Banca Popolare di Sondrio S.c.p.A. (the "Issuer")

This document contains an English translation of the Italian language prospectus (the "**Italian Prospectus**") filed with the *Commissione Nazionale per le Società e per la Borsa* ("**Consob**") on June 6, 2014 following notice of the approval by the Consob on June 5, 2014, No. 0047294/14.

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The Italian Prospectus should be read in its entirety. If a copy of the Italian Prospectus does not accompany this translation, you should obtain a copy, from the Issuer at its registered office, piazza Garibaldi 16, Sondrio, or from the Internet website of the Issuer (www.popso.it).

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Banca Popolare di Sondrio
Fondata nel 1871

PROSPECTUS RELATING TO THE SUBSCRIPTION RIGHTS OFFER TO MEMBERS AND SHAREHOLDERS OF MAXIMUM NO. 114,422,994 ORDINARY SHARES IN BANCA POPOLARE DI SONDRIO, SOCIETÀ COOPERATIVA PER AZIONI, AND THEIR ADMISSION FOR TRADING ON THE MERCATO TELEMATICO AZIONARIO ORGANISED AND MANAGED BY BORSA ITALIANA S.P.A.

The Prospectus was filed with CONSOB on 6 June 2014, following its approval by CONSOB on 5 June 2014, reference No. 0047294/14

Publication of the Prospectus does not constitute an opinion by CONSOB as to the advisability of the proposed investment or the value of the related information.
The Prospectus is available from the registered office of Banca Popolare di Sondrio, piazza Garibaldi 16, Sondrio, and on the company website "www.popso.it".

WARNING

In order to evaluate the investment correctly, investors are invited to assess the specific risk factors relating to the Issuer and the Group companies, the sector in which it operates, as well as the financial instruments offered. For a detailed description of the risk factors relating to the Issuer, see Section One – Chapter III "Risk Factors" of this Prospectus.

Investors should consider the risks associated with the Comprehensive Assessment as well as those relating to the deterioration of loan quality (Section One - Chapter III, Paragraphs 3.1.1., 3.1.3 and 3.1.4 of the Prospectus).

The Issuer is one of the 15 Italian lenders that will be subjected to sole supervision by the ECB from November 2014 and that are therefore currently subject to Comprehensive Assessment (which includes Asset Quality Review) lasting one year, conducted by the ECB in conjunction with the competent national authorities.

If the outcome of the Comprehensive Assessment and, more specifically, the outcome of the Asset Quality Review, conducted by the ECB in conjunction with the Bank of Italy, the results of which are not yet known on the Prospectus Date, require further credit adjustments, including significant ones, further capitalisation may be required of the Issuer.

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DEFINITIONS

A list of the main definitions used in the Prospectus is given below.

Other Countries	United States of America, Canada, Japan and Australia, or any other Country where the Offer is not permitted without authorisations from the competent authorities or the relevant legal or regulatory exemptions.
Capital Increase	Paid capital increase for a total amount, including any premiums, of maximum €350 million by issuing BPS Shares (as defined below), with a nominal value of €3, to be offered under option to members and shareholders in accordance with Article 2441, paragraph one, of the Civil Code, as decided the competent corporate bodies of the Issuer.
Free Capital Increase	The Issuer's free capital increase carried out by attributing to members and shareholders Free Shares (as defined below) with a nominal value of €3.00 up to a maximum amount of €100 million, by transferring this amount from the "Share Premium" reserve to "Capital", as decided by the competent corporate bodies of the Issuer.
BPS Shares or Shares	The maximum 114,422,994 newly-issued ordinary shares of Banca Popolare di Sondrio S.c.p.A., with regular dividend rights, deriving from the Capital Increase that is the object of the Offer, with a par value of €3.00.
Free Shares	The No. 30,814,798 newly-issued ordinary shares of Banca Popolare di Sondrio S.c.p.A., with regular dividend rights, deriving from the Free Capital Increase, with a par value of €3.00.
Supervisory Authorities	Authorities responsible for supervising banks – namely the Bank of Italy, the European Central Bank and the European Banking Authority.
European Central Bank or ECB	Central bank responsible for the European monetary union.
Bank of Italy	Central bank of the Italian Republic.
Banca IMI	Banca IMI Spa, with its registered office at Largo Raffaele Mattioli 3, 20121 Milan.
Banca Popolare di Sondrio or Bank or BPS or Issuer or Company or Parent Company Banca Popolare di Sondrio, società cooperativa per azioni,	Banca Popolare di Sondrio, società cooperativa per azioni, with headquarters in Sondrio, piazza Garibaldi 16.

Banca Popolare di Sondrio (SUISSE) or BPS (SUISSE) SA	Banca Popolare di Sondrio (SUISSE) SA, with headquarters in Lugano (CH), via Luvini 2a.
2012 Financial Statements	The audited consolidated financial statements of Banca Popolare di Sondrio for the year 2012.
2013 Financial Statements	The audited consolidated financial statements of Banca Popolare di Sondrio for the year 2013.
Borsa Italiana	Borsa Italiana S.p.A., with headquarters in Milan, piazza degli Affari 6.
Circular 285	Circular 285 of 17 December 2013 of the Bank of Italy concerning supervisory provisions for banks.
Co-Bookrunner	Banca Akros S.p.A., with its registered office at Via Eginardo 29, 20149 Milan
Co-Lead Manager	Banca Aletti,& C. S.p.A., with its registered office at Via Roncaglia 12, 20146 Milan Intermonte SIM S.p.A., with its registered office in Corso Vittorio Emanulele 9, 20122 Milan Keefe, Bruyette & Woods Limited, A Stifel Company, with its registered office at One Broadgate, London, EC2 M2QS, United Kingdom
CONSOB	Italian national commission for companies and the stock market, with headquarters in Rome, via G.B. Martini 3.
Guarantee Consortium	The consortium that will subscribe for the number of BPS Shares corresponding to any Pre-Emptive Subscription Rights that were not exercised at the end of the Market Offer, up to the maximum amount of €343,268,982.00.
Guarantee Contract	The contract between the Bank and the Guarantors governing, inter alia, the Guarantors' commitment to subscribe for the number of BPS Shares corresponding to any Pre-Emptive Subscription Rights that were not exercised at the end of the Market Offer, up to the maximum amount of €343,268,982.00.
Legislative Decree 231/2001	Legislative Decree 231 of 8 June 2001 on the administrative liability of legal persons, and companies and associations with or without legal personality (as amended).
Prospectus Date	Date of approval of the Prospectus by CONSOB.
Directive 2003/71/EC	Directive of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading, as amended by

	Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010.
Directive 2013/36/EU or Capital Requirements Directive IV (CRD IV)	Directive of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.
Pre-Emptive Subscription Rights	The right of BPS members and shareholders, under Article 2441 of the Civil Code, to subscribe for No. 3 BPS Shares for every 8 ordinary shares they hold in Banca Popolare di Sondrio, prior to the allocation of the Free Shares.
EBA	European Banking Authority, established through Regulation (EC) No. 1093/2010 of the European Parliament and of the Council of 24 November 2010, to contribute to the stability and short, medium and long-term stability and effectiveness of the financial system, to the advantage of the economy of the European Union, its citizens and businesses. The institutional goals of the EBA also include ensuring that credit risk and the other risks typical of banks are adequately regulated and subject to appropriate oversight.
ESMA	European Securities and Markets Authority, an independent authority that helps to protect the stability of the European financial system by ensuring the integrity, transparency, efficiency and orderly operation of activities on financial markets, including by establishing mechanisms to protect investors.
Fully phased	Means the statutory ratios set out in the New Rules in force as of the end of the transition period, starting 2019.
Guarantors	Banca IMI S.p.A., Mediobanca - Banca di Credito Finanziario S.p.A., BNP Paribas, Nomura, Banca Akros S.p.A., Banca Aletti & C. S.p.A., Intermonte SIM S.p.A., Keefe, Bruyette & Woods Limited, A Stifel Company – the entities that will sign the guarantee contract before the Offer is launched.
Banca Popolare di Sondrio Group or Group	Collectively, Banca Popolare di Sondrio S.c.p.A. and the companies it directly or indirectly controls pursuant to Article 23 of the TUB (as defined below).
IAS/IFRS	International accounting standards used to draw up the Issuer's financial statements.
Borsa Instructions	The instructions contained in the Borsa Regulations adopted by Borsa Italiana.

Joint Global Coordinators and Joint Bookrunner	Mediobanca and Banca IMI.
Joint Bookrunner	BNP Paribas, with its registered office in 16 boulevard des Italiens, 75009 Paris Nomura International plc, with its registered office in 1 Angel Lane, EC4R 3AB, London, United Kingdom
Basic Indicator Approach (BIA)	Method of calculating capital requirements to cover operational risk, set by the Bank of Italy as part of the measures for the prudential supervision of banks. Under this approach, the requirement is calculated by applying a fixed regulatory percentage to an indicator of the volume of a firm's business, namely its gross income.
Standardised Approaches	Under the "standardised" approaches to capital and counterparty risk, as set by the Bank of Italy in the area of capital adequacy rules for banks, exposures are subdivided into classes ("lines") depending on the nature of the counterparty or the technical characteristics of the relationship or the method of its execution. Each line is then assigned a different weighting, based where available on the rating given to the counterparty by specialist companies (independent firms recognised by the Bank of Italy). In the absence of ratings, the exposures are broken down into sub-aggregates, each of which are assigned different prudential treatments. Specific methodologies are also used to calculate the value of the exposures subject to counterparty risk. Regarding market risks, under the rules set by the Bank of Italy, the "standard" approach makes it possible to calculate an overall capital requirement, given by the sum of the capital requirements for the individual risks identified under the "building-block approach".
Internal-Ratings Based approaches	Approaches to measuring credit and counterparty risk based on internal ratings, as set forth by the Bank of Italy with regard to prudential supervisory requirements for banks. Under the approaches, the capital requirement is calculated by applying risk weightings deriving from the bank's internal assessments of its debtors or, in some cases, of operations.
Monte Titoli	Monte Titoli S.p.A., headquartered in Milan, piazza degli Affari 6.
MTA or Mercato Telematico Azionario	The Mercato Telematico Azionario (screen-based stock market) organised and managed by Borsa Italiana.
New Rules	Indicates, jointly, Circular 285, the Capital Requirements

	Regulation (CRR) and Capital Requirements Directive IV (CRD IV).
Offer	Jointly, the Subscription Rights Offer and the Market Offer.
Market Offer	The offer on the MTA of Pre-Emptive Subscription Rights not exercised during the Option Period, pursuant to Article 2441, third paragraph, of the Civil Code.
Subscription Rights Offer	The offer of maximum 114,422,994 BPS Shares under option to members and shareholders of BPS – the object of this Prospectus, at the Offer price and on the basis of an Option ratio of No. 3 ordinary BPS shares every 8 held prior to the free allocation, pursuant to Article 2441, paragraph 1, of the Civil Code.
Related Parties	Entities covered by the provisions of International Accounting Standard (IAS) 24.
Offer Period	The validity period of the Subscription Rights Offer, from 9 June 2014 to 4 July 2014, inclusive.
Phase in	Transitional regime under the New Rules, in force between 2014 and 2018, during which time the statutory ratios are calculated according to the gradual adoption of the rules on the computability of assets and risk assessment.
Banking book	All positions other than those in the trading book. Includes all interest income and expense business and derivative instruments not held in the trading book.
Trading book	Includes, in accordance with the regulations on the balance sheet and supervisory disclosures, securities and instruments held for trading, as well as repurchase and reverse repurchase agreements with underlying securities held for trading.
Offer Price	€3.00 for each BPS Share.
Prospectus	This public offer and listing prospectus.
Regulation (EC) No. 809/2004 Regulation (EC)	Regulation (EC) No. 809/2004 of the Commission of 29 April 2004, as amended and supplemented, implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (as amended).
Regulation (EU) No. 575/2013 or Capital Requirements Regulation (CRR)	Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU)

No. 648/2012.

Borsa Regulations	Regulations applying to markets organised and managed by Borsa Italiana, as resolved by the Board of Directors of Borsa Italiana on 9 December 2013 and approved by CONSOB with resolution 18764 of 22 January 2014, in force from 3 March 2014.
Issuers' Regulation	Regulation approved by CONSOB with resolution 11971 of 14 May 1999, as amended and supplemented.
Related-Party Regulations	Regulation containing provisions on transactions with related parties, adopted by CONSOB with resolution 17221 of 12 March 2010, as subsequently amended by resolution No. 17389 of 23 June 2010.
Annual Report 2012	The annual financial report, including the reports and 2012 Financial Statements, for the year ended 31 December 2012.
Annual Report 2013	The annual financial report, including the reports and 2013 Financial Statements, for the year ended 31 December 2013.
Consolidated Quarterly Financial Report to 31 March 2014	The consolidated quarterly financial report to 31 March 2014, prepared in accordance with Article 154-ter, paragraph 5, of Legislative Decree 58 of 24 February 1998, in accordance with the recognition and valuation rules set out in the international IAS/IFRS standards, subject to limited audit.
External Auditors	KPMG S.p.A., with headquarters in Milan, Via Vittor Pisani 25.
Member	A shareholder of Banca Popolare di Sondrio that has obtained the status of member under the Issuer's Articles of Association.
Articles of Association	The Articles of Association of Banca Popolare di Sondrio in force at the Prospectus Date.
Consolidated Banking Law or TUB	Legislative Decree 385 of 1 September 1993, the consolidated law on banking and credit, as amended and supplemented.
Consolidated Finance Law or TUF	Legislative Decree 58 of 24 February 1998, the consolidated law on financial intermediation, as amended and supplemented.
Theoretical ex-Right Price or TERP	Theoretical price of a share after the capital increase. In algebraic terms, TERP could be expressed as follows: TERP=[(effective P * old SH) + (issue P * new SH)] / (old SH + new SH) where (with reference to the terms defined here): effective P: share price before the rights offering; old SH: number of shares before the capital increase

issue P: issue price of the new shares;
new SH: number of newly-issued shares.

GLOSSARY

A glossary of the main terms used in the Prospectus and the enclosed reference documents is given below.

Asset Management	Management and administration of securities on behalf of customers.
Asset Quality Review or AQR	Analysis by the Supervisory Authority to determine the quality of banks' assets, including the adequacy of valuations of assets and guarantees, and of the associated provisions, conducted as part of the Comprehensive Assessment.
ATM	Acronym of Automated Teller Machine. Automatic device to perform operations such as withdrawing cash, paying in cash or cheques, requesting information, paying utility bills and buying telephone top-ups.
Bancassurance	Sale of insurance products through bank branches.
Basel II	International agreement of January 2001 on the capital requirements of banks, drawn up by the Basel Committee, established by the governors of the Central Banks of the ten most industrialised countries (G10) as at the end of 1974 and implemented at national level by the relevant supervisory bodies, including, with reference to the Italian Republic, by the Bank of Italy, through Circular 263 of 27 December 2006. This agreement states inter alia that banks in subscriber countries must hold reserves of capital in proportion to the banking risks they assume.
Basel II.5	International agreement to amend the measures adopted by Basel II, published in the document "Enhancements to the Basel II framework, Revisions to the Basel II market risk framework and Guidelines for computing capital for incremental risk in the trading book, July 2009". This agreement was implemented at national level by the Bank of Italy.
Basel III	International agreement to amend Basel II, implemented through the adoption of the Capital Requirements Directive IV, the CRR and Circular 285 and containing amendments to the prudential regulations on banks' capital and liquidity, with gradual entry into force of the new supervisory requirements between 1 January 2014 and 31 December 2019.
Capital Conservation Buffer	As per the concept set out in Article 128 of the CRD IV, the capital reserve required under legislation – as also specified by Circular 285 – with the objective of ensuring that banks have a high quality capital reserve for use during periods of market

difficulty, equal to 2.5% of Risk-Weighted Assets, calculated in accordance with Article 92, paragraph 3, of the CRR on a separate and consolidated basis.

Securitisation	Transfer of the risk associated with financial or real assets to a vehicle company by disposal of the underlying assets or through the use of derivative contracts. The vehicle company's sole purpose is the realisation of one or more securitisation transactions and, to this end, it issues negotiable financial instruments. In Italy, the subject is mainly governed by Law 130 of 30 April 1999.
Common Equity Tier 1 or CET1	Primary component of capital under Basel III regulations, mainly composed of ordinary capital, reserves, minority interests (computable within certain limits) and other regulatory adjustments, as per the CRR and Circular 285 (both in the transitory period and in full application).
Common Equity Tier 1 Ratio or CET1 Ratio	Solvency ratio expressed as the ratio between Common Equity Tier 1 and Risk-Weighted Assets calculated on the basis of the Basel III regulations, in application of the provisions of the CRR, the CRD IV and Circular 285.
Comprehensive Assessment	In-depth assessment of the solidity of European banks pursued by the ECB, commenced in November 2013, lasting 12 months and conducted by the ECB in conjunction with the competent national authorities of the member states participating in the single supervisory mechanism. The assessment involves: 1) analysis of supervisory risks (review of liquidity position, level of leverage and funding); 2) examination of asset quality in order to improve the transparency of bank exposures by analysing the quality of banks' balance sheets; 3) stress tests to find out how banks' balance sheets withstand stress.
Core Tier 1 Capital	The main component of a bank’s regulatory capital, comprising Core Capital net of innovative instruments.
Core Tier 1 Ratio	Indicator of the adequacy of a bank’s capital, represented by the ratio between Core Tier 1 Capital and Risk-Weighted Assets.
Corporate Banking	Direct banking service for businesses.
Deteriorated loans	Loans whose performance is not certain because the debtors are insolvent, even if this has not been legally determined, or in equivalent situations (non-performing loans); exposure to entities in temporary difficulty (impaired loans); exposures whose contractual terms have been renegotiated, making a loss (restructured); exposures that do not fall into the above categories,

	but not honoured by more than 90 days beyond the 5% threshold agreed.
Factoring	Contract whereby an entity (generally known as the originator) undertakes to assign present and future receivables generated by its business activities to another entity (the factor), which agrees against payment of a fee to provide specific services (including the accounting, management and collection of the receivables), guarantees against the non-performance of the debtors, the funding of the originator by paying the assigned receivables in advance.
Forbearance	Measures relating to credit exposures that meet specific criteria set by the European Banking Authority (EBA), whereby borrowers experiencing financial hardship or who are close to it are granted a change in contractual terms or refinancing.
Funding	Acquisition, by various forms, of the funds needed to perform the business activities.
Large Exposures	In this Prospectus, exposures equal to or greater than 10% of regulatory capital. “Exposure” means the total of on-balance sheet risk assets and off-balance sheet transactions with a customer or a group of associated customers, as defined by the supervisory regulations on credit and counterparty risk, without applying the weightings set out therein; assets fully deducted from regulatory capital are excluded from the exposures.
Haircut	Percentage reduction of the market value of a security at the moment when it is accepted as collateral by the European Central Bank (ECB). Used as a way for recipients of collateral to reduce risk in order to protect themselves from losses deriving from a fall in the market value of a security, in the event that it becomes necessary to liquidate the collateral.
Home Banking	Service that enables banking transactions to be performed directly from the customer’s home via telephone and computer connections.
ICAAP	Acronym of Internal Capital Adequacy Assessment Process, as required under EU legislation in accordance with the provisions of Basel II.
Impairment	With reference to the IFRS accounting standards, it refers to the loss of value in an asset on the balance sheet, recognised as the difference between the carrying value and the recoverable value (i.e. the maximum amount that could be obtained from selling it or using it in business).

Leasing	Contract whereby one party (lessor) grants the use of an asset to the other party (lessee) for a set period of time against payment of a regular fee, with the right to acquire ownership of the asset, under pre-established conditions at the end of the lease.
Fair value levels 1, 2 and 3	The fair value represents the price that would be received for the sale of an asset or that would be paid to transfer a liability in a normal transaction between market participants at the value date. The fair value of financial instruments should be calculated using valuation techniques that maximise use of observable market inputs. Valuation techniques are classified using three levels: 1) Level 1 – uses quoted prices in active markets for assets or liabilities that are identical to those being valued; 2) Level 2 – uses inputs other than the market prices used in Level 1 but that in any case are directly observable directly (as prices) or indirectly (derived from prices) on the market; 3) Level 3 – uses inputs not observable on the market.
LTRO	Acronym of Longer Term Refinancing Operation, market operations conducted by the ECB to support the liquidity of lenders in the euro area and therefore the liquidity of the economy.
Core Capital or Tier 1 Capital	Paid-in capital, reserves, innovative instruments and profit for the period, which constitute tier-1 quality capital. For further details on the calculation criteria, refer to the Instructions for compiling reports on regulatory capital and regulatory capital ratios issued by the Bank of Italy.
Supplementary Capital or Tier 2 Capital	Valuation reserves, innovative instruments not computed in core capital, hybrid capitalisation instruments, subordinated debt, implicit net gains on investments and other positive components, comprising the elements of tier-2 quality capital. For further details on the calculation criteria, refer to the Instructions for compiling reports on regulatory capital and regulatory capital ratios issued by the Bank of Italy.
Regulatory Capital or Total Capital	Bank capital valid for the purposes of supervisory regulations, comprising the sum of Core Capital – admitted in the calculation without any limitation – and Supplementary Capital which is admitted up to the maximum amount of Core Capital having deducted – using specific, detailed methods – holdings and interests in other lenders and/or financial institutions.

Rating	Expresses the assessment, by specialist companies, of the creditworthiness of a company or its issues of debt securities on the basis of the soundness of the company's finances and its prospects.
RWA or Risk-Weighted Assets	The bank's assets (on or off balance sheet) are weighted using factors that represent their inherent degree of risk and potential for default, in order to calculate an indicator of capital adequacy (the minimum amount required from banks and other institutions subject to the international agreements). For further details on the calculation criteria, refer to the Instructions for compiling reports on regulatory capital and regulatory capital ratios issued by the Bank of Italy.
Baseline Scenario and Adverse Scenario	Macroeconomic scenarios used to conduct the 2014 European banking stress tests performed by the EBA and the ECB. The Baseline Scenario, developed on the basis of the European Commission's Winter 2014 forecast published on 25 February 2014, predicts the course of macroeconomic variables assuming that no external shocks occur. The underlying forecasts are based on there being an economic recovery in the majority of EU Member States, and hence in the European Union. The Adverse Scenario reflects the systemic risks that currently threaten the European banking system. The risks underlying this scenario, as defined by the European Systemic Risk Board, include: 1) an increase in global bond yields caused by increased volatility in emerging markets; 2) a deterioration of credit quality in countries with low internal demand; 3) stalling policy reforms jeopardising the stability of public finances and consequently amplifying spreads; and 4) the lack of necessary bank balance sheet repair to restore the normal functioning of the interbank markets. The negative impacts of these phenomena results in a deterioration of GDP and increased unemployment, inflation, interest rates and property prices.
Spread	Generally, the difference between two interest rates. Within the scope of the Prospectus, it is defined as the difference in yield between an Italian government bond (Btp) with ten-year maturity and a German government bond (Bund) with a similar maturity.
Stress Test	Process of carrying out stress tests or qualitative and quantitative techniques used to evaluate the vulnerability of banks to exceptional but plausible events.
Tier 1 Capital Ratio or Tier 1 Ratio	Given by the ratio between Tier 1 Capital and Risk-Weighted Assets.

Structured Debt Securities	The securities referred to in paragraph 3.1.9 of Risk Factors: Market Risk. The innovative capital instrument of Arca Sgr S.p.a. is an irredeemable, subordinate security with an annual coupon of 9.80%, used to strengthen the core regulatory capital (Tier 1) of Arca SGR S.p.a. The instrument matures when the issuer dissolves and goes into liquidation, except in the event of early redemption (Call Option). Italease marzo 2016 is a senior note indexed to the performance of the 6-month Euribor (plus 0.70% per year). The coupon cannot exceed 200% of the rate of inflation over the period (MAX CPN=200%*CPI/PREV CPI). Bank of America 6/4/2016 is a senior note indexed to the performance of the 6-month Euribor (plus 0.60% per year). The coupon cannot exceed 5% per year (CAP). Ubi Banca 29/3/2016 is a senior note indexed to the performance of the 3-month Euribor (plus by 0.50% per year). The coupon cannot exceed 5.25% per year (CAP). Banco Popolare 18/11/2015 is a senior note indexed to the performance of the 6-month Euribor (increased by 0.475% annual). The coupon cannot exceed 5% per year (CAP). Btp Italia are multiannual treasury bonds issued by the Italian Republic indexed to Italian inflation (FOI Index). The coupon is semi-annual, indexed to the FOI index – excluding tobacco products – of the semester, paid in arrears, and calculated by multiplying the real fixed semi-annual coupon rate by the revalued principal. In case of deflation, a minimum return is guaranteed at the fixed semi-annual nominal coupon rate (floor on the coupon). In case of inflation during the following semesters, the revaluation of the principal will take place only if the index goes above the maximum level reached in the previous semesters. The revaluation of the principal, applied to the nominal value acquired, is paid together with the coupon.
Total Capital Ratio	Solvency ratio expressed as the ratio between Total Capital and Risk-Weighted Assets.

SUMMARY NOTE

The terms listed with a capital letter, where not expressly defined in this Summary Note (the "**Summary Note**"), are defined in the "Definitions" and "Glossary" section of the Prospectus.

This Summary Note provides an overview of the essential characteristics and risks connected to the Issuer and the Group, to the sector in which the Issuer and the Banca Popolare di Sondrio Group operate, and to the BPS Shares.

In order to correctly assess the investment, recipients of the Offer are invited to evaluate the information contained in this Summary Note, together with the risk factors and remaining information contained in the Prospectus. In particular, to assess whether BPS Shares are compatible with their investment objectives, recipients of the Offer are also urged to bear in mind that BPS Shares manifest the risks typical of an investment in listed shares.

This Summary Note, prepared in accordance with Commission Delegated Regulation (EU) No. 486/2012 of the Commission of 30 March 2012 – which amends Regulation (EC) No. 809/2004 as regards the format and content of the Prospectus, its basic structure, the Summary Note, the definitive conditions and disclosure requirements – contains the key information relating to the Issuer, the Group and the sector in which they operate, and the key information relating to the BPS Shares that are the object of the Offer.

Summary Notes set out the items of information required by the applicable models (the "**Items**") indicated in Sections A to E (A.1 – E.7).

The Summary Note contains all the Items required by the applicable models, given the characteristics of the financial instruments offered and of the Issuer. Because there is no requirement to address in the Summary Note those Items relating to models not used to draw up the Prospectus, there may be gaps in the numerical sequence of the Items.

In the event that a particular Item is required by the applicable models in relation to the characteristics of the financial instruments offered by the Issuer, if there is no significant information on this subject, then the Summary Note contains a brief abstract description of the Item required by the applicable models, together with the wording "not applicable."

SECTION A – INTRODUCTION AND WARNINGS

A.1	**Warning**
	Please note that: - the Summary Note must be read as an introduction to the Prospectus; - any decision to invest in BPS Shares should be based on consideration of the Prospectus as a whole by the investor; - where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the applicable national legislation, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; - civil liability attaches to the Issuer, as the entity that has drawn up the Summary Note, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus, or if it fails, when read together with the other parts of the Prospectus, to provide the essential information to enable investors to fully assess the opportunity of investing in the BPS Shares.
A.2	The Issuer does not permit financial intermediaries to use this Prospectus for the subsequent resale and/or final placement of the BPS Shares.

SECTION B – ISSUER AND ANY GUARANTORS

B.1	**Legal and commercial name of the Issuer**
	The Issuer's name is Banca Popolare di Sondrio, società cooperativa per azioni.
B.2	**Domicile and legal form of the Issuer, the legislation under which the Issuer operates, its country of incorporation**
	The Issuer, Banca Popolare di Sondrio, a lending institution established in Sondrio in 1871, has its registered office in Sondrio, Piazza Garibaldi 16; it operates in accordance with Italian law and was incorporated in Italy. The Issuer's legal form is a joint-stock cooperative company; members and shareholders are bound by corporate obligations to the extent of the share capital they hold.
B.3	**Description of, and key factors relating to, the nature of the Issuer's current operations and its principal activities, stating the main categories of products sold and/or services performed, and a description of the principal markets in which the Issuer competes**

The Issuer is the Parent Company of the Banca Popolare di Sondrio Group. The Group serves households, small- and medium-sized enterprises and institutions that make up the social and economic fabric of the areas in which operates, mainly located on the Italian market. The Group supplies services and products to its customers in retail form through its network of branches and virtually via the Internet. The widespread nature, in the areas in question, of the territorial development constitutes a key factor in the history and future prospects of the Issuer. This falls within the scope of the traditional approach of the cooperative banks, which then finds expression in the ability to assume the role of a reference bank in certain territories and thus becoming an integral part of the local economy.

As well as the standard activities of collecting savings and providing credit in various forms, the Group offers investment, insurance and pensions services, payment cards, payment systems, factoring, leasing and treasury and collection services, and business advice, including through subsidiaries.

As part of its investment services, the Group offers investment advisory and asset management services. In addition, for the management of savings through mutual investment funds, the Group has commercial agreements in place with: Arca SGR S.p.A., in which it holds a stake equivalent to 12.906% of share capital as at the Prospectus Date and with which it has collaborated since 1983; and Etica SGR S.p.A., a company that exclusively establishes and promotes socially responsible mutual investment funds, in which it holds a stake equivalent to 9.867% of share capital as at the Prospectus Date. In 1999, the Swiss subsidiary Banca Popolare di Sondrio (SUISSE) established Popso (Suisse) Investment Fund SICAV – a collective investment body under Luxembourg law, comprising 15 sub-funds, shares which are also distributed by the Issuer.

Bancassurance activities are performed through distribution agreements with Arca Vita S.p.A., in which the Issuer holds a stake of 14.837% of share capital as at the Prospectus Date, and with Arca Assicurazioni S.p.A., both of which are part of the Unipol Group, and operate – respectively – in the life and non-life sectors.

Through CartaSi, a leading company in the payment cards market and a part of the ICBPI Group, the Bank is able to serve its customers both with regard to issuing payment cards and – with reference to businesses – their acceptance.

The subsidiary Factorit provides services to businesses to satisfy requirements for the management of trade receivables; the Bank is active in lease finance through cooperation agreements with the subsidiary Alba Leasing.

Banca Popolare di Sondrio has extensive experience in the sector of treasury and collection services for private entities and the public administration. For these institutions it also manages the collection of taxes, the payment of pensions, the collection of rent on real estate assets and professional portfolio management.

As at the Prospectus Date, the Issuer serves around 732,000 customers, of which more than 616,000 are private.

