturity Date	05/08/2019
Extended maturity	05/08/2020
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	1,375%
Coupon	Annual
Applicable law	Italian

1.2 Banking group - Market risk

1.2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

Factorit s.p.a., Popso Covered Bond s.r.l. and Sinergia Seconda S.r.l. are not exposed to rate and price risk related to the trading portfolio.

The interest rate risk deriving from Banca Popolare di Sondrio (Suisse) SA's trading portfolio relates to investments in fixed-yield securities and forward contracts on exchange rates.

The first ones are for both investment purposes - the positions are held until their natural maturity - and trading purposes in a strict sense.

The portfolio mainly comprises prime fixed-yield securities with a definite life.

The price risk deriving from the Swiss subsidiary's trading portfolio relates to investments in variable-yield securities of prime issuers, above all, in mutual funds managed by the Group (Popso (Suisse) Investment Fund Sicav).

These are mainly held as an investment, for the long term, rather than for trading in the strictest sense.

The subsidiary's accounting department performs a monthly valuation in order to reflect any adverse price changes in the income statement, while the Risk Control office monitors the situation during the month. Every month, this Office presents documentation on the status of the trading portfolio to the Risks Committee, while the General Management of the subsidiary presents the same documentation at the periodic meetings of the local Board of Directors.

B. Management and measurement of interest rate risk and price risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

The Parent Bank assesses the subsidiary's degree of market risk (measurement of VaR) based on information provided by the company's own risk management unit.

The approach adopted for analysing the sensitivity to interest rate risk – solely in relation to fixed-yield securities held at year end – and to price risk – limited to variable-yield securities, mutual funds and changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties and relating to period end – essentially reflect the internal model used by the Parent Bank to calculate Value at Risk (VaR), as described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to price risk included in the Parent Bank's trading portfolio for supervisory purposes: as for interest rate risk, fixed-yield securities of the Parent Bank or of the subsidiary; as for the price risk, variable-yield securities and mutual funds included in the trading portfolio for supervisory purposes of the Parent Bank; moreover, the variable-yield securities and mutual funds of the subsidiary, excluding equity investments and the two variable-yield securities classified as «available-for-sale financial assets», included in the bank book. The price risk on foreign currency mutual funds also includes exchange risk.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

The policies and procedures for the ex post comparison of the model's results with the actual results («back testing») are only applied to the variable-yield securities and mutual funds held by the Parent Bank in its trading portfolio for supervisory purposes.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

With regard to the measurement of interest-rate risk, the VaR methodology described above also takes account of the results obtained at a consolidated level by the internal Asset & Liability Management (ALM) model described in the corresponding section of the notes to the financial statements of the Parent Bank.

In this regard, the following year-end data relates solely to the fixed-yield securities held in the trading portfolio for supervisory purposes, lending and funding repo transactions (with underlying fixed-yield securities held in the trading portfolio for supervisory purposes), forward exchange-rate contracts, interest-rate options and interest-rate swaps held in the Parent Bank's trading portfolio, as well as the forward exchange-rate contracts of Banca Popolare di Sondrio (SUISSE) SA.

The effect of a change in interest rates of +200 basis points over twelve months on the future interest margin – the difference between the future interest income and the future interest expense – would be 35.515 million, whereas a change in interest rates of -200 basis points would decrease in the interest margin by 1.665 million euro. The effect of an instantaneous change in interest rates by +200 basis points on equity – the difference between the present value of assets and liabilities – would be a loss of 39.567 million, whereas a change in interest rates by -200 basis would result in a profit of 10.609 million euro.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**1,204,671**	**568,290**	**135,156**	**248,770**	**119,113**	**–**	**–**
1.1 Fixed-yield securities	–	498,611	568,290	135,156	248,770	119,113	–	–
- with early repayment option	–	31,111	–	–	–	–	–	–
- other	–	467,500	568,290	135,156	248,770	119,113	–	–
1.2 Other assets	–	706,060	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**139,300**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	139,300	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**4,420,801**	**786,030**	**666,422**	**1,047,882**	**51,466**	**10,102**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	4,420,801	786,030	666,422	1,047,882	51,466	10,102	–
- Options	–	5,939	23,761	41,890	170,889	39,606	2,410	–
+ Long positions	–	2,973	11,897	20,969	85,447	19,803	1,205	–
+ Short positions	–	2,966	11,864	20,921	85,442	19,803	1,205	–
- Other derivatives	–	4,414,862	762,269	624,532	876,993	11,860	7,692	–
+ Long positions	–	2,824,656	424,300	499,001	438,127	5,930	3,846	–
+ Short positions	–	1,590,206	337,969	125,531	438,866	5,930	3,846	–

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**1,894**	**956**	**3,287**	**33,100**	**506**	**–**	**–**
1.1 Fixed-yield securities	–	1,894	956	3,287	33,100	506	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	1,894	956	3,287	33,100	506	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**3,301,237**	**360,581**	**660,482**	**39,234**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	3,301,237	360,581	660,482	39,234	–	–	–
- Options	–	6,633	19,562	26,936	3,680	–	–	–
+ Long positions	–	3,318	9,785	13,473	1,841	–	–	–
+ Short positions	–	3,315	9,777	13,463	1,839	–	–	–
- Other derivatives	–	3,294,604	341,019	633,546	35,554	–	–	–
+ Long positions	–	1,037,240	127,471	130,258	18,152	–	–	–
+ Short positions	–	2,257,364	213,548	503,288	17,402	–	–	–

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	ITALY	UNITED STATES	UNITED KINGDOM	JAPAN	GERMANY	OTHER COUNTRIES	
A. **Variable-yield securities**							
- long positions	88,526	130	1,570	–	7,172	27,600	1,087
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities of the Parent Bank	1,700.1
Fixed-yield securities BPS Suisse	39.0
Total interest rate risk	**1,723.4**
Variable-yield securities and mutual funds - Parent Bank	6,355.0
Mutual funds. BPS Suisse	22.2
Total Price risk	**6,374.9**
Total Interest rate risk and price risk	**6,481.9**

The following are the figures taken from the ALM procedure.

Effects of a change in interest rates by +200 basis points over a twelve-month period on the future interest margin.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date.

Exposure to risk

(figures in millions of euro)	Parent Bank	BPS Suisse	Consolidated
at period end	26.766	8.750	35.515
average	28.143	10.640	38.784
maximum	14.640	8.750	25.366
minimum	33.110	12.837	43.782

Effects of a change in interest rates by -200 basis points over a twelve-month period on the future interest margin.

Exposure to risk

(figures in millions of euro)	Parent Bank	BPS Suisse	Consolidated
at period end	-0.015	-1.651	-1.665
average	-0.292	-1.609	-1.901
maximum	-0.804	-2.206	-2.992
minimum	0.328	-0.914	-0.675

Effects of an instant change in interest rates of +200 basis points on equity.

Equity is understood as being the difference between the present value assets and liabilities items.

Exposure to risk

(figures in millions of euro)	Parent Bank	BPS Suisse	Consolidated
at period end	-38.315	-1.442	-39.567
average	-41.672	-1.136	-42.593
maximum	-54.520	-1.692	-54.282
minimum	-38.315	0.005	-39.567

Effects of an instant change in interest rates of -200 basis points on equity.

Exposure to risk

(figures in millions of euro)	Parent Bank	BPS Suisse	Consolidated
at period end	6.841	3.723	10.609
average	9.598	3.290	12.945
maximum	3.447	2.398	8.037
minimum	15.780	4.517	18.928

All the above data from the ALM procedure is stated gross of any intercompany transactions, except for the «Consolidated» column. In addition, at Parent Bank level, all the interest-rate swaps are included in the trading portfolio; with regard to just Banca Popolare di Sondrio (SUISSE) SA, all the interest-rate swaps are allocated to the bank book; lastly, at Group level, interest-rate swaps are only included in the bank book if arranged between the Parent Bank and third parties in order to match similar IRS transactions arranged with Banca Popolare di Sondrio (SUISSE) SA.

1.2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

For Factorit Spa, interest rate risk is caused by the different times and methods used in repricing the interest rate on assets and liabilities. The presence of diversified fluctuations in interest rates leads to a variation in the expected interest margin, as well as a change in the present value of the assets and liabilities; this in turn alters the economic value of the items at risk. Note that the characteristics of Factorit's assets and liabilities mean that the impact of a change in market rates on the present value of its assets and liabilities is quite marginal. The high level of rotation of the loans and receivables and the fact that the funding is exclusively short-term, which ensure frequent repricings very close to each other, make it possible to maintain lending and funding terms in line with current market conditions.

The principal source of interest rate risk for the subsidiary Banca popolare di Sondrio (SUISSE) SA derives from fixed-rate lending (mortgage loans).

The General Management of the company is assisted by the Risks Committee, which analyses sensitivity to rate risk every month in relation to capital for supervisory purposes. Sensitivity is defined as the change in the economic value of capital for supervisory purposes deriving from a parallel shock to the market rates of 100 basis points.

The Board of Directors of the company has established a prudent sensitivity limit in its «Risk Appetite Framework and Risks Policy (RAF)», in order to facilitate the effective monitoring and management of interest-rate risk. As part of the quarterly reporting on the status of risks, the Risks Committee sends the Board of Directors a specific report on the changes in sensitivity.

In compliance with the relevant Swiss regulations and using an internal Asset & Liability Management model, a report is prepared every month for the local Supervisory Authority containing a gap analysis and a duration analysis, including all the balance sheet positions exposed to interest-rate risk. The objective to measure the impact on income and equity of a change of 100 basis points over a period of twelve months, with reference to the principal currencies reflected in the financial statements.

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.

At Group level, interest-rate risk is measured and controlled using a strategic internal

Asset & Liability Management (ALM) model that is applied by the Parent Bank with reference to an integrated database containing consolidated information.

As discussed in the corresponding section of the notes to the financial statements of the Parent Bank, the internal processes for the management and control of interest-rate risk at a consolidated level are based on a system of thresholds, with reference to which, as defined in the context of the Risk Appetite Framework, the propensity to accept risk is expressed in quantitative terms by the assignment of a value limit to the percentage quotient between the capital required to cover the risk measured using the «*Sensitivity Analysis in Full Evaluation*» method, under stable conditions, with the simulation of a parallel shift in the reference curves by +/- 200 basis points, and total own funds. For 2015, the internal limit for interest-rate risk in relation to the bank book was fixed at 12%, at a consolidated level, compared with the regulatory limit («maximum acceptable risk») of 20%.

Monthly monitoring of this indicator identified an average of 8.66%, with a maximum and minimum of 9.56% and 7.54% respectively.

The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

As for price risk, the Parent Bank assesses the price risk exposure (measurement of VaR) of the subsidiary using information provided by the Planning and Control Department and by the subsidiary itself.

The analysis of sensitivity to price risk – limited to changes due to market fluctuations and excluding, therefore, those deriving from factors specific to issuers or counterparties and relating to period end – essentially involves application of an internal model of the Parent Bank for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to price risk included in the Parent Bank's investment book, excluding investment in Banca Popolare di Sondrio (Suisse) SA, Factorit s.p.a., Popso Covered Bond s.r.l. and Sinergia Seconda s.r.l.; in addition, this includes the variable-yield security held by the subsidiary and classified as «available-for-sale financial assets» and the one classified under «equity investments», as well as the two variable-yield securities belonging to Sinergia Seconda S.r.l., also classified under «equity investments».

These last three unlisted securities were measured at consolidated book value in the VaR calculation. The price risk on foreign currency mutual funds also includes exchange risk.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

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

Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: SWISS FRANC

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**–**	**697,462**	**614,859**	**65,990**	**718,689**	**192,432**	**3,323**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	697,462	614,859	65,990	718,689	192,432	3,323	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	697,462	614,859	65,990	718,689	192,432	3,323	–
+ Long positions	–	592,893	553,484	–	–	–	–	–
+ Short positions	–	104,569	61,375	65,990	718,689	192,432	3,323	–
4. **Other off-balance sheet transactions**	**225**	**71**	**153**	**–**	**–**	**–**	**–**	**–**
+ Long positions	–	71	153	–	–	–	–	–
+ Short positions	225	–	–	–	–	–	–	–

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) relate to 2015.

Effect on profits of exposure to interest margin risk

Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-7.949	1.938	0.218
average	-8.443	1.597	0.395
maximum	-9.456	3.292	0.914
minimum	-7.949	0.338	0.179

Effect on equity of exposure to interest margin risk

Exposure to risk

(in millions of Swiss francs)	CHF	EUR	USD
at period end	-30.320	9.591	1.556
average	-28.928	8.105	1.363
maximum	-30.320	9.591	1.556
minimum	-27.537	6.989	1.231

The following information is taken from the ALM procedures of the Parent Bank.

Effects of a change in interest rates by +200 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 and the future interest expense, based solely on transactions outstanding at the reference date.

Exposure to risk

(figures in millions of euro)	Parent Bank	BPS Suisse	Factorit	Consolidated
at period end	-83.932	-18.787	4.599	-99.173
average	-75.874	-21.651	4.797	-92.840
maximum	-88.553	-23.211	3.356	-106.580
minimum	-59.358	-18.787	5.562	-74.154

Effects of a change in interest rates by -200 basis points over a twelve-month period on the future interest margin.

Exposure to risk

(figures in millions of euro)	Parent Bank	BPS Suisse	Factorit	Consolidated
at period end	-1.245	1.863	-0.055	0.623
average	-1.089	1.735	-0.168	0.469
maximum	-2.344	1.083	-0.348	-1.294
minimum	0.177	2.142	0.018	2.006

Effects of an instant change in interest rates of +200 basis points on equity.

Equity is understood as being the difference between the present value assets and liabilities items.

Exposure to risk

(figures in millions of euro)	Parent Bank	BPS Suisse	Factorit	Consolidated
at period end	-147.219	-85.497	-1.684	-235.806
average	-155.965	-91.469	-1.540	-249.970
maximum	-188.868	-108.809	-2.119	-279.286
minimum	-144.493	-83.832	-0.478	-231.701

Effects of an instant change in interest rates of -200 basis points on equity.

Exposure to risk

(figures in millions of euro)	Parent Bank	BPS Suisse	Factorit	Consolidated
at period end	103.350	-76.579	0.138	28.080
average	108.019	-86.040	0.289	23.007
maximum	83.019	-112.095	0.030	-27.880
minimum	133.516	-75.629	0.481	58.748

All the above data from the ALM procedure is stated gross of any intercompany transactions, except for the «Consolidated» column. In addition, at Parent Bank level, all the interest-rate swaps are included in the trading portfolio; with regard to just Banca Popolare di Sondrio (SUISSE) SA, all the interest-rate swaps are allocated to the bank book; lastly, at Group level, interest-rate swaps are only included in the bank book if arranged between the Parent Bank and third parties in order to match the same IRS transactions arranged with Banca Popolare di Sondrio (SUISSE) SA.

Price risk

Value at Risk (VaR), end of year

	(in thousands of euro)
Parent Bank (excluding the equity investments Suisse, Factorit, Covered and Sinergia)	11,118.3
BPS Suisse	16.4
Sinergia Seconda	270.2
Total	**11,395.1**

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

Information on the Parent Bank is provided in the corresponding section of the notes to the separate financial statements.

Exchange risk is marginal for Factorit s.p.a., given the company’s policy of systematic hedging of foreign currency amounts. This risk exists principally, though for limited volumes, in the case of: fee and interest income not offset by interest expense in a currency other than the euro; guarantees in foreign currencies versus operations in euro. Sinergia Seconda S.r.l. and Popso Covered Bond s.r.l. are not exposed to exchange rate risk, as they have no assets or liabilities in foreign currency.

Except with regard to securities held in the trading portfolio, Banca Popolare di Sondrio (Suisse) SA enters into currency transactions to satisfy customer requirements and to cover transitory treasury mismatches, which in any case are contained within the prudent limits established by the subsidiary's Board of Directors and General Management.

The measurement and control of exchange risk – with reference to the situation at year end – essentially involves application of the Parent Bank's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to exchange risk included in the Parent Bank's investment book, excluding financial derivatives (in a strict sense) traded by the Exchange Centre, other than forward contracts on exchange rates and excluding all balances with Banca Popolare di Sondrio (Suisse) SA and the investment in it; it also covers all of the assets and liabilities in foreign currency (excluding gold and currencies other than those taken into consideration by the Parent Bank), on and off the balance sheet, pertaining to the subsidiary, which are shown on table 1 below, excluding mutual funds in foreign currency, whose exchange risk is included in the price risk. Forward contracts on exchange rates of the Parent Bank and fixed and variable-yield securities are treated analytically, whereas the overall difference by individual currency of the other items is treated as a deposit (positive or negative) with a due date of one day.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

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

Distribution of assets, liabilities and derivatives by foreign currency

Items	Currency					
	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. **Financial assets**	**653,576**	**46,704**	**25,838**	**4,508,422**	**911**	**25,850**
A.1 Fixed-yield securities	23,007	–	–	16,751	–	–
A.2 Variable-yield securities	27,095	1,570	–	6,392	–	–
A.3 Loans to banks	117,410	42,448	16,570	14,251	606	25,637
A.4 Loans to customers	485,621	2,574	9,266	3,782,392	302	188
A.5 Other financial assets	443	112	2	688,636	3	25
B. **Other assets**	**3,047**	**1,169**	**245**	**3,480**	**6,317**	**900**
C. **Financial liabilities**	**768,644**	**48,680**	**24,731**	**2,276,133**	**14,725**	**52,232**
C.1 Due to banks	166,429	4,869	27	315,670	6,804	5,492
C.2 Due to customers	602,211	43,685	24,704	1,792,310	7,921	46,714
C.3 Fixed-yield securities	–	–	–	168,153	–	–
C.4 Other financial liabilities	4	126	–	–	–	26
D. **Other liabilities**	**9,870**	**93**	**–**	**209,195**	**167**	**8,223**
E. **Financial derivatives**	**1,507,298**	**316,045**	**63,974**	**2,144,822**	**18,626**	**315,699**
- Options	54,595	546	–	1,670	–	–
+ long positions	27,309	273	–	835	–	–
+ short positions	27,286	273	–	835	–	–
- Other	1,452,703	315,499	63,974	2,143,152	18,626	315,699
+ long positions	795,209	158,911	30,954	142,442	13,149	174,920
+ short positions	657,494	156,588	33,020	2,000,710	5,477	140,779
Total assets	**1,479,141**	**207,057**	**57,037**	**4,655,179**	**20,377**	**201,670**
Total liabilities	**1,463,294**	**205,634**	**57,751**	**4,486,873**	**20,369**	**201,234**
Net balance (+/-)	**(15,847)**	**(1,423)**	**714**	**(168,306)**	**(8)**	**(436)**