B.4a	**Description of the most significant recent trends affecting the Issuer and the industries in which it operates**
	The national macroeconomic environment remains weak, reflecting on the banking industry with regard to the uncertainty of the financial markets, specifically in terms of volatility of the yield spread between Italian and German government bonds, and the negative effects on the credit portfolio. The commercial management of the Issuer confirms the priority attention towards households, small and medium-sized enterprises and institutions in the area, and increasing to the extent possible efficiency and competitiveness of retail services. The good response to the bank's offer in the areas where it has recently opened allows for the continuance of the territorial development policy, primarily by increasing the presence in traditionally considered geographical areas.
B.5	**Description of the Group and the Issuer's position within the Group**
	The Issuer is the Parent Company of the Banca Popolare di Sondrio Group, which is composed of: • Banca Popolare di Sondrio; • Banca Popolare di Sondrio (SUISSE) SA, based in Lugano (CH), a bank under Swiss law (100% controlled); • Factorit S.p.A., based in Milan, active in the advance payment and management of trade receivables (60.5% controlled); • Sinergia seconda S.r.l., based in Milan, mainly involved in instrumental property activities (100% controlled); • Pirovano Stelvio S.p.A., based in Sondrio, a company operating in the management of accommodation in the Passo dello Stelvio area, mostly used for summer skiing (100% owned); • Rajna Immobiliare S.r.l., under joint control and based in Sondrio, property company whose share capital is 50%-owned by the Parent Company. The Issuer, as the Parent Company with responsibility for leading, managing and supervising the Group, performs the management and coordination activities in particular.
B.6	**Shareholders who, directly or indirectly, hold more than 2% of the Issuer's capital or other voting rights and indication of the controlling entity**
	With reference to the shareholders' register and the other information available from the Issuer, as at the Prospectus Date no shareholder holds a stake exceeding 2%. The Issuer's outstanding shares are exclusively ordinary shares, each with a nominal value of €3. Under Article 30, paragraph 1, of the Consolidated Banking Law, each member is entitled to a single vote, regardless of how many shares they hold. Under Article 30, paragraph 2, of the Consolidated Banking Law, in an 'industrial cooperative bank' no one shareholder may hold in excess of 1.00% of the share capital in the Company. If the Bank learns that this limit has been exceeded, it notifies the shareholder of the violation. The shares in excess of the limit must be sold within one year of the notification; once that period has elapsed, the relative ownership rights maturing up to the time of the sale of the excess shares are acquired by the Bank. Under Article 30, paragraph 3, of the Consolidated Banking Law, the aforesaid limit does not apply to collective investment companies, which are subject to the limits laid down in the

rules governing each of them. The industrial cooperative nature of the Issuer does not allow control by other entities.

With regard to the provision of the TUB that sets shareholdings at 1% of capital (except for UCIs), Article 14 of the Articles of Association states that "No one, whether a member or non-member, may hold shares with a total nominal value exceeding the legal limit on participation in share capital." Therefore, this wording is compatible with current regulations.

B.7 Selected financial information

In the period between 31 March 2014 and the date of this Prospectus, the Group's financial and economic situation has not undergone any significant changes. In April, the Parent Company effected early repayment to the European Central Bank of the LTRO loan of €500 million maturing on 26 February 2015.

Selected financial information taken from the Group's consolidated annual reports for the years ended 31 December 2013 and 31 December 2012, and the quarterly periods ending on 31 March 2014 and 31 March 2013 is provided below.

The table below shows the reclassified figures for the above periods.

(thousands of €)	31/03/14	31/03/13	31/03/2014-31/03/2013	31/12/13	31/12/12	31/12/2013-31/12/2012
Income Statement						
Net interest income	147,718	123,681	19.43%	559,162	526,106	6.28%
Net commission income	73,798	66,728	10.60%	283,001	283,993	-0.35%
Dividends	296	80	270.00%	2,699	2,934	-8.01%
Profit on financial activities (*)	74,834	24,130	210.13%	169,117	177,702	-4.83%
Net impairment losses on loans and financial activities	-121,921	-89,344	36.46%	-490,285	-491,899	-0.33%
Operating costs	-103,047	-97,787	5.38%	-399,976	-396,703	0.83%
Profit (loss) for the year attributable to the Parent Company	41,746	10,534	296.30%	53,033	34,306	54.59%

(*) The result of the financial activities is given by the sum of items of the income statement.
80 - Net result of the trading activity
90 - Net result of the hedging activity
100 - Profit (loss) from the sale or repurchase of financial assets available for sale, financial assets held to maturity, financial liabilities
110 - Net result of the financial assets and liabilities carried at fair value

The table below shows the main balance sheet figures for the financial years ending 31 December 2013 and 31 December 2012, and the quarterly figures to 31 March 2014.

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Asset data					
Net loans to customers	24,599,550	23,904,559	25,308,798	2.91%	-5.55%
Financial assets and hedging derivatives (*)	7,015,019	6,794,864	4,817,236	3.24%	41.05%
Total assets	**33,771,959**	**32,769,928**	**32,349,126**	**3.06%**	**1.30%**
Direct funding (**)	27,334,106	26,675,326	26,185,312	2.47%	1.87%
Shareholders' equity	**2,006,930**	**1,936,174**	**1,869,925**	**3.65%**	**3.54%**
Total liabilities and net shareholders' equity	**33,771,959**	**32,769,928**	**32,349,126**	**3.06%**	**1.30%**
Other customer funding items					
Indirect funding	28,177,701	27,341,054	24,369,954	3.06%	12.19%
Insurance products	783,476	718,808	617,866	9.00%	16.34%

(*) "Financial assets and hedging derivatives" is an aggregate of the items "Financial assets held for trading", "Financial assets carried at fair value", "Financial assets available for sale", "Financial assets held to maturity" and "Hedging derivatives", represented at items 20, 30, 40, 50 and 80 on the asset side of the Bank of Italy model.

(**) "Direct funding" includes "Payables due to customers" and "Outstanding securities" (items 20 and 30 on the liabilities side).

The tables below show the main figures from the cash flow statement of the Banca Popolare di Sondrio Group for the financial years ending 31 December 2013 and 31 December 2012, and the quarterly figures to 31 March 2014 and 31 March 2013.

(thousands of €)	31/03/14	31/03/13	31/03/2014-31/03/2013	31/12/13	31/12/12	31/12/2013-31/12/2012
Net liquidity generated/absorbed by operating activities	-36,564	-31,388	16.49%	50,033	126,457	-60.43%
Net liquidity generated/absorbed by investment activities	-802	-19,900	-95.97%	-23,578	-35,698	-33.95%
Net liquidity generated/absorbed by financing activities	-	-	-	-12,390	-28,382	-56.35%
Net liquidity generated/absorbed in the period	-37,366	-51,288	-27.14%	14,065	62,377	-77.45%

Balance sheet items	**31/03/2014**	**31/03/2013**	**31/12/2013**	**31/12/2012**
Cash and cash equivalents at the start of the period	196,517	183,745	183,746	121,014
Net liquidity generated/absorbed in the period	-37,366	-51,288	14,065	62,377
Cash and cash equivalents: effect of exchange rate changes	582	-748	-1,294	355
Cash and cash equivalents at the end of the period	**159,733**	**131,709**	**196,517**	**183,746**

Loans to customers

The tables below show summary information about on-balance sheet exposures to customers of the Banca Popolare di Sondrio Group as at 31 March 2014, 31 December 2013, and 31 December 2012.

Loans to customers at 31-03-14	Gross exposure	Impairment losses	Carrying amount	Coverage
(thousands of € and %)				
Non-performing loans	1,317,068	810,907	506,161	61.57%
Impaired loans	1,381,290	447,969	933,321	32.43%
Restructured loans	88,127	11,053	77,074	12.54%
Deteriorated past-due exposures	345,763	40,318	305,445	11.66%
Deteriorated loans	**3,132,248**	**1,310,247**	**1,822,001**	41.83%
Performing loans	**22,925,931**	**148,382**	**22,777,549**	0.65%
Total	**26,058,179**	**1,458,629**	**24,599,550**	5.60%

Loans to customers at 31-12-13	Gross exposure	Impairment losses	Carrying amount	Coverage
(thousands of € and %)				
Non-performing loans	1,179,504	718,823	460,681	60.94%
Impaired loans	1,305,665	406,531	899,134	31.14%
Restructured loans	51,163	8,344	42,819	16.31%
Deteriorated past-due exposures	488,578	52,740	435,838	10.79%
Deteriorated loans	**3,024,910**	**1,186,438**	**1,838,472**	39.22%
Performing loans	**22,210,705**	**144,618**	**22,066,087**	0.66%
Total	**25,235,615**	**1,331,056**	**23,904,559**	5.27%

Loans to customers as at 31-12-12	Gross exposure	Impairment losses	Carrying amount	Coverage
(thousands of € and %)				
Non-performing loans	689,914	399,171	290,743	57.86%
Impaired loans	745,280	224,489	520,791	30.12%
Restructured loans	60,343	12,004	48,339	19.89%
Deteriorated past-due exposures	499,893	54,879	445,014	10.98%
Deteriorated loans	**1,995,430**	**690,543**	**1,304,887**	34.61%
Performing loans	**24,179,123**	**175,212**	**24,003,911**	0.72%
Total	**26,174,553**	**865,755**	**25,308,798**	3.31%

The table below shows the total direct and net interbank funding as at 31 December 2013 and 31 December 2012, and the quarterly figures up to 31 March 2014.

Total direct and net interbank funding	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
(thousands of €)					
Payables due to customers	24,369,974	23,710,352	23,250,752	2.78%	1.98%
Outstanding securities	2,964,132	2,964,974	2,934,560	-0.03%	1.04%
Total direct funding	**27,334,106**	**26,675,326**	**26,185,312**	**2.47%**	**1.87%**
Payables due to central banks for LTRO	**1,800,000**	**1,800,000**	**1,800,000**	**0.00%**	**0.00%**
Receivables due from banks	969,667	733,954	1,179,977	32.12%	-37.80%
Payables due to other banks (without LTRO)	1,352,056	1,267,978	1,404,024	6.63%	-9.69%
Net interbank loans: loans-amounts due (without LTRO)	-382,389	-534,024	-224,047	-28.39%	138.35%

Consolidated shareholders' equity	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
(thousands of €)					
Capital	924,444	924,444	924,444	-	-
Share premiums	171,450	171,450	171,450	-	-
Reserves	848,791	794,781	771,917	6.80%	2.96%
Treasury shares	-24,316	-24,316	-24,316	-	-
Valuation reserves	44,815	16,782	-7,876	167.04%	-313.08%
Equity attributable to the Group	2,006,930	1,936,174	1,869,925	3.65%	3.54%
Equity attributable to minority interests	78,116	75,438	70,112	3.55%	7.60%
Consolidated shareholders' equity	2,085,046	2,011,612	1,940,037	3.65%	3.69%

Net exposure

Net exposure (thousands of euro)	31/03/14	Percentage	31/12/13	Percentage	31/12/12	Percentage
Impaired assets	**1,822,001**	**7.41%**	**1,838,472**	**7.69%**	**1,304,887**	**5.16%**
Non-performing loans	506,161	2.06%	460,681	1.93%	290,743	1.15%
Impaired loans	933,321	3.79%	899,134	3.76%	520,791	2.06%
Restructured exposures	77,074	0.31%	42,819	0.18%	48,339	0.19%
Past-due exposures	305,445	1.24%	435,838	1.82%	445,014	1.76%
Other assets	**22,777,549**	**92.59%**	**22,066,087**	**92.31%**	**24,003,911**	**94.84%**
Total net lending to customers	**24,599,550**	**100.00%**	**23,904,559**	**100.00%**	**25,308,798**	**100.00%**

B.8 Selected key pro forma financial information

Not applicable, as the Prospectus does not contain pro-forma financial information.

B.9 Profit forecast or estimates

This Prospectus does not contain profit forecasts or estimates.

B.10 Description of the nature of any findings in the audit report on the historical financial information

The reports issued by the External Auditors on the consolidated financial statements of the Issuer relating to the financial years ending 31 December 2013 and 31 December 2012 contain no such findings.

B.11 Declaration on working capital

	In accordance with Regulation (EC) No. 809/2004 and in view of the definition of working capital – the means by which the Issuer accesses cash and other available liquid resources in order to meet its liabilities as they fall due – as set out in "ESMA Recommendation 2013/319", the Issuer believes that its working capital is sufficient for its own present requirements and those of the Group, understood to mean those requirements relating to the 12 months after the Prospectus Date.

SECTION C – FINANCIAL INSTRUMENTS

C.1	**Description of the BPS Shares**
	The object of the Subscription Rights Offer is the maximum No. 114,422,994 BPS Shares deriving from the Capital Increase, with normal dividend entitlement and nominal value of €3, with the same characteristics as the Issuer's outstanding shares at the Prospectus Date. The BPS Shares will have the ISIN code IT000784196 and will be issued with coupon [No. 37] et seq. The Options for subscribing the BPS Shares have been given the ISIN code IT0005025066. The BPS Shares will be registered, freely transferable and indivisible and will be subject to the transferability rules set out in the regulations on dematerialisation, as per Legislative Decree 213 of 24 June 1998 and the relevant implementing measures. They will therefore be entered into the Monte Titoli centralised management system.
C.2	**Currency of issue**
	The BPS Shares will be denominated in euro.
C.3	**Share capital**
	The share capital of the Issuer consists of registered ordinary shares with a nominal value of €3.00 each. At the Prospectus Date, the share capital of the Issuer amounted to €924,443,955 (fully paid-in), subdivided into No. 308,147,985 ordinary shares of which No. 3,020,000 shares inserted in the property book (0.98%).
C.4	**Description of the rights attached to the BPS Shares**
	The BPS Shares will have the same characteristics and will confer the same administrative and ownership rights as the Banca Popolare di Sondrio shares currently outstanding. In particular, the BPS Shares are ordinary, registered, freely transferable and indivisible and entitle each member, regardless of the number of BPS shares held, to a single vote in the Issuer's ordinary and extraordinary shareholders' meetings. The BPS Shares deriving from the Capital Increase will not confer the right to be attributed the Free Shares deriving from the Free Capital Increase, which will be executed at the same time as the Subscription Rights Offer. The Free Shares, in turn, will not entail a Pre-Emptive Subscription Right and therefore will not confer the right to participate in the Offer. Acquiring Member status In accordance with Article 7 of the Articles of Association "Natural persons may become members, even below the age of majority. Legal persons, companies of all types, consortia, associations and other collective entities may also become part of the company. They must

	designate in writing the name of the natural person authorised to represent them; changes to this designation will be accepted by the Company provided it has been duly notified. In all cases, those who represent members by any means are not eligible for appointment as company officers. Persons who are disqualified or debarred by the courts, non-discharged bankrupts and all those who have received convictions which involve even temporary disqualification from public office cannot join the Company. Admission to membership is also assessed on the basis of any ongoing relationship." Under Article 8 of the Articles of Association "Anyone who intends to become a member must submit to the Board of Directors an application stating the number of shares acquired or subscribed for, their personal details, domicile, and all other information and/or declarations required by law or required in general by the company, and in particular must expressly declare that they accept the rules of the Articles of Association. For minors, applications must be signed by their legal representative. Until they have requested and obtained membership, shareholders may only exercise ownership rights." Under Article 9 of the Articles of Association "The Board of Directors decides on applications for membership through a duly motivated resolution, bearing in mind the interests of the company, the spirit of the cooperative form and the provisions of the Articles of Association." Under Article 10 of the Articles of Association "Acceptance of the application for membership is noted in the shareholders' register and communicated to the applicant within 90 days of the date of receipt of the application, by letter addressed to the domicile they have indicated." Under Article 11 of the Articles of Association "Rejection of the membership application is communicated to the applicant within 90 days of the date of receipt of the application by the company. Within 30 days of receiving the rejection, the applicant may appeal to the company's Board of Arbitrators for their application to be reconsidered. The Board of Arbitrators, convening in accordance with the Articles of Association together with a representative of the applicant, will announce its decision within 30 days of receiving the appeal, either ordering the application to be reconsidered or rejecting it, and in all cases notifying the Board of Directors of its decision. If the Board of Arbitrators orders the application to be reconsidered, the Board of Directors will make a definitive decision on the application through a motivated resolution." Under Article 12 of the Articles of Association "Membership status is acquired upon entry in the shareholders' register, having met the prescribed formal requirements."
C.5	**Restrictions on the free transferability of the BPS Shares**
	The BPS Shares are transferable as permitted by law. Under the first paragraph of Article 22 of the Articles of Association "The shares are, by shareholders' agreement, subject from the outset to being held as security by the company, even if they are not deposited with the company, as a guarantee of all the direct and indirect obligations of a member to the Company. To this end the Company has, in any case, the right to retain the shares deposited with it or that it holds."
C.6	**Admission to trading**
	Shares in Banca Popolare di Sondrio – and the BPS Shares that are the subject of the Offer – are traded on the Mercato Telematico Azionario (screen-based stock market) organised and

	managed by Borsa Italiana.
C.7	**Description of dividend policy**
	Under Article 60 of the Articles of Association "The following is deducted from the net profit shown by the annual financial statements approved by the shareholders' meeting: the amount allocated to the legal or ordinary reserve, to the extent permitted by law; an amount of no less than 20% and no more than 30% to the statutory or extraordinary reserve. The remaining profit is divided as follows: a) to members, to the extent that, on proposal of the Board of Directors, is set bearing in mind prudential guidelines decided by the Shareholders' Meeting; b) the remainder is allocated upon proposal of the Board of Directors and according to the resolutions of the Shareholders' Meeting, which may be used to establish or increase reserves, howsoever named, or allocated to reserves for buying company shares and a fund that can be used for welfare or charity purposes, and cultural or social initiatives. The Board of Directors, when drawing up the financial statements, can allocate profits to establishing or increasing reserves, before determining the net profit referred to in paragraph 1." Under Article 15 of the Articles of Association "Dividends not collected within five years from the day on which they are payable become the property of the company." The Bank of Italy, with its notice of 13 March 2013, urged all banks to adopt dividend distribution policies that enable it to maintain – at separate and consolidated level – current and future capital adequacy, in line with the entirety of risks assumed, such as to enable alignment with the prudential requirements set out in the CRD IV and the CRR and to ensure coverage of levels of internal capital calculated as part of the ICAAP process.

SECTION D – RISKS

D.1	**Risk factors specific to the Issuer and the Group**
	3.1.1 Risks associated with capital adequacy The rules on capital adequacy for banks define minimum prudential requirements for equity, the quality of capital resources, and risk mitigation instruments. Even after the implementation of the Capital Increase, in the future the Issuer could experience the need, given unforeseeable external facts and events outside of the Group's control, to resort to additional measures to strengthen capital in order to meet the capital adequacy standards set by the applicable pro-tempore regulations, as well as – possibly – on instructions from the supervisory authorities. **3.1.2 Risks associated with the impact of current uncertainties in the macroeconomic context on the performance of the Banca Popolare di Sondrio Group** Uncertainties associated with the macroeconomic context could cause a slowdown in the business of the Issuer and/or the Group, an increase in the cost of funding, a decrease in share prices and in the value assets, as well as additional costs from write-downs and depreciation, with a consequent drop in profitability. **3.1.3 Risks associated with the Comprehensive Assessment (including the Asset Quality Review)** At the Prospectus Date, BPS is subject to the Comprehensive Assessment exercise. If, upon its outcome, should requirements emerge for greater specific provisions for individual non-performing lines of credit and/or greater collective adjustments on performing or deteriorated loans and/or greater credit value adjustments (CVA) on derivatives and/or the verification of the

correct and updated adjustment of guarantees, such results could entail negative effects on the income, cash flow and financial situation of the Issuer and/or the Group for the year 2014.

If the Common Equity Tier 1 ratio should prove lower than the minimum requirements, despite the implementation of the Capital Increase, the Group must submit detailed capital plans to the competent authorities to fill the shortfalls observed.

In particular, the capital and restructuring plans required by the ECB could limit the distribution of dividends, the implementation of a new capital increase, the reorganisation of sources of funding, the separation and/or reduction of activities, the disposal of assets at market price or participation in possible government subsidy mechanisms.

3.1.4 Risks associated with the deterioration of credit quality

The Issuer and/or the Group overall are exposed to credit risk, i.e. to the risk that a debtor will not perform its obligations or that the respective credit rating will undergo progressive deterioration or that a loan may be granted on the basis of incomplete, untrue or incorrect information, with a consequent financial loss for the Group.

The evaluation of the possible losses that the Group could incur with individual loan exposures or with the overall loan book depends on the combination of multiple factors, including general economic trends or trends in specific business sectors, changes in individual counterparty ratings, the worsening of counterparty competitive rankings in their respective business sectors, possible poor management of the companies or counterparties to which loans have been made, adverse changes in interest rates, the level of household debt, and other exogenous factors (such as, for example, the reliability of the legal oversight system and changes in the regulatory context).

In particular, the continuation of the crisis situation in the credit markets and the slowdown in the global economy have reduced and could further reduce disposable household income and corporate income and/or could have negative repercussions on the ability of bank customers to fulfil the obligations assumed and could consequently entail a significant drop in credit quality in the Issuer's and/or the Group's business sectors.

The risks mentioned could intensify, however, given particularly unfavourable economic trends, with negative effects both on the Issuer's and/or the Group's assets and cash flow, as well as earnings. A worsening of credit quality exposes the Issuer and/or the Group in fact to the risk of a possible increase in “impairment losses on non-performing exposures”, with a consequent reduction in the portion of distributable profits.

The consequent decrease in profitability could in turn translate into lower self-funding capacity, with possible repercussions on the financial position and cash flow of the Issuer and/or the Group.

3.1.5 Risks associated with exposure to the performance of the real estate market

The Banca Popolare di Sondrio Group is exposed to the real estate segment both through the usual business of mortgage-secured loans to households (primarily for the purchase, construction or restructuring of residential properties) and to companies not belonging to the property and constructions sectors, as well as through the business of lending to companies operating in the said sectors, whose repayment ability depends primarily on the construction, leasing or sale of properties.

The decrease in real estate market prices could also have a negative impact deriving from the depreciation of the mortgage collateral received for the loans granted, with potentially greater losses emerging in court collection proceedings.

Considering the foregoing, the continuation of the current depressed real estate market context could have negative effects, including significant effects, on the Group's operating results and on its income, financial position and/or cash flow.

3.1.6 Risks associated with the Euro Area debt crisis

Considering the instability of the general economic context, albeit though slowly improving, the risk remains, in an extreme scenario, that some countries in the euro area, even if hardly relevant in terms of Gross Domestic Product, could leave the Monetary Union or that it could lead outright to a dissolution of the Monetary Union itself, with unforeseeable consequences on the state of affairs in both cases.

All of the above factors, especially in crisis periods, could lead the Group to suffer losses, increased financing costs, and foreshortening of the values of assets held, with possible negative effects on the Group's financial position and cash flow and on its operating results.

3.1.7 Risks associated with the Group's exposure towards sovereign debtors

The Group has sovereign debt exposure with some countries and, in particular, with Italy. Any tensions in the government bond market and any volatility in them could have negative effects on the business and on the income, financial position and/or cash flow of the Issuer and/or the Group. Similar impacts could be had in the event of the aggravation of the sovereign debt situation and, in particular, that of Italy.

3.1.8 Risks associated with dividend distributions

Dividend distributions by the Issuer could be ruled out or limited in the future by the need to observe capital requirements set out in legal and/or regulatory provisions applicable to the Group or imposed by supervisory authorities.

Even with distributable profits for the year and even without legislative and regulatory prohibitions and/or limitations, the Issuer could also decide not to distribute dividends to holders of BPS shares or to distribute dividends in a lower amount compared to the maximum distributable in accordance with applicable legal and Articles of Association provisions, with consequent negative effects on the return on investments in BSP shares.

3.1.9 Market risk

The Group is exposed to market risk, i.e. to the risk that the value of a financial asset or liability may change due to market trends, such as interest rate fluctuations and financial market trends.

Market risk is manifested both in relation to the trading book and in relation to the so-called banking book.

3.1.10 Foreign exchange risk

The Group is exposed to foreign exchange risk, i.e. to a particular aspect of market risk relative to the possibility that changes in exchange rates could cause negative effects on the Group's income, financial position and/or cash flow.

The main sources of risk lie in some other equities, debt securities, currency UCIs, and exchange differences deriving mainly from intermediation on repo and forward transactions with private customers and on the interbank market, as well as from implications for the Group's foreign exchange position from trading in other financial products (difference between premiums on foreign currency options, interest on foreign currency deposits, etc.).

3.1.11 Liquidity risk

Liquidity risk is to be understood as the risk that the Issuer and/or the Group may not be able to meet their certain or reasonably foreseeable payment obligations.

Raising the liquidity necessary for carrying out the core business takes on a fundamental role for achieving the Group's strategic goals. In the event of worsening market conditions or deepening investor distrust in the financial markets or increasing speculation relative to the solvency or creditworthiness of the financial institutions present on the market, including the Banca Popolare di Sondrio Group, or of their respective countries of origin, raising liquidity could be hampered by the inability of the Issuer or of the companies forming part of the Group to tap the debt market or sell their own assets, with a consequent negative impact on the Group's income, financial position and/or cash flow. Although the Group continually monitors its credit risk, any negative change in market conditions and in the general economic context and/or in the Issuer's creditworthiness, possibly associated with a need to adjust its equity situation to regulatory requirements introduced from time to time in implementing supervisory provisions, could have negative effects on the Group's business and on its income, financial position and/or cash flow.

3.1.12 Operational risk

In carrying out its business, the Group is exposed to operational risk, i.e. to the risk of suffering losses deriving from inadequate or dysfunctional corporate procedures, errors or deficiencies in human resources, internal processes or information systems, or from exogenous events.

If internal control procedures and policies on operational risk should prove not to be adequate, events that are unexpected and/or in any case outside of the Group's control could occur with possible negative effects on the business and on the income, financial position and/or cash flow of the Issuer and/or the Group.

3.1.13 Counterparty risk

The Banca Popolare di Sondrio Group engages in trading, on a proprietary basis or on behalf of its customers, with derivatives on a variety of underliers, such as interest rates, exchange rates, commodities and shares. Such transactions expose the Group not only to market risk and operational risk, but also to the risk that the counterparty for the derivatives may default on its obligations or become insolvent before the maturity of the respective contracts, when the Issuer or a Group company still holds a credit right against said counterparty.

In general, within its financial operations, the Group is exposed to the risk of suffering losses from a counterparty's default on its contractual obligations, when the term “counterparty” refers to an institutional market player (banks, real estate agents, investment companies, open-ended collective investment schemes, UCIs, or asset managers); this risk does not arise with contracts negotiated on regulated markets where security mechanisms are at work.

3.1.14 Risk management

In carrying out its core business, the Group is exposed to different types of risks, whose monitoring and control are entrusted to the Parent Company's Risk Management Department and to counterpart areas at the other companies in the Group.

If the Group's internal risk management procedures and policies should not prove to be adequate, exposing the Group to risks that cannot be budgeted or properly quantified, the Issuer and/or the Group could suffer losses, including significant losses, with possible negative effects on the business and on the income, financial position and/or cash flow of the Bank and/or the Group. In addition, regardless of the adequacy of internal risk management procedures and systems, due to the current conditions of economic uncertainty and market volatility, the future occurrence of harmful events deriving from unforeseeable circumstances outside of the Group's control cannot be ruled out, with possible negative effects on the business and on the income, financial position and/or cash flow of the Issuer and/or the Group.

3.1.15 Risks associated with legal proceedings under way

In the normal course of its business, the Group is a party to civil and administrative court proceedings, as well as to disputes with the Tax Administration, where negative outcomes could generate liabilities such as to cause a reduction in the Issuer's ability to meet its obligations.

Although the Group has thought to create a provision for risks and charges for legal disputes taking into consideration the risks associated with each dispute and in accordance with the provisions of the IAS/IFRS International Accounting Standards, if proceedings not included in the said provision for litigation should give rise in the future to contingent liabilities or if the allocations made to said provision should prove insufficient to cover the liabilities deriving from the negative outcome of the proceedings beyond the expected, there could be negative effects on the business and on the income, financial position and/or cash flow of the Issuer and/or the Group.

In particular, within the scope of the dispute, it is noted that as a result of the decision by the Constitutional Court (No. 78 of 5 April 2012), regarding the unlawfulness of the start date (*dies a quo*) of the statute of limitations for legal actions for reimbursement of interest unduly paid, the overall number of cases pending on compound interest could increase with possible negative effects on the income, financial position and/or cash flow of the Issuer and/or the Group.

3.1.16 Risks associated with prepaid tax assets

With reference to recognising prepaid tax assets and keeping them on the balance sheet, pursuant to the tax regulations in force on the Prospectus Date, when certain circumstances occur, prepaid tax assets can be recognised as tax credits.

Prepaid taxes may thus be recovered regardless of the capacity of the group (understood as companies adhering to group taxation on a consolidated basis) and/or individual companies to generate future profitability (“tax capability”). In particular, pursuant to the tax regulations in force on the Prospectus Date, in the event that a statutory loss is obtained or a loss for tax purposes or a negative net IRAP production tax amount, assets for prepaid tax both for corporate income tax (IRES) or the regional production tax (IRAP) referring to impairment losses not yet deducted from taxable income and prepaid tax assets attributable to the value of goodwill and other intangible assets, the negative components of which are deductible in several tax periods, are transformed into a tax credit.

In accordance with the provisions of IAS 12, for the residual portion of prepaid tax assets, on the reference date of each balance sheet, the Group makes an estimate of foreseeable future taxable income for purposes of verifying the possibility of continued recognition and/or recognition of prepaid tax assets.

The Group, limited to residual prepaid tax assets, if insufficient taxable income should emerge from that verification, may have to revise the amount of deferred tax assets recognised on the balance sheet, with consequent negative effects on the income statement.

3.1.17 Rating risk

The rating assigned to the Issuer is an indication of the Issuer's creditworthiness, and the outlook is the parameter that indicates the expected trend in the near future with the ratings assigned to the Issuer. Furthermore, such indications may not reflect changes in the solvency situation of the Issuer and the Group in a timely manner. In the event that the Group should fail to achieve or maintain the results measured by one or more indicators, or if the Group fails to maintain its capital ratios within the level expected by the rating agencies, it could prompt a downgrading of the rating assigned, with a consequent increase in fundraising costs, less easy recourse to the capital markets, and the possible need to supplement the collateral provided, a circumstance which could cause an increase in funding costs or require the provision of additional collateral in order to raise liquidity, with consequent negative effects on the business and the income, financial position and/or cash flow of the Issuer and/or the Group.