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)	1,652.8
BPS Suisse (net of eliminations)	831.7
Factorit (net of eliminations)	949.3
Total	**1,161.7**
Details of the principal currencies	
US Dollars	105.8
Sterling	20.3
Japanese Yen	8.4
Swiss Francs	1,095.1
Canadian Dollars	0.2
Other currencies	7.2
Total	**1,161.7**

1.2.4 Derivative instruments

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

	Total 31/12/2015		Total 31/12/2014	
Underlying assets /Type of derivative	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. **Fixed-yield securities and interest rates**	**1,495,825**	**–**	**1,601,817**	**–**
a) Options	23,821	–	24,964	–
b) Swaps	1,472,004	–	1,576,853	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**11**	**–**	**11**	**62,842**
a) Options	11	–	11	62,842
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	**4,063,344**	**–**	**3,438,624**	**–**
a) Options	113,143	–	130,823	–
b) Swaps	–	–	–	–
c) Forwards	3,950,201	–	3,307,801	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**15,378**	**–**	**9,087**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**5,574,558**	**–**	**5,049,539**	**62,842**

A.2 Bank book: notional amounts at period end and averages

A.2.1 For hedging

Underlying assets /Type of derivative	Total 31/12/2015		Total 31/12/2014	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. **Fixed-yield securities and interest rates**	**1,146,377**	**–**	**1,148,120**	**–**
a) Options	–	–	–	–
b) Swaps	1,146,377	–	1,148,120	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**–**	**–**	**–**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**1,146,377**	**–**	**1,148,120**	**–**

A.3 Financial derivatives: gross positive fair value - breakdown by product

	POSITIVE FAIR VALUE			
	Total 31/12/2015		**Total 31/12/2014**	
Portfolio/Type of derivatives	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**64,058**	**–**	**59,631**	**277**
a) Options	2,067	–	2,311	277
b) Interest rate swap	19,509	–	22,336	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	41,955	–	34,840	–
f) Futures	–	–	–	–
g) Other	527	–	144	–
B. **Bank book - for hedging purposes**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. **Bank book - other derivatives**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**64,058**	**–**	**59,631**	**277**

A.4 Financial derivatives: gross negative fair value - breakdown by product

Portfolio/Type of derivatives	NEGATIVE FAIR VALUE			
	Total 31/12/2015		Total 31/12/2014	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**48,709**	**–**	**56,136**	**–**
a) Options	1,944	–	2,215	–
b) Interest rate swap	19,231	–	22,119	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	27,033	–	31,682	–
f) Futures	–	–	–	–
g) Other	501	–	120	–
B. **Bank book - for hedging purposes**	**53,483**	**–**	**45,562**	**–**
a) Options	–	–	–	–
b) Interest rate swap	53,483	–	45,562	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. **Bank book - other derivatives**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**102,192**	**–**	**101,698**	**–**

A.5 Over the Counter financial derivatives - trading portfolio for supervisory purposes: notional values, gross positive and negative fair value by counterparty - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. **Fixed-yield securities and interest rates**							
- notional value	–	–	1,322,913	311	–	165,419	7,182
- positive fair value	–	–	7,979	18	–	11,325	254
- negative fair value	–	–	19,265	–	–	31	–
- future exposure	–	–	4,402	1	–	197	16
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	11	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3. **Currency and gold**							
- notional value	18,371	–	2,992,762	131,572	1,737	686,562	232,340
- positive fair value	–	–	35,418	1,659	42	5,070	1,766
- negative fair value	523	–	15,585	3,742	–	6,363	2,699
- future exposure	184	–	30,366	1,524	17	7,070	2,325
4. **Other assets**							
- notional value	–	–	7,764	–	–	7,613	–
- positive fair value	–	–	57	–	–	470	–
- negative fair value	–	–	455	–	–	46	–
- future exposure	–	–	792	–	–	777	–

A.7 Over the Counter financial derivatives - bank book: notional values, gross positive and negative fair values for counterparties - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. **Fixed-yield securities and interest rates**							
- notional value	–	–	1,146,377	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	53,483	–	–	–	–
- future exposure	–	–	6,530	–	–	–	–
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3. **Currency and gold**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
4. **Other assets**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–

A.9 Residual life of OTC financial derivatives: notional values

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	**Total**
A. **Trading portfolio for supervisory purposes**	**4,097,889**	**1,345,293**	**131,376**	**5,574,558**
A.1 Financial derivatives on fixed-yield securities and interest rates	59,452	1,304,996	131,376	1,495,824
A.2 Financial derivatives on variable-yield securities and stock indices	–	11	–	11
A.3 Financial derivatives on exchange rates and gold	4,024,616	38,729	–	4,063,345
A.4 Financial derivatives on other instruments	13,821	1,557	–	15,378
B. **Bank book**	**231,932**	**718,690**	**195,755**	**1,146,377**
B.1 Financial derivatives on fixed-yield securities and interest rates	231,932	718,690	195,755	1,146,377
B.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
B.3 Financial derivatives on exchange rates and gold	–	–	–	–
B.4 Financial derivatives on other instruments	–	–	–	–
Total 31/12/2015	**4,329,821**	**2,063,983**	**327,131**	**6,720,935**
Total 31/12/2014	**3,722,230**	**2,084,829**	**390,600**	**6,197,659**

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 Parent Bank daily monitors said risk at consolidated level.

The subsidiaries control this type of risk by using adequate monitoring tools according to the type of operations that they carry on; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority.

We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5 of the Parent Bank's financial statements, complies with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**6,125,985**	**1,163,216**	**350,055**	**1,016,640**	**1,384,619**	**901,881**	**1,951,355**	**9,996,943**	**5,785,567**	**258,712**
A.1 Government securities	–	–	48,223	–	117,911	17,906	1,077,417	4,755,463	1,280,075	–
A.2 Other fixed-yield securities	3,321	–	7,115	3,154	26,988	11,692	8,427	161,880	453,240	317
A.3 Mutual funds	372,348	–	–	–	–	–	–	–	–	–
A.4 Loans	5,750,316	1,163,216	294,717	1,013,486	1,239,720	872,283	865,511	5,079,600	4,052,252	258,395
- Banks	277,772	40,434	1,032	89,496	73,481	19,322	1,053	–	–	258,395
- Customers	5,472,544	1,122,782	293,685	923,990	1,166,239	852,961	864,458	5,079,600	4,052,252	–
Cash liabilities	**21,888,177**	**1,248,034**	**178,805**	**421,682**	**502,385**	**244,953**	**505,680**	**2,940,290**	**754,398**	**–**
B.1 Current accounts and deposits	21,769,428	482,626	173,115	365,060	349,931	185,657	192,887	21,870	–	–
- Banks	124,632	218,753	76,928	74,612	55,022	–	–	–	–	–
- Customers	21,644,796	263,873	96,187	290,448	294,909	185,657	192,887	21,870	–	–
B.2 Fixed-yield securities	70,121	142	5,365	56,209	133,491	52,141	296,935	1,728,292	707,992	–
B.3 Other liabilities	48,628	765,266	325	413	18,963	7,155	15,858	1,190,128	46,406	–
Off-balance sheet transactions	**624,441**	**230,865**	**339,947**	**1,139,733**	**1,491,652**	**386,874**	**728,139**	**216,816**	**87,664**	**–**
C.1 Financial derivatives with exchange of capital	–	210,145	317,389	918,528	1,369,382	335,160	626,331	30,531	120	–
- Long positions	–	80,542	76,186	292,976	354,711	127,333	120,837	15,036	120	–
- Short positions	–	129,603	241,203	625,552	1,014,671	207,827	505,494	15,495	–	–
C.2 Financial derivatives without exchange of capital	39,556	–	–	–	–	–	–	–	–	–
- Long positions	19,928	–	–	–	–	–	–	–	–	–
- Short positions	19,628	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to make loans	583,849	20,640	22,540	221,171	121,967	51,150	100,162	183,983	86,567	–
- Long positions	160	4,488	1,646	172,005	6,148	9,879	86,579	183,433	86,567	–
- Short positions	583,689	16,152	20,894	49,166	115,819	41,271	13,583	550	–	–
C.5 Financial guarantees issued	1,036	80	18	34	303	564	1,646	2,302	977	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Line item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «sight» segment.

The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Group for financial statement purposes. Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**418,086**	**52,662**	**84,560**	**281,862**	**429,956**	**245,658**	**278,402**	**1,624,469**	**1,176,651**	**-**
A.1 Government securities	-	-	-	-	1,894	956	1,894	13,382	506	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	1,393	19,731	-	-
A.3 Mutual funds	40,250	-	-	-	-	-	-	-	-	-
A.4 Loans	377,836	52,662	84,560	281,862	428,062	244,702	275,115	1,591,356	1,176,145	-
- Banks	171,040	3,578	6,606	5,200	7,462	7,654	9,284	-	6,302	-
- Customers	206,796	49,084	77,954	276,662	420,600	237,048	265,831	1,591,356	1,169,843	-
Cash liabilities	**2,422,996**	**119,154**	**102,182**	**57,899**	**113,627**	**69,615**	**53,481**	**122,420**	**123,561**	**-**
B.1 Current accounts and deposits	2,422,742	119,154	102,145	57,511	109,346	37,375	18,325	28,021	121,941	-
- Banks	132,787	116,399	53,320	30,364	15,522	978	-	27,696	121,941	-
- Customers	2,289,955	2,755	48,825	27,147	93,824	36,397	18,325	325	-	-
B.2 Fixed-yield securities	254	-	37	388	4,281	31,967	35,156	94,399	1,620	-
B.3 Other liabilities	-	-	-	-	-	273	-	-	-	-
Off-balance sheet transactions	**15,994**	**274,481**	**334,091**	**1,156,119**	**1,556,491**	**368,987**	**670,047**	**39,234**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	270,640	325,873	1,154,219	1,550,505	360,580	660,483	39,234	-	-
- Long positions	-	159,810	245,637	739,480	1,102,962	220,539	522,541	19,958	-	-
- Short positions	-	110,830	80,236	414,739	447,543	140,041	137,942	19,276	-	-
C.2 Financial derivatives without exchange of capital	343	187	792	1,118	3,201	5,963	9,517	-	-	-
- Long positions	174	-	-	-	-	-	-	-	-	-
- Short positions	169	187	792	1,118	3,201	5,963	9,517	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	15,651	3,654	7,426	782	2,785	2,444	47	-	-	-
- Long positions	237	3,285	7,059	10	803	2,444	47	-	-	-
- Short positions	15,414	369	367	772	1,982	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Securitisation transactions and disposal of assets

Securitisation transactions

The securitisation arranged in April 2012 was closed out early, in October 2015. This operation consisted in the sale without recourse, pursuant to Law 130/1999, of € 1,630 million of performing residential mortgage loans to Centro delle Alpi RMBS srl, the SPV formed specifically for this purpose. The SPV issued securities for € 1,678 million, made up of € 1,385 million of «Senior» securities and € 293 million of «Junior» securities, all of which were purchased by the Bank. consequently, repayment of the related securities for the residual amount of € 1,031 million.

1.4 Banking group - Operational risks

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes. The scope of operational risk includes legal risk and IT risk, if this causes and economic or balance sheet loss, but excludes strategic and reputational risks.

«Section 4 – Operating risks» in the separate financial statements of Banca Popolare di Sondrio describes the system for managing operational risk, including the identification of losses, the monitoring of the risk phenomena arising and the estimation of potential risks. This system is also applied by the various subsidiaries.

QUANTITATIVE INFORMATION

The most frequently recurring errors and those with the greatest individual impact in terms of overall amount are errors in the execution of day-to-day transactions, usually promptly corrected, mainly when making payments and in trading transactions.

The system also takes account of the losses deriving from external events, such as raids, the cloning of debit cards and the counterfeiting of cheques, which are usually mitigated by the arrangement of insurance policies, as well as the losses represented by prudent provisions for legal disputes and by settlements with customers.

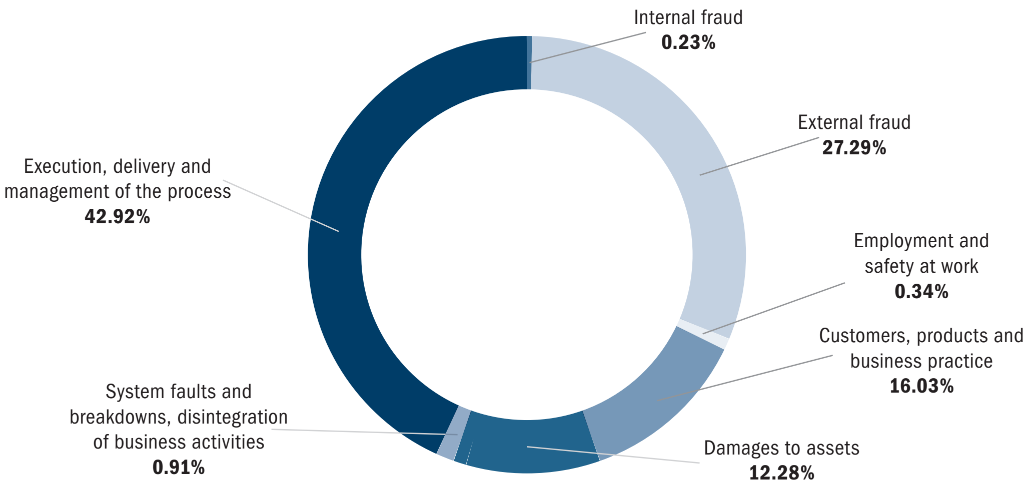
The following chart shows the operational losses identified by the Parent Bank over the past five years (2011 – 2015) as part of the Loss Data Collection process, using the regulatory classification for operational risk events (First level event type):

- Internal fraud – Events perpetrated by persons within the Bank in order to obtain a personal advantage and resulting in a loss for the Bank.
- External fraud – Events perpetrated by persons outside of the Bank, such as fraud, theft and improper appropriation in order to obtain a personal advantage and resulting in a loss for the Bank.
- Employment and safety at work – Action contrary to the instructions governing employment, health and safety in the workplace, as well as such related events as discrimination or failure to apply equal conditions.
- Customers, products and business practices – Events connected with the violation of regulations and/or the adoption of improper commercial practices in relations with customers.
- Damage to material assets – External events deriving from natural or accidental causes that result in damage to physical assets or their defective functioning.

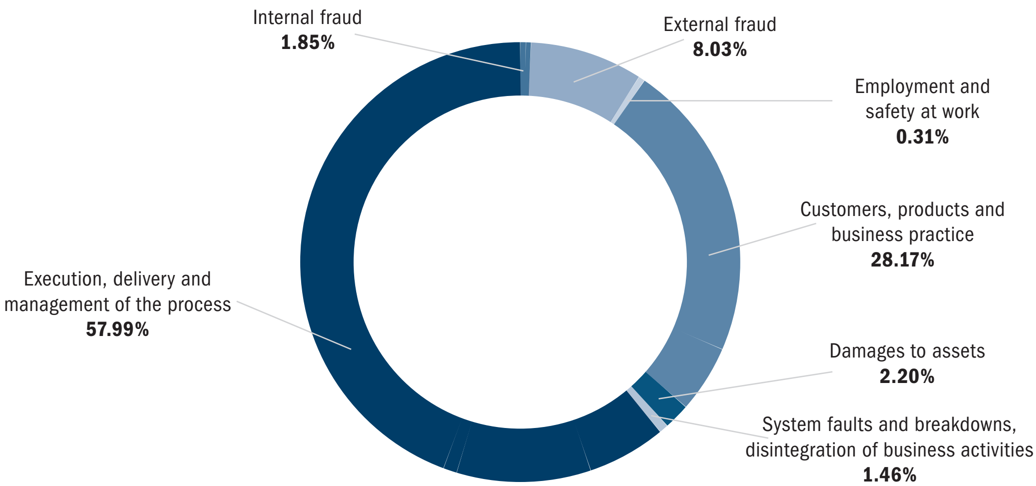
- System faults and breakdowns, disintegration of business activities – Events relating to the non-availability, inefficiency, malfunctioning or blockage of the Bank's IT systems and/ or their components.
- Process execution, delivery and management – Unintentional errors / delays in the daily execution and management of operational and supporting processes, as well as disputes with commercial counterparties and suppliers.

Banca Popolare di Sondrio Banking Group – Sources of operational losses (from 01/01/2011 – 31/12/2015)

Number of operational loss events - breakdown by Event Type



Impact of the events of operational losses - Breakdown by Event Type



Information on exposure to sovereign debt

CONSOB with communication no. DEM/11070007 of 05/08/2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard, the overall exposure of the bank at 31/12/2015 amounted to € 8,049 million and was structured as follows:

a) Italian Government securities: € 7,343 million;

b) Securities of other issuers: € 42 million;

c) Loans to public administrations: € 13 million;

d) Loans to local administrations: € 60 million;

e) Loans to local or state-owned enterprises: € 527 million;

f) Loans to other public administrations and other entities: € 64 million.

PART F Information on consolidated equity

Section 1 Consolidated capital

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for the Group to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects its reputation.

The need for capital adequacy has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery.

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the Group to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

The crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit Spa with a view to providing specialist tools in support of the real economy.

The Bank decided to prepare for a capital increase given the lowering of market tensions and the need to strengthen the level of capitalisation that might derive from the ECB's assessment of the banking system, as well as from the subsequent stress tests that all banks supervised by the ECB had to carry out during the year. This capital increase was carried out in the period from 9 June to 5 July 2014 by issuing of 30,814,798 bonus shares and 114,422,994 shares at € 3. The operation ended with the collection of € 343.269 million.

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

ESMA (European Securities and Markets Authority) with document 725/2012 of 12 November, noting that the market value of many listed companies was less than their book value because of the current economic situation, recommended that they should carry out impairment tests as required by IAS 36. The Parent Bank decided to carry out a second-level impairment test applied to the entire corporate structure rather than the individual asset by comparing the recoverable amount of the Group with the book value of shareholders' equity at 31/12/2015. The method used to estimate the recoverable amount is the Dividend Discount Model (DDM), which assumes that the value of the Group is equal to the sum of the dividends distributed to the shareholders over a chosen planning horizon (2016-2020), while maintaining an adequate level of capitalisation for expected future development and assuming a rate of the dividend growth after the explicit planning period of 2% per year and a cost of capital used to discount future dividends of 8.25%.

The test carried out by the Corporate Finance Department in conjunction with the Planning and Control Department showed that the Group was worth more than its consolidated equity.

The Group's value in use amounted to € 2,910 million, with a surplus over its consolidated equity of €347 million.

B. QUANTITATIVE INFORMATION

The component parts and size of the Parent Bank's capital and equity are described in Part B, Sections 15 and 16 of these notes to the financial statements.