A further downgrade of Italy's sovereign debt rating could also lead to a further downgrade of the Issuer's rating, with consequent negative effects on the business and on the income, financial position and/or cash flow of the Issuer and/or the Group.

3.1.18 Risks associated with the geographical area of reference of the Banca Popolare di Sondrio Group

The Group operates primarily in Italy and, through Banca Popolare di Sondrio (SUISSE), also in Switzerland. In Italy, Banca Popolare di Sondrio has a direct presence in 8 Italian regions and 27 provinces. Of the local network, 77% is located in Lombardy. Also appreciable is the local presence in Lazio, in particular in the capital, where 12.9% of the Bank's branches are concentrated.

The Group's activity is thus significantly influenced by changes in the domestic macroeconomic scenario, particularly with reference to trends in the more industrially developed areas in North and Central Italy.

Should adverse economic conditions persist, especially in Italy, if a lasting situation of political and economic certainty should become manifest and/or if any economic recovery should prove slower than expected, there could be further negative effects on the business and on the income, financial position and/or cash flow of the Bank and/or the Group.

3.1.19 Risks associated with related-party transactions

The Group has dealings with other related parties, as defined by IAS 24. Related-party transactions involve the typical risks associated with transactions taking place between parties whose membership in or in any case closeness to the decision-making centres of the Bank or other Group members could compromise the impartiality of corporate decisions and the exclusive pursuit of its interests, possibly skewing the resource allocation process, exposing the Group to inadequately measured or safeguarded risks with potential losses for the Group and its stakeholders. Precisely in order to control such risks, the Group has adopted the appropriate internal procedures.

3.1.20 Risks associated with the financial information included in the Prospectus

The Prospectus contains information deriving from the reclassification of data stated in the financial statements and in the notes to the financial statements. The reclassified data are stated in the Group's report on operations for purposes of commenting on operating performance. The Prospectus also contains information that has been restated compared to that contained in the audited financial statements. Such information is normally prepared by the Issuer to allow for comparison of operating results and equity value on a consistent basis. The reclassified economic and financial information contained in the Group's report on operations has not been audited, though it has been checked against the annual reports if data taken from those documents are involved.

3.1.21 Risks associated with declarations of pre-eminence

The Prospectus also contains some declarations of pre-eminence regarding the business of the Issuer and/or the Group and its position on the market of reference based on sources and data prepared by third parties and/or reprocessed by the Issuer. Such declarations could fail to be confirmed in the future and could even deviate significantly from what is stated in the Prospectus.

D.2 Risk factors specific to the industry in which the Issuer and the Group operate

3.2.1 Risks associated with competition in the banking and financial sector

The Issuer and other companies in the Banca Popolare di Sondrio Group operate in a highly competitive market, particularly with reference to the geographical areas where the business is mostly concentrated (particularly with reference to Lombardy).

Competitive pressure in the markets in question is manifested by customer demands for new services, including services with "technological" content, as well as by specific operations undertaken by other financial institutions.

In the event that the Group should be unable to respond to growing competitive pressure, among other things, by offering innovative and sufficiently compensated products and services, capable of satisfying customer demands, the Group could lose market share and/or fail to maintain or increase its business volumes and profitability, with possible negative effects on the business and on the income, financial position and/or cash flow of the Issuer and/or the Group.

3.2.2 Risks associated with regulatory changes in the banking, financial and tax sector

The Banca Popolare di Sondrio Group, like all banking groups, is subject to specific regulations and to supervision by the government authorities.

In this regard, the Group's operations could be negatively affected by legal and/or regulatory changes, or also by their respective methods of application, as well as by the eventuality that the Group companies may not be able to ensure observance of the rules applicable to them, causing repercussions on the orderly conduct of business, on the Group's financial position, income and cash flows, and even on the possibility of distributing dividends to shareholders on account of specific restrictions imposed by the authorities or as a result of applicable provisions.

3.2.3 Risks associated with a reduction in support to the liquidity of the system

The crisis in the financial markets, which has meant a decrease in the liquidity available to players, an increase in the risk premium and, more recently, growing tensions associated with the sovereign debt of some countries, and the raising of the capital and liquidity requirements provided for by "Basel III" have prompted the need for specific initiatives in support of the credit system, which have involved both governments and central institutions directly. In this context, even the authorities responsible have intervened massively to ensure adequate liquidity conditions to the banking system, so as to withstand the more acute phases of the crisis affecting the Euro Zone, especially since mid-2011, both by granting guarantees on medium-term debt security issues and by expanding the securities suitable as collateral for financing from the ECB.

	There is no certainty as to the duration and intensity with which such operations in support of liquidity may be resumed. The ability to raise liquidity on the market through access to the central institutions or a significant reduction in or elimination of support to the system's liquidity by governments and central authorities could generate greater difficulties in raising liquidity on the market and/or greater costs for recourse to such liquidity, with possible negative effects on the business and on the income, financial position and/or cash flow of the Issuer and/or the Group.
D.3	**Risk factors specific to the Offer and the securities that are the object of the Offer**
	3.3.1 Risks associated with the liquidity and volatility of the financial instruments The Pre-emptive Subscription Rights and the BPS Shares have the risk elements specific to an investment in listed financial instruments of the same nature. Holders of such instruments may liquidate their investment by selling on the Mercato Telematico Azionario (screen-based stock market). Such instruments could have liquidity problems quite apart from the Issuer. Requests for sale, therefore, may not find adequate and timely counterparties, in addition to which they may be subject to price fluctuations, including significantly. Factors such as changes in the income, cash flow, financial position and profitability of Banca Popolare di Sondrio or its competitors, changes in the general conditions of the sector in which the Issuer operates, in the economy in general and in the financial markets, changes in the legal and regulatory framework, and the dissemination by news agencies of news generated by news sources on Banca Popolare di Sondrio could in fact generate substantial price fluctuations for Banca Popolare di Sondrio shares and possibly for the Pre-Emptive Subscription Rights. In addition, in recent years equity markets have shown somewhat unstable trends in terms of prices and trading volumes. In the future, such fluctuations could have a negative impact on the market price of Banca Popolare di Sondrio shares and possibly of the Pre-Emptive Subscription Rights, regardless of the financial position, income and cash flow that the Banca Popolare di Sondrio Group is able to achieve. The trading price for Pre-Emptive Subscription Rights will depend, among other things, on price trends for Banca Popolare di Sondrio shares outstanding and could be subject to greater volatility compared to their market price. Within the Offer, lastly, some shareholders of the Issuer may decide not to exercise their Pre-Emptive Subscription Rights and to sell them on the market. This could have a negative effect on the market price of the Pre-Emptive Subscription Rights and/or the BPS Shares. **3.3.2 Risks associated with subscription and guarantee commitments and with partial implementation of the capital increase** With reference to the Guarantee Consortium, engaged by the Issuer to subscribe for the BPS Shares in an amount corresponding to any Pre-Emptive Subscription Rights not exercised at the end of the Market Offer up to a maximum of €350 million, Guarantors are expected, as a result of a special Guarantee Contract, to subscribe for BPS Shares in the amount corresponding to any Pre-Emptive Subscription Rights not exercised at the end of the Market Offer up to the maximum amount corresponding to the effective value of the Capital Increase, as well as the usual clauses which govern the effectiveness of the guarantee commitment or giving the right to the Joint Global Coordinators to withdraw from the Contract. Specifically, the Joint Global Coordinators have the right to withdraw from the Guarantee Contract (also in the name and on the behalf of the other Guarantors) if:

(i) extraordinary circumstances occur such as those provided for in market practice which, *inter alia*, include serious changes in the political situation, acts of war, terrorism and the like, or major changes in the financial, economic, monetary, fiscal, regulatory or market situation, both nationally or internationally, or if, in Italy and/or on the international markets, significant distortions occur in the banking system involving clearance or settlement, or if moratoria occur in the system of bank payments that are not declared by the competent Authority or if or suspensions or limitations on the trading of the Sondrio BP securities occur for at least one full trading day (for reasons other than the announcement of the Offer), or more generally on the Mercato Telematico Azionario (screen-based stock market) organised and managed by Borsa Italiana S.p.A., which are such to render the Subscription Rights Offer and/or the Market Offer—in the reasonable opinion of the Joint Global Coordinators—harmful or inadvisable to carry out or continue or as such to jeopardise the success of the Subscription Rights Offer and/or the Market Offer;

(ii) changes occur in the share capital, announcements or distribution of extraordinary dividends for the Company and/or the Group or changes and/or events in general take place, including of a legal and/or administrative nature relating to the Company and/or the Group which, according to the reasonable opinion of the Joint Global Coordinators, affect or likely to affect the activity and/or financial condition, earnings and/or prospects of the Company and/or the Group, which are such to render, in the reasonable opinion of the Joint Global Coordinators, harmful or inadvisable the carrying out or continuation of the Subscription Rights Offer and/or the Market Offer or such to jeopardise the success of the Offer or make significantly more burdensome the fulfilment of the subscription obligations;

(iii) there is a failure to fulfil the obligations undertaken by the Issuer by way of the Guarantee Contract or there is a breach of the declarations and warranties made by the Issuer in the Guarantee Contract;

(iv) a supplement to the Prospectus is published under Article 94, paragraph seven, of the TUF (the "Supplement"), in the case in which, with respect to any Supplement, the amount of exclusions exercised pursuant to Article 95-*bis*, paragraph two, of the TUF, have or could have, according to the good faith judgment of the Joint Global Coordinators, a significant adverse effect on the Capital Increase and/or the Offer; or

(v) the Issuer's ordinary shares are delisted.

The Capital Increase is severable in nature and therefore, if not fully subscribed for, will be executed and shall be deemed limited to the amount of the subscriptions made. If the capital increase is not fully subscribed for following the Market Offer and (i) the signing of the Guarantee Contract does not take place or (ii) the Joint Global Coordinators (also in the name and on the behalf of the other Guarantors) exercise the right to withdraw from the subscription commitments referred to in the Guarantee Contract (and, therefore, the Capital Increase proves to have been performed only for the undersigned as a result of the Market Offer), the purposes of the Offer may be inhibited or only partially achieved.

3.3.3 Risks associated with the limitation on share ownership and the exercise of voting rights

The BPS Articles of Association, in accordance with the provisions of Article 30 of the Consolidated Banking Law, provide for a limit of ownership of the Bank's shares equal to 1.0%. The provision does not apply to undertakings for collective investment in transferable securities, which are subject to the limits set forth in the rules corresponding to each of the same.

The Bank, having detected that the limit is exceeded, notifies the holder of its violation against

the ban. The excess shares must be sold within one year of notification. After that time, the relative rights accrued up to the sale of the excess shares are acquired by the Bank.
Any sales transactions for ordinary BPS shares by these subjects could have a negative impact on the market value of the Issuer's shares.

3.3.4 Risks associated with the dilution effects of the Capital Increase for Cash

The Offer will not cause dilution effects, insofar as the share of interest in the Bank's capital, for members and shareholders subscribing BPS Shares in relation to the Pre-Emptive Subscription Rights due to them.
Members and shareholders of the Issuer deciding instead not to subscribe for the Subscription Rights Offer for the portion due to them would suffer a dilution of their interest in the capital. The maximum percentage of dilution (calculated assuming full subscription of the Capital Increase and considering execution of the Free Capital Increase) is of 25.24%.

This dilution would not limit voting rights at Shareholders' Meetings, however, considering that current regulations on cooperative banks allowing members to cast only one vote at Shareholders' Meetings, regardless of the percentage of share ownership.

3.3.5 Risk related to the amendment of the tax regime applicable to the shares

Decree Law No. 66 of 2014 provided for, with effect from 1 July 2014, an increase in the rate of withholding tax and substitute taxes on capital gains and other financial income from 20% to 26%. This will result in an unfavourable change in the tax regime of the Banca Popolare di Sondrio Shares.

3.3.6 Risks associated with markets on which the Offer is not allowed without authorisation from the competent authorities

The Subscription Rights Offer is reserved exclusively for shareholders of Banca Popolare di Sondrio. The Offer is not being promoted and will not be promoted in the Other Countries or to parties residing there. No financial instrument may be offered or traded in the Other Countries without specific registration or exemption from registration in accordance with the legal provisions applicable there.

3.3.7 Risks associated with conflicts of interest

Some financial institutions participating in the Guarantee Consortium, subsidiaries or associated companieshave dealings with Group companies.
Guarantors who are in situations of conflicts of interest have identified and implemented adequate measures to ensure that the risk of conflicts of interest that would damage the interests of their clients be adequately mitigated.

SECTION E – OFFER

E.1	**Total net proceeds and estimate of the total expenses of the Offer**
	The Capital Increase will result, in the event of its full subscription, in the inflow of new financial resources for a maximum total estimated amount of €331.8 million net of costs relating to performing the transaction, estimated to be €11.5 million, including guarantee commissions.
E.2a	**Reasons for the Offer and use of proceeds**

	The Capital Increase is aimed, first, at strengthening the capital adequacy ratios, so as to allow full compliance with the prudential limits prescribed by the current regulations (Basel III) of the current financial year, as well as addressing any impacts arising from the Comprehensive Assessment. With reference to the financial profile, the proceeds of the capital increase, assuming full subscription of the same, for a maximum of €331.8 million (net of fees to be paid to the Trustees and of other costs relating to performing the transaction), will also contribute to fuel the financial support which the Issuer traditionally accords to worthy households and businesses, to support the project of growth of its network of branches and, more generally, to allow a targeted operational and structural reinforcement of the Group.
E.3	**Description of the terms and conditions of the Offer**

The Offer will have a maximum total value of €343,268,982.00 and will be the object of maximum No. 114,422,994 BPS Shares offered under option to members and shareholders of the Issuer, as resolved by the Board of Directors of BPS in implementation of the resolution of the Extraordinary Shareholders' Meeting of BPS on 26 April 2014.

Specifically the Board of Directors' meeting of 5 June 2014 has decided:

- the free issue of No. 30,814,798 new ordinary BPS Shares, at a nominal value of €3, to be granted to members and shareholders in the ratio of 1 Free Share for every 10 ordinary shares owned without Pre-Emptive Subscription Rights, for a value of €92,444,394.00, also approving the execution of the free allocation on 9 June 2014;
- the issue against payment of No. 114,422,994 new ordinary BPS Shares, at a nominal value of €3, to be offered to members and shareholders in the ratio of No. 3 BPS Shares to every No. 8 BPS Shares held, at a price of €3.00, the nominal value, for a total value of €343,268,982.00.

The following table summarises the information for the Offer:

Number of BPS Shares subject to the Offer	114,422,994
Option ratio*	3 every 8
Offer Price (€)	3.00
Total counter-value of the Capital Increase (€)	343,268,982.00
Number of Banca Popolare di Sondrio shares outstanding at the Prospectus Date	308,147,985
Number of Free Shares allocated in execution of the Free Capital Increase	30,814,798
Allocation ratio	1 every 10
Total amount of the Free Capital Increase (€)	92,444,394.00
Number of Banca Popolare di Sondrio shares after execution of the Free Capital Increase and after the Subscription Rights Offer in the event of full subscription of the Capital Increase	453,385,777
Share capital of Banca Popolare di Sondrio after execution of the Free Capital Increase and after the Subscription Rights Offer in the event of full subscription of the Capital Increase (€)	1,360,157,331.00
Percentage of BPS Shares of total ordinary shares of Banca Popolare di Sondrio after execution of the Free Capital Increase and after the Subscription Rights Offer in the event of full subscription of the Capital Increase.	25.24%

(*) The Shares deriving from the free increase do not benefit from the Pre-Emptive Subscription Right.

The Offer timetable is indicative of the Offer and may change upon the occurrence of events and circumstances beyond the control of the Issuer, including specific conditions of volatility of the financial markets, such to jeopardise the success of the Offer. Any modification of the Option Period shall be communicated to the public with the appropriate notice, to be published in the same manner of publication as the Prospectus.

The Offer period shall run from 9 June 2014 to 4 July 2014, inclusive (the “Option Period”). The Pre-Emptive Subscription Rights, which grant the right to subscribe for BPS Shares, must be exercised, subject to revocation, during the Option Period by depository intermediaries participating in the centralised management system, which are required to give their instructions to Monte Titoli no later than 3.30 PM on the last day of the Option Period. Therefore, each subscriber must submit an application for subscription in the manner and within the time that his agent has notified the depositary to ensure compliance of the final deadline above.

The Pre-Emptive Subscription Rights will be traded on the Borsa from 9 June 2014 to 27 June 2014, inclusive.
Pre-Emptive Subscription Rights not exercised by the end of the Option Period Offer and which have not been sold will be offered by the Issuer at Borsa Italiana within the month following the end of the Option Period Offer for at least five trading days, pursuant to Article 2441, paragraph 3, No. Civil Code. (the “Market Offer”). The start and end dates of the Market Offer period will be disseminated to the public by means of a notice.

The table below summarises the timetable of the Subscription Rights Offer:

Start of the Offer Period and the period for trading Pre-Emptive Subscription Rights	9 June 2014
Last day for trading Pre-Emptive Subscription Rights	27 June 2014
End of the Offer Period and final deadline for subscribing BPS Shares	4 July 2014
Announcement of the results of the Subscription Rights Offer	Within five working days of the end of the Offer Period

	The Offer timetable is approximate and may undergo changes in view of events and circumstances outside the control of the Issuer, including particular conditions of volatility in the financial markets, which could hinder the successful outcome of the Offer. Any amendments to the Offer Period will be announced to the public through a specific notice disseminated using the same methods as the publication of the Prospectus. The Issuer will, in any case, launch the Offer no later than one month after CONSOB approves the Prospectus. Without prejudice to the foregoing, dealing – or in general acts of disposition – in the Pre-Emptive Subscription Rights and/or the BPS Shares may be performed exclusively via an authorised intermediary who is a member of the Monte Titoli centralised management system. Pre-Emptive Subscription Rights not exercised by the end of the Offer Period and that have not been sold will be offered by the Issuer on the MTA within the month following the end of the Offer Period, for at least five trading days and provided they have not yet been sold in full, as per Article 2441, paragraph 3, of the Civil Code, through the Market Offer. The start and end dates of the Market Offer period will be announced to the public through a notice to this effect. The BPS Shares will be offered under option to the Issuer's members and shareholders, and the Pre-Emptive Subscription Right will not be subject to any limitations or exclusions. In view of the nature of the Offer, there is no need for a plan to divide and assign the BPS Shares. The Offer is not subject to any conditions. Offer subscriptions may not be subject to any condition and are irrevocable, except in the cases provided by law. The Offer is valid in the territory of the Italian Republic, on the basis of the Prospectus. The Prospectus does not constitute an offer of financial instruments in the United States, Canada, Japan, Australia or the other foreign Countries (the "**Other Countries**") in which the Offer is not permitted in the absence of specific authorisation, in accordance with the law and applicable regulations, or as an exception to these provisions. The BPS Shares and Pre-Emptive Subscription Rights have not been registered and will not be registered pursuant to the United States Securities Act of 1933 (as amended), or pursuant to the regulations in force in the Other Countries, and will not therefore be offered or in any case directly or indirectly delivered to the Other Countries, in the absence of specific authorisations, in accordance with the applicable legal and regulatory provisions, or as an exemption to these provisions.
E.4	**Interests of natural and legal persons participating in the Offer**
	At the Prospectus Date, as far as the Issuer is aware, no member of the Board of Directors or Board of Statutory Auditors or senior management have interests in conflict with the obligations deriving from their post and role within the Issuer or the Group, except those that may relate to individual transactions subject to approval by the competent bodies of the Issuer or the companies that are part of the Group. Some financial institutions participating in the Guarantee Consortium, subsidiary companies or associated companies (i) have credit relations with Group companies, (ii) offer or have

	offered consultancy and investment banking services to the Company and/or companies which are part of the Group and/or to shareholders of the latter, for which they have received or are receiving commission and/or (iii) hold, on their own account or on behalf of their clients, investments in the share capital of the Bank. The Guarantors could therefore find themselves in a potential conflict of interest situation. Specifically, it should be noted that Banca IMI, a company belonging to the Intesa Sanpaolo banking group, finds itself in a conflict of interest situation because (i) Banca IMI operates as a Joint Global Coordinator and Joint Bookrunner under the scope of the Offer, together with other intermediaries, and will receive fees for the services provided; (ii) Intesa Sanpaolo S.p.A., overall, also through its subsidiaries, has provided significant funding to Banca Popolare di Sondrio and to the Group; (iii) companies belonging to the Intesa Sanpaolo banking group, including Banca IMI, in the normal exercising of their activities could continuously provide lending, advisory, investment banking and corporate finance services to Banca Popolare di Sondrio; (iv) Banca IMI provides activities (including market making in regulated markets and/or multilateral trading systems) and investment services which could involve financial instruments issued by the Issuer and/or by Group companies or other instruments related to the latter. Guarantors which find themselves in any of the situations described above, in line with the requirements of the management policies for conflicts of interest, have identified and implemented adequate measures to ensure that the risk of conflicts of interest that would damage to the interests of its clients are adequately mitigated.
E.5	**Selling shareholders and lock-up agreements**
	All the BPS Shares are newly-issued by the Issuer. The Offer does not therefore involve selling shareholders. In the scope of the Guarantee Contract, it shall be provided that the Bank will undertake, from the date of signing of the Guarantee Contract and warranty and for 180 days following the conclusion of the Offer, not to make any changes to the structure and composition of the share capital, not to issue shares of the Company and to ensure that the companies of the Group do not carry out issues of securities convertible into shares of the Company or which, however, grant the right to purchase and/or subscribe for shares of the Company or issues of any other instrument that has the same effect, even if only economic, on the transactions described above, without the prior written consent of the Joint Global Coordinators, which may not be unreasonably withheld, except in the case of (i) the Free Increase, (ii) the Subscription Rights Offer (iii) the Market Offer and (iv) any transactions that may be necessary as a result of action by the competent supervisory authorities.
E.6	**Dilution**
	The Offer does not have any dilutive effects, in terms of participation in the capital of the Company, for members and shareholders that subscribe for the BPS Shares offered under the Pre-Emptive Subscription Rights to which they are entitled. Members and shareholders of the Issuer who decide not to subscribe for the Subscription Rights Offer to the full extent to which they are entitled will see a dilution in their participation in the share capital. The maximum dilution percentage (in the hypothesis of full subscription of the Capital Increase and in view of the Free Capital Increase) is equal to 25.24%.
E.7	**Estimated expenses charged to investors**

	The Board of Directors of 5 June 2014, decided not to exercise the option provided for by the resolution of the Extraordinary Shareholders' Meeting of 26 April 2014, to charge to the shareholders and registered shareholders an amount proportionate to the number of BPS Shares subscribed for as reimbursement of expenses incurred by the Issuer. The estimate of the costs of the capital increase referred to above, therefore, is not affected by this reimbursement, which the Board of Directors decided not to apply. No accessory charge or expense payable by the Issuer is expected to be charged to the subscribers.

SECTION ONE

CHAPTER I - PERSONS RESPONSIBLE

1.1. PERSONS RESPONSIBLE FOR THE PROSPECTUS

The Person Responsible for the Prospectus, and thus for the information and data contained in it, is Banca Popolare di Sondrio, a joint-stock cooperative (*società cooperativa per azioni*), with its registered office in Sondrio at Piazza Garibaldi 16.

1.2 DECLARATION OF RESPONSIBILITY

Banca Popolare di Sondrio, the entity responsible for the preparation of the Prospectus, declares that, having adopted all reasonable diligence for that purpose, the information contained in the Prospectus is, to the best of its knowledge, true to the facts and does not contain omissions such as to alter its meaning.

CHAPTER II – EXTERNAL AUDITORS

2.1 EXTERNAL AUDITORS OF THE ISSUER

The Ordinary Shareholders' Meeting on 29 March 2008 conferred the audit engagement for the 2008-2016 financial years to KPMG S.p.A., having its registered office in Milan at Via Vittor Pisani 25, registered at the Milan Chamber of Commerce, Industry, Agriculture and Crafts under REA No. 512867, listed, by CONSOB Resolution No. 10828 of 16/7/1997, in the Special Register pursuant to Article 161 of Legislative Decree No. 58 of 24/2/1998 and, by the 17/7/1997 Order published in the Official Journal of the Italian Republic No. 60 – IV Special Series – of 1/8/1997, in the Register of Auditors under No. 70623 (the "**External Auditors**").

The 2013 Annual Report and the 2012 Annual Report, included for reference in the Prospectus, were audited by the External Auditors. The Interim Financial Report as at 31 March 2014 was subject to a limited audit by the External Auditors, while the income and consolidated data for the first quarter of 2013 contained in the Interim Report on Operations as at 31 March 2013 were not audited.

2.2 INFORMATION RELATING TO THE TERM OF THE ENGAGEMENT

During the period to which the previous-year financial information included in the Prospectus refers, there were no reservations or withholding of certification by the External Auditors, nor have they resigned or been removed from the engagement or had confirmation of the engagement received revoked.

CHAPTER III - RISK FACTORS

The transaction described in the Prospectus entails the risks typical of an investment in listed shares.

For purposes of properly evaluating the investment, investors are asked to evaluate the specific risk factors relating to the Issuer and to the Group to which it belongs, the business sector in which the Group operates, as well as the Offer and the BPS Shares involved in the Offer.

Each of the risk factors mentioned in the Prospectus may affect the business, the financial conditions and the outlook of the Issuer and the Group, including in a significant manner. Additional risks and uncertain events, currently unforeseeable or which are considered highly unlikely at this time, may also affect the business and the results of the Company and the Group. The value of the BPS Shares could therefore experience considerable fluctuations leading to an appreciable depreciation of the investment.

The Pre-Emptive Subscription Rights issued as part of the Capital Increase are due to the shareholders of the Issuer, and the information level of the Prospectus, prepared according to the models pursuant to Annexes XXIII and XXIV of Regulation (EC) No. 809/2004 as amended, is appropriate for that type of issue.

The risk factors described below must be read together with the information contained in the Prospectus.

3.1 RISK FACTORS ASSOCIATED WITH THE BUSINESS OF THE ISSUER AND THE GROUP

3.1.1 RISKS ASSOCIATED WITH CAPITAL ADEQUACY

The soundness of the banking system is a factor of particular importance in the economy. In this context, the solvency and reliability of each bank require the maintenance of adequate capital resources, whose adequacy limits are set by specific regulations.

The tables below represent the main capital sizes and adequacy ratios on a consolidated basis of the Banca Popolare di Sondrio on 31 December 2013 (latest available data). The capital and regulatory ratios set out below have been calculated in accordance with the provisions in force on the same date ("Basel II" regulations). Since innovative capital instruments do not contribute to the composition of the core capital, there is coincidence between the Core Tier 1 and Tier 1 aggregates.
In calculating the capital requirements, the Group adopts the "Standardised Methods" for credit risk and counterparty and market risks, while the "Basic Method" is used for operational risk.
It is emphasised that the Bank of Italy has not provided for the Banca Popolare di Sondrio additional capital requirements other than those ordinarily calculated on credit and counterparty, market and operational risks.

A. REGULATORY CAPITAL	

A. Core capital before the application of the prudential filters	1,932,587
B. Core capital prudential filters	-3,936
B1 - positive (+) IAS/IFRS prudential filters	-
B2 - negative (-) IAS/IFRS prudential filters	-3,936
C. Core capital before items to be deducted (A + B)	1,928,651
D. Items to be deducted from Core capital	53,478
E. Total Core capital (TIER1) (C-D)	1,875,173
F. Supplementary capital before the application of the prudential filters	682,150
G. Supplementary capital prudential filters:	-1,631
G1- positive (+) IAS/IFRS prudential filters	-
G2- negative (-) IAS/IFRS prudential filters	-1,631
H. Supplementary capital before items to be deducted (F+G)	680,519
I. Items to be deducted from the Supplementary capital	53,478
L. Total Supplementary capital (TIER2) (H-I)	627,041
M. Items to be deducted from the total Core and Supplementary capital	-
N. Regulatory capital (E + L - M)	2,502,214
O. Tier 3 capital (TIER3)	-
P. Capital including TIER 3 (N + O)	2,502,214

B. REGULATORY CAPITAL REQUIREMENTS	
B.1 Credit and counterparty risk	1,725,822
B.2 Market risks	38,379
B.3 Operational risk	136,261
B.4 Other prudential requirements	-
B.5 Other items of calculation	-
B.6 Total prudential requirements	1,900,462
C. RISK ASSETS AND REGULATORY RATIOS	
C.1 Risk-weighted assets	23,755,775
C.2 Core capital/risk-weighted assets (Tier 1 ratio)	7.89%
C.3 Regulatory capital including TIER 3/Risk-weighted assets (Total Capital ratio)	10.53%

RWA/ Total assets	72.49%

In view of the above data, as at 31 December 2013 the Total Capital ratio is greater than the regulatory minimum of 8% of risk-weighted assets.
The CRR was approved by the European Parliament in 2013 concerning the prudential requirements for credit institutions and investment firms, and the CRD IV, on the access to the assets of the credit institutions. The Bank of Italy has therefore adjusted the national legislation to the changes introduced in the EU regulatory framework through the enactment, on 17 December 2013, of Circular 285, a measure which collects together the prudential supervisory provisions applicable to regulated banks and banking groups. The new rules came into force on 1 January 2014, introducing new standards known as "Basel III" into our country.
The following table shows the internal estimates on the position of the Banca Popolare di Sondrio Group obtained both under the New Rules "up to speed" ("*Fully phased*"), and by applying the transitional provisions of the CRR and the CRD IV, as supplemented by the Bank of Italy Circular No. 285 ("*Phase in*"), on 1 January 2014.
Because of the new regulations and the related implementing interventions, the term for submission of regulatory reports relating to 31 March in compliance with the new regulations ("*Phase in*" scheme) was established by the Bank of Italy on 30 June 2014. As at the Prospectus Date analogue indicators are therefore not available referring to 31 March 31 2014, as they are still being determined.