B.1 Consolidated equity broken down by type of businesses

Equity items	Banking group	Insurance companies	Other businesses	Consolidated eliminations and adjustments	**Total**
1. **Share capital**	**1,393,736**	**–**	**–**	**–**	**1,393,736**
2. **Share premium reserve**	**83,363**	**–**	**–**	**–**	**83,363**
3. **Reserves**	**968,865**	**–**	**153**	**1,847**	**970,865**
4. **Equity instruments**	**–**	**–**	**–**	**–**	**–**
5. **(Treasury shares)**	**(25,322)**	**–**	**–**	**–**	**(25,322)**
6. **Valuation reserve:**	**84,944**	**–**	**192**	**4,174**	**89,310**
- Available-for-sale financial assets	112,940	–	–	–	112,940
- Property, equipment and investment property	–	–	–	–	–
- Intangible assets	–	–	–	–	–
- Hedges of foreign investments	–	–	–	–	–
- Cash-flow hedges	–	–	–	–	–
- Exchange differences	–	–	–	–	–
- Non-current assets held for sale and discontinued operations	–	–	–	–	–
- Actuarial profits (losses) on defined-benefit plans	(27,996)	–	–	–	(27,996)
- Special revaluation regulations	–	–	–	4,174	4,174
- Share of valutation reserves of equity investments	–	–	192	–	192
7. **Profit (loss) of the year (+/-) of the Group and of minority interests**	**131,150**	**–**	**899**	**5,451**	**137,500**
Total	**2,636,736**	**–**	**1,244**	**11,472**	**2,649,452**

B.2 Valuation reserves for available-for-sale financial assets: breakdown

	Banking group		Insurance companies		Other businesses		Consolidated eliminations and adjustments		**Total 31/12/2015**	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	**Positive reserve**	**Negative reserve**
1. Fixed-yield securities	59,381	(1,522)	–	–	–	–	–	–	59,381	(1,522)
2. Variable-yield securities	43,538	–	–	–	–	–	–	–	43,538	–
3. Mutual funds	12,224	(681)	–	–	–	–	–	–	12,224	(681)
4. Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2015	**115,143**	**(2,203)**	**–**	**–**	**–**	**–**	**–**	**–**	**115,143**	**(2,203)**
Total 31/12/2014	**74,652**	**(547)**	**–**	**–**	**–**	**–**	**–**	**–**	**74,652**	**(547)**

B.3 Valuation reserves for available-for-sale financial assets: change in the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. **Opening balance**	**57,186**	**2,454**	**14,465**	**–**
2. **Positive changes**	**36,792**	**41,128**	**4,819**	**–**
2.1 Increases in fair value	35,658	41,128	4,819	–
2.2 Release to the income statement of negative reserves	1,134	–	–	–
- from impairment	–	–	–	–
- from disposals	1,134	–	–	–
2.3 Other changes	–	–	–	–
3. **Negative changes**	**36,119**	**44**	**7,741**	**–**
3.1 Reductions in fair value	–	–	698	–
3.2 Impairment writedowns	–	8	–	–
3.3 Transfer to income statement from positive reserves: from disposals	36,119	36	7,043	–
3.4 Other changes	–	–	–	–
4. **Closing balance**	**57,859**	**43,538**	**11,543**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans is negative by € 27.996 million.

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

Section 2 *Capital and capital adequacy ratios*

2.1 Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36 EU (CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

The CRR applies directly at national level, while the CRD IV must be adopted at that level: these measures were implemented via the issue of Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to own funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the related EU instructions.

2.2 Bank own funds

QUALITATIVE INFORMATION

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds (previously, capital for supervisory purposes being the sum of «core capital» and «supplementary capital») comprise:

- Tier 1 Capital;
- Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:

- Common Equity Tier 1 - CET1;
- Additional Tier 1 – AT1.

The Tier 1 capital (CET1) is made up of the following positive and negative components:

– Share capital;
– Share premium reserve;
– Retained earnings;
– Negative valuation reserves - OCI;
– Other reserves;
– Previous CET 1 instruments subject to transitional instructions (grandfathering);
– Prudential filters;
– Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

Additional Tier 1 capital (AT1) consists of the following positive and negative components:

– Equity instruments and related premiums;
– Previous AT1 instruments subject to transitional instructions (grandfathering);
– Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:

– Equity instruments, subordinated loans and related premiums;
– Positive measurement reserves - OCI;
– Previous T2 instruments subject to transitional instructions (grandfathering);
– Deductions.

The new supervisory regulations envisage a transition period from 2014 to 2017, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

A recent interpretation circulated by the Supervisory Authorities of art. 63 of Regulation (EU) 575/13, on the requirements for including subordinated loans in Tier 2 capital, excluded all subordinated loans whose contractual redemption schedules commence before five years have elapsed from their issue dates. Given this situation and in order to optimise the composition of liabilities and Tier II capital, the Bank launched a public exchange offer for the subordinated bonds issued in 2014 for a total of € 350 million. This transaction ended on last 23 October and securities for over € 274 million were transferred, i.e. a 78.32% subscription.

The «Transitional instructions regarding own funds» section of the Bank of Italy's Circular 285 allows banks an option to exclude from their own funds any unrealised gains or losses on exposures to central administrations classified as «available-for-sale financial assets» pursuant to IAS 39. This option had to be exercised by 31 January 2014. The Parent Bank has opted not to include in its own funds the positive and negative reserves arising on exposures to central administrations that are classified as «Available-for-sale financial assets», consistent with the approach settled pursuant to the Bank of Italy instruction dated 18 May 2010. This decision has resulted in not recognising as part of own funds capital gains of about 58 million, net of tax effect.

QUANTITATIVE INFORMATION

	31/12/2015	31/12/2014
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,456,138**	**2,344,771**
of which: CET1 instruments subject to transitional instructions	–	–
B.1 **Prudential filters of CET1 (+/-)**	**–**	**–**
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,456,138**	**2,344,771**
D. **Elements to be deducted from CET1**	**50,135**	**51,471**
E. **Transitional instructions - Impact on CET1 (+/-), including minority interest subject to transitional instructions**	**34,669**	**41,894**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,440,672**	**2,335,194**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions**	**5,480**	**3,642**
of which: AT1 instruments subject to transitional instructions	–	–
H. **Elements to be deducted from AT1**	**–**	**–**
I. **Transitional instructions – Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions**	**- 3,288**	**- 2,914**
L. **Total Additional Tier 1 - AT1 (G - H +/- I)**	**2,192**	**728**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions**	**508,996**	**17,565**
of which: T2 instruments subject to transitional instructions	34,847	17,765
N. **Elements to be deducted from T2**	**6,153**	**223**
O. **Transitional instructions – Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional instructions**	**180,312**	**346,375**
P. **Total Tier 2 - T2 (M - N +/- O)**	**683,155**	**363,717**
Q. **Total Own funds (F + L + P)**	**3,126,019**	**2,699,639**

The composition of own funds takes account of the profit for the period, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

2.3 Capital adequacy

QUALITATIVE INFORMATION

The capital ratios are calculated under the new Basel 3 rules.

The regulation introduced by the Bank of Italy in Circular 285/2013 establishes the following minimum ratios for banking groups:

- CET 1 of 4.50%;
- Tier 1 of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions have been introduced:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; this is currently not implemented but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;

– Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significant may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;
– Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which is indicated below:

– CET 1 of 7%;
– Tier 1 of 8.5%;
– Total Capital Ratio of 10.5%.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, the Group must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

For larger EU banks, which includes the Banca Popolare di Sondrio Group, the European Central Bank has imposed (with a note of 23 October 2013) a 1% add-on to the CET 1 Ratio, the minimum value of which is therefore 8%, a stricter limit compared with the previous values.

During the course of 2015, the European Central Bank, which is the authority responsible for the supervision of Banca Popolare di Sondrio, carried out a new Supervisory Review and Evaluation Process (SREP), after which the bank was asked to maintain a minimum Group CET 1 ratio of 9.25%.

At 31 December 2015, the parameters of the Group under the new regulations are as follows:

– CET 1 Capital ratio 10.49%;
– Tier 1 Capital ratio 10.50%;
– Total Capital ratio 13.44%.

The leverage ratio required by Basel 3, calculated as the ratio of Tier 1 to total on- and off-balance sheet assets, is 6.22% compared with a required minimum of 3%.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts / requirements	
	31/12/2015	**31/12/2014**	**31/12/2015**	**31/12/2014**
A. **Assets at risk**				
A.1 Credit and counterparty risk	–	–	–	–
1. Standardised approach	*35,125,439*	*35,182,339*	*20,385,032*	*20,686,939*
2. Approach based on internal ratings	–	–	–	–
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	*245,802*	*170,600*	*220,738*	*162,835*
B. **Capital adequacy requirements**	–	–	–	–
B.1 Credit and counterparty risk	–	–	*1,648,462*	*1,667,982*
B.2 Loan adjustment risk	–	–	*896*	*993*
B.3 Regulation risks	–	–	–	–
B.4 Market risks	–	–	–	–
1. Standard methodology	–	–	*57,910*	*94,803*
2. Internal models	–	–	–	–
3. Concentration risk	–	–	–	–
B.5 Operational risk	–	–	–	–
1. Basic method	–	–	*153,722*	*151,369*
2. Standardised approach	–	–	–	–
3. Advanced method	–	–	–	–
B.6 Other calculation elements	–	–	–	–
B.7 Other precautionary requirements	–	–	*1,860,990*	*1,915,147*
C. **Risk assets and capital ratios**	–	–	–	–
C.1 Risk-weighted assets	–	–	*23,262,375*	*23,939,338*
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)	–	–	10.49	9.75
C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	–	–	10.50	9.76
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)	–	–	13.44	11.28