"BASEL III" CAPITAL RATIOS (ESTIMATE AT 01.01.2014)	"Phase in" (million euros)	"Fully phased" (million euros)
Tier 1 Core capital (Common equity Tier 1)	1,923	1,887
Tier 1 capital (Tier 1)	1,925	1,893
Tier 2 capital (Tier 2)	680	615
Own funds (Total Capital)	2,605	2,508

"BASEL III" REGULATORY RATIOS (ESTIMATE AT 01.01.2014)	"Phase in" %	"Fully phased" %
Common equity Tier 1 / Risk-weighted assets (CET1 ratio)	8.03%	7.88%
Tier 1 / Risk-weighted assets (Tier 1 ratio)	8.04%	7.91%
Own funds / Risk-weighted assets (Total Capital ratio)	10.88%	10.48%

RWA / Total Assets	73.05%	73.05%

With regard to the deferred interval of adoption required by Community legislation (up to 2019), in our banking system the achievement of the minimum "fully operational" ratios is already required by 2015. Specifically, an additional requirement of 2.5% has been immediately imposed on better quality capital, as a capital conservation buffer.

Therefore, Italian banks and banking groups are required to meet the following minimum requirements at a consolidated level:

	CET1 ratio	Tier1 ratio	Total Capital ratio
from 1 January 2014	7.00%	8.00%	10.50%
from 1 January 2015	7.00%	8.50%	10.50%

For banks and banking groups of Community relevance, in whose ranks the Banca Popolare di Sondrio is included, the European Central Bank prepared, in its communication of 23 October 2013, an increase of 1% with respect to the Common Equity Tier 1 (CET1) ratio, whose minimum value is placed therefore at 8.0%, a more stringent limit than the above values.

In light of the above, on the Prospectus Date it appears that the initial equity of the Issuer, as estimated by the same in accordance with the criteria in force in 2014 ("*Phase in*"), is adjusted to the risks assumed and therefore the minimum requirements are met, even if only by a small margin. In the case of the application of the "up to speed" provisions, which are still not present on the actual Prospectus Date adoption, an incomplete satisfaction of the capital ratios would instead be disclosed, even in the better quality capital component (Tier 1 Core Capital).

In this context, the Capital Increase, in the case of fulfilment of the maximum amount of €350 million upon payment, would lead to a strengthening of the Issuer's capital base, in the opinion of the same, to allow, as shown in the following table, full compliance with the prudential requirements provided at present in both the transitional and the up to speed phases, as well as addressing the impacts which could result from the outcome of the *Comprehensive Assessment*.

"BASEL III" REGULATORY RATIOS (ESTIMATE AT 01/01/2014, INCLUSIVE OF CAPITAL INCREASE)	"Phase in" %	"Fully phased" %
Common equity Tier 1 / Risk-weighted assets (CET1 ratio)	9.45%	9.30%
Tier 1 / Risk-weighted assets (Tier 1 ratio)	9.46%	9.33%
Own funds / Risk-weighted assets (Total Capital ratio)	12.30%	11.90%

At the end of 2014, taking into account, in addition to the subscription for the full amount of the Capital Increase, the contribution expected from self-financing (undistributed assets) and from the issue of subordinated convertible loans classified in Tier 2 Capital for the total planned amount of Euro 500 million, the ratios representing capital adequacy calculated in accordance with the rules applicable at that date ("*Phase in*") would be positioned, according to the Issuer's estimates, on the values shown in the table below. In the absence of the contribution of subordinate issues, the Total Capital ratio as at 31 December 2014 would have been 11.59%, while the ratios on Tier 1 Capital would remain unchanged.
It is reported that the Group has launched a process aimed at the validation of its internal rating system in accordance with the IRB (*Internal Rating Based*) methods for the measurement of credit risk, for which, however, it has not yet filed for authorisation in the Bank of Italy. Having obtained the necessary approvals, validation of such a system could provide a significant improvement in capital ratios, as yet not included in the prospective estimates.

"BASEL III" REGULATORY RATIOS	%

(ESTIMATE AT 31.12.2014)	
Common equity Tier 1 / Risk-weighted assets (CET1 ratio)	9.44%
Tier 1 / Risk-weighted assets (Tier 1 ratio)	9.45%
Own funds / Risk-weighted assets (Total Capital ratio)	13.60%

Capital ratios expected at the financial year end are based on a number of assumptions and estimates which may not be a complete and correct manifestation.
In particular, the lack of success of all or part of the Capital Increase and/or of the additional assumptions to strengthen capital represented just now may not allow the achievement of the levels mentioned above.
Even the minimum capital requirements could, in future, be further raised by the competent authorities, as the rules allow the imposition of additional capital measures both with reference to the entire banking system, and for the individual supervised institutions.

The results of the comprehensive assessment (*Comprehensive Assessment*) to which the banks liable to be regulated by the European Central Bank are currently subject, an exercise to which the Banca Popolare di Sondrio is also subject and whose results are not known at the Prospectus Date, could lead to a change in the Group's capital profile.

In summary, these uncertainties could lead to new capitalisation interventions by the Issuer, at present not foreseen nor expected.

3.1.2 RISKS ASSOCIATED WITH THE IMPACT OF CURRENT UNCERTAINTIES IN THE MACROECONOMIC CONTEXT ON THE PERFORMANCE OF THE BANCA POPOLARE DI SONDRIO GROUP

The performance of the Issuer and the Group is affected by the general economic situation and by financial market trends and, in particular, by the soundness and growth prospects of the economy in the geographic areas where the Group carries out its operations, as well as in the euro area overall.

In recent years, the financial system worldwide has experienced significant turbulence and uncertainty. In this sense, trends with such factors as investor expectations and confidence, short- and long-term interest rate levels and volatility, exchange rates, financial market liquidity, the availability and cost of capital, the sustainability of sovereign debt, household income and consumer spending, unemployment levels, inflation and housing prices take on particular relevance.

In the period to which the financial information contained in the Prospectus refers, the world economy has undergone a progressive slowdown, causing significant repercussions not only economically, but also socially.

This situation has also caused significant tensions for the stability of many first-rate financial institutions (including merchant and investment banks and insurance companies); some of them have become insolvent or have had to merge with other financial institutions or request the intervention of the respective government authorities or of central banks and international monetary funds, which have injected liquidity and capital into the system, becoming involved as well in recapitalising financial institutions in crisis. Added to this, there have been other negative trends, such as the increase in unemployment levels and the general decrease in demand for financial services.

In this context, bank sector growth has undergone a decided slowdown, prompted also by the prolonged international crisis.

In the coming years as well, the economic situation will be exposed to many elements of uncertainty. With reference to the geographical areas in which Banca Popolare di Sondrio Group customers are located, the growth recovery has been uneven and could remain problematic. The playing out of this scenario will likely affect the Group's business, particularly in terms of credit quality, the availability of adequate deposit flows and the respective cost, with consequent negative effects on the Group's financial position and cash flow, as well as operating results.

Furthermore, even assuming a recovery in economic activity, the abundant liquidity injected into the market by the main central banks - something which, in fact, only the U.S. Federal Reserve is already starting to reduce - risks feeding a spiral between inflation and increased interest rates which, given the misalignment in Group asset and liability maturities, could be reflected in impairment losses, which could be significant. This phenomenon would at the same time make debt service more burdensome for households and businesses borrowing money at floating rates, possibly further deteriorating their respective repayment ability.

3.1.3 RISKS ASSOCIATED WITH THE COMPREHENSIVE ASSESSMENT (INCLUDING THE ASSET QUALITY REVIEW)

Banca Popolare di Sondrio is one of fifteen Italian credit institutions that will be subject to single supervision by the European Central Bank starting in November 2014 and is therefore currently undergoing a year-long Comprehensive Assessment conducted by the ECB itself in collaboration with the national competent Authorities.

The Comprehensive Assessment is broken down into a series of review activities comprising an organic process divided into three phases: (i) risk analysis for supervisory purposes, in order to evaluate fundamental risk factors, in quantitative and qualitative terms, including liquidity, leverage and cost of financing; (ii) an examination of asset quality (AQR - Asset Quality Review), intended to improve the transparency of exposures through an in-depth analysis of existing bank loans, including the adequacy of asset and collateral valuations and related provisions; and (iii) a stress test to examine the resilience of banks' balance sheets to particularly adverse macroeconomic and financial scenarios.

The main goals of the Comprehensive Assessment are threefold: transparency (enhancing the quality of information available on the condition of banks), correction (identifying and undertaking any corrective actions that may be necessary), and building confidence among markets and operators in general (ensuring all stakeholders that credit institutions are fundamentally sound and trustworthy).

The entire AQR is conducted by the Bank of Italy audit group which, assisted by personnel from a different audit firm than the one engaged by Group members for the auditing of their financial statements, launched the “on-site” reviews on 10 March 2014 at the Bank's main headquarters.

As at the Prospectus Date, the first phase of the AQR, which is complete, was comprised of the following activities: (i) compilation of a survey in December 2013 with the purpose of collecting data for the selection by the ECB of the portfolios on which to focus subsequent analyses; (ii) the Analysis of Processes, Policies and Accounting Review (PP&A), which was completed by the end of March 2014; (iii) production of "Loan Tape"; (iv) request for information with respect to certain non-credit lending (financial assets classified at Level 3 of the financial statements under fair value and derivatives) in April 2014.

The "Loan tape" was sent to Bank of Italy on 10 April 2014 following a series of checks and verifications of the data present in it. The database (so-called "Loan tape") is a collection of detailed information on individual loans, guarantees and debtors with reference to the dates of 31 December 2012 to 31 December 2013 regarding identified customer segments. After sending to the database, a sample of practices ("Sampling") was selected, based on certain risk indicators, both performing and non-performing, which will be affected by subsequent sub-phases of verification.

The second phase of the AQR whose end date is expected by mid-July 2014 is aimed at verifying the correctness of classifications and the adequacy of provisions on a portfolio of assets selected on the basis of the data collected.

The activities associated with this phase are: (i) "Credit File review" concerning the assessment of creditworthiness, aimed at evaluating the cash flow and the continuous monitoring and control of the counterparty; (ii) "Collateral and Real Estate Valuation," aimed at verifying the correct and updated treatment of collateral, as well as its evaluation; (iii) "Collective Provision Analysis" carried out through the comparison of the capacity of provisions with a challenger model, provided by the European Central Bank.

The activities carried out by Bank of Italy in order to determine the accuracy of the classifications under analysis are conducted with reference to the guidelines and specifications issued by the EBA in October 2013, through a specific "technical standard" (EBA Implementing Technical Standards), which refers to the "non-performing loans" and findings related to "forbearance." The estimate of potential risk profiles resulting from the application of the above standard to the receivables of the Group is in the process of evaluation.

The exercise of AQR shall lead to the recalculation of the Common Equity Tier 1 ratio (CET1 Ratio) if value adjustments related to assets subject to verification is found to not be in line with the corresponding amounts reported in the financial statements at 31 December 2013; the CET1 Ratio which may eventually be restated shall not be less than 8%.

Once the activities related to the AQR have been completed, the exercise stress test will commence which, from the perspective of maximum transparency, aims to test the ability of banks to withstand adverse developments in the macroeconomic environment, aiming to assess the robustness against external shocks. The exercise will have a three-year time horizon (2014-2016) and will be conducted taking into account a "static budget," which does not imply any new business growth or changes in the Group's business. In order to consider the past year, the Group must demonstrate that they meet, in the period in question, a predetermined level of the CET1 Ratio coefficient, equal to 8.0% for the Baseline Scenario (expected) and 5.5% for the Adverse Scenario (stressed).

The ECB's verification activities should be completed by the end of October 2014 with the publication

of the results of the AQR and the Stress Test.
If the results of the Comprehensive Assessment carried out should bring out requests for more specific provisions on individual lines of impaired credit and/or more collective adjustments on performing or damaged loans and/or major adjustments to the valuation of credit derivatives (CVA - Credit Value Adjustment) and/or a different valuation of the guarantees, these findings could lead to negative effects on the economic and financial position of the Group for the 2014 financial year.

If the CET1 Ratio, despite the execution of the Capital Increase, is lower than the minimum requirements indicated above, the Group will have to submit detailed plans to the competent authorities outlining how the deficit will be filled within 6 months in the case in which the failure to achieve set threshold arises as a result of the requirements of the application of the AQR Scenario based on the Stress Test and/or within 9 months, in case of failure to achieve the minimum requirements resulting from the application of the Adverse Scenario. The respective terms would begin as of the release of the results, expected in October 2014.

In particular, the plans and capital restructuring required by the ECB could lead to the restriction of the distribution of dividends, the implementation of a new capital increase, the reorganisation of funding sources, the separation and/or reduction of assets, the sale of assets at market prices or the participation in any public support mechanisms.

The weaknesses identified in the exercise of AQR and following the Baseline Scenario of the stress tests will be covered by means of CET1; any deficiencies that emerged from the application of the adverse scenario, however, will have to be addressed by both CET1 instruments as well as by means of additional Class 1 capital, within predetermined limits.

3.1.4 RISKS ASSOCIATED WITH THE DETERIORATION OF CREDIT QUALITY

The Banca Popolare di Sondrio Group is exposed to credit risk, i.e. to the risk that a debtor will not perform its obligations (including the risk that counterparties to transactions involving certain financial instruments are in breach prior to settlement of the transaction - even if, in this case, this is more in specific reference to a “counterparty risk,” as described below) or that the respective credit rating will undergo progressive deterioration or that a loan may be granted on the basis of incomplete, untrue or incorrect information, with a consequent financial loss for the Group.

The evaluation of the possible losses that the Group could incur with individual loan exposures or with the overall loan book depends on the combination of multiple factors, including general economic trends or trends in specific business sectors, changes in individual counterparty ratings, the worsening of counterparty competitive rankings in their respective business sectors, possible poor management of the companies or counterparties to which loans have been made, adverse changes in interest rates, the level of household debt, and other exogenous factors (such as, for example, the reliability of the legal oversight system and changes in the regulatory context).

Historically, credit deterioration risks have always been aggravated in periods of stagnation or recession in the real economy, characterised typically by higher rates of insolvency and financial difficulties among operators.

Given the foregoing, the Banca Popolare di Sondrio Group is exposed to the deterioration of the quality of its own loan book. In particular, during the period to which the financial information contained in the Prospectus refers, the Group has experienced an increase in deteriorated loans, especially as a result of negative economic conditions.

The continuation of the crisis situation in the credit markets and the slowdown in the global economy have reduced and could further reduce disposable household income and corporate income and/or could have negative repercussions on the ability of bank customers to fulfil the obligations assumed and could consequently entail a significant drop in credit quality in the Issuer's business sectors.

During the period to which the financial information contained in the Prospectus refers, the real estate market has continued experiencing a downturn in fees, profit margins and transaction volumes and therefore a greater increase in financial expenses with related self-funding difficulties. In addition, the deterioration in the economic situation has meant a rise in the rate of unemployment: the consequent worsening of liquidity conditions among private operators could therefore increase the difficulty in the payment of instalments on loans taken out for the purchase or renovation of properties.

The general macroeconomic situation, the performance of specific business sectors and actions by the supervisory Authorities could also lead to a further decline in the value of the collateral received by the Group in support of loans granted and/or the impossibility for debtors to supplement the collateral provided following a decrease in its value, or a modification of the parameters observed in loan monitoring, associated with difficulties arising with repayment of financial institutions.

The Group manages the risk of default by its own customers by evaluating the existence of creditworthiness requirements during the loan approval phase through careful analysis of the applicant's payment ability, which includes examining whether the transaction characteristics are consistent with the purpose of the loan, verifying the suitability of any collateral obtained to cover insolvency risks, and the affordability of the lending process. In this regard, the opinion stated by the internal rating system, if available, and the associated estimates of default are duly considered as essential and indispensable items for a complete assessment of the risk profile of the borrower and the facility granted.

After a loan is granted, loan and collateral monitoring is carried out by continually examining the counterparty's creditworthiness and periodically reviewing whether general and specific requirements continue to be met and whether the value of the collateral obtained holds up, in order to ensure that it will be fully and effectively enforceable in the event of debtor insolvency.

The risks mentioned could intensify, however, given particularly unfavourable economic trends, with negative effects both on Group assets and cash flow, as well as earnings. A worsening of credit quality thus exposes the Group to the risk of a possible increase in “net impairment losses on non-performing exposures”, with a consequent reduction in the portion of distributable profits. The consequent decrease in profitability could in turn translate into lower self-funding capacity, with possible repercussions on the Group's financial position and cash flow.

As at 31 March 2014 loans to customers amounted to €24.6 billion compared to €23.9 billion as at 31 December 2013, compared with total balance sheet assets amounting to €33.8 billion (72.8% of total assets) and €32.8 billion (72.9% of total assets), respectively. On 31 December 2013, loans to customers decreased by €25.3 billion to €23.9 billion (-5.55 % compared with the previous financial year) due not so much to the restriction of credit by the Bank, which has continued to provide, albeit selectively, but mainly by the decline in demand from businesses due to the fall in the production cycle and, consequently, in investments.

Doubtful (or deteriorated) loans as at 31 March 2014 amounted to around €1.8 billion (equivalent to 7.41% of consolidated loans to customers), a decrease of 0.90% compared to 31 December 2013. On 31 December 2013 they amounted to €1.8 billion, an increase of 40.89% over 2012 due to the continuing critical economic dynamics reflected in the financial burden of businesses and households.

For further information with respect to loans to customers and the relative composition, see Section One, Chapter XV, Paragraph 15.1 of the Prospectus.

The table below shows gross and net doubtful loans for the years ending on 31 December 2012 and 31 December 2013 and for the quarter ending on 31 March 2014, as well as the respective changes for the period.

DOUBTFUL LOANS TO CUSTOMERS

(in € thousands)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Doubtful loans – Gross exposure	3,132,248	3,024,910	1,995,430	3.55%	51.59%
Impairment losses	1,310,247	1,186,438	690,543	10.44%	71.81%
Net exposure	**1,822,001**	**1,838,472**	**1,304,887**	**-0.90%**	**40.89%**
– Non-performing loans – Gross exposure	1,317,068	1,179,504	689,914	11.66%	70.96%
Impairment losses	810,907	718,823	399,171	12.81%	80.08%
Net exposure	**506,161**	**460,681**	**290,743**	**9.87%**	**58.45%**
– Impaired loans – Gross exposure	1,381,290	1,305,665	745,280	5.79%	75.19%
Impairment losses	447,969	406,531	224,489	10.19%	81.09%
Net exposure	**933,321**	**899,134**	**520,791**	**3.80%**	**72.65%**
– Restructured loans – Gross exposure	88,127	51,163	60,343	72.25%	-15.21%
Impairment losses	11,053	8,344	12,004	32.47%	-30.49%
Net exposure	**77,074**	**42,819**	**48,339**	**80.00%**	**-11.42%**
– Past-due loans – Gross exposure	345,763	488,578	499,893	-29.23%	-2.26%
Impairment losses	40,318	52,740	54,879	-23.55%	-3.90%
Net exposure	**305,445**	**435,838**	**445,014**	**-29.92%**	**-2.06%**

The above-mentioned trend in credit quality and of the amount of the adjustments on doubtful loans, symptomatic of the state of the difficulties faced by businesses and households, reflects the deterioration in the economic environment of recent years.

The following table illustrates the impact of gross and net doubtful loans for the years ending on 31 December 2012 and 31 December 2013 and for the quarter ending on 31 March 2014.

(in € thousands)	31/03/2014	31/12/2013	31/12/2012
Gross doubtful loans/Gross loans	12.02%	11.99%	7.62%
Net doubtful loans/Net loans	7.41%	7.69%	5.16%
Gross non-performing loans/ Gross loans	5.05%	4.67%	2.64%
Net non-performing loans/ Net loans	2.06%	1.93%	1.15%
Gross impaired loans/ Gross loans	5.30%	5.17%	2.85%
Net impaired loans/ Net loans	3.79%	3.76%	2.06%
Gross restructured loans/ Gross loans	0.34%	0.20%	0.23%
Net restructured loans/ Net loans	0.31%	0.18%	0.19%
Gross past-due exposures/ Gross loans	1.33%	1.94%	1.91%
Net past-due exposures/ Net loans	1.24%	1.82%	1.76%

The following table illustrates the impact of gross doubtful loans for the years ending on 31 December 2012 and on 31 December 2013 compared with the system average.

IMPACT OF GROSS DOUBTFUL LOANS GROSS AND PERFORMING LOANS ON TOTAL LOANS	31/12/2013 *			31/12/2012 **		
	BPS GROUP	LARGE BANKS ***	SYSTEM TOTAL ****	BPS GROUP	LARGE BANKS ***	SYSTEM TOTAL ****
Non-performing loans	4.67%	6.90%	8.70%	2.64%	6.10%	7.20%
Impaired loans	5.17%	4.80%	5.30%	2.85%	3.70%	4.20%
Restructured loans	0.20%	0.80%	1.00%	0.23%	0.60%	1.00%
Past-due loans	1.94%	1.10%	1.00%	1.91%	1.10%	1.10%
Doubtful loans	**11.98%**	**13.60%**	**16.00%**	**7.63%**	**11.50%**	**13.50%**
Performing loans	**88.02%**	**86.40%**	**84.00%**	**92.37%**	**88.50%**	**86.50%**
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

(*) The information for “Large Banks” and “System Total” has been collected from: Bank of Italy, Financial Stability Report No. 1, May 2014.
(**) The information for “Large Banks” and “System Total” has been collected from: Bank of Italy, Financial Stability Report No. 5, April 2013.
(***) “Large Banks” indicates the banks belonging to groups or independent banks with total assets in excess of €21.5 billion.
(****) “System Total” indicates the entirety of the banks, whether belonging to groups or independent, that are part of the Italian banking system.

The following table shows the coverage of deteriorated loans, grouped by type, for the years ended 31 December 2012 and 31 December 2013, and for the quarter ended 31 March 2014.

(in thousands of Euros)	31/03/2014	31/12/2013	31/12/2012
Deteriorated loans	41.83%	39.22%	34.61%
Non-performing loans	61.57%	60.94%	57.86%
Impaired loans	32.43%	31.14%	30.12%
Restructured loans	12.54%	16.31%	19.89%
Past-due loans	11.66%	10.79%	10.98%

The following table shows the coverage of deteriorated loans for the years ended 31 December 2012 and 31 December 2013 compared with the system average.

HEDGING RATIO OF IMPAIRED LOANS	31/12/2013 *			31/12/2012 **		
	BPS GROUP	LARGE BANKS ***	SYSTEM TOTAL ****	BPS GROUP	LARGE BANKS ***	SYSTEM TOTAL ****
Non-performing loans	60.94%	55.00%	56.90%	57.86%	52.20%	54.60%
Impaired loans	31.14%	22.00%	25.30%	30.12%	23.10%	23.20%
Restructured loans	16.31%	14.00%	25.60%	19.89%	17.00%	22.40%
Past-due loans	10.79%	9.70%	10.90%	10.98%	7.50%	9.40%
Deteriorated loans	**39.22%**	**37.30%**	**41.80%**	**34.61%**	**36.70%**	**38.80%**
Performing loans	**0.66%**	**0.60%**	**0.70%**	**0.72%**	**0.50%**	**0.60%**
TOTAL	**5.27%**	**5.60%**	**7.20%**	**3.30%**	**4.70%**	**5.70%**

(*) The information for “Large Banks” and “System Total” has been collected from: Bank of Italy, Financial Stability Report No. 1, May 2014.
(**) The information for “Large Banks” and “System Total” has been collected from: Bank of Italy, Financial Stability Report No. 5, April 2013.
(***) “Large Banks” indicates the banks belonging to groups or independent banks with total assets in excess of €21.5 billion.
(****) “System Total” indicates the entirety of the banks, whether belonging to groups or independent, that are part of the Italian banking system.

At the Prospectus Date, the amount of impaired loans at 31 March 2014 resulting from the application of the new EBA definition of “forbearance” exposure is not yet available to the Group, as the estimate of the consequent impact is still undergoing examination and evaluation.

At the end of this activity, the BPS Group could reclassify as “forbearance” loans positions which at the date of this Prospectus are not classified as such. Hence there is a credit risk which as a result of the different classification could make further adjustments to such credits necessary.

The ratio of net non-performing loans to the Group’s equity as at 31 March 2014 stood at 25.22%, compared to 23.79% as at 31 December 2013 and 15.55% at 31 December 2012. The cost of lending (represented by the ratio between the amount of the impairment and the total amount of the net loans to customers) as at 31 March 2014 is equal to 1.98% compared to 1.94% as at 31 December 2013 and 1.91% as at 31 December 2012.

Below we provide evidence of the impact of “Significant risks” on net loans of the Group with reference to the years 2013 and 2012.

SIGNIFICANT RISKS	31/12/2013	31/12/2012
Number of positions	10	9
Nominal exposure	9,659,812	7,209,079
Risk position	2,580,531	2,440,929
Nominal exposure / Net loans	0.04%	0.03%
Risk Position / Net loans	0.01%	0.01%

Taking into account the numerous regulatory changes resulting from the implementation in Italy of the new EU prudential standards (Basel III), the data for "Significant risks" will only be available after the production of surveillance reports relating to the month of March 2014, the sending term for which has been postponed, as indicated by Bank of Italy, to 30 June 2014, instead of the original deadline.

For information relating to the contribution of the different technical forms in relation to the credit lending total, reference is made to Section One, Chapter XV, Paragraph 15.1 of the Prospectus.

The distribution and concentration by economic, manufacturing and geographical area also help to determine the overall quality of the credit book.
The following table gives an account of the distribution of loans to customers by economic sector and, as regards non-financial companies and household businesses, also by manufacturing sector.

Total customer %	31/03/2014	31/12/2013
Central and local public administration	0.8%	0.4%
Financial and Insurance Companies	9.5%	6.1%
Households	14.7%	15.2%
Non-profit institutions and other entities	1.7%	1.7%
Non-financial companies and household businesses	59.8%	62.9%
Other non-resident entities and customers	13.5%	13.6%

Non-financial companies and household businesses. %	31/03/2014	31/12/2013
Trade	12.1%	12.3%
Construction	15.2%	15.0%
Real-estate	15.6%	16.0%
Industry/Agriculture	29.0%	29.3%
Services/Transportation	27.0%	26.6%
Remaining (Not belonging to a sector)	1.1%	0.8%

We finally report information on the concentration of customer loans by geographical area.

%	31/03/2014	31/12/2013
Italy	86.7%	86.6%
Other European Countries	13.1%	13.2%
America	0.1%	0.1%
Asia	0.1%	0.1%
Rest of the World	0.0%	0.0%

%	31/03/2014	31/12/2013
North-western Italy	75.9%	78.8%
North-eastern Italy	6.5%	6.9%
Central Italy	15.7%	12.3%
Southern Italy and Islands	1.9%	2.0%

3.1.5 RISKS ASSOCIATED WITH EXPOSURE TO THE PERFORMANCE OF THE REAL ESTATE MARKET

In recent years, the Italian real estate market has recorded a drop in market prices and in the number of transactions made; in response, entities operating in the property and construction sectors have had to deal with a decrease in transaction volumes and margins, an increase in obligations from financial expenses, as well as greater difficulty in refinancing, with consequent negative effects on profitability.

Given the macroeconomic scenario currently and going forward, any increases in the rate of unemployment in the Group's operating areas, as well as in rates of insolvency both by companies and by private individuals, including in terms of rent payments, could increase the inability of borrowers to honour contractual obligations.

The Banca Popolare di Sondrio Group is exposed to the real estate segment both through the usual business of mortgage-secured loans to households (primarily for the purchase, construction or restructuring of residential properties) and to companies not belonging to the property and construction sectors, as well as through the business of lending to companies operating in the said sectors, whose repayment ability depends primarily on the construction, leasing or sale of properties.

The above-mentioned decrease in real estate market prices could also have a negative impact for the Group deriving from the depreciation of the mortgage collateral received for the loans granted, with potentially greater losses emerging in court collection proceedings.

As at 31 March 2014, the exposure from loans in the real estate compartment was €4.9 billion for loans to companies operating in the property and construction sectors and €8.2 billion for property-secured loans to households and companies operating in other sectors. In percentage terms, the two aggregates account for 19.9% and 33.2%, respectively, of the Group's total loans to customers.

Given the percentage mentioned above, the continuation of the current depressed market context could have negative effects, including significant effects, on the Group's operating results and on its income, financial position and/or cash flow.

3.1.6 RISKS ASSOCIATED WITH THE EURO AREA DEBT CRISIS

During the period to which the financial information contained in the Prospectus refers, the domestic and European economic context has also been characterised by a sovereign debt crisis, resulting from the crisis in the global financial system during previous years starting in 2007. Among the greatest tensions noted during the period in question are those manifested in countries such as Greece, Spain, Portugal, Cyprus, Ireland and Italy itself. These tensions, together with the risk of contagion to countries deemed stronger economically and more stable politically, have raised uncertainties regarding the stability of the European Monetary Union.

In the general framework described up to here, the ECB has implemented important actions starting in autumn 2011: the SMP programme (Securities Market Programme) for the purchase of government bonds by the ECB itself; injecting liquidity into banks through the purchase of secured bank bonds (Covered Bonds) and unlimited loans; with specific reference to monetary policy, cutting the reference rate to reduce it in two years from 1.25% (November 2011) to 0.25% (November 2013); and progressively expanding the range of securities that banks in the system can provide as collateral for refinancing transactions with the ECB.

In September 2012, the Board of Directors of the ECB also approved a plan to purchase public debt securities from countries in the euro area with maturities ranging from 1 to 3 years on the secondary market, not setting any quantitative limit on transactions (so-called Outright Monetary Transactions). This purchase plan went hand in hand with ESM (European Stability Mechanism) actions on the primary market through the imposition of conditions in the form of macroeconomic adjustments or precautionary financial assistance (so-called Enhanced Conditions Credit Line or ECCL).

For individual banks, the ECB also launched the Emergency Liquidity Assistance programme and implemented a plan aimed at providing European credit institutions with an unlimited amount of liquidity at 3 years, with the goal of responding to widespread difficulties encountered in carrying out funding activities.

With reference to Italy, it is worth noting that the country's economic performance was influenced significantly by the international crisis and by the climate of political instability. In this difficult context, internal demand was negatively influenced also by the fiscal policy measures adopted by the Italian government starting in the second half of 2011, aimed at increasing tax revenues, facilitating the containment of public spending by local governments and national sanitation services, and meeting a public deficit goal of 3.0% of GDP by 2012.

This situation has also had a negative effect on the rating attributed to the Italian State by the main specialised agencies. Specifically, a first downgrade took place in September and October 2011, when the sovereign rating was lowered from “A+” to “A” by Standard & Poor’s, from “Aa2” to “A2” by Moody’s and from “AA-” to “A+” by Fitch Ratings. Subsequently, in January 2012, Standard & Poor’s reduced the rating from “A” to “BBB+”, while Fitch Ratings did so from “A+” to “A-”. Moody’s revised it downwards two other times: in February 2012 from “A2” to “A3” and in July from “A3” to “Baa2”. Fitch Ratings, in early March 2013, lowered it from “A-” to “BBB+”. Standard & Poor’s reduced it further in July 2013 from “BBB+” to “BBB”. Currently, the Outlook on the Italian State's debt is “Stable” for Fitch Ratings and Moody's, and “Negative” for Standard & Poor's.

Yields on Italian government bonds, after the German ten-year spread reached the negative historical record of 575 basis points on 9 November 2011, posted a progressive, albeit though non-linear, reduction on all maturities from December 2011, as market tensions on euro area sovereign debt and the Italian government's actions on fiscal consolidation let up.

Considering the instability of the general economic context, albeit though slowly improving, the risk remains, in an extreme scenario, that some countries in the euro area, even if hardly relevant in terms of Gross Domestic Product, could leave the Monetary Union or that the Monetary Union itself could dissolve, with unforeseeable consequences on the state of affairs in both cases.

All of the above factors, especially in crisis periods, could lead the Group to suffer losses, increased financing costs, and foreshortening of the values of assets held, with possible negative effects on the Group's financial position and cash flow and on its operating results.

3.1.7 RISKS ASSOCIATED WITH THE GROUP'S EXPOSURE TOWARDS SOVEREIGN DEBTORS

The Banca Popolare di Sondrio Group has significant exposure to sovereign debt, primarily Italian sovereign debt.

As at 31 March 2014, overall exposure to sovereign debtors' bonds was €6,224 million, of which €2,930 million were classified under "Financial assets held for trading", €3,259 million under "Financial assets available for sale" and €35 million under "Financial assets held to maturity", plus €493 thousand under "Financial assets carried at fair value". This exposure accounts overall for 88.72% of the portfolios considered. In terms of geographical distribution, €6.217 billion are represented by debt securities issued by Italian sovereign debtors, €1.2 million by German sovereign debtors, €4.3 million by debtors from other EU countries and €1.4 million from borrowers in other Countries.

As at 31 March 2014, the debt securities issued by central and local governments amounted to €6,165 million in terms of nominal value, corresponding to a carrying value of €6,224 million, and a fair value of €6,229 million.

Still as at 31 March 2014 also, sovereign debt exposures with a residual term of less than one year amounted to €1,144 million, those with a residual term between 1 and 5 years amounted to €4,655 million, those with a residual term between 5 and 10 years amounted to €236 million, while those with terms exceeding 10 years amounted to €189 million.

The percentage of proceeds from financial activities represented by sovereign debt securities on the intermediation margin of the period ending on 31 March 2014 was equal to 27%.

As at 31 March 2014, the exposure to loans granted to state and local governments amounted to €75 million, that relating to state-owned or local enterprises amounted to €434 million while that relating to various public bodies equals €269 million. These loans are mainly concentrated in Italy and represent 3.16% of consolidated loans to customers as at 31 March 2014.

Also as at 31 March 2014, the loans granted to public administration amounted to €778 million, the fair value of which amounted to €774 million.

The ratio of income from loans to sovereign debtors on interest income for the period ended 31 March 2014 was equal to 3%.

It is noted that, after the end of the 2013 financial year (and until the Prospectus Date), there have been no noteworthy changes in the ratings of the Italian state mentioned in the previous paragraph. Specifically, Moody's confirmed the "Baa2" rating, with a "Stable" Outlook, while Fitch Ratings, despite keeping the rating at "BBB+", revised the Outlook from "Negative" to "Stable".

Any downgrade of Italy could lead to a revision in the criteria for calculation of the Group's risk-weighted assets (RWA), with consequent negative impacts on its capital ratios.

In general, should the sovereign debt situation, and in particular that of Italy, worsen, it could generate negative effects on the Group's operating results and on its income, financial position and/or cash flow.

Banca Popolare di Sondrio is among the 15 Italian banks that will be supervised only by the European

Central Bank, taking effect from November 2014, and which, therefore, are currently subject to the Comprehensive Assessment, which includes—among other things, and in addition to the Asset Quality Review—a Stress Test concerning exposure to sovereign risk. In this regard, it is noted that the depreciation ratios (haircut) required by the Stress Test in relation to exposures to Italian sovereign debt have proved more burdensome than the European average.

The outcome of these inspections, not currently known, may render necessary subsequent capitalization measures.

For further information, please refer to Section One, Chapter XV, Paragraph 15.1 of the Prospectus.

3.1.8 RISKS ASSOCIATED WITH DIVIDEND DISTRIBUTIONS

The financial years ending on 31 December 2013 and 2012 showed net profits for the period of €60.7 million and €40.2 million, respectively, on a consolidated basis. The Interim Financial Report as at 31 March 2014 also shows a positive period result equal to €41.7 million.
For both of the years mentioned, the Parent Company distributed dividends. Specifically, the Bank paid a dividend of €0.05 per share for 2013 and one of €0.033 per share for 2012.

With reference to the Parent Company alone, it should be noted that the same has recorded a net profit as at 31 March 2014 of €34.1 million, while the years 2013 and 2012 closed with net profits amounting to €48.8 million and €25.8 million, respectively.

Even when there are distributable profits, Bank of Italy Circular No. 285 of 17 December 2013 provides for the application of restrictions on the distribution of profits or other capital items, including through the payment of dividends, on those banks and banking groups that do not hold capital reserves in the amount provided for by minimum prudential requirements. In addition, the Bank of Italy, as part of its own supervisory activity, ensures that banks and banking groups observe current and future capital adequacy conditions - individually and on a consolidated basis - consistent with the overall assumed or assumable risks; to that end, the Bank of Italy can impose specific limitations on dividend distribution policies.

Therefore, the abovementioned provisions could limit dividend distributions by Banca Popolare di Sondrio - in whole or in part - with consequent negative effects on returns on investments in shares of Banca Popolare di Sondrio.

Furthermore, as a result of the Free Capital Increase and the Capital Increase, the number of ordinary shares representing the outstanding share capital of Banca Popolare di Sondrio would be increased; therefore, when there are distributable profits and, in any case, in observance of the Articles of Association provisions on the subject, that increase in the number of Banca Popolare di Sondrio would mean a reduction in the dividend per share.

For further information on the Group's financial and cash flow situation and operating results, please refer to Section One, Chapter XV, Paragraph 15.1, of the Prospectus. For further information on the dividend distribution policy, please refer to Section One, Chapter XV, Paragraph 15.6, of the Prospectus.

3.1.9 MARKET RISK

Banca Popolare di Sondrio defines "market risk" as the possibility of suffering impairment losses due to decreases in assets and/or increases in liabilities due to adverse trends in the financial markets. We can therefore distinguish "interest rate risk", "foreign exchange risk" and "price risk", depending on whether the underlying risk factor is a change in interest rates, exchange rates or prices for equities and UCIs (or for commodities).

The profiles relating to the rate risk and the price risk are set out below, whereas reference is made to the following paragraph 3.1.10 in relation to the description of the exchange risk.

The market risks for the trading book are measured using Value-at-Risk or VaR of a parametric nature, with a time horizon of 1 day, confidence interval of 99% and observance period of 252 days (for the estimate of the volatilities and risk factor correlations). For a portfolio of financial instruments, VaR expresses the maximum potential loss deriving from unfavourable trends in market parameters over a given time horizon (1 day) and with a defined probability (99%). Market risks relating to the banking book are measured: with regard to the interest rate risk, through the ALM procedure (Asset & Liability Management); with regard to price risk, through the afore-mentioned VaR procedure.

The market parameters taken into account are interest rates and, limited to the VaR, the prices of stocks, commodities, indices and mutual funds.

As for the data on the trading book, during 2013 (the latest yearly figures available), the average VaR for the Parent Company's interest rate risk was €1.3 million, and the price risk was €2.0 million.

The VaR operational limit (on a daily basis) on the interest rate risk has been consistently adhered to, while the price risk has recorded 3 excesses (out of 247 surveys in the year) in the aftermath of the uncertain outcome of the Italian general election, which has increased the extent of the historical volatility of the risk factor, which, due to the technical method for calculating VaR, determines, for the same positions held, an increase in the estimated risk. On the worst day, 27 February, the VaR on the price risk hit 2.9 million against a limit of 2.5 million, however, the capacity of the limits related to other risk factors (interest rate and exchange rate) has allowed the total VaR to remain, as it indeed did for the rest of the year, within its daily limit.

In the specific case of derivatives subject to recognition, on 31 December 2013, their exposure to market risks (rate and price) was made commensurate with a VaR of approximately €325 thousand on a total VaR of 2.315 million, referred to the two aforesaid risk profiles.

As for the data on the banking book, in terms of price risk, the average VaR for the Parent Company in 2013 (last year available) amounted to €12.8 million.
With respect to the interest rate risk profile of the banking book, please see below.

(a) Risks associated with interest rate fluctuations

The Banca Popolare di Sondrio Group's results are influenced primarily by trends and fluctuations in interest rates in Europe, the market in which the Banca Popolare di Sondrio Group engages in its business. In particular, results from banking and lending transactions depend on managing the Group's exposure to interest rates, i.e. on the ratio existing between changes in interest rates in reference markets and those in interest income.

The lowering of interest rates can mean a decrease in the average cost of financing borne by the Group to an extent that is less than proportional compared to the drop in returns on assets, due, for example, to a lack of correspondence on maturities for assets and liabilities that are affected by interest rate trends or as a result of a lack of correspondence between the degree of sensitivity to rate changes between assets and liabilities with similar maturities. Any misalignment between the interest income accrued by the Group and the interest expense owed by it, in the absence of adequate maturity transformation policies and suitable hedges against the risks deriving from such misalignment, could entail significant effects on the Group's financial position and operating results.

The tables below show the sensitivities to interest rate shifts of the banking book and the trading book of Banca Popolare di Sondrio (only on transactions in existence on the reference date) and on the total (trading book plus banking book) for the subsidiary Banca Popolare di Sondrio (SUISSE) SA, broken down by primary currencies for 2013.
"Net financial risk" means the effect of a change in interest rates of +100 basis points over twelve months on the future interest margin (the difference between future interest income on the interest-bearing assets and the future interest expense on interest-bearing liabilities). The term "economic value at risk" means the effect of a sudden change in interest rates of +100 basis points on net assets (the difference between the present value of interest-bearing assets and interest-bearing liabilities).

BPS: banking book risk (millions of €)	**year 2013**	
	31 December	**average**
Per shift + 100 bp		
Net financial risk	3.3	7.2
Economic value at risk	-77.2	-70.0
Per shift - 100 bp		
Net financial risk	-42.7	-94.1
Economic value at risk	77.2	70.0

BPS: trading book risk (millions of €)	**year 2013**	
	31 December	**average**
Per shift + 100 bp		
Net financial risk	18.9	19.1
Economic value at risk	-22.3	-16.2

BPS: trading book risk (millions of €)	year 2013	
	31 December	average
Per shift - 100 bp		
Net financial risk	-18.9	-19.1
Economic value at risk	22.3	16.2

BPS (SUISSE): trading + banking book risk (millions of €) - CHF	year 2013	
	31 December	average
Per shift + 100 bp		
Net financial risk	-1.9	-1.7
Economic value at risk	-12.5	-12.6

BPS (SUISSE): trading + banking book risk (millions of €) - EUR	year 2013	
	31 December	average
Per shift + 100 bp		
Net financial risk	1.5	1.4
Economic value at risk	4.6	4.5

BPS (SUISSE) : trading + banking book risk (millions of €) - USD	year 2013	
	31 December	average
Per shift + 100 bp		
Net financial risk	0.0	0.5
Economic value at risk	0.1	1.2

The limited exposure to interest rate risk is observed foremost on the Swiss subsidiary (to which it is possible to add the negligible Factorit margin), the loss that the Parent Company would suffer as a result of an increase of one percentage point in market interest rates, obtained by the discounting the impact from future margins, would do away with €100 million (more than 77 in the banking book, more than 22 in that of trading).

(b) Risks associated with financial market trends

The Banca Popolare di Sondrio Group's results depend also on trends in the financial markets. In particular, an unfavourable financial market context can negatively impact: (i) investment flows for asset management and administration products, with consequent negative impacts on the levels of commissions earned; (ii) the amount of management fees, as a result of the decrease in value of the assets (direct effect) and on account of any redemptions prompted by unsatisfactory performance (indirect effect); (iii) financial instrument intermediation operations; and (iv) the results of the banking book and the trading book. The Group is also exposed to credit rating changes on the securities portfolio and on derivatives.

For further information on the Group's financial and cash flow situation and operating results, please refer to Section One, Chapter XV, Paragraph 15.1, of the Prospectus.

(c) Risks associated with structured products issued by third parties and in a position at the Group

As at 31 December 2013, the overall exposure to Structured Debt Securities issued by third parties is attributable almost entirely to Italian BTP government bonds with a real interest rate and amounts to €448.6 million (a little over 7% of the overall portfolio represented by debt securities).

Specifically, the following securities are allocated in the portfolio's different compartments: €303.2 million in Italian BTP bonds and €3 million in the Arca SGR non-redeemable innovative equity instrument under “Financial assets available for sale”; €116.6 million in Italian BTP bonds and €9 million in Italease March 2016 notes under “Financial assets held for trading”; €16.8 million (balance sheet carrying value) in corporate bonds of financial companies (Bank of America, Ubi Banca and Banco Popolare), attributable to products acquired prior to the 2008 financial crisis, under “Financial assets held to maturity”. The fair value of the latter is €16.1 million.

(d) Policies for hedging market risks

The Parent Company does not engage in hedging the market risks (rate and price). For the subsidiary Banca Popolare di Sondrio (SUISSE) SA, significant amounts (as at 31 December 2013 €1,304 million, corresponding to around 9% of the Group's total loans) of loans disbursed having similar characteristics are normally covered against the risk of interest rate fluctuation by entering into IRS (Interest Rate Swaps) through the Parent Company.

3.1.10 FOREIGN EXCHANGE RISK

Foreign exchange risk means the risk of incurring losses due to trends in exchange rates.

This risk affecting Assets and Liabilities on the balance sheet and off-balance sheet which are held in foreign currencies, amount to, at 31/12/2013 (the last available official data), the following (in thousands of euro):

Financial assets:	3,862,156
Other assets:	110,632
Financial liabilities:	3,176,503
Other liabilities:	139,731
Derivatives: long-term:	1,543,952
Derivatives: short-term:	2,087,052

As at 31 December 2013, the amount of the afore-mentioned Assets and Liabilities held in foreign currencies out of the Group’s total assets and liabilities amounted, respectively, to 12.12% (Financial assets + Other assets) and 10.12% (+ Financial liabilities + Other liabilities).

The exchange rate risk, hence for the whole budget (banking plus trading book), is measured by the "Value-at-Risk," or VaR, parameter, with a time frame of 1 day, a 99% confidence interval and an observation period of 252 days (for the estimation of volatility and correlations of risk factors). Given a portfolio of financial instruments, the VaR represents the maximum potential loss arising from adverse movements in market parameters over a given time period (1 day) and with a defined probability (99%). The market parameters are taken into account are exchange rates.

During 2013 (last available annual figure), the average VaR of the Parent Company on the exchange rate risk stood at 0.7 million.

The VaR operational limit (on a daily basis) on the exchange rate risk has recorded 3 excesses (out of 247 surveys in the year) corresponding with the sudden weakening of the Swiss franc, which took place in the month of January 2013, and which has increased the size of the historical volatility of said risk factor, which, for the technical method of VaR calculation, determines, for the same positions held, an increase in the estimated risk. On the worst day, 15 January, the VaR on foreign exchange risk hit 920 thousand against a limit of 600 thousand, however, the capacity of the limits related to other risk factors (interest rate and price) allowed the total VaR to remain, as it indeed did for the rest of the year, within its daily limit.

Specifically in terms of the derivative instruments covered, as at 31 December 2013 their exposure to the exchange rate risk is commensurate with a VaR of approximately €18 thousand on a total VaR of 357 thousand, referred to the aforesaid risk profile.

The Issuer has not carried out any specific hedging transactions for the foreign exchange risk. In terms of the "Exchange Centre," the position is updated in real time; traders can therefore act on the interbank market to offset any imbalances that may occur as a result of the transactions carried out.
Any unmatched foreign currency positions are small and within the limits set by the internal rules of procedure and the higher VaR limits assigned by the General Directorate.

For BPS (SUISSE), operations are consistent with those carried out by the Parent Company. The Exchange Room of BPS (SUISSE) is responsible for the management of positions through the adoption of a policy aimed at equalising the exchange rate risk on the interbank market and maintaining residual exposures within the ceiling set by internal regulations.

3.1.11 LIQUIDITY RISK

Liquidity risk is manifested as risk of default on one's own payment obligations or inability to fund a budget surplus with the necessary timing and according to affordability criteria. Such negative circumstances may come about as a result of the:
- impossibility of raising funds or of obtaining them at a reasonable cost (*funding liquidity risk*);
- impossibility of selling or reducing one's own position without significantly curtailing the price, due to scant market efficiency or to a market malfunction (*market liquidity risk*).

Raising the liquidity intended for financing the Group's various activities could be hampered by its inability to tap the debt market, sell its own assets or liquidate/refinance its investments. Such unfavourable events could materialise, inter alia, if there are worsening market conditions, widespread mistrust in the financial markets, operational malfunctions, reputational problems, rating downgrades, and tensions of different origins surfacing in both the institutional as well as the retail market.

The Group's liquidity profile as at 31 March 2014 is characterised by the availability of reserves of assets at the ECB unused to date, whether proprietary or received as collateral for repo transactions, in an overall amount, net of haircuts, of €5.4 billion; Italian government bonds account for approximately €5.2 billion of that amount.

Any unfavourable changes to the funding policies established by the ECB, including any changes to the criteria for identifying the types of assets eligible for purposes of collateral and/or their respective valuations, could produce negative effects on the Group's operating results and on its financial position and cash flow, as well as on its financial results.

As at 30 April 2014, the Group has an exposure to the ECB in terms of LTRO funding of a nominal amount of €1.3 billion (plus accrued interest amounting to approximately €20 million), maturing on 29 January 2015. This is following the prepayment, on 23 April 2014, of the LTRO funding in the nominal amount of €0.5 billion (plus interest), originally maturing on 26 February 2015.

The Loan to Deposit Ratio, calculated on a consolidated basis as a ratio between customer loans and customer deposits, amounted to 90% and 97%, respectively, for the years ending on 31 December 2013 and 31 December 2012; as at 31 March 2014 it stood at 89%.

The Liquidity Hedging ratio[1] estimates on a consolidated basis for 31 December 2013 and 31 December 2012 were 121% and 91%, respectively, while for the Net Stable Funding Ratio[2], they were 133% and 101%, respectively.

On the Prospectus Date, estimates for the said indicators for 31 March 2014 are not available since they are in the process of being determined and will be sent according to a schedule not currently known and which will be disclosed by the Bank of Italy. The latter will also receive the monthly data flows on the two liquidity indicators introduced by the CRR, only partly similar to the ones required by the Basel III arrangements, with specific reference both to the items admitted in the calculation, and to their associated weightings. According to the latest regulatory updates, the first notification of the two ratios under the CRR, relating to the indicators with reference to 31 March 2014, should be sent at the end of June 2014.

With reference to the latest estimates available for the two indicators in question, with reference to 31 December 2013, they are higher than the fully-phased minimum targets set by Basel III.

A limited capacity to raise the liquidity necessary at favourable conditions on the market or difficulty in tapping financing at market conditions could have negative effects on results and on the Group's income, cash flow and financial situation.

[1] Pursuant to Article 412, section 5, CRR until the introduction of harmonised liquidity requirements in the European Union pursuant to Article 460 of the said Regulation, the Bank of Italy may issue provisions intended to define the application nationally of the liquidity coverage requirement or to impose a liquidity requirement up to 100% higher. The target level of 100% is expected to be introduced gradually starting in 2015.

[2] Pursuant to Article 413, CRR, until the introduction of binding minimum rules on the net stable funding ratio, the Bank of Italy may introduce measures on the subject. On the Prospectus Date, such measures had not been introduced. The target level of 100% should be activated starting 2018 in a non-gradual manner.

For further information on the Group's financial and cash flow situation and operating results, please refer to Section One, Chapter XV, Paragraph 15.1, of the Prospectus.

3.1.12 OPERATIONAL RISK

Operational risk is the risk of suffering losses deriving from inadequate or dysfunctional procedures, human resources and internal systems, or from exogenous events.

Included in this type of risk are, inter alia, losses deriving from fraud, human error, system operational outages, malfunctions and unavailability, contractual defaults, and natural catastrophes. The scope of operational risk includes legal risk, although it excludes strategic and reputational risks.

The most recurrent risk phenomena include errors, even though subject to timely resolution, in carrying out daily activities, primarily in the execution of payments and securities transactions; they also include legal disputes and settlement agreements with customers, as well as events external to the Banca Popolare di Sondrio Group, which can normally be mitigated by taking out insurance policies. For further information on this, please refer to pages 243-244 and 427-428 of the Annual Report for 2013 (included by way of reference in the Prospectus).

The Banca Popolare di Sondrio Group, being fully aware that if loss events occur, not only would there be unfavourable financial impacts, but there could also be considerable damage to its image and its reputation, adopts a management system, which is continually being fine-tuned, that is suitable, in the Issuer's opinion, for containing such effects.

This system is based on appropriate procedures for mitigating and containing the operational risks deriving from operations and aimed at preventing and/or limiting their possible negative effects.

The adoption of such measures could nevertheless prove to be inadequate to deal with risks potentially arising, including due to the unforeseeable nature of the occurrence of risk events (including, for example, counterparty default on their contractual obligations; the perpetration of fraud or scams, and the materialisation of losses deriving from employee disloyalty and/or from the breach of control procedures; computer virus attacks or electric and/or telecommunication service malfunctions).

Considering the importance of computer systems to the activities carried out, any occurrence of one or more of such events could have harmful effects on the Group's financial position and cash flow and on its financial earnings.

3.1.13 COUNTERPARTY RISK

Counterparty risk is the risk of loss resulting from a counterparty's non-fulfilment of its contractual obligations, where the term "counterparty" is identified primarily as an institutional market operator (banks, brokers, investment firms, SICAV, UCIs, asset management companies) with which one carries out transactions in financial instruments. Said risk does not apply to the contracts traded on regulated markets with guarantee mechanisms.

In the light of this definition, with regard to the credit risk profile (also including those relating to exposures to bank counterparties) and those associated with sovereign debtors, please refer to the preceding paragraphs for a description of the relevant risk factors. Below are illustrated risk profiles concerning, in particular, the financial instruments which generate the greatest exposure to counterparty risk, especially derivatives and repo transactions.

The Banca Popolare di Sondrio Group engages in trading, on a proprietary basis or on behalf of its customers, with derivatives on a variety of underliers, such as interest rates, exchange rates, commodities and shares. In relation to such operations, the fair value of the derivatives recognised as at 31 March 2014 under financial assets held for trading amounted to €34.8 million. On the same date, the fair value of derivatives classified under financial liabilities held for trading amounted to €32.6 million.

Such transactions expose the Banca Popolare di Sondrio Group not only to market risk and operational risk, but also to the risk that the counterparty for the derivatives may default on its obligations or become insolvent before the maturity of the respective contract, when Banca Popolare di Sondrio or a Group company still holds a credit right against said counterparty.

With regard to OTC (Over The Counter) derivatives, offered to corporate and retail customers, who use them primarily as financial hedges for foreign exchange, interest rate or commodities risks, every transaction entered into with a customer is paired with a contract in the opposite direction signed with primary market counterparties.

Any default by counterparties on obligations assumed pursuant to derivatives contracts signed by Banca Popolare di Sondrio or with a Group company could have negative repercussions on the income, financial position and/or cash flow of the Banca Popolare di Sondrio Group.

Since the derivative transactions are distributed over multiple counterparties, no specific concentrations of the risk profile are noted.

With regard to repurchase agreement operations, the value of the investment transactions (reverse repurchase agreements) recorded in the financial statements as at 31 March 2014 under "Receivables from customers" stood at €615 million; they involved transactions with the central counterparty, Cassa di Compensazione e Garanzia; the value of funding transactions (sale repurchase agreement payables) recorded in the financial statements on the same date under "Payables to customers" the total stood at €109 million, for which the central counterparty was Cassa di Compensazione e Garanzia for €72 million. As the underlying is represented entirely by government bonds, the risk profiles associated with these transactions are those typically connected with this specific type of financial instruments subject to trading.
The high degree of concentration of counterparties in the above-mentioned transactions, almost exclusively agreed with the central counterparty, Cassa di Compensazione e Garanzia find a response in the reduced regulatory risks associated with the particular nature of the counterparty in question, recently authorised by the Bank of Italy to carry out central counterparty activities.

The risks relating to the collateral of such transactions are considered negligible.

3.1.14 RISK MANAGEMENT

The Group boasts organisational structures, corporate procedures, human resources, expertise, methodologies and tools for identifying, monitoring, controlling and managing the different sorts of risks that characterise its business.

In accordance with what is provided for by prudential regulations, and in order to deal with objective operational demands, the activity of risk management is based on the “Relevant Risk Map”, which notes the types of risks deemed most significant concerning credit, counterparty, market, operational and liquidity risks, among others.

The entire risk governance, management and monitoring process within the Group is coordinated by the Parent Company's Risk Control Office, which is part of the Planning and Managerial Controls Department. In terms of safeguards against risks at the Group level, the Office measures, values and monitors risk exposure, whether current or going forward, with the different types of relevant risks, on an overall basis and, if necessary, for individual legal entities. In addition, it also ensures that uniform risk assessment and management systems are developed within the Group.

At the subsidiaries, also considering the specifics of the business engaged in (Factorit) and the requirements set by the primary and secondary regulations in question (Banca Popolare di Sondrio SUISSE), analogous organisational safeguards are in operation, linked to the Parent Company's structure for purposes of regularly carrying out the Group's risk management procedures.

If the said safeguards prove to be inadequate, the Group could be exposed to possible detrimental effects on its financial position, cash flow and operating results.

For further information, please refer to what is described in Section One, Chapter V, Paragraph 5.1.7, of the Prospectus.

3.1.15 RISKS ASSOCIATED WITH LEGAL PROCEEDINGS UNDER WAY AND DISPUTES

On the Prospectus Date, the court and legal proceedings involving the Issuer and companies belonging to the Group are, in the Issuer's opinion, to be considered as routine and as limited in principle, in relation to the activities carried out, to the size of the Group's operations, and the risks involved in banking activities and in the provision of investment services. There is the risk, however, that the Issuer and the subsidiaries could suffer financial losses in relation to proceedings under way, including those associated with pending disputes on the matter of compound interest.

In line with the probability of losses of that kind and with the accounting principles in force, the consolidated quarterly financial report of the Issuer, as at 31 March 2014, shows a prudential provision for existing lawsuits, including the tax dispute, of €35.26 million, which the Issuer deems to be consistent, with regard to the overall request, whereas already quantified, equal to €164.45 million.

3.1.15.1 RISKS ASSOCIATED WITH THE DISPUTE ON COMPOUND INTEREST

The decision by the Constitutional Court (No. 78 of 5 April 2012), declaring Article 2, section 61 of the so-called “Thousand Extensions” Decree-Law as unconstitutional, gave new impetus to the dispute on compound interest put into motion by decisions 2374/1999 and 3096/1999, whereby the Court of

Cassation, modifying its previous stance, found the practice of quarterly compounding of interest payable on current accounts as unlawful. The more recent opinions of the Court of Cassation on the subject have upheld the position stated in the 1999 decisions (Cass. Court Plenary Session Decision 24418/2010 and Order No. 20172/2013 Cass. Civ. VI Civ. Section).

We also note what was provided for on the subject of interest and compound interest by Law No. 147 of 27 December 2013 (the so-called "2014 Stability Law"). In this regard, Article 1, section 629, amending Article 120 of the TUB, expressly provides that "*interest periodically compounded cannot earn further interest and that, in subsequent capitalisation transactions* [, it must be] *calculated exclusively on capital.*" The Lawmaker, with broad delegation, attributed the duty to the Inter-ministerial Credit and Savings Commission (CICR) of determining the methods and criteria for earning interest in (banking) transactions, not making any stipulation, however, on the time period for the measures. Until the implementing regulations are issued, additional potential litigation scenarios with customers can be envisioned.

On the Prospectus Date, the overall number of cases pending against the Group on compound interest remains, in absolute terms, at levels that the Issuer deems routine, and the risk is covered in any case by prudential allocations to the provision for risks and charges. As at 31 March 2014, taking into account the passive litigations in relation to which the petitum remains indeterminate, with the applicant having requested determination before the Court, prudential provisions appear to be present on the matter of compound interest and usury in the amount of €3 million, against a petitum amounting to a total of €1.87 million for cases related to compound interest and of €0.18 million for cases related to usury.

In light of the decisions on the start date in terms of the beginning of the statute of limitations on legal actions for reimbursement of interest unduly paid, the overall number of cases pending on compound interest could increase, with possible negative effects on the income, financial position and/or cash flow of the Issuer and/or the Group.

The application of the above-mentioned principles and the added dispute risks are therefore enclosed with the contracts agreed prior to the date that Legislative Decree No. 342/99 came into force.
The reason for this is that, following the introduction of the principle of equal capitalisation frequency of balances receivable and balances payable pursuant to modified Article 120 of the TUB, the CICR made provisions, through the Resolution of 9 February 2000, for its implementation involving the quarterly capitalisation of debt interest on condition of reciprocity, in other words, on condition that the interest receivable (by the customer) is also capitalised with the same quarterly frequency.
The capitalisation of interest is therefore legitimate for relations following the entry into force of the CICR Resolution provided that there is contractual provision for the same period for both interest payable and for interest receivable.

For further information, please refer to Section One, Chapter XV, Paragraph 15.7 of the Prospectus.

3.1.15.2 RISKS RELATING TO LITIGATION WITH THE FINANCIAL ADMINISTRATION

The Issuer currently has on-going disputes with the tax authorities regarding, *inter alia*, the non-application of VAT on commissions received as a custodian of securities funds, the deductibility of interest paid to counterparties residing in so-called "countries with a preferential tax regime" and with regard to withholding tax on medium/long-term loans granted as a the pool whose contracts were signed abroad.

The detailed information relating to the on-going dispute with the tax authorities is provided in Section One, Chapter XV, Paragraph 15.7 of the Prospectus.

3.1.15.3 SUPERVISORY AUTHORITY INVESTIGATIONS

The Company, during the period of 8 January to 24 April 2013, was subjected to an audit by the Bank of Italy on the "Assessment of the adequacy of impairment losses on non-performing loans, substandard loans and restructured loans and the related policies and application practices."