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in office	Expiry of office	Emoluments for the office held in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	Chairman	1/1/2015-31/12/2015	31/12/2015	251	-	-	44
STOPPANI LINO ENRICO	Deputy Chairman	1/1/2015-31/12/2015	31/12/2016	140	-	-	12
PEDRANZINI MARIO ALBERTO (*)	Director	1/1/2015-31/12/2015	31/12/2016	152	-	-	123
MELAZZINI PIERO (**)	Director	1/1/2015-30/11/2015	31/12/2016	46	-	-	82
BENEDETTI CLAUDIO	Director	1/1/2015-18/04/2015	18/04/2015	13	-	-	-
BIGLIOLI PAOLO	Director	1/1/2015-31/12/2015	31/12/2016	46	-	-	-
CREDARO LORETTA	Director	18/4/2015-31/12/2015	31/12/2017	28	-	-	-
FALCK FEDERICO	Director	1/1/2015-31/12/2015	31/12/2015	45	-	-	-
FERRARI ATTILIO PIERO	Director	1/1/2015-31/12/2015	31/12/2017	45	-	-	-
FONTANA GIUSEPPE	Director	1/1/2015-31/12/2015	31/12/2017	40	-	-	-
GALBUSERA CRISTINA	Director	1/1/2015-31/12/2015	31/12/2015	47	-	-	-
MELZI DI CUSANO NICOLÒ	Director	1/1/2015-31/12/2015	31/12/2015	42	-	-	-
PROPERSI ADRIANO	Director	1/1/2015-31/12/2015	31/12/2017	46	-	-	-
RAINOLDI ANNALISA	Director	1/1/2015-31/12/2015	31/12/2016	42	-	-	-
SOZZANI RENATO	Director	1/1/2015-31/12/2015	31/12/2017	77	-	-	3
TRIACCA DOMENICO	Director	1/1/2015-31/12/2015	31/12/2015	59	-	-	-
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	1/1/2015-31/12/2015	31/12/2017	98	-	-	8
BERSANI PIO	Auditor	1/1/2015-18/04/2015	18/04/2015	19	-	-	23
DEPPERU DONATELLA	Auditor	18/4/2015-31/12/2015	31/12/2017	54	-	-	-
VITALI MARIO	Auditor	1/1/2015-31/12/2015	31/12/2017	82	-	-	25
PEDRANZINI MARIO ALBERTO (*)	General Manager	1/1/2015-31/12/2015		-	88	48	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2015-31/12/2015		-	49	149	903

(*) also Managing Director
(**) deceased

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the Parent Bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 2.707 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.119 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Parent Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Group such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Group just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	437	6,192	16	103	–	–
Statutory auditors	298	358	12	5	–	–
Management	–	1,113	–	10	8	–
Family members	1,138	25,206	46	251	36	6,529
Subsidiaries	2,059,012	446,272	33,746	- 54	797,394	11,954
Associated companies	565,466	167,936	5,198	1,166	105,510	2,529
Other related parties	276,393	35,412	2,906	247	12,837	32,709

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 € 475 million to Alba Leasing SpA and for € 80 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 154 million granted to the affiliate Release spa.

PART L *Segment information*

Segment information has been prepared in compliance with IFRS 8, the introduction of which did not involve significant changes in the identification of operating segments or in management reporting methods compared with IAS 14.

Given that the Group's benefits and risks are significantly influenced by differences in the various products and services and only marginally by the territorial distribution of the sales network, the primary segment comprises the Bank's business activities while the secondary segment relates to the geographical areas concerned.

Each sub-segment has been identified based on the nature of the products and services offered and on the type of customer concerned, so that the related risk profile and profitability are sufficiently similar.

Even though this classification reflects the lines of business envisaged under the Standardised Approach for calculating the minimum capital requirement for operational risk, it is based substantially on internal practice for the subdivision of activities used to apply corporate policies and to evaluate their results.

Geographical information is based on the distribution of branches throughout Italy and Switzerland.

A. Primary format

A.1 Distribution by business segment: income statement

The following sub-segments are discussed:

- 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 2015 and 2014.

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	**31/12/2015**
Interest income	520,192	455,414	–	262,764	1,238,370	-441,558	796,812
Interest expense	-148,234	-273,864	–	-272,901	-694,999	441,558	-253,441
Net interest income	**371,958**	**181,550**	**–**	**-10,137**	**543,371**	**–**	**543,371**
Fee and commission income	154,216	75,090	84,041	11,832	325,179	-675	324,504
Fee and commission expense	-8,183	-7,354	-5,425	546	-20,416	-620	-21,036
Dividends and similar income	–	–	–	2,860	2,860	–	2,860
Net trading income	–	–	–	64,528	64,528	1,186	65,714
Net hedging profit (loss)	–	550	–	-1,045	-495	–	-495
Gains/losses from sales or repurchases	–	–	–	140,034	140,034	–	140,034
Net gains in financial assets and liabilities carried at fair value	–	–	–	6,731	6,731	–	6,731
Total income	**517,991**	**249,836**	**78,616**	**215,349**	**1,061,792**	**-109**	**1,061,683**
Adjustments to the net value of financial assets	-356,969	-33,946	–	-18,220	-409,135	–	-409,135
Net financial income	**161,022**	**215,890**	**78,616**	**197,129**	**652,657**	**-109**	**652,548**
Administrative expenses	-127,899	-157,930	-54,740	-127,998	-468,567	-49,238	-517,805
Provisions for risks and charges	4,194	-4,979	–	1,767	982	–	982
Depreciation and net impairment losses on property, equipment and investment property	-4,457	-6,562	-2,241	-4,857	-18,117	–	-18,117
Amortisation and net impairment losses on intangible assets	-3,979	-5,629	-1,862	-2,456	-13,926	–	-13,926
Other operating income/expense	11,867	7,562	-233	11,990	31,186	49,347	80,533
Share of profit/loss of equity investments	–	–	–	13,719	13,719	–	13,719
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-1,496	-1,496	–	-1,496
Adjustments to goodwill	–	–	–	–	–	–	–
Gains/losses on disposal of investments	–	–	–	7	7	–	7
Gross profit	**40,748**	**48,352**	**19,540**	**87,805**	**196,445**	**–**	**196,445**

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2014**
Interest income	673,068	575,117	–	386,470	1,634,655	-675,578	959,077
Interest expense	-247,824	-376,031	–	-419,877	-1,043,732	675,578	-368,154
Net interest income	**425,244**	**199,086**	**–**	**-33,407**	**590,923**	**–**	**590,923**
Fee and commission income	161,448	72,911	78,412	10,107	322,878	-856	322,022
Fee and commission expense	-8,826	-7,102	-4,831	-317	-21,076	-925	-22,001
Dividends and similar income	–	–	–	3,524	3,524	–	3,524
Net trading income	–	–	–	98,133	98,133	1,685	99,818
Net hedging profit (loss)	–	543	–	-414	129	–	129
Gains/losses from sales or repurchases	–	–	–	94,154	94,154	–	94,154
Net gains in financial assets and liabilities carried at fair value	–	–	–	5,187	5,187	–	5,187
Total income	**577,866**	**265,438**	**73,581**	**176,967**	**1,093,852**	**-96**	**1,093,756**
Adjustments to the net value of financial assets	-392,325	-70,262	–	-19,308	-481,895	–	-481,895
Net financial income	**185,541**	**195,176**	**73,581**	**157,659**	**611,957**	**-96**	**611,861**
Administrative expenses	-122,917	-150,811	-52,031	-81,904	-407,663	-49,610	-457,273
Provisions for risks and charges	7,250	-3,417	–	-1,899	1,934	–	1,934
Depreciation and net impairment losses on property, equipment and investment property	-4,222	-6,143	-2,111	-4,561	-17,037	–	-17,037
Amortisation and net impairment losses on intangible assets	-3,877	-5,396	-1,788	-2,296	-13,357	–	-13,357
Other operating income/expense	13,585	9,456	-199	1,301	24,143	49,706	73,849
Share of profit/loss of equity investments	–	–	–	6,715	6,715	–	6,715
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	–	–	–	–
Adjustments to goodwill	–	–	–	-1,112	-1,112	–	-1,112
Gains/losses on disposal of investments	–	–	–	27	27	–	27
Gross profit	**75,360**	**38,865**	**17,452**	**73,930**	**205,607**	**–**	**205,607**

The 2014 figures have been adjusted for comparison purposes.

A.2 Distribution by business segment: balance sheet

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total 31/12/2015**
Financial assets	15,377,842	9,532,593	–	8,665,353	33,575,788
Other assets	–	–	–	1,615,434	1,615,434
Property, equipment and investment property	55,311	78,516	26,050	164,303	324,180
Intangible assets	4,158	5,797	1,894	10,397	22,246
Financial liabilities	7,327,760	22,201,521	–	2,403,442	31,932,723
Other liabilities	32,853	6,837	–	706,684	746,374
Provisions	62,797	92,216	21,714	32,372	209,099
Guarantees given	3,134,114	433,526	–	98,508	3,666,148
Commitments	939,857	339,665	23,984	31,033	1,334,539

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total 31/12/2014**
Financial assets	15,257,215	9,900,349	–	9,169,292	34,326,856
Other assets	–	–	–	1,016,116	1,016,116
Property, equipment and investment property	52,186	73,825	24,786	103,506	254,303
Intangible assets	3,901	5,515	1,851	10,305	21,572
Financial liabilities	7,291,023	22,436,507	–	2,405,243	32,132,773
Other liabilities	30,802	7,884	–	745,927	784,613
Provisions	69,762	87,063	21,716	33,223	211,764
Guarantees given	3,274,140	610,254	–	116,563	4,000,957
Commitments	927,964	220,545	95,228	71,557	1,315,294

The 2014 figures have been adjusted for comparison purposes.