The audit, which has not led to the initiation of any disciplinary proceedings, has highlighted weaknesses in the planning and implementation of the policies concerning provisioning, defining internal rules and practices in use, observations that have been the subject of careful reflection, timely feedback in dealing with Bank of Italy and resulting initiatives, implemented and under-way, aimed at adapting the structures, revising the regulatory system, redefining the provisioning policies, from a more conservative standpoint, consistent with the continued economic downturn, the growing difficulties in the housing market and the uncertainty about future trends in the economic environment.

As implemented in terms of the classification of impaired loans, quantification of the value adjustments and provisions related to loans is reflected in the balance sheet data for 2012 and 2013, and in the hedging ratios.

As part of a focused investigation, but in a logic of complementarities, it was noted that, despite the presence of a business situation characterised by technical profiles which were on the whole positive, it has been noted that the group has weaknesses related to governance, the organisational structure, in the planning and management of risks, which are not fully adapted to the growth process related to the size and operations of the Group. In this regard, initiatives have been undertaken—while others are being implemented gradually—to strengthen the structure of the Group in the relevant areas.

For further information on Group litigation, please refer to Section One, Chapter XV, Paragraph 15.7, of the Prospectus.

3.1.16 RISKS ASSOCIATED WITH PREPAID TAX ASSETS

Pursuant to the accounting standards in force (IAS 12), it is possible recognise deferred tax assets with reference to: (i) deductible temporary differences (given expenses that are deductible for accounting purposes entirely during the year and deductible for tax purposes in subsequent years, upon the recurrence of certain events or proportionately); (ii) previous tax losses; and (iii) unused tax credits.

As at 31 March 2014, the prepaid tax assets of the Banca Popolare di Sondrio Group amounted to €337 million, of which €322.4 million had an effect on the income statement for the year and €14.6 million were recognised directly under shareholders' equity.

With reference to the possibility of recognising prepaid tax assets and keeping them on the balance sheet, pursuant to the tax regulations in force on the Prospectus Date, upon the recurrence of certain circumstances, prepaid tax assets can be recognised as tax receivables. Prepaid tax assets may thus be recovered regardless of the capacity of the group (understood as companies adhering to group taxation on a consolidated basis) and/or individual companies to generate future profitability ("tax capability"). In particular, pursuant to the tax regulations in force on the Prospectus Date, in the event that a statutory loss is obtained or a loss for tax purposes is recognised or a negative net IRAP production tax amount, assets for prepaid tax both for corporate income tax (IRES) or the regional production tax (IRAP) referring to impairment losses on loans not yet deducted from taxable income and assets for prepaid taxes attributable to the value of goodwill and other intangible assets, the negative components of which are deductible in several tax periods, are transformed into a tax receivable. On the Prospectus Date, the prepaid tax assets of the Banca Popolare di Sondrio Group transformable into a tax receivable upon the recurrence of the events described above amount to €269.9 million.

Prepaid tax assets whose recognition depends strictly on the "tax capability" of the Group and/or the individual companies are therefore limited to €38.9 million. With reference to the portion of such prepaid tax assets that refer to IRES corporate income tax, it is noted that, in the event that IRES taxable income should prove negative (tax loss), it can be recovered with no time limits pursuant to the tax regulations in force on the Prospectus Date.

In accordance with the provisions of IAS 12, for the residual portion of prepaid tax assets, on the reference date of each balance sheet, the Group is to make an estimate of foreseeable future taxable income for purposes of verifying the possibility of continued recognition of and/or recognition of prepaid tax assets.

The Group, limited to residual prepaid tax assets, if insufficient taxable income should emerge from that verification, must revise the amount of the deferred tax assets recognised on the balance sheet downwards, with consequent negative effects on the income statement.

For further information on the Group's financial position, cash flow and operating results, please refer to Section One, Chapter XV, Paragraph 15.1, of the Prospectus.

3.1.17 RATING RISK

The risk associated with an issuer's capacity to perform its obligations, such as after an issue of debt instruments or money market instruments, is determined by the credit rating assigned by independent agencies.

Such ratings and the respective analyses may be of assistance to investors in evaluating the credit risks associated with financial instruments, in that they provide indications concerning issuers' ability to meet their obligations.

The lower the rating assigned on the respective scale, the higher the risk, as assessed by rating agencies, that the obligations will not be met or that they will not be so entirely and/or in a timely manner. A credit rating, however, does not constitute a recommendation to buy, sell or hold any bond issued, and it may be suspended, downgraded or withdrawn at any time by the agency that awarded it. The suspension, downgrading or withdrawal of an assigned rating may negatively influence the market price of the bonds issued.

On 26 July 2013, following the downgrade on 8 March 2013 of the Italian state's rating to "BBB+", with a “Negative” Rating Outlook, the agency Fitch Ratings lowered the long- and short-term rating assigned to Banca Popolare di Sondrio to “BBB” and “F3”, respectively; a “Negative” Outlook was confirmed. Fitch stated that the rating reflects weakening capital indicators and the delay in adopting measures intended to strengthen capital, together with the forecast for the operating context to remain difficult and for loan provisions to remain high.

On 26 March 2014, Fitch Ratings revised the long-term rating outlook for 18 merchant banks belonging to the European Union from “Stable” to “Negative”, maintaining a “Negative” Outlook for another 18 banks, including Banca Popolare di Sondrio, which had already received that rating outlook. The overall Outlook revision reflects the reduction in implicit state subsidies to the banks deriving from the gradual implementation of the SRM (Single Resolution Mechanism).

Long Term Issuer Default Rating	Long term issuer rating	‘BBB’
Short Term Issuer Default Rating	Short term issuer rating	‘F3’
Rating Outlook	Rating Outlook	Negative

Pursuant to the Fitch Ratings rating scale, a “BBB” rating indicates good creditworthiness and currently low credit risk expectations. The capacity for payment of financial commitments is considered adequate but changes in economic conditions are more likely to impair this capacity (“Indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity”).

Pursuant to the Fitch Ratings rating scale, an “F3” rating indicates fair creditworthiness. The capacity to meet financial commitments is adequate, but adverse events over the short term could lead to a downgrade to speculative grade (“The intrinsic capacity for timely payment of financial commitments is adequate”).

The outlook indicates the future rating outlook, over a time horizon of 6 months to 2 years. Pursuant to the Fitch Ratings rating scale, a “negative” outlook indicates that the rating is weak: if weakness factors were to continue or intensify, the rating could thus be downgraded.

In the unfavourable general economic scenario, the items serving as the basis for the rating of Banca Popolare di Sondrio were identified, on the one hand, as weakening capital indicators and, on the other, as asset quality and performance, with limited deterioration compared to competitors, as well as adequate customer deposits and a good liquidity position.

In determining the rating ascribed to the Issuer, the agencies take into consideration and examine several indicators representative of Group performance, including profitability, short- and medium-term liquidity position, and the capacity to maintain its consolidated capital ratios within given levels. In the event that the Group should fail to achieve or maintain the results measured by one or more indicators and, in particular, if it should fail to maintain its capital ratios within the expected levels, it could lead to a downgrading of the rating assigned by the agency; it could mean greater costs for private and wholesale fund raising, less easy recourse to the capital markets, and the possible need to supplement the collateral provided.

Banca Popolare di Sondrio managers maintain an ongoing dialogue with the rating agencies responsible, which also serves to respond to information requests and/or requests for further details as part of the rating evaluation and assignment process.

A credit rating downgrade could also have negative effects on Group liquidity and limit is capacity to conduct specific commercial activities (for example, exclusion from the participation in international tenders for the provision of specific services), with a consequent negative impact on Group cash flow, income and financial position.

3.1.18 RISKS ASSOCIATED WITH THE GEOGRAPHICAL AREA OF REFERENCE OF THE BANCA POPOLARE DI SONDRIO GROUP

Continuing again in 2013 with the policy of expansion and increased local presence, in accordance with the longstanding guidelines of the Banca Popolare di Sondrio Group, the Parent Company opened 12 new branches, for a total of 318 units. The subsidiary Banca Popolare di Sondrio (SUISSE) rationalised its presence within Swiss territory, reaching 20 units. Overall, at the end of 2013, the Group could boast a total of 338 branches. During 2014 and until the Prospectus Date, three new branches were instituted. On the Prospectus Date, Group facilities thus amounted to 342, due also to the transformation of the Banca Popolare di Sondrio (SUISSE) representation office in Neuchâtel into a fully operational branch.

On the Prospectus Date, in Italy, Banca Popolare di Sondrio is present with a direct presence in 8 Italian regions and 27 provinces. Of the local network, 77% is located in Lombardy. Also appreciable is the local presence in Lazio, in particular in the capital, where 12.9% of branches are concentrated.

The Group's activity is thus significantly influenced by changes in the domestic macroeconomic scenario, particularly with reference to trends in areas with greater industrial development in North and Central Italy.

In general, the recent economic stagnation, the reduction in gross domestic product, the increase in the rate of unemployment and the negative trends in the capital markets have encouraged a climate of distrust toward the financial system to set in, with negative consequences on the size of the demand for products and services provided by the sector. In response, should adverse economic conditions persist, if a lasting situation of political and economic uncertainty should become manifest and/or if any economic recovery should prove slower than expected, there could be further negative effects relevant for the income, financial position and/or cash flow of the Banca Popolare di Sondrio Group.

With regard to the Group's operations in Switzerland, it should be noted that the introduction of the automatic exchange mechanism for information about tax between Switzerland and OECD member countries - currently in the process of definition - will follow a medium-term process of the effects, which, at the present time, cannot be fully appreciated. The main stages of the complex legislative journey are summarised below: i) on 21 May 2014 the Federal Council defined the draft versions of the mandate for the introduction of the new global standard for the automatic exchange of information; ii) in the months which follow the draft versions of the mandate will be discussed with the parliamentary commissions and with the Cantons; iii) in autumn 2014 the mandates should be definitively adopted by the Federal Council; iv) later on, the results of the negotiations and the legal proposals will be presented to Parliament; v) the entry into force of the laws can be inhibited by the possible launch of a popular referendum (which in Switzerland does not only perform a consultative function but rather a preventative one in relation to the legislative initiative); vi) the effective introduction of the automatic exchange mechanism presupposes the signing of bilateral treaties with the countries involved, to be arranged from country to country.

For further information on the Group's competitive position, please refer to Section I, Chapter V, Paragraph 5.2, of the Prospectus.

3.1.19 RISKS ASSOCIATED WITH RELATED-PARTY TRANSACTIONS

During 2013, the Group had dealings with other related parties, as defined by IAS 24. Related-party transactions are governed by the respective procedures adopted by the Issuer and by the subsidiaries pursuant to Article 4 of the Regulations on Related-Party Transactions, adopted by the Consob with Resolution No. 17221 of 12 March 2010 as amended and supplemented. The procedures have been applied by the Issuer effective as from 1 January 2011 and have been updated in the meantime.

For further information in this regard, please refer to Section One, Chapter XIV, of this Prospectus.

Related-party transactions involve the typical risks associated with transactions taking place between parties that could be in a position of conflict with each other. The Issuer believes that all dealings had by the Group with related parties are ordinary, related to the typical business of the Group companies, and governed by arm's length conditions.

3.1.20 RISKS ASSOCIATED WITH THE FINANCIAL INFORMATION INCLUDED IN THE PROSPECTUS

The Prospectus contains financial information of the Banca Popolare di Sondrio Group taken from the 2013 Financial Statements, the 2012 Financial Statements and the Interim Financial Report as at 31 March 2014.

The 2013 Financial Statements and the 2012 Financial Statements were audited by the External Auditors, who issued their reports without observations (a copy of these reports is attached in an annex to this Prospectus). In the audit reports on the 2013 Financial Statements and the 2012 Financial Statements, the External Auditors also expressed an opinion, as required by current regulations, on the consistency of the report on the Group's operating performance with the consolidated financial statements. For that purpose, the procedures indicated by audit standard 001 issued by the National Council of Chartered Accountants and Accounting Experts and recommended by the Consob were carried out.

The Interim Financial Report as at 31 March 2014 was subjected to a limited audit, while the income and consolidated results for the first quarter of 2013 contained in the Consolidated Interim Financial Report on Operations as at 31 March 2013 were not audited.

Lastly, the Prospectus contains information that has been reclassified compared to that contained in the audited financial statements; specifically, it contains tables relating to the composition of the collection from customers, investments and the income statement prepared in a more structured way and with different criteria compared with those contained in the notes to the financial statements subject to audit.

Such information is normally prepared by the Issuer to allow for comparison of operating results on a consistent basis and has not been audited, though it has been checked against the 2013 Financial Statements and the 2012 Financial Statements if the data were taken from those documents.

3.1.21 RISKS ASSOCIATED WITH DECLARATIONS OF PRE-EMINENCE

The Prospectus contains some declarations of pre-eminence concerning the business of the Banca Popolare di Sondrio Group and its competitive position on the market, made by the Issuer based on specific knowledge of the sector to which its belongs, the data available and its own experience. Such information is included, for example, in the description of the Group's business, markets and competitive positioning, future plans and strategies, as well as forecast trends and is not subject to verification by third parties (see Section One, Chapter V, Paragraph 5.2, of the Prospectus). In addition, the Group's results, competitive position and performance in the different business sectors and/or geographical areas could deviate significantly in the future from those assumed in those declarations, due to known and unknown risks, uncertainties and other factors mentioned herein, inter alia, in Section One, Chapter III, of the Prospectus.

3.2 RISK FACTORS ASSOCIATED WITH THE SECTOR IN WHICH THE ISSUER AND THE GROUP OPERATE

3.2.1 RISKS ASSOCIATED WITH COMPETITION IN THE BANKING AND FINANCIAL SECTOR

Banca Popolare di Sondrio and the Group companies are subject to the typical risks deriving from competitive pressures specific to their respective business sectors, particularly with reference to the Lombardy market, where the most significant part of its core business is carried out domestically.

The Banca Popolare di Sondrio Group is active in the main credit and financial intermediation sectors and in the provision of related services.

In this regard, it is noted how the Italian banking sector is undergoing a long and troublesome consolidation phase, characterised by more intense competitive pressures, attributable primarily to the following factors: the transposition in Italy of EU directives aimed at liberalising and deregulating banking activity within the European Union, encouraging competition in the traditional services sector, with the effect of progressively reducing the differential between rates receivable and payable and the unit return on commissions; the changed market conduct of competitors, including internationally; the change in consumers' financial needs; the trend under way in the national banking industry to focus on commission revenue, which is reflected in an increased competitive push into the areas of asset management and investment banking; the amendments to the regulatory provisions on banking activities and taxes; the dissemination of services with a strong technological innovation component, first of all, Internet banking; the entry of new competitors into the bank and financial services market; and the combination of other exogenous factors not necessarily under the Group's control.

The continuation of the economic and financial crisis, or its possible worsening, could also entail a competitive pressure on bank margins, intended to offset the losses suffered through growth in volumes.

In the event that the Group is unable to respond to the growing competitive pressure, among other things, through the offering of innovative and sufficiently compensated products and services, capable of satisfying customer demands, the Group could find itself losing market share in the different business sectors in which it operates.

In addition, as a result of the greater level of competition, the Group could fail to maintain or to increase the business volumes and profitability levels experienced in the past, with consequent negative effects on its operating results and its income, financial position and/or cash flow.

3.2.2 RISKS ASSOCIATED WITH REGULATORY CHANGES IN THE BANKING, FINANCIAL AND TAX SECTOR

The activities of the Banca Popolare di Sondrio Group are subject to specific stringent regulations on the banking and financial sector.

The Group is subject to supervision by the Bank of Italy and the CONSOB, as well as, with reference to the subsidiary Banca Popolare di Sondrio (SUISSE), by the financial markets authority of the Swiss Confederation (FINMA) and by the Bank of France, to whose supervision the branch in the Principality of Monaco is subject. Starting in November 2014, the Banca Popolare di Sondrio Group, together with another fourteen first-rate Italian banking institutions, will be subject to direct supervision by the European Central Bank.

The provisions applicable to banks and banking groups, to which the Banca Popolare di Sondrio Group is subject, also govern the areas in which intermediaries are authorised to operate, for the purpose of safeguarding their stability, financial soundness, and sound and prudent management, limiting their exposure to risks.

Applicable to the Group as well are rules on financial services - governing, inter alia, the activity of selling and placing financial instruments and marketing activities - and, insofar as the Group's non-bank component is concerned, the prudential rules for financial intermediaries registered in the special register pursuant to Article 107 TUB.

The Issuer must also observe the reference regulations for companies issuing financial instruments listed on regulated markets, as an issuer of securities traded on the Mercato Telematico Azionario (MTA), or screen-based stock market, organised and managed by Borsa Italiana.

The regulatory provisions provided for by the applicable regulations and the supervisory actions carried out by the above-mentioned Authorities help govern the Group's different business sectors, setting forth an articulated system of rules including but not limited to: authorisation for engaging in banking and financial activity; the organisation, internal controls system and corporate governance of banks and banking groups; the acquisitions of stakes in the capital of banks; capital adequacy and liquidity requirements; preventing and fighting against money laundering and the financing of terrorism; the protection of personal data; the transparency of banking services and propriety in customer relations; usury; workplace safety; preventing and managing conflicts of interest (with reference to risky activities with associates, transactions with related parties, and the obligations of corporate officers); investments in holdings; the provision of investment services; market abuses; and cold calling.

In recent years, moreover, the international and European regulatory process has intensified notably, aimed at furthering the harmonisation of the rules and standards applicable to the bank and financial intermediation sector.

Among the more relevant new developments in the EU is surely the entry into force, starting 1 November 2013, of the "Single Supervisory Mechanism" (SSM), which has sanctioned the switch from micro-prudential supervision over approximately 6,000 banks in the euro area toward a Single Supervisory Mechanism, comprising the European Central Bank (ECB) and the competent National Authorities (Bank of Italy under Italian law).

The SSM is the first of the three pillars on which the so-called "Banking Union" is being built in Europe. The second pillar consists of the "Single Resolution Mechanism" (SRM), which provides for the institution of a reference legal framework for the reorganisation and orderly management of failures that may arise in the financial intermediation and credit sector, particularly with regard to players with greater systemic impact, through the creation of a single crisis resolution fund. On the Prospectus Date, the draft "Bank Recovery and Resolution Directive" (BRRD) is still undergoing the ordinary legislative process among EU institutions.

The third pillar should create a "Deposit Guarantee System" (DSG), i.e. a multinational bank deposit insurance system, likely to combine the need for protection of small investors against bank crisis situations with the equally significant need to minimise government measures payable by taxpayers in the case of rescuing credit institutions undergoing failure conditions.

Even before the institution of the SSM, however, the relevance of systemic risks due to the interconnectedness of the financial system as demonstrated in the recent international crisis prompted the G20 and the International Monetary Fund, in hopes of increasing the system's resilience, to promote a new regulatory framework on prudential requirements, materialised in the new standards defined by the Basel Committee on Bank Supervision (i.e. Basel III framework). These rules were transposed into European legislation by the CRR for banks and by the Directive on access to the activities of credit institutions and on prudential supervision (CRD IV) of 26 June 2013.

The discipline contained in the CRD IV and in the CRR has become applicable as from 1 January 2014. The Community provisions, to be incorporated gradually until coming into full force by 2019 ("Phase-in"), set out to strengthen the effectiveness of regulations on capital for banks and financial institutions in the European Union, increase stability and contain the financial system's cyclicality, preserving competitiveness in the sector and furthering greater convergence between laws and supervisory practices within Europe.

In addition to establishing the most stringent criteria for determining the Risk Weighted Assets, on the subject of own funds, the CCR requires the banks to satisfy higher capital ratios with reference to the best quality capital from the point of view of the capacity to absorb losses (Tier 1 capital). When fully operational, the intermediaries will be bound to maintain the following minimum requirements: i) a Common Equity Tier 1 Ratio of 4.5%; ii) a Tier 1 Ratio of 6.0%; iii) a Total Capital Ratio of 8.0%. The harmonised regulation has also: i) abolished the distinction between instruments that can be calculated in Tier 2 Capital (Supplementary capital) and in Tier 3 Capital, entirely eliminating this last class, and between instruments classified as Lower Tier 2 and Upper Tier 2; ii) required a disqualification, also on a gradual basis, of such instruments calculated in Tier 1 Capital or in Additional Tier 1 or Tier 2 Capital; iii) introduced a Leverage Ratio, as a complementary measure to the capital requirements based on risk, and two liquidity indicators: one short-term (Liquidity Hedging ratio or LCR), with the goal of establishing and maintaining a liquidity buffer which allows the survival of the bank for a period of thirty days in the case of serious tension; a Net Stable Funding Ratio or NSFR, with a timescale of more than one year, introduced to guarantee that assets and liabilities have a structure for a sustainable term.

The regulatory framework will be completed gradually with execution measures, contained in Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) adopted by the European Commission as proposed by the European Banking Authority (EBA) and, in some cases, by other European Supervisory Authorities (ESA).

The regulations and the technical standards will be applicable directly in national laws, without need for transposition, and will comprise the so-called Single Rulebook; the rules contained in the directive, on the other hand, will have to be transposed in national law sources.

Circular No. 285 of the Bank of Italy also came into force on 1 January 2014. Through it the Supervisory Authority, under its scope, implemented the new European regulation in Italy. The Circular requires, among other things, that from 1 January 2014, the banks, in addition to the capital requirements of the CRR, establish a Capital Conservation Buffer of 2.5%. From 1 January 2016, the intermediaries will also be bound, depending on the performance of the credit market, to establish a Countercyclical Capital Buffer, to be calculated using the methods indicated in the same Circular, based on the total exposure to credit risk, and a further capital reserve, according to the systemic importance of the specific bank (G-SII buffer or O-SII buffer, if the systemic importance is global or within the country in which the banking activity is conducted). The capital reserves indicated below should be made up of Tier 1 Capital.
In order to operate in accordance with all applicable provisions, the Banca Popolare di Sondrio Group is implementing specific internal controls (rules, processes, and procedures) aimed at preventing risks of violating the regulations. With regard to this, specific corporate functions are operating in the Group for the continuous monitoring of the development of regulations, the identification of applicable provisions, the evaluation of their impact on processes and internal procedures and the verification of the effectiveness of the organisational adjustments adopted for protection from risks of conformity.

In relation to the monitoring over different regulatory areas, since on the Prospectus Date some provisions relevant to the Group's activities have been recently issued, the respective methods of application are currently being defined.

Considering this, the operations of the Banca Popolare di Sondrio Group could be negatively affected by legislative and/or regulatory changes, or by the respective methods of application, as well as by the eventuality that Group companies may not be able to ensure compliance with the rules applicable to them, causing repercussions on the ordinary conduct of business, on the Group's financial position, income and cash flow and on its operating results, and also on the possibility of distributing dividends to shareholders due to specific restrictions imposed by the authorities or as a result of applicable provisions.

We do not recognise the presence of any specific risks that might derive from the evolution of the tax regulations, also by taking into account the recent issue of Legislative Decree 66/2014. It is believed that the increase in the level of taxation on deposits and income from the sale of securities, while producing a disadvantage compared to government bonds, will not result in significant changes in customer behaviour.

With particular reference to the business of the subsidiary Banca Popolare di Sondrio (SUISSE), operating in Switzerland with 20 branches, it cannot be ruled out that possible legislative and/or regulatory changes concerning banking rules in the Swiss Confederation and the capital deposited there could have repercussions on the orderly conduct of ordinary and commercial activities, as well as on the financial position, income and cash flow and on the operating results of the company.

In addition to the above-mentioned implementation, in the medium-term, of the treaties for the automatic exchange of information about tax between Switzerland and the OECD member countries, it should be noted that in 2015 it is likely that the Federal Law relating to the battle against money laundering and the financing of terrorism and the related regulation are likely to be revised; as the legal proposals are subject to consultation, this revision could include direct amendments which would impose increased obligations of diligence on the financial intermediaries operating in the Swiss financial marketplace, to impede the flow of undeclared capital to the Internal Revenue Service and therefore pursue greater transparency in fiscal matters.

The new version of the treaty relating to the obligation of diligence of banks is expected to come into force on 1 July 2015. It deals specifically with an agreement between the Swiss Bankers Association and the signatory banks in order to define the behavioural standards which ensure the blameless management of affairs in banking relations.

3.2.3 RISKS ASSOCIATED WITH A REDUCTION IN SUPPORT TO THE LIQUIDITY OF THE SYSTEM

The crisis in the financial markets, which resulted in a decrease in the liquidity available to players and, more recently, the increase in tensions associated with sovereign debt in some countries, together with the higher capitalisation levels required of intermediaries following the introduction of the Basel III standards, has required the development of detailed initiatives in support of the credit system which has involved states (by direct action in different ways in the capital of some banks) as well as central institutions (by refinancing transactions upon submission of suitable securities as collateral).

In this regard, 2015 will see the maturity of the Longer Term Refinancing Operations (LTRO) implemented by the European Central Bank between the end of 2011 and the beginning of 2012 for purposes of stemming the liquidity crisis affecting the financial system in the euro area, ensuring European banks the availability of abundant financial resources against collateral represented by eligible guarantees under particularly favourable conditions. Such refinancing operations of an extraordinary nature may not be replicated in the future.

The inability to raise liquidity on the market through access to central institutions upon submission of suitable guarantees or a significant reduction or elimination of support to the system's liquidity by governments and monetary authorities as lenders of last resort could generate greater difficulties in acquiring the necessary liquidity on the markets and/or greater costs associated with recourse to such sources of liquidity, with possible negative effects on the financial position, cash flow and operating results of the Group.

3.3 RISK FACTORS SPECIFIC TO THE OFFER AND THE SECURITIES THAT ARE THE OBJECT OF THE OFFER

3.3.1 RISKS ASSOCIATED WITH THE LIQUIDITY AND VOLATILITY OF THE FINANCIAL INSTRUMENTS

The Pre-Emptive Subscription Rights and the BPS Shares present the specific risk elements of an investment in listed financial instruments of the same nature. The holders of such instruments may liquidate their investment by selling on the Mercato Telematico Azionario (screen-based stock market).

Such instruments could have liquidity problems independently from the Issuer. Requests for sale, therefore, may not find adequate and timely counterparties, in addition to which they may be subject to price fluctuations, including significantly. Factors such as changes in the economic, cash flow, financial and profitability situation of Banca Popolare di Sondrio or its competitors, changes in the general conditions of the sector in which the Issuer operates, in the general economy and in the financial markets, changes in the legal and regulatory framework, and the dissemination by news agencies of journalist-generated news on Banca Popolare di Sondrio could in fact generate substantial price fluctuations for Banca Popolare di Sondrio shares and possibly for the Pre-Emptive Subscription Rights.

Furthermore, in recent years equity markets have shown somewhat unstable trends in terms of prices and trading volumes. In the future, such fluctuations could have a negative impact on the market price of Banca Popolare di Sondrio shares and possibly of Pre-Emptive Subscription Rights, regardless of the financial, economic and cash flow indicators of the Group. The trading price for Pre-Emptive Subscription Rights will depend, among other things, on price trends for Banca Popolare di Sondrio shares outstanding and could be subject to greater volatility compared to their market price.

Within the Subscription Rights Offer, lastly, some shareholders of the Issuer may decide not to exercise their Pre-Emptive Subscription Rights and to sell them on the market. This could have a negative effect on the market price of the Pre-Emptive Subscription Rights themselves and/or on BPS Shares.
For further information, please refer to what is described in Section Two, Chapter IV, Paragraph 4.1, and Chapter V, Paragraph 5.2.2, of this Prospectus.

3.3.2 RISKS ASSOCIATED WITH SUBSCRIPTION AND GUARANTEE COMMITMENTS AND WITH PARTIAL IMPLEMENTATION OF THE CAPITAL INCREASE

On 27 May 2014, the Issuer appointed Banca IMI and Mediobanca with the mandate (the "Mandate") to promote a consortium for the subscription of a number of BPS Shares corresponding to the Pre-Emptive Subscription Rights which were not exercised at the end of the Market Offer up to a maximum amount of €350 million (the "Guarantee Consortium").

Under the scope of the Guarantee Consortium, Banca IMI and Mediobanca will act as Joint Global Coordinators and Joint Bookrunners, BPN Paribas and Nomura as Joint Bookrunners, Banca Akros as Co-Bookrunner, Banca Aletti, Intermonte SIM and Keefe, Bruyette & Woods, A Stifel Company as Co-Lead Managers (together with the Joint Global Coordinators, Joint Bookrunners and Co-Bookrunners, overall the "Guarantors"). The guarantee obligations will be only undertaken on the signing of the Guarantee Contract (the "Guarantee Contract" or the "Contract").

The Mandate requires the Guarantee Contract to be concluded by the day prior to the launch of the Subscription Rights Offer and the content of the Guarantee Contract must be in line with market practices for similar transactions. Specifically, the Contract requires the commitment of the Guarantors to subscribe for a number of BPS Shares corresponding to the number of Pre-Emptive Subscription Rights not exercised at the end of the Market offer up to a maximum amount corresponding to the effective value of the Capital Increase, as well as the usual clauses governing the effectiveness of the guarantee commitment or giving the right to the Joint Global Coordinators to withdraw from the Contract.

Specifically, the Guarantee Contract will include the right of the Joint Global Coordinators to withdraw from the Guarantee Contract (also in the name of and on behalf of the other Guarantors) if:

(i) extraordinary circumstances occur such as those provided for in market practice which, *inter alia*, include serious changes in the political situation, acts of war, terrorism and the like, or major changes in the financial, economic, monetary, fiscal, regulatory or market situation, both nationally or internationally, or if, in Italy and/or on the international markets, significant distortions occur in the banking system involving clearance or settlement, or if moratoria occur in the system of bank payments that are not declared by the competent Authority or if or suspensions or limitations on the trading of the Sondrio BP securities occur for at least one full trading day (for reasons other than the announcement of the Offer), or more generally on the Mercato Telematico Azionario (screen-based stock market)organised and managed by Borsa Italiana S.p.A., which are such to render the Subscription Rights Offer and/or the Market Offer—in the reasonable opinion of the Joint Global Coordinators—harmful or inadvisable to carry out or continue or as such to jeopardise the success of the Subscription Rights Offer and/or the Market Offer;

(ii) changes occur in the share capital, announcements or distribution of extraordinary dividends for the Company and/or the Group or changes and/or events in general take place, including of a legal and/or administrative nature relating to the Company and/or the Group which, according to the reasonable opinion of the Joint Global Coordinators, affect or likely to affect the activity and/or financial condition, earnings and/or prospects of the Company and/or the Group, which are such to render, in the reasonable opinion of the Joint Global Coordinators, harmful or inadvisable the carrying out or continuation of the Subscription Rights Offer and/or the Market Offer or such to jeopardise the success of the Offer or make significantly more burdensome the fulfilment of the subscription obligations;

(iii) there is a failure to fulfil the obligations undertaken by the Issuer by way of the Guarantee Contract or there is a breach of the declarations and warranties made by the Issuer in the Guarantee Contract;

(iv) a supplement to the Prospectus is published under Article 94, paragraph seven, of the TUF (the "Supplement"), in the case in which, with respect to any Supplement, the amount of exclusions exercised pursuant to Article 95-*bis*, paragraph two, of the TUF, have or could have, according to the good faith judgment of the Joint Global Coordinators, a significant adverse effect on the Capital Increase and/or the Offer; or

(v) BP Sondrio's ordinary shares are delisted.

The Capital Increase is severable in nature and therefore, if not fully subscribed for, will be executed and shall be deemed limited to the amount of the subscriptions made. If the capital increase is not fully subscribed for following the Market Offer and (i) the signing of the Guarantee Contract does not take place or (ii) the Joint Global Coordinators (also in the name and on the behalf of the other Guarantors) exercise the right to withdraw from the subscription commitments referred to in the Guarantee Contract (and, therefore, the Capital Increase proves to have been performed only for the undersigned as a result of the Market Offer), the purposes of the Offer may be inhibited or only partially achieved.

For more information, refer to Section Two, Chapter III, Paragraph 3.4 of the Prospectus and Section Two, Chapter V, Paragraph 5.4.3 of the Prospectus.

3.3.3 RISKS ASSOCIATED WITH THE LIMITATION ON SHARE OWNERSHIP AND THE EXERCISE OF VOTING RIGHTS

Limitations on share ownership are provided for by Article 30 of the Consolidated Banking Law. This provision stipulates that no shareholder may hold an interest exceeding 1.00% of the share capital of an industrial cooperative bank. The provision does not apply to undertakings for collective investment in transferable securities, which are governed by the limitations provided by the rules specific to each one of them.

According to the abovementioned law, as soon as the bank detects the exceeding of the threshold, it must notify the holder of the violation of the prohibition. The excess shares must be transferred within one year of the notification. After that period, the respective property rights accruing until the transfer of the excess shares shall inure to the bank.

Article 30 of the Consolidated Banking Law stipulates that members of cooperative banks may cast only one vote, regardless of the number of shares owned.

Notwithstanding the prohibitions provided for in Article 2372, paragraph 5, of the Civil Code, Article 27 of the Articles of Association stipulates that no member of Banca Popolare di Sondrio may represent more than two members by proxy.

3.3.4 RISKS ASSOCIATED WITH THE DILUTION EFFECTS OF THE CAPITAL INCREASE

The Offer will have no dilution effects, insofar as the share of interest in the Bank's capital, for members and shareholders subscribing for BSP Shares in relation to the Pre-Emptive Subscription Rights to which they are entitled.

Menbers and shareholders of the Issuer deciding instead not to subscribe for the Subscription Rights Offer for the portion due to them would suffer a dilution of their interest in the capital. The maximum percentage of dilution (calculated assuming full subscription of the Capital Increase and considering the execution of the Free Capital Increase) is of 25.24%.

This dilution would not limit voting rights at Shareholders' Meetings, however, considering that current regulations on cooperative banks allow members to cast only one vote at Shareholders' Meetings, regardless of the percentage of share ownership.

3.3.5 RISKS RELATED TO THE AMENDMENT OF THE TAX REGIME APPLICABLE TO THE SHARES

On 24 April 2014, Decree Law No. 66 of 2014 was published in the Official Journal, providing, as of 1 July 2014, for the increase in the rate of withholding tax and substitute taxes on capital gains and on other financial income from 20% to 26%.

Said Decree Law shall enter into force within 60 days of its publication in the Official Journal and in the course of the conversion will still be subject to change. If no such amendment on the withholding and the substitute taxes on capital gains and other financial income is ultimately approved, it will result in an unfavourable change in the tax regime of the Banca Popolare di Sondrio Shares.

For more information in this regard, please refer to that set forth in Section Two, Chapter 4, Paragraph 4.1.9 of the Prospectus.

3.3.6 RISKS ASSOCIATED WITH MARKETS ON WHICH THE OFFER IS NOT ALLOWED WITHOUT AUTHORISATION FROM THE COMPETENT AUTHORITIES

The Subscription Rights Offer is reserved exclusively for shareholders of Banca Popolare di Sondrio. The Subscription Rights Offer is made within the territory of the Italian Republic based on the Prospectus. The Prospectus does not constitute an offer of financial instruments in the United States, Canada, Japan and Australia or in any other country in which this offer is not allowed without specific authorisation, in accordance with applicable legal and regulatory provisions or notwithstanding these same provisions. The Subscription Rights Offer is not being made and will not be made in Other Countries or subjects residing there. No financial instrument can be offered or traded in Other Countries without specific registration or exemption from registration in conformity with the applicable legal provisions.

The BPS Shares and the Pre-Emptive Subscription Rights have not been registered, nor will they be registered pursuant to the United States Securities Act of 1933, as amended, or pursuant to the corresponding laws of the Other Countries and consequently may not be offered, sold or delivered, directly or indirectly, in the Other Countries without specific authorisation, in accordance with the applicable legal and regulatory provisions or notwithstanding the said provisions.

Any subscription to the Offer made directly or indirectly in violation of the above-mentioned restrictions shall be deemed void. Therefore, the shareholders of Banca Popolare di Sondrio are asked to seek specific clarifications and/or advice on the subject before undertaking any initiative in relation to the Offer.

3.3.7 RISKS ASSOCIATED WITH CONFLICTS OF INTEREST

Some financial institutions participating in the Guarantee Consortium, subsidiary companies or associated companies (i) have credit relations with Group companies, (ii) offer or have offered consultancy and investment banking services to the Company and/or companies which are part of the Group and/or to shareholders of the latter, for which they have received or are receiving commission and/or (iii) hold, on their own account or on behalf of their clients, investments in the share capital of the Bank. The Guarantors could therefore find themselves in a potential conflict of interest situation. Specifically, it should be noted that Banca IMI, a company belonging to the Intesa Sanpaolo banking group, finds itself in a conflict of interest situation because (i) Banca IMI operates as a Joint Global Coordinator and Joint Bookrunner under the scope of the Offer, together with other intermediaries, and will receive fees for the services provided; (ii) Intesa Sanpaolo S.p.A., overall, also through its subsidiaries, has provided significant funding to Banca Popolare di Sondrio and to the Group; (iii) companies belonging to the Intesa Sanpaolo banking group, including Banca IMI, in the normal exercising of their activities could continuously provide lending, advisory, investment banking and corporate finance services to Banca Popolare di Sondrio; (iv) Banca IMI provides activities (including market making in regulated markets and/or multilateral trading systems) and investment services which could involve financial instruments issued by the Issuer and/or by Group companies or other instruments related to the latter. Guarantors which find themselves in any of the situations described above, in line with the requirements of the management policies for conflicts of interest, have identified and implemented adequate measures to ensure that the risk of conflicts of interest that would damage to the interests of its clients be adequately mitigated.

CHAPTER IV – ISSUER INFORMATION

4.1 HISTORY AND EVOLUTION OF THE ISSUER

4.1.1 LEGAL AND COMMERCIAL NAME OF THE ISSUER

The name of the Issuer is Banca Popolare di Sondrio, società cooperativa per azioni [joint-stock cooperative].

4.2 INVESTMENTS

4.2.1 PAST INVESTMENTS

The following table shows the balances of investments made by Banca Popolare di Sondrio in tangible assets, intangible assets and investments for the years ended 31 December 2013, as well as the quarter ended 31 March 2014.

(thousands of euro)	31/03/14	31/12/13	31/03/2014-31/12/2013
Tangible Assets	245,812	245,962	-0.06%
Intangible Assets	23,334	21,865	6.72%
of which goodwill	8,959	8,959	-
Equity investments	158,429	156,404	1.29%

Below, for each type of investment, a description of its composition and movements in the first quarter of 2014 and for the year 2013 is provided, with particular reference to the new investments made by the Group.

Tangible assets

Tangible assets include assets for own use, represented by the assets held for use in the production and supply of goods and services or for administrative purposes. During the period considered, about 90% of investments in tangible assets consisted of land and buildings.

Tangible assets: composition

(thousands of €)	31/03/14	31/12/13	31/03/2014-31/12/2013
Tangible assets held for own use	245,812	245,962	-0.06%
- of which are land	67,280	67,265	0.02%
- of which are buildings	153,971	154,413	-0.29%

The table below provides an illustration—from which no significant changes emerge—of the changes, during the period under consideration, of tangible assets attributable to ordinary activities and the normal amortisation process. In this regard, it is noted that all assets are measured at cost and amortised on a systematic basis over their useful lives: there are not, in fact, assets measured on the balance sheet at fair value.

Tangible assets: annual changes

(thousands of €)	31/03/14	2013
Opening balances	**245,962**	**232,445**
+ increases during the year	3,920	30,966
- decreases during the year	45	393
- depreciation and value adjustments for deterioration	4,025	17,056
Final balances	**245,812**	**245,962**

Intangible assets

Intangible assets comprise the cost of purchasing software with finite useful lives and therefore amortised on the basis of the same – typically three years, plus goodwill.

The goodwill written up in the amount of €8.959 million is due to the acquisition of Factorit S.p.A.. The measurement took place in accordance with IFRS 3 regarding the accounting for acquisitions. The accounting standard mentioned above provides that the acquisition and therefore the first-time consolidation of the acquired entity must take place on the date on which the acquirer effectively obtains control over it.

Intangible assets: composition

(thousands of €)	31/03/14	31/12/13	31/03/2014-31/12/2013
Intangible assets with indefinite useful life	8,959	8,959	-
- of which goodwill	*8,959*	*8,959*	-
Intangible assets with a finite life	14,375	12,906	11.38%
Total	**23,334**	**21,865**	**6.72%**

The following table reports the changes that occurred in the periods under review.

Intangible assets: annual changes

(thousands of €)	31/03/14	2013
Opening balance	21,865	**21,927**
+ increases during the year	4,038	12,327
- depreciation and value adjustments for impairment and sales	2,569	12,389
Final balance	**23,334**	**21,865**

Equity investments

During the period referenced by the historical financial information contained in the Prospectus, equity investments subject to significant influence primarily include investments held in Alba Leasing S.p.A. leasing company, the Arca Vita S.p.A. insurance, Banca della Nuova Terra S.p.A. and Unione Fiduciaria S.p.A.. The main changes which occurred during the period referenced by the financial information relate to events traceable to the above subsidiaries, following the subscription transactions for the Capital Increase, and also due to the pro-rata recognition of the total net income of investees, as well as due to the recognition of impairment losses.

Equity investments: annual changes

(thousands of €)	31/03/2014	2013
Opening balance	**156,404**	**146,214**
+ purchases during the year	-	15,390
- sales during the year	-	-
+/- other changes	2,025	-5,207
-/+ losses/recoveries on impairment	-	7
Final balance	**158,429**	**156,404**

During the period referred to by the financial information, no entry of any new equity investment of a significant nature was noted. Purchases made during this period, totalling at approximately €15.39 million, relate to the subscription of capital increases and/or increases in equity investments in the following companies:

- Alba Leasing S.p.A., for an amount of €14.66 million following the capital increase concluded in 2013;
- Unione Fiduciaria S.p.A. for an amount of €0.72 million for the share subscribed for in the year 2013.

The other changes are due to the transfer of Union Fiduciaria S.p.A. shares in the amount of €3.10 million and to assessments on the equity of the investee companies.

Below is a list of significant equity investments in companies subject to significant influence as at 31 December 2013, with an indication of the relative value of the asset on the consolidated financial statements, included under Item 100 of the balance sheet assets.

Names	total assets	Total revenues	profit (loss)	Net assets	Value of consolidated financial statement
A.1 Subject to joint control					
1. RAJNA IMMOBILIARE S.r.l.	911	137	52	896	448
A.2 Subject to significant influence					
1. ALBA LEASING S.p.A.	4,522,259	98,886	-13,954	366,869	76,859
2. ARCA VITA S.p.A.	5,080,722	1,018,843	39,380	400,732	59,457
3. BANCA DELLA NUOVA TERRA S.p.A.	438,240	16,657	-8,591	46,305	9,080
4. UNIONE FIDUCIARIA S.p.A.	62,487	31,407	920	31,931	7,664
5. POLIS FONDI SGR PA	12,112	5,730	1,035	9,574	1,874

Names	total assets	Total revenues	profit (loss)	Net assets	Value of consolidated financial statement
6. SOFIPO SA	4,455	2,722	-243	2,183	654

4.2.2 CURRENT INVESTMENTS

At the Prospectus Date, there are no significant current investments for the Group.

4.2.3 FUTURE INVESTMENTS

At the Prospectus Date, there is a commitment of up to a maximum of €70 million resolved by the Issuer's Board of Directors and not yet defined as of today's date, for the subscription of a new reserved real estate fund established by Polis Fondi SGR S.p.A. on 29 October 2013.

The above-mentioned fund has a term of 30 years starting from the date of the first call of subscription commitments, which has not yet taken place.

The investment policy involves the acquisition of real estate assets and real property rights mainly detached buildings, principally intended for commercial and tertiary use, located in central areas in Italian cities and leased to counterparties of high standing through medium and-long term agreements.

On the date this Prospectus was prepared, Polis Fondi SGR S.p.A. began negotiations with major operators in the sector to identify potential assets to purchase.

CHAPTER V – OVERVIEW OF OPERATIONS

5.1 MAIN ACTIVITIES

5.1.1 DESCRIPTION OF THE GROUP'S ACTIVITIES

Banca Popolare di Sondrio is the parent bank of the Banca Popolare di Sondrio Group. Inspired by the principles of popular credit, it carries out – including through its subsidiaries and investee companies – activities concerning savings and credit in their various forms, private and investment banking, merchant banking, asset management, leasing, bancassurance, consumer credit, with regard both to its own members and to non-members, paying special attention to the territories in which its components have their historical roots, with particular regard to households, small and medium-sized businesses, and cooperatives.

Segment information

Segment information has been prepared in compliance with IFRS8, and the following segments have been identified:

- *Businesses*: these include "non-financial companies" and "microbusinesses", for which are shown the results arising from activities of financing, credit guarantee, collection of savings, leasing, and provision of services. Of particular significance in this context are revenues from foreign currency transactions with resident and non-resident customers;
- *Private and other customers*: these consist of "consumer households", "public administrations", "financial companies" and "non-profit organisations". The results arising from the conduct of typical activities with this type of customer are reported, and relate to the collection and intermediation of savings, medium- to long-term consumer credit, collection and payment services, the issuing of debit and credit cards, and other associated functions;
- *Securities segment*: shows the results arising from activities with customers in relation to securities trading on a principal basis, the collection of orders, the placement of financial instruments and insurance/pension products, and portfolio management;
- *Central structure*: shows the results arising from the management of own-portfolio securities and equity interests, own-account exchange transactions, and treasury management. It also aggregates some residual activities not allocated to any of the preceding segments because, with regard to the amount of revenues earned, they remain below the size thresholds established by the relevant regulations.

The following tables show the pre-tax income statement results for 2013 and 2012, as well as for the quarter ended 31 March 2014, for each of the segments identified above.

Interest income and interest expense include a notional component, which is necessary in order to identify the contribution made to the financial margin by each individual segment.

This component is handled through the use of a multiple internal transfer rate ("treasury pool"), differentiated according to currency and duration, which allows a rebalancing of assets and liabilities and is settled within the "central structure" segment.

Administrative expenses are allocated directly to the various segments, wherever possible. In other cases, they are allocated through the use of suitable indicators (drivers) that essentially reflect the scale of the activities concerned.

The "reconciliation" column is used for the tie-in with the financial statements.

Distribution by segment of activity: income statement data

Items	Businesses	Private and other customers	Securities segment	Central structure	Total	Reconciliation	Total 31/03/2014
Net interest income	119,728	54,729	-	-26,739	147,718	-	147,718
Intermediation margin	156,657	71,967	18,378	49,658	296,660	-14	296,646
Net financial income	54,985	51,891	18,378	49,485	174,739	-14	174,725
Gross operating profit	27,414	13,169	4,762	27,089	72,434	-	72,434

Items	Businesses	Private and other customers	Securities segment	Central structure	Total	Reconciliation	Total 31/12/2013
Net interest income	485,276	212,226	-	-138,340	559,162	-	559,162
Intermediation margin	632,927	275,572	65,321	40,207	1,014,027	-48	1,013,979
Net financial income	209,579	221,517	65,321	27,325	523,742	-48	523,694
Gross operating profit	97,536	76,215	11,993	-60,396	125,348	-	125,348

Items	Businesses	Private and other customers	Securities segment	Central structure	Total	Reconciliation	Total 31/12/2012
Net interest income	408,477	230,490	-	-112,861	526,106	-	526,106
Intermediation margin	561,891	290,313	66,015	72,567	990,786	-51	990,735
Net financial income	131,579	233,995	66,015	67,298	498,887	-51	498,836
Gross operating profit	5,727	96,795	12,667	-8,360	106,829	-	106,829

Distribution by segment of activity: asset data

The following tables show the asset data referred to the years 2013 and 2012, as well as to the quarter ending on 31 March 2014 for each single sector as stated above.

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

Items	Businesses	Private and other customers	Securities segment	Central structure	Total 31/12/2013
Financial assets	15,366,246	10,426,936	-	5,796,599	31,589,781
Other assets	-	-	-	912,320	912,320
Tangible assets	50,398	70,572	23,446	101,546	245,962
Intangible assets	3,755	5,149	1,678	11,283	21,865
Financial liabilities	6,924,866	19,562,405	-	3,320,163	29,807,434
Other liabilities	46,262	6,783	-	704,717	757,762
Funds	69,947	78,313	18,855	26,005	193,120
Collateral issued	3,550,449	489,436	-	194,107	4,233,992
Loans	890,775	134,037	38,660	46,588	1,110,060

Items	Businesses	Private and other customers	Securities segment	Central structure	Total 31/12/2012
Financial assets	16,715,253	10,276,070	-	4,460,902	31,452,225
Other assets	-	-	-	642,529	642,529
Tangible assets	49,370	60,541	21,717	100,817	232,445
Intangible assets	3,974	4,845	1,731	11,377	21,927
Financial liabilities	6,456,203	19,522,444	-	3,500,975	29,479,622
Other liabilities	34,381	972	-	707,102	742,455
Funds	75,710	67,785	18,389	25,128	187,012
Collateral issued	3,466,097	421,538	-	148,397	4,036,032
Loans	1,154,220	136,408	27,992	38,731	1,357,351

5.1.2 BANCA POPOLARE DI SONDRIO

Within the context of the Banca Popolare di Sondrio Group, the Issuer – as parent bank with functions of direction, governance and control of the Group – essentially carries out the following activities:

- direction, coordination and control, through determination of the Group's management guidelines, financial and business planning, organisational structure, management approaches, administration and accounting, and credit and personnel management policies. The Issuer also manages and controls the risks arising from the activities of the members of the Group;
- coordination and monitoring of policies for the management of key assets and liabilities, both its own and those of other Group companies, aimed at optimising the available capital and identifying funding operations and strategies for the Group, through actions on domestic and international markets, as well as management of liquidity needs and their dynamics;
- offer of services of support, control and guidance for the Group's activities, with a view to facilitating the development of the business and to allow an effective customer service.

5.1.3 DISTRIBUTION OF BRANCHES

As at 31 December 2013, the Banca Popolare di Sondrio Group had a total of 338 branches.

Distribution of the Group's branches as at 31 December 2013:

	No. of branches	%
Banca Popolare di Sondrio	318	94.1
Banca Popolare di Sondrio (SUISSE)	20	5.9
Total	338	100.0

In Italy, with regards to the banking activity, the Group operates through the distribution network of the Parent Company – characterised by strong roots in the "historical" territories – as well as the online channel developed by the Parent Company. The branches are organised into twelve territorial areas based on criteria of geographical coherence. Each branch has operational and, normally, accounting autonomy. The coordination of the activities of the branches in each area is assigned to a coordinator, to whom the local branch managers report. To better serve its high-end customers, the bank has set up its own network of financial advisors to support the branches. These are coordinated by the financial advice office at the central headquarters. The network of advisors consists of 65 self-employed professionals who are included as employees in the Bank's organisational chart.

In the context of the multichannel offer of online products and services aimed at individuals, companies and institutions, Banca Popolare di Sondrio also operates through the following online channels: Home banking, Trading On Line, Mobile, Remote Banking, POS and ATM. The organisation includes the "Virtual Unit", an operational structure that manages – via online channels – relations with customers residing in areas not covered by the traditional branches. The customers of the Virtual Unit are mainly self-employed professionals, who are offered dedicated products.

The Group also has a presence abroad, carrying out banking activities mainly in the Swiss Confederation, through BPS (SUISSE). It also has representative offices in Shanghai and Hong Kong (together with other banking partners).

With regard to the Swiss Confederation in particular, the Group operates through its subsidiary Banca Popolare di Sondrio (SUISSE), established in Lugano in 1995. The subsidiary is a universal bank under Swiss law, active firstly in the banking sector, through the granting of mainly mortgage loans, almost exclusively in the territory of the Swiss Confederation, and secondly in wealth management and investment advisory services, as well as in securities trading. At the Prospectus Date, the bank operates with 21 branches in 6 Cantons, following the transformation of the Neuchâtel representative office, a virtual desk, into a branch, and with the branch in the Principality of Monaco, offering retail banking services to individuals, small businesses and institutions resident in the Swiss Confederation and to numerous "border" workers of Italian origin.

In 2014, following the opening of 3 new branches in Italy and the transformation of the Neuchâtel representative office into a branch as mentioned above, the Group operates through 342 branches at the Prospectus Date.

5.1.4 BUSINESS SEGMENTS IN WHICH THE BANCA POPOLARE DI SONDRIO GROUP OPERATES

The Banca Popolare di Sondrio Group carries out the traditional activity of credit intermediation in the covered territories, and offers related financial services to individuals, businesses and institutions. With regard to individuals and businesses, the Bank's activities are focused on developing the offer in the following areas:

- products and services for households: in particular, current accounts, consumer credit, loans, payment instruments (credit and debit cards), insurance and pension products, and online services;
- savings/investment products and services, such as bonds, asset management, life insurance and other investment instruments;
- products and services for businesses: in particular, current accounts, loans and financing

products, insurance products and payment instruments; in addition, the Bank has launched a number of initiatives aimed at providing support to businesses suffering from the worsening of the recession and at overcoming the current economic situation, ensuring that businesses with positive economic prospects have access to adequate financial resources;
- products and services for internationalisation: the Bank supports businesses that operate with foreign counterparties by offering a wide range of support services both for traditional commercial banking and for high value-added activities such as products and services relating to foreign trade or derivative products designed for the hedging of business risks;
- products and services for home banking, remote banking, POS, ATM and Mobile.

Asset management

Within the context of savings management, the Group offers both traditional and innovative investment solutions to individuals, businesses and institutional investors. The offer includes, among others, advisory services on portfolio management – provided through the professionalism and experience of a team of internal specialists within the Bank – derivatives trading, and the design and sale of structured products.

For the management of savings through mutual funds, since 1983 the Issuer has used the services of Arca SGR S.p.A and Etica SGR S.p.A., which sets up and promotes only socially responsible mutual funds in which the assets are selected on the basis of social and environmental responsibility criteria. The Issuer has signed commercial agreements with the above asset management companies in relation to the distribution of their products.

Within this segment, in 1999 the Swiss subsidiary Banca Popolare di Sondrio (SUISSE) established Popso (Suisse) Investment Fund SICAV, a collective investment fund under Luxembourg law, comprising fifteen sub-funds at the Prospectus Date.

Bancassurance and supplementary pension schemes

In the context of bancassurance, the Bank operates in the life insurance segment through the company Arca Vita. In the non-life segment, Arca Assicurazioni products are offered. The insurance solutions offered, aimed mainly at individuals and small to medium-sized businesses, are designed to meet customers' security needs by protecting their health, family and home. The offer in terms of supplementary pensions is promoted through the Arca Previdenza open-ended pension fund operated by Arca SGR, aimed at those who wish to benefit from additional pension provision products. The Issuer has signed commercial agreements with the above insurance companies in relation to the distribution of their products.

Factoring

The Bank offers factoring products to its customers through the subsidiary Factorit S.p.A., which has a full range of solutions for the factoring of trade receivables: factoring without recourse, non-notification financial factoring with recourse, notification factoring with recourse, non-financial non-notification factoring with recourse, maturity factoring with date-certain payment, export factoring and import factoring, as well as financing products, assignment of future receivables and “indirect factoring”.

Leasing

In the leasing sector, the Bank offers products to its customers through commercial agreements with Alba Leasing S.p.A. This company is able to carry out financial leasing operations in a variety of sectors: real estate, equipment, motor vehicles, aviation and railways, as well as the renewable energies, shipping and public administration sectors. The Issuer has signed commercial agreements in relation to the distribution of the above products. In May 2014, the Issuer also took part, together with the other shareholder banks and proportionately to their respective shareholding, in a financial support agreement designed to support the operational development of Alba Leasing S.p.A.
The maximum commitment of the Bank established in the above-mentioned agreement is €100 million and will be effected through the future subscription, for the same amount, of senior bonds from a performing loan securitisation process that Alba Leasing S.p.A. is about to implement. In detail, the Bank should subscribe for an initial tranche of senior bonds, approximately equal to €45 million, by June 2014, while the remaining part will be gradually subscribed for by December 2015.

Other lending services

To supplement the services offered directly, Banca Popolare di Sondrio has signed distribution agreements with Agos Ducato, a subsidiary of the international group Crédit Agricole, and with Compass, a member of the Mediobanca group, for the placement of personal loans and salary/pension-backed loans. The Issuer has also entered into an agreement with ING Direct in the relation to the offer of mortgage loans for households.

At the beginning of 2013, the Issuer ceased its intermediation activities in relation to loans granted by Banca della Nuova Terra S.p.A., a bank specialising in lending to farmers, due to the suspension of this type of lending by the bank, although at the Prospectus Date it continues to carry out the activity of providing advances on CAP (Common Agricultural Policy) subsidies, taken over from Nuova Terra S.p.A.

Merchant and Corporate Banking

Banca Popolare di Sondrio offers high value-added financial products and services for corporate customers in the following macro areas: corporate lending, structured finance and related services (e.g. certification of financial plans for project financing, acquisition financing, hedging, etc.), corporate finance (advice on extraordinary financing operations and corporate reorganisations for generational transitions, sourcing of private equity for companies interested in unlocking their risk capital, etc.) and capital markets (limited to the structuring of minibond issues).

5.1.5 SIGNIFICANT CHANGES THAT HAVE HAD AN IMPACT ON THE ACTIVITIES OF THE ISSUER OR THE GROUP BETWEEN 31 DECEMBER 2013 AND THE PROSPECTUS DATE

Between the end of 2013 and the Prospectus Date, there have been no significant changes that have had an impact on the activities of the Issuer or of the companies of the Group.

5.1.6 INFORMATION ON NEW PRODUCTS AND SERVICES INTRODUCED, IF SIGNIFICANT, AND THEIR STATE OF DEVELOPMENT IF THIS HAS BEEN MADE PUBLIC

At the Prospectus Date there are no significant new products, services or distribution channels with respect to those mentioned in the Prospectus.

5.1.7 RISK MANAGEMENT

Objectives and policies

In the pursuit of its strategic objectives, the Banca Popolare di Sondrio Group strives to ensure that all assumed risks are contained and well understood. It aims to achieve this goal in accordance with the underlying criteria of mutual-type activities, which derive from its own cooperative foundations and adherence to the values of popular credit.

The requirements of capital stability and solidity relating to the conduct of banking activities play a fundamental role in strategic decision-making and are essential elements for protecting the Group's financial soundness, in the knowledge that an adequate capital base makes it possible, on the one hand, to carry out the consolidated development of the business in a balanced manner and, on the other hand, to react with the necessary flexibility to changes in the operating environment, including with respect to more severe market contingencies, as well as to cope with persistent phases of stagnation.

In this regard, the Group adopts management policies that aim to maintain capital at adequate levels with respect to the nature of the risks assumed.

In a manner consistent with its low propensity for risk, the Group pursues growth that is stable and sustainable in the long term, and implements policies intended to strike a balance between the expected returns on the capital supplied by shareholders and its own self-financing needs, in order to finance the development of its activities and ensure that it complies with both current and future capital requirements. These objectives are also pursued in a manner consistent with the economic development of the territories served, in accordance with the nature and principles of popular credit.

With a view to pursuing these objectives in an appropriate manner, the Banca Popolare di Sondrio Group implements a governance and risk management system aimed at providing reliable and sustainable value generation and safeguarding the financial soundness and reputation of the Group, as well as allowing a transparent representation of the level of risk assumed.

This system aims to identify, measure and manage the types of risk that the Group considers relevant in the light of the activities carried out, with a view to ensuring the prudent management of those risks. In particular, the system aims to verify compliance with the established limits for the assumption of risks, identify criteria and methodologies for the identification and measurement/assessment of risks, ensure that the operations of individual production areas are consistent with any assigned risk objectives, and monitor current and future capital adequacy.

The risk management and control system is an integral part of the Group's operations; it concerns all sectors and all corporate structures at Group level, each of which is required, according to its area of responsibility, to ensure the constant and continuous management of the risks assumed.

The Parent Company is responsible for ensuring, on the one hand, the effective management of risks through the correct organisation of the roles and responsibilities of the Group's main decision-making centres, and, on the other hand, the integrity and completeness of risk management processes and methodologies within the various companies of the Group. The concrete application of this principle means centralising essential decisions regarding the assumption and management of significant risks for the Group, with the aim of ensuring the uniformity of the risk assessment and control systems developed within the Group and creating a risk management policy with the highest possible degree of integration and consistency between its components.

These decisions are supported by monitoring and control mechanisms relating to the evolution of the risks assumed by the companies of the Group and their compatibility with the achievement of the objectives of sound and prudent management.

The risk governance and management process takes place at various levels within the organisational structure of the Group, and involves – with different roles – administrative bodies, management and control bodies, internal control functions, and staff.

The following are the bodies and main business functions that manage the process, with details of their main areas of responsibility.