Summary discussion of results

The results of the various sub-segments are discussed below.

Enterprises: A fundamental contribution has come from Factorit, with a positive result in this area of € 32,912 thousand, a significant decrease on the previous year (-24.2%) due to the drop in spreads on lending.

This segment contributes 20.7% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 15,378 million and € 7,328 million respectively.

With respect to total income, net adjustments for the impairment of financial assets represent 68.9% of the total, while administrative expenses absorb 24.7%.

Comparison with the prior year shows a significant decrease in the segment result, mainly because of the Parent Bank's contribution with a decline of 80.9%, mainly attributable to a combination of following factors:

- a decrease in net interest income (-10.6%), in a context of significant spread erosion both on lending and on funding;
- a slight decrease in fee and commission income (-2.2%), due in particular to the contraction in the contribution from loan commissions;
- a marked reduction in impairment adjustments against financial assets (-8.0%), due to significantly lower loan losses and an increase in write-backs, which more than offset a noticeable increase in provisions
- a significant increase in administrative expenses (+4.6%, of which other costs +7.1%, personnel expenses +1.9%);
- a significant decrease in provisions for risks and charges (-58.6%).

Individuals and other customers: the Swiss subsidiary has made a significant contribution, with a positive result in this area of € 28,352 thousand (+32.8%), mainly due to an appreciable rise in lending volumes at a time of substantially stable interest rates.

This segment contributes 24.6% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 9,533 million and € 22,202 million respectively.

With respect to total income, net adjustments for the impairment of financial assets represent 13.6% of the total, while administrative expenses absorb 63.2%.

Comparison with the prior year shows a significant increase in the segment result, also influenced by the Parent Bank's contribution with a rise of 37.2%, mainly attributable to a combination of following factors:

- significant reduction in net interest income (-18.2%), due to a marked contraction in the funding spread, with substantial and growing volumes, and an essentially stable lending spread, with much lower and slightly declining volumes;
- a slight increase in fee and commission income (+1.7%), due in particular to the satisfactory rise in the contribution from collection and payment services;
- a marked reduction in impairment adjustments against financial assets (-58.4%), due to significantly lower provisions and an increase in write-backs;
- a significant increase in administrative expenses (+3.6%, of which other costs +3.5%, personnel expenses +3.6%);
- a significant contraction in operating income (-24.3%), mainly attributable to the decline in rapid enquiry fees.

Securities: a significant contribution has come from the Swiss subsidiary, with a positive result in this area of € 7,571 thousand, with, however, a drop on the previous year (-28.5%), mainly due to a relevant increase in administrative expenses.

This segment contributes 10.0% of overall results.

With respect to total income, administrative expenses absorb 69.6% of the total.

Comparison with the prior year reflects a significant increase in results, mainly due to the contribution of the Parent Bank, which reported a rise of 74.5%, mainly attributable to the following factors:

- large increase in commission income (+12.2%), due to a marked improvement in the results from asset management, investment fund and insurance product sectors;
- a significant increase in administrative expenses (+2.8%, of which other costs +1.7%, personnel expenses +3.7%).

Central functions: this segment contributes 44.7% of overall results.

The contribution of the Swiss subsidiary and of Factorit totalling -25,451 thousand euro is significant.

The results have increased significantly compared with the prior year. This outcome was significantly influenced by the contribution made by the Parent Bank, where a decline of 4.5% was essentially due to the contributions made to the National Resolution Fund and the Interbank Deposit Protection Fund. The impact of this was not fully offset by a marked increase in net interest income, due to a reduction in the internal transfer rate that affected the notional interest charged on funding.

B. Secondary format

The following information refers to the location of branches.

An alternative analysis, based on the residence of counterparties, does not give significantly different results.

Branches are aggregated into two geographical areas, «Northern Italy» and «Central Italy», since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same.

In particular, in the North, the volume of business is principally generated by «non-financial companies» and «consumer households and family businesses», while in Central Italy the «public administrations» are especially significant.

There are differences between the parent bank and the Swiss subsidiary regarding the types of customer served, the products and services provided, and commercial and operational policies adopted. Accordingly, the analysis includes the «Swiss» area as well as the domestic market.

B.1 Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2015**
Interest income	1,019,418	154,800	64,531	1,238,749	-441,937	796,812
Interest expense	-562,486	-103,424	-31,460	-697,370	443,929	-253,441
Net interest income	**456,932**	**51,376**	**33,071**	**541,379**	**1,992**	**543,371**
Fee and commission income	242,424	50,488	33,784	326,696	-2,192	324,504
Fee and commission expense	-11,785	-7,359	-2,889	-22,033	997	-21,036
Dividends and similar income	16,286	–	–	16,286	-13,426	2,860
Net trading income	44,417	–	26,446	70,863	-5,149	65,714
Net hedging profit (loss)	–	–	550	550	-1,045	-495
Gains/losses from sales or repurchases	140,034	–	–	140,034	–	140,034
Net gains in financial assets and liabilities carried at fair value	6,294	–	–	6,294	437	6,731
Total income	**894,602**	**94,505**	**90,962**	**1,080,069**	**-18,386**	**1,061,683**
Adjustments to the net value of financial assets	-360,380	-42,990	-5,765	-409,135	–	-409,135
Net financial income	**534,222**	**51,515**	**85,197**	**670,934**	**-18,386**	**652,548**
Administrative expenses	-370,937	-39,900	-61,777	-472,614	-45,191	-517,805
Provisions for risks and charges	307	-1,092	1,767	982	–	982
Depreciation and net impairment losses on property, equipment and investment property	-14,129	-1,385	-2,603	-18,117	–	-18,117
Amortisation and net impairment losses on intangible assets	-11,123	-1,259	-1,544	-13,926	–	-13,926
Other operating income/expense	26,173	3,406	111	29,690	50,843	80,533
Share of profit/loss of equity investments	589	–	–	589	13,130	13,719
Net result of fair value measurement of property, equipment and investment property and intangible assets	-1,496	–	–	-1,496	–	-1,496
Adjustments to goodwill	–	–	–	–	–	–
Gains/losses on disposal of investments	7	–	–	7	–	7
Gross profit	**163,613**	**11,285**	**21,151**	**196,049**	**396**	**196,445**

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2014**
Interest income	1,374,652	204,991	65,806	1,645,449	-686,372	959,077
Interest expense	-878,167	-143,335	-34,559	-1,056,061	687,907	-368,154
Net interest income	**496,485**	**61,656**	**31,247**	**589,388**	**1,535**	**590,923**
Fee and commission income	238,340	52,482	33,402	324,224	-2,202	322,022
Fee and commission expense	-12,652	-7,532	-2,339	-22,523	522	-22,001
Dividends and similar income	16,253	–	3	16,256	-12,732	3,524
Net trading income	88,458	–	11,389	99,847	-29	99,818
Net hedging profit (loss)	–	–	543	543	-414	129
Gains/losses from sales or repurchases	94,154	–	–	94,154	–	94,154
Net gains in financial assets and liabilities carried at fair value	5,187	–	–	5,187	–	5,187
Total income	**926,225**	**106,606**	**74,245**	**1,107,076**	**-13,320**	**1,093,756**
Adjustments to the net value of financial assets	-379,068	-99,944	-2,883	-481,895	–	-481,895
Net financial income	**547,157**	**6,662**	**71,362**	**625,181**	**-13,320**	**611,861**
Administrative expenses	-318,046	-40,289	-53,127	-411,462	-45,811	-457,273
Provisions for risks and charges	500	3,333	-1,899	1,934	–	1,934
Depreciation and net impairment losses on property, equipment and investment property	-13,351	-1,331	-2,355	-17,037	–	-17,037
Amortisation and net impairment losses on intangible assets	-11,854	-1,243	-1,372	-14,469	1,112	-13,357
Other operating income/expense	22,782	4,367	126	27,275	46,574	73,849
Share of profit/loss of equity investments	-2,493	–	–	-2,493	9,208	6,715
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	–	–	–
Adjustments to goodwill	–	–	–	–	-1,112	-1,112
Gains/losses on disposal of investments	27	–	–	27	–	27
Gross profit	**224,722**	**-28,501**	**12,735**	**208,956**	**-3,349**	**205,607**

The 2014 figures have been adjusted for comparison purposes.

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2015**
Financial assets	27,378,735	2,330,450	3,866,603	33,575,788
Other assets	921,919	–	693,515	1,615,434
Property, equipment and investment property	284,311	17,478	22,391	324,180
Intangible assets	19,602	1,325	1,319	22,246
Financial liabilities	19,813,542	7,881,055	4,238,126	31,932,723
Other liabilities	705,694	6,936	33,744	746,374
Provisions	186,535	19,744	2,820	209,099
Guarantees given	2,846,128	655,476	164,544	3,666,148
Commitments	988,204	318,551	27,784	1,334,539

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2014**
Financial assets	28,477,540	2,359,517	3,489,799	34,326,856
Other assets	835,871	–	180,245	1,016,116
Property, equipment and investment property	215,359	16,630	22,314	254,303
Intangible assets	18,672	1,244	1,656	21,572
Financial liabilities	20,016,095	8,697,399	3,419,279	32,132,773
Other liabilities	743,907	9,979	30,727	784,613
Provisions	187,397	20,082	4,285	211,764
Guarantees given	3,061,961	734,655	204,341	4,000,957
Commitments	890,831	333,996	90,467	1,315,294

Disclosure of information State by State pursuant to Circular 285 of 17 December 2013 on «supervisory instructions for banks» 4th revision dated 17 June 2014

This information is available (in Italian) in the Corporate Information section of the website www.popso.it .