The Board of Directors of the Parent Company is responsible for the definition, approval and review of risk management policies. To ensure that these policies are implemented effectively, they are communicated to the members of the General Management, who, in turn, allocate responsibility for their implementation to the organisational units. In particular, the Board of Directors:

- defines the strategic guidelines and risk management policies;
- examines the risk profile and the ways in which the risks are identified and assessed;
- ensures that the organisational structure is consistent with the risk management policies, and that the duties and responsibilities are assigned clearly and appropriately;
- ensures that the adequacy and functionality (effectiveness and efficiency) of the internal control system are checked, and that, in the event of any shortcomings or defects being identified, appropriate corrective measures are taken in good time;
- ensures the establishment of a proper, complete and timely information system, consistent with the importance and complexity of the information;
- fosters a corporate culture that properly values control functions and, in relation to this, ensures that staff are adequately involved and aware of the roles assigned to them in the internal control system.

The equivalent bodies of subsidiaries, according to their respective areas of authority, are responsible for the implementation, in a manner consistent with the business unit to which they belong, of the risk management policies issued by the Parent Company, ensuring the application of suitable internal control procedures and a constant flow of information to the Parent Company regarding individual instances of significant risk.

In this regard, it is the task of the Managing Director of the Parent Company to oversee the implementation, within the Group, of the decisions of the Board of Directors in relation to policies on the assumption and management of significant risks, and to ensure that the companies of the Group comply with and properly implement those policies.

The Board of Directors is supported by the Control and Risk Committee, which is established within the Board and is responsible for assisting the directors in determining the guidelines of the internal control and risk management system, periodically checking its adequacy and effective operation, and ensuring that the main risks are identified, adequately measured, managed and monitored.

The General Management of the Parent Company, consisting of the General Manager and Deputy General Managers, is responsible for establishing and maintaining, within the business, an efficient and effective system of internal controls and risk management that is consistent with the strategic guidelines set out by the Board of Directors. In particular, the members of the General Management, according to their individual areas of authority:

– define criteria for managing the risks relating to individual business processes, and submit these criteria to the Board of Directors for approval;
– establish rules, activities, procedures and organisational structures relating to the management of risks;
– periodically verify the functionality of individual processes and of the internal control system as a whole in terms of effectiveness and efficiency;
– ensure that the necessary actions are taken to eliminate any identified shortcomings or dysfunctions, by activating the responsible functions;
– identify the duties of the Units dedicated to control functions, ensuring that the various activities are directed by qualified staff with appropriate experience and technical knowledge.

Similar responsibilities are performed by the corporate bodies holding management functions within the other companies of the Group, with reference to the relevant risk management processes.

The Board of Statutory Auditors of the Parent Company, with the aid of the business units that carry out legal control activities, performs its institutional responsibilities of control, helping to ensure the regularity and legality of management processes and compliance with the rules that govern the bank's activities. It also ensures the proper conduct of the control activities carried out by the Parent Company on the other companies of the Group, including through direct interaction with the competent bodies and functions of the subsidiaries in order to exchange information concerning the administration and control systems and the general conduct of business activities.

The Group's organisational units, operating at the various levels of the organisation, are kept constantly involved to ensure that they adopt and progressively strengthen a corporate culture that places proper value, in everyday operations, on the management and control of the risks assumed. In particular, the organisational structures within the Group assign specific roles to the functions devoted to the controls governed by supervisory regulations and relating to the following categories:

- line controls (or first-level controls), aimed at verifying the proper conduct of operations. Where these are not integrated into computer procedures, they are delegated to the same business units, including back-office structures, that are responsible for the implementation of the processes or parts thereof. Responsibility for the effective application and adequacy of controls is assigned, according to the organisational structure of the various sectors, to the heads of departments or offices;
- controls on risks and compliance (or second-level controls), aimed at ensuring, among other things, proper implementation of the risk management process, compliance with the risk assumption limits assigned to the various operational functions, and the conformity of business operations with the rules, including self-regulation rules. The purpose of these controls is to assist with the definition of criteria and methodologies for the identification and measurement of

risks, to verify that the operations of the individual production areas are consistent with any established risk/return targets, and to monitor current and future capital adequacy. These controls are carried out by specialised structures, separate from those performing production-related tasks, i.e. by organisational units established within a given production area but governed by operating mechanisms and procedures that prevent any conflicts of interest from arising;
- internal audits (or third-level controls), aimed at identifying any anomalous behaviour or breaches of procedures and regulations and verifying the proper exercise of delegated powers in relation to the assumption, measurement and control of risks, thus verifying the completeness, adequacy, functionality and reliability of the internal control system and of the information system (ICT audit), at predetermined intervals according to the nature and severity of the risks.

Details are given below of the organisational units of the Parent Company that are required to perform these controls, including with regard to the similar activities carried out within the subsidiaries.

The Planning and Control Department is responsible for preparing, managing and disseminating appropriate systems for the measurement and control of the various risk factors considered to be important, as well as for managing the methodological and IT tools used for carrying out business management planning and control processes.

With particular reference to controls on risk management, the Department, through the Risk Control Office:

– develops and maintains the models, methodologies and tools used for the identification, assessment and measurement of risks relating to the business and the Group;
– measures and evaluates in a reliable, timely, systematic and comprehensive manner, the exposure to significant risks;
– carries out the scheduled activities of monitoring and control on the Group's exposure, both current and future, with regard to the different types of significant risk; in relation to these activities, it produces the relevant reporting and makes this available to the corporate bodies and the competent operating functions;
– coordinates the process of identifying and assessing the risks present in the various company and Group activities, as a basis for estimating current and future capital adequacy (ICAAP process).

The Compliance Unit carries out controls aimed at detecting and preventing legal and reputational risks relating to non-compliance of business processes and procedures with applicable external rules (laws and regulations) and self-regulation rules (internal provisions, operating manuals, code of ethics). Specifically, it monitors the compliance of the risk management process with the requirements established by the relevant legislation. In addition, in order to allow adequate control of non-compliance risk at Group level, it provides basic guidelines to the similar structures of the subsidiaries for carrying out controls within the respective entities.

The organisational unit responsible for carrying out third-level controls is Internal Auditing and EDP Auditing, established functionally within the Internal Audit Department. This internal audit function is responsible for carrying out controls on the activities of the bank, both in its own right and as Parent Company, and on the activities carried out by the individual companies of the Group. The structure is required, among other things, to assess the effectiveness and adequacy of the risk management and control system, formulating proposals for improvements to the procedures and methods used for the assumption and monitoring of significant risks. It also verifies the functioning of the corporate information system, and provides a driving force for its constant improvement.

The central and branch auditors' office, which also forms part of the Internal Audit Department, is responsible for verifying the correctness of the conduct of the organisational units in the performance of the tasks assigned to them, identifying any irregular behaviour or breaches of rules and procedures. It also investigates any specific irregularities or misconduct.

The risk management process

The risk management process consists of the following logical phases:

- identification of risks. The Group identifies the different types of risk to which it is exposed by continuously evaluating the impact of internal and external factors on the activities carried out and on the various positions assumed, taking note of the most significant of the potential risks. It also identifies the qualitative and quantitative indicators necessary for monitoring the risks assumed in relation to its propensity for risk;
- measurement and assessment of risks. This phase involves determining the risk exposure and the related internal capital for each circumstance of significant risk. To this end, the companies of the Group use numerous internal models and methodologies, developed according to the most homogeneous approach possible, taking account of the management and operational specifics of each component. Alongside the risk measurement and assessment models used by the Parent Company to determine the capital adequacy of the Group for regulatory purposes, there are also other internal systems used for the analysis and control of risk that have purely managerial purposes;
- monitoring, control and management of risks. The Group manages significant risks through appropriate internal policies and procedures aimed at defining, in a manner consistent with its propensity for risk, a system of limits and thresholds that are applied, based on the principle of proportionality, to the various risk factors, areas of operation, and types of clients or counterparties. It also constantly monitors exposure to risk, in both static and dynamic terms, ensuring – by comparing the scale of the risks assumed against the capital intended to cover those risks – that the conditions for current and future capital adequacy are maintained;
- information on risks. The Group operates a suitable management reporting system designed to provide the corporate bodies and the management with an integrated and comprehensive view of the risks assumed, their evolution and the interrelations between them. It also provides appropriate reporting for the operational functions, containing risk data and information relating to the relevant operating segments.

5.1.7.1 CREDIT, COUNTERPARTY AND CONCENTRATION RISKS

Credit risk is the possibility that the borrower is unable to meet its obligations in full and on time, or that a change in his credit rating generates a corresponding change in the market value of the position. It can be broken down into the following types:

- default risk: the risk that the counterparty is unable to meet its obligations on time and in full;
- migration risk: risk of changes in the creditworthiness of the counterparty which has an effect

on the market value of the credit position;
- recovery risk: the risk that the recovery actually recorded at the end of the liquidation of the assets of a counterparty who has become insolvent is lower than originally estimated.

The Group pursues a strategy of general credit management marked by a moderate risk propensity and an assumption aware of it, which is expressed:

- in the assessment of the current and prospective risk of the credit book, taken as a whole, and/or at various levels of breakdown;
- in the diversification of exposures, aiming at containing its concentration;
- in rejecting operations which may affect profitability and solidity.

The process of managing credit risk is based on maximum involvement at various levels of the structure, in order to reconcile the need for a speedy fulfilment of requests from customers with an analytical assessment of credit risk.

The phases in which the credit process is expressed are manifested in the planning of credit policies, preliminary investigation, disbursement, periodic review, monitoring and management of deteriorated loans.

In particular, credit policy, in the implementation of the strategic guidelines laid down by the Corporate Bodies in the planning phase and within the limits of the risk profile, defines the size of the loan book, the relative composition in terms of technical forms and the distribution in the territory. The guidelines set out are received by the organisational units assigned to the management of the credit risk and are therefore reflected in the operation of each stage of the process.

The procedures and the organisational structure are formalised by clearly specifying activities, roles and responsibilities.

In order to avoid potential conflicts of interest, the necessary separation between operational and control functions is secured.

The system of decision-making powers, set forth by the Board of Directors by the principle of 'cascade' delegation, provides for the allocation to the peripheral structures of the powers provided, thus favouring control by the central specialist units.
The management of credit risk is supported by the use of rating models specifically developed by the Parent Company. In particular, the institute has models which cover the operating segments for Individuals (resident and non-resident consumer households), Small Businesses (sole proprietorships and partnerships and companies with sales of less than €1.5 million and loans of less than €75,000), Micro-Enterprises (companies of persons and capital with a turnover of less than €1.5 million and loans of more than €75,000), SMEs (companies of persons and capital with a turnover between €1.5 million and €50 million), Large Enterprises (non-financial companies of persons and capital with a turnover exceeding €50 million) and Public Enterprises.

These models allow a rating to be assigned to each counterparty and an associated estimate of the probability of default (PD, Probability of Default), the latter representing the estimated probability that the borrower becomes insolvent within a year. The rating depends exclusively on the characteristics of the counterparty and is therefore independent of any guarantees obtained. The rating assessments produced by statistical models, and prudently supplemented by qualitative deterioration in the case of automatic detection of additional negative elements not covered by the models are characterised by an articulation into 13 classes, relating to performing counterparties, and a class, relating to insolvent ones. The ratings are then mapped over 7 classes of synthetic judgments of risk: “Excellent”, “Good”, “Average”, “Uncertain”, “Bad”, “Worst”, “Insolvent”.

The rating is used in the early stages of the credit process, from the planning of credit policies up to performance monitoring. To the latter end it is calculated on a monthly basis with reference to the entire population of interest, whilst it is produced extemporaneously during the granting of new concessions or revision of existing ones.

Operationally, the rating systems described above accompany estimates of two other major risk factors: the rate of loss in case of default (LGD Loss Given Default) and the estimated exposure at the time of default (EAD Exposure at Default).

The estimates, specific to the level of relationship of each counterparty, which are also derived from internal models and, contrary to the probability of default, are strongly influenced by the presence and type of collateral obtained, as well as by the technical forms by which the credit is granted.

The availability of the risk factors mentioned, updated monthly, promotes a comprehensive assessment of the risk profile, helping to improve the wealth of information in support of the credit process.

The PD, LGD, EAD values also allow the determination of the expected loss, which is an estimate of the expected loss associated with credit exposure and which represents, as an element of cost, support in determining the prudential provisions for accounting purposes.

Alongside the feedback obtained from internal models are the judgments, collected on an automatic basis, issued by independent agencies. These are also used in the determination of the capital requirements for credit risk and counterparty risk, since the Group has adopted the 'standardised' valuation approach, which involves the assignment of weighted ratios of exposures on the basis, where available, of the rating assigned to each counterparty by the recognised agencies.

Having regard to exposures with banking counterparties, Italian or foreign, the Bank uses the ratings issued by major agencies for evaluation purposes, where available. Failing that, it uses an internal rating, obtained by the application of a simplified model.

More specifically, this model involves the examination of a series of indicators/quantitative and qualitative information and, on the basis of the values assumed by them, leads to the determination of a final score.

This score is positioned on a rating scale, divided into ten classes, the first of which identifies a counterparty/issuer at a minimum risk, while the ninth shows the degree of maximum risk, exceeded only by the state of insolvency, which is attributed to the tenth class. The ten classes, to enable easier correlation with the assessments made by international agencies, are in turn grouped into four macro classes of judgment.

With regard to counterparty risk, in addition to the continuous monitoring of the major credit groups assigned, a specific analysis of each position taken is carried out periodically, conducted through the joint consideration of several indicators, including the rating judgement, resulting from the accounting information data, market data.

In terms of credit book, the risk is evaluated according to several axes of analysis, including the distribution of the counterparties at the time by rating classes.

These assessments support the formulation of guidelines for credit policy and allow taking appropriate measures to provide management and operational guidelines to the central and peripheral functions concerned.

The credit process also provides, in the individual phases which compose it, a series of controls aimed at mitigating the risks.

The preliminary investigation, intended to identify the conditions of reliability by assessing the creditworthiness of applicants, involves the examination of the consistency of the characteristics of the transaction with regard to the purpose of the loan, the checking of any collateral to cover the risk of non-repayment, the cost of the credit intervention. In this context, the opinion expressed by the internal rating system, where available, and the associated estimates of default are taken into due consideration, as necessary and essential for a thorough evaluation of the client.

The decision on the granting of custody is taken by the relevant decision-making bodies, at the place of granting, by carefully assessing all the information obtained during the preliminary investigation and any subsequent element of judgment which may be available.

In order to ensure a greater protection of credit risk, the mechanism of defining the limits of autonomy for decision-making bodies at the base of the hierarchical scale, a system of delegation which also takes account of an objective measure of counterparty credit risk, expressed by the internal rating supports the use of the nominal value of the operation.

The credit lines are then made operational, and thus made available to the borrower only upon completion of the provisions of the resolution, having regard in particular, to the acquisition of the guarantees, verification and evaluation of the same in terms of fitness to mitigate the credit risk.

Following the grant, the fiduciary positions, regardless of their size, are subject to regular review, or audit, to ascertain the continuation of the conditions encountered during the preliminary investigation and considered for the purposes of the disbursement of the funds. In this context, particular importance is given to the examination of the causes which have led to any changes in the credit rating.

The review may also be carried out on an automatic basis with reference to positions which have levels of risk content, ascertained through a rigorous examination of appropriate and predefined indicators, amongst which the rating assumes preponderant weight.

The monitoring of the credit and guarantees is carried out by constant observation of the reliability of the counterparties and the periodic assessment of the continuation of the general and specific requirements and the value of the protection acquired, in order to ensure full and effective enforcement in the event of the insolvency of the debtor. Monitoring activities carried out in compliance with formalised organisational procedures are performed in order to determine in advance the occurrence of negative symptoms and to implement in a timely and effective fashion the actions necessary to prevent further deterioration. In this report, an important role is given to the dependency holders of the credit positions who, by maintaining direct relationships with customers, are able to perceive potential signals of irregularity in a timely fashion.

The management of problematic credit is entrusted to the appropriate central offices who carry out their activities, directed at restoring the performing position, if possible, or to recover the debt in the event of insolvency, working in close collaboration with the domiciliary dependencies of the problematic relationships.

In the context of credit risk the concentration risk arising from significant exposures to counterparties, groups of connected counterparties or the same economic sectors or engaged in the same activity or who belong to the same geographical area is also significant.

In the investigation, issue, review and credit monitoring phases, in-depth checks will be carried out on the concentration of risks by exposures of significance to individual counterparties or groups of counterparties among whom there are connections of a legal and/or economic nature. In addition, a system of monitoring credit concentration indices has recently been developed by the Parent Company, designed to measure, for each organisational unit (institution, area, branch), the distribution of loans to clients and, more specifically, aimed at identifying with which degree of concentration the credit has been provided to clients, and in which sectors of the economy.

The First Pillar discipline does not prescribe specific capital requirements to cover risks of concentration (for each counterparty and geo-sectorial), leaving the intermediaries discretion in evaluating, under the Second Pillar, the opportunity to protect capital resources from such cases of specific risk.

The Group has chosen to cover a share of capital for each of them, communicated to the Supervisory Authority in the periodic reporting.

The need to give a measure to the risk of concentration arises from the need to fill the gaps in the regulatory model for the quantification of the credit risk; that model, assuming the infinite grading of exposures, does not take into account the principle that a portfolio concentrated on a few large borrowers and/or dealing with a limited number of geographical areas or productive sectors incorporates a higher level of risk than in a perfectly diversified portfolio.

The need for additional capital is determined, as regards concentration per each borrower, following the simplified approach proposed by the regulatory provisions of the Bank of Italy, through the application of a formula based on a statistical index of concentration - known as the "Herfindahl index" - which combines the exposures to individual counterparties with the average rate of return in adjusted non-performing loan, expressive of the characteristic risk of the entire loan book of the Group.

Regarding instead the geo-sectorial concentration, in the absence of a regulatory model, the methodology proposed by the Italian Banking Association is adopted, which is based also on the use of the afore-mentioned statistical index.

If it is deemed necessary or in order to achieve a reduction of the concentration, specific mitigation measures are adopted in the area of the management of the credit risk.

The Group defines, finally, “credit risk inherent to financial activity” as the possibility of incurring losses due to the insolvency of issuer financial assets and/or of counterparties identified under contracts having a financial nature. In particular, it defines:

- issuer risk, the risk that issuers of debt securities and similar (including the Sovereign States, excluding the Italian) are not compliant;
- counterparty risk, the risk of suffering losses resulting from non-fulfilment by a counterparty of its contractual obligations, where the term “counterparty” is identified as an institutional market player (bank, real estate agent, investment company, open-ended collective investment scheme, UCI, or asset manager); this risk does not arise with contracts negotiated on regulated markets where security mechanisms are at work.

For the purposes of determining the capital requirement for counterparty risk the “standard” methodologies are used as set forth by the supervisory authority, which approximate the cost that the Group would incur in finding another party willing to take over the contractual obligations of the original negotiating counterparty if the latter proves to be insolvent.

In terms of management profile, each counterparty/issuer is authorised to operate with the Parent Company only after the creation of a specific line of credit, in conjunction with its assignment to a defined group of creditworthiness; the approved lines are subject to ordinary review by the competent business structures.

Risk monitoring consists of estimating, on a daily basis, capital absorption and maximum capital absorption associated with the existing lines, respectively, calculated by weighing the uses and those granted by coefficients related to the credit quality of each counterparty/issuer.

The following are also identified: the maximum reliability, equally weighted, granted to each counterparty/issuer or group of counterparties/issuers (risk to a single counterparty); the sum of the weighted loans granted to the first ten counterparties/issuers individuals or groups of counterparties/issuers (concentration risk); the amount of credit granted to counterparties/issuers belonging to the same country (except Italy), weighted in accordance with the macroclass membership of the Country (Country risk).

Each measure of exposure is compared with the related operating limit fixed by the General Management in line with the more general established risk propensity, for the time horizon of reference, by the Board of Directors and made up by the upper limit of exposure considered acceptable (Maximum Acceptable Loss).

These monitoring and risk management processes will apply to exposures to the counterparties specified below: banks and operators included in the list contained in the TUF; other operators issuing bonds and similar (limited to issuer risk), with the exception of the Italian State.

The estimates of risk exposure in question refer to the following financial assets: interbank deposits, repurchase agreements, debt securities and other similar bonds, derivative transactions, spot exchanges, forward exchanges and commodities.

5.1.7.2 MARKET RISK

Market risks express the risks generated by the Group's trading on the trading markets of financial instruments, currencies and commodities.

The Group determines the capital requirement for market risk using the 'standardised' methodology provided by the Bank of Italy, which identifies and regulates the processing of the following types of risk:

- with reference to the trading book for purposes of supervision, position and concentration risk;
- with reference to the entire financial statement, settlement, foreign exchange and commodity position risks.

Position risk, arising from fluctuations in the price of transferable securities by factors relating to the market trend and to the situation of the issuer, involves two distinct elements:

- general risk, given the risk of losses caused by an unfavourable trend in the prices of general traded financial instruments;
- specific risk arising from the risk of losses caused by adverse movements in the price of traded financial instruments and in turn due to factors related to the issuer.

Concentration risk arises generally from the concentration of exposures to individual counterparties or issuers, of specific issues of identified sectors of economic activity and/or geographical areas. With respect to market risks, concentration is related to financial instruments held in the trading book.

Settlement risk is attributable to transactions in debt securities, equity securities, derivative contracts, currencies and commodities, regardless of the portfolio to which they belong, not yet settled by the counterparty after the due date, for which the Group is exposed to the risk of losses.

The exchange rate and commodity position risk is finally represented by the potential losses due to adverse changes in foreign exchange rates and commodities on the positions held by the Group, regardless of the allocation portfolio.

From a managerial point of view, the daily estimate of exposure to market risk - investigated separately in its interest rate risk, price and exchange components - is based on an internal methodology of calculation of the Value at Risk (VaR), applied by the Parent Company's financial instruments included in the trading book according to their sensitivity to variations dependent on fluctuations in market variables.

The procedures for subsequent verification of the model results with the actual ones (“back-testing”) are determined by a comparison between the daily VaR data, on the one hand, the change in market value of the next day for the same positions on which the VaR is calculated (theoretical losses), on the other hand, the difference between capital gains, capital losses, gains and losses actually recorded on the actual portfolio of securities (actual losses).

At the Prospectus Date, the VaR model covers, at Group level, the following financial instruments exposed to market risk, declined in its three components:

- interest rate risk in the trading book: debt securities of the Parent Company or the subsidiary Banca Popolare di Sondrio (SUISSE) (for the latter on a monthly basis), assets and liabilities repurchase agreements, forward contracts on debt securities, forward contracts on exchange rates and other financial derivatives traded (options on exchange rates, commodity futures contracts, options on interest rates, interest rate swaps). The Factorit subsidiary is not exposed to risks of this type;
- trading book price risk: equity securities, unsettled trading on equities, future contracts on commodities, options on securities and UCIs included in the trading of supervision of the Parent Company; in addition, on a monthly basis, stocks and UCIs of the subsidiary Banca Popolare di Sondrio (SUISSE), excluding capital securities classified as "capital" or as "financial assets available for sale", included in the banking book. The price risk on the UCIs in currency includes the foreign exchange risk component. The subsidiary Factorit is not exposed to risks of this type;
- exchange rate risk : financial instruments exposed to exchange rate risk in the portfolio of the Parent Company - i.e. all of the financial assets and liabilities in foreign currencies excluding UCIs, whose component of the exchange rate risk is included in the price risk, and traded financial derivatives, including interest rate swaps; relationships with subsidiaries; in addition, all assets and liabilities in foreign currency (excluding gold and currencies other than those valued by the Parent Company), in financial statement and off financial statement attributable to the subsidiaries, with the exception of UCIs in foreign currency (for the same reason as specified above).

The main source of the interest rate risk of the trading book consists of debt securities classified as "financial assets held for trading".

The objectives and strategies underlying the trading activity aimed at the management of the securities portfolio are focused on maximising the profitability of the same, taking advantage of investment opportunities, as part of an approach based on containment of risks, which results in a bond portfolio characterised by a very limited duration.

The role played by the Bank in trading consists mainly of operability of arbitrage in securities to take advantage of trading opportunities in the short term rather than assuming long-term risk positions.
This strategy is consistent with the general approach of the Group, traditionally characterised by a prudent management of all relevant risks.

With regard to the treatment of derivative instruments, the offices occasionally perform an activity in unlisted options on Government bonds at a fixed rate, while that in other innovative or complex instruments is irrelevant.

With the Parent Company, the interest rate risk on the trading book is also measured, on a monthly basis, through an internal model of strategic Asset & Liability Management (ALM), having the characteristics described below with reference to the banking book interest rate risk.

The main source of the trading book price risk consists of capital securities and UCIs classified as "financial assets held for trading", including investments attributable to the staff pension fund.

As with the interest rate risk, and with that of price, the general strategy pursued aims at a prudent asset management.

Similarly, the composition within the same capital assets favours those of leading, broad market companies. Also in this case, trading activity concentrates on benefiting from short-term trading opportunities, while with respect to derivative instruments, transactions in equity options are indicated.

The Parent Company also measures, in terms of management profile, exposure to price risk on financial instruments included in the banking book.

The source of this risk lies in equity securities and in UCIs not belonging to the trading book for supervisory purposes (excluding own shares). It however encompasses capital securities classified as investments and capital securities and mutual funds classified as “financial assets available for sale” or as “financial assets carried at fair value.”

With reference to the investments held by the Group, these are primarily for companies which provide products and services which complete the commercial offer, therefore necessary for the achievement and maintenance of an effective competitive level. These investments are stable and reflect the established strategy of concentrating on the typical business organisation, making use of specific and important banking activities (mutual investment funds, insurance, leasing, factoring, brokerage, trust sector, etc.), of specialised bodies.

As these are companies that are well known to the Group, which sometimes participates in their management through its own representatives, the risk associated with these interests appears to be more of a strategic than a market nature, and thus, in the Issuer's opinion, already adequately monitored.

In relation to the internal management and control of the risks related to the financial activities of the Group, the Parent Company has established a system of internal limits for taking market risks (interest rate, exchange rate, price) thus structured.

The Board of Directors, in its role of governing and supervision, quantifies the maximum acceptable level of loss in the reporting period, consistent with the activities carried out by the Bank (Maximum Acceptable Loss). At operational level, the General Management divides the Maximum Acceptable Loss between market risks and credit risks inherent in the financial reporting. With regard to market risks, it established appropriate potential exposure limits based on the VaR method described above.

5.1.7.3 LIQUIDITY RISK

Liquidity risk occurs typically in the form of default with respect to payment obligations or an inability to finance the financial asset statement with the necessary speed and according to cost criteria. These negative circumstances can be achieved due to:

- inability to raise funds or obtain them at a reasonable cost (funding liquidity risk);
- inability to sell or reduce its position without affecting its price significantly, due to the poor efficiency of the market or of its malfunction (market liquidity risk).

The Group's general liquidity risk management strategy, characterised by a limited propensity for risk is manifested in the choice of favouring, prudentially, the balance of the structure by maturity of assets and liabilities and maintaining healthy liquidity conditions rather than the pursuit of mere profitability objectives.

This approach is manifested :

- by rejecting speculative or otherwise excessively risky transactions, which could affect the Group's stability and profitability;
- by making prudent investments to ensure that the control procedures progress towards ever greater levels of reliability and efficiency.

The desire to limit liquidity risk exposure is expressed also through the adoption of specific management guidelines which, in the Issuer's opinion, reduce the probability of the occurrence of the unfavourable circumstances described above.

With reference to the first of the above sources of risk, the Group's commitment is primarily addressed, especially in the short term, to limiting the concentration of funding. The Parent Company, in particular, is characterised by its nature of co-operative bank primarily close to households and small businesses, and this allows it to enjoy a wide and stable retail funding base, by definition adequately diversified. Another important supply channel is represented by the interbank market, on which the Bank has never found it difficult to borrow under market conditions.

The potential liquidity risk arising from difficulties in the disposal of its own positions instead is mitigated by the Group's decision to maintain an ample supply of assets capable of being rapidly liquidated, given by a portfolio of high quality securities. The latter, in fact, is mostly composed of government securities and, to a lesser extent, of other bonds, which have characteristics of easy liquidity in the markets as they are promptly transferable and can also be used, in the face of liquidity needs, both in repurchase agreements with banking counterparties, and in refinancing European Central Bank auctions (where the instruments, as happens to a large number of them, prove to be eligible).

Another element which contributes positively to the availability of reserves, known as “counter-balancing capacity”, is represented by the loans granted to the European Central Bank, in addition to the debt securities admitted, in the form of collateral (the so-called A.BA.CO - Collateralised Banking assets).

The levers available to the Group to pursue financial stability and mitigate the liquidity risk in the medium to long term, taking into account possible effects on the burden of funding, are instead reflected:

- by extending the maturities of liabilities, with the aim of replacing the more volatile forms of funding with others more stable and durable;
- by financing loan growth through appropriate funding policies which aim to ensure a dynamic balance between assets and liabilities in the long run and at the same time pursue the diversification of sources, markets, instruments and currencies.

The Group, in relation to the management of liquidity risk, relies on internal systems for monitoring liquidity positions, risk control and mitigation; the entire management process as a whole is intended to ensure the Group's ability to effectively manage cash flows in and out, both in the normal course of business, and with respect to adverse events, estimating in the current and prospective view liquidity requirements on a consolidated level and of individual components.

In this regard the Group:

- adopts monitoring systems to separate the operational (or short-term) and structural (or long-term) liquidity positions;
- makes use of the monitoring results for control purposes, through the comparison of the liquidity position detected (both short-term and medium-term) and any warning threshold

system defined;
- estimates the impact of different hypothetical liquidity scenarios on positions detected by the subjection of stress tests (stress test) of the results obtained from the ordinary monitoring activity.

With the same objective of risk control, it combines the quantification of the liquidity requirements with the calculation of specific "early warning" and "contingency" indicators.

The monitoring of liquidity in the short term, i.e. within 3 months (operational liquidity), aims to ensure the Group's ability to meet its payment obligations in cash, expected or unexpected, without prejudicing the course of normal activities; it is therefore aimed at rebalancing in a timely manner, with a view to cost-effectiveness, and monetary dynamics. It is achieved through the daily survey:

- of the cash flows typical of the treasury operation and of that which can be assimilated to it from the potential cash flows obtainable from the disposal of financial assets in the portfolio or from the use of these for refinancing;
- of the availability of the account at the Central Bank and the quantification, through the contrast between the cash flows in and out and cash reserves, of the total net cash