Certification pursuant to para. 5 of art. 154-bis of Decree 58/98 on the consolidated financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Financial Reporting Officer of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Decree 58 of 24 February 1998, confirm:

– the adequacy in relation to the characteristics of the company and the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements for the period 1 January 2015 / 31 December 2015;
– the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements for the period 1 January 2015 / 31 December 2015.

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 2015:
– 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, 14 March 2016

The Managing Director
Mario Alberto Pedranzini

The Financial Reporting Officer
Maurizio Bertoletti

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Banca Popolare di Sondrio Group (the "group"), which comprise the statement of financial position as at 31 December 2015, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto.

Directors' responsibility for the consolidated financial statements

The parent's directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11.3 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the parent's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the consolidated financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the parent's directors, with the consolidated financial statements. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2015.

Milan, 1 April 2016

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

RESOLUTIONS OF THE ORDINARY SHAREHOLDERS' MEETING

of 23 April 2016 (at second calling)

AGENDA

1) *Presentation of the financial statements as of 31 December 2015: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions;*
2) *Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;*
3) *Approval of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Consolidated Finance Act);*
4) *Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;*
5) *Determination of directors' emoluments;*
6) *Appointment of five directors for the three-year period 2016-2018 and appointment of a director for the rest of the three-year period 2014-2016;*
7) *Appointment of advisors and alternate advisors for the three-year period 2016-2018.*

Point 1) on the agenda

Having heard the directors' report on operations for 2015 and the proposed allocation of the profit for the year, having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors, having taken as read the balance sheet, income statement and explanatory notes, as well as the financial statements of the subsidiaries, the Meeting

approved:

– the directors' report on operations;
– the financial statements at 31 December 2015, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 100,064,082. The Shareholders' Meeting also approved the allocation of profit for the year of € 100,064,082 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	€	10,006,408.20
– 30% to the statutory reserve	€	30,019,224.60
b) to pay a dividend of € 0.07 to each of the 453,385,777 shares in circulation at 31/12/2015 with dividend rights as from 1/1/2015, 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	€	31,737,004.39

c) to allocate the residual profit:

– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	28,201,444.81

In accordance with the Stock Exchange calendar, the dividend was paid from 25 May 2016, going ex-coupon (no. 38) on 23 May 2016.

Point 2) on the agenda

The Meeting approved the document «Compensation Policies of the Banca Popolare di Sondrio Banking Group» and information on how these compensation policies were implemented in 2015.

Point 3) on the agenda

The Shareholders' Meeting approved the first Section of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Consolidated Finance Act).

Point 4) on the agenda

The Meeting set at Euro 35,000,000 – shown in the financial statements under «Reserves» – as the amount made available to the Board of Directors to make purchases of the Bank's own shares in accordance with art. 21 of the Articles of Association, within the limit of this amount and whatever part of it is made available by subsequent sales of the shares purchased; all as part of an activity that is compliant with current regulations and designed in particular to facilitate circulation of the shares.

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

Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2016 financial statements. Purchases have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned «Reserve» of Euro 35,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 2% of the shares making up the share capital. Sales have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned «Reserve» of Euro 35,000,000.

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

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

The Meeting authorised the Board of Directors to use, up to a maximum total amount of Euro 406,000, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2016 Compensation Plan based on financial instruments during the life of that plan.

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

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

Point 5) on the agenda

The Meeting set the remuneration of the directors in accordance with the current «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

Point 6) on the agenda

The Meeting appointed the following as directors for the period 2016-2018: Francesco Venosta, Serenella Rossi, Cristina Galbusera, Domenico Triacca and Federico Falck. It also appointed Cecilia Corradini as a board member for the rest of the period 2014-2016.

Point 7) on the agenda

The Meeting appointed the following as advisors for the period 2016-2018: Alberto Crespi, Giuseppe Guarino, Andrea Monorchio, acting advisors, Diana Bracco and Antonio La Torre, alternate advisors.

THE BANK'S GROWTH SINCE ITS FOUNDATION, KEY FINANCIAL DATA

Year	Financial investments euro	Customer loans euro	Fiduciary funds euro	Equity (capital & reserves) euro	Net Profit for the year euro	Dividend euro
1871	26	93	37	47	1	0.001
1875	109	675	569	181	21	0.002
1880	46	1,024	777	360	33	0.002
1885	213	1,431	1,161	410	42	0.002
1890	459	1,805	1,646	457	49	0.002
1895	840	1,380	1,631	453	36	0.002
1900	860	1,627	1,987	465	43	0.002
1905	940	2,330	2,834	504	53	0.002
1910	1,460	3,717	4,738	563	68	0.003
1915	2,425	3,399	5,178	658	59	0.002
1920	7,906	9,100	22,320	1,232	186	0.005
1925	9,114	35,692	39,924	2,303	523	0.006
1930	12,899	43,587	54,759	3,230	561	0.006
1935	21,402	30,912	53,190	3,543	339	0.004
1940	24,397	32,808	57,064	3,091	312	0.002
1945	112,239	101,840	191,619	6,491	817	0.002
1950	608,460	892,440	1,359,864	50,496	10,834	0.041
1955	1,413,363	2,372,139	3,573,499	262,122	25,998	0.124
1960	3,474,898	5,864,314	9,124,181	495,960	45,997	0.150
1965	6,564,058	9,861,955	18,238,851	670,265	60,044	0.170
1970	11,228,709	21,140,462	34,440,002	1,577,469	86,800	0.196
1975	49,247,998	46,458,454	103,136,018	4,940,413	336,351	0.284
1980	248,877,713	135,350,391	386,128,259	44,618,760	2,298,768	0.620
1981	303,227,605	149,856,755	435,958,220	70,294,839	3,543,126	0.878
1982	434,505,499	168,991,589	564,440,308	93,988,765	5,876,973	0.930
1983	551,731,767	201,889,280	722,876,267	105,498,725	9,795,722	1.394
1984	657,323,707	244,311,938	885,640,690	117,286,747	11,754,271	1.911
1985	669,773,787	327,572,423	985,454,131	123,347,208	13,332,058	2.582
1986	854,978,708	381,346,894	1,108,118,326	129,106,270	13,582,958	2.169
1987	954,429,924	407,643,937	1,205,007,005	134,486,897	13,588,657	2.169
1988	950,465,324	510,164,638	1,285,408,512	139,730,318	13,665,548	2.272
1989	958,277,398	634,760,956	1,431,120,712	145,100,954	13,984,014	2.324
1990	919,261,388	819,877,375	1,567,539,101	170,006,961	14,919,668	1.653
1991	886,480,827	1,014,385,379	1,708,284,250	192,743,654	16,018,859	1.653
1992	1,162,262,510	1,202,265,949	2,151,786,340	198,979,714	16,304,997	1.704
1993	1,675,065,908	1,441,158,530	2,862,510,529	250,913,662	17,860,906	1.136
1994	1,438,251,891	1,701,208,296	2,922,731,483	258,100,923	16,976,601	1.136
1995	1,828,374,994	1,903,530,111	3,401,567,857	335,480,368	18,688,353	0.413
1996	1,817,497,737	2,120,842,006	3,590,238,215	345,127,951	20,685,619	0.439
1997	1,730,940,393	2,485,706,688	3,844,781,082	353,507,281	20,796,084	0.439
1998	2,005,202,039	2,990,333,100	4,343,203,973	535,162,454	24,784,724	0.196
1999	1,993,529,114	3,724,763,745	5,058,960,710	557,555,696	30,555,532	0.232
2000	2,043,141,602	4,443,945,484	5,829,901,035	576,036,331	38,428,768	0.300
2001	2,618,137,267	5,579,546,805	7,374,954,358	731,304,438	46,064,525	0.180
2002	3,218,789,508	6,246,734,925	8,626,473,276	752,369,741	46,703,800	0.190
2003	2,827,584,863	7,117,211,453	9,139,503,657	773,957,639	60,117,119	0.230
2004	3,492,730,224	8,078,424,234	10,498,481,204	1,031,391,991	73,210,556	0.170
2005	4,029,597,013	9,197,849,967	11,928,279,967	1,119,500,111	85,178,406	0.190
2006	4,216,404,673	10,560,504,042	13,316,179,364	1,231,012,722	107,113,135	0.230
2007	5,174,395,815	12,402,268,867	15,844,113,698	1,592,235,650	130,823,404	0.220
2008	5,260,646,663	14,936,103,083	18,469,073,506	1,492,021,195	13,735,247	0.030
2009	4,794,397,579	16,711,080,589	19,779,755,056	1,683,715,881	190,674,454	0.330
2010	5,063,550,816	18,247,861,145	21,243,136,724	1,722,830,035	133,319,754	0.210
2011	5,742,516,051	20,606,382,386	24,261,565,885	1,676,472,699	57,283,707	0.090
2012	7,098,208,844	22,3 90,051,929	27,490,789,964	1,711,323,846	25,822,369	0.033
2013	8,696,206,457	20,843,577,225	27,752,052,266	1,773,767,299	48,831,672	0.050
2014	11,078,365,152	20,535,826,086	29,329,977,518	2,221,418,922	97,552,111	0.060
2015	10,945,940,157	20,021,406,321	28,704,284,801	2,334,513,952	100,064,082	0.070

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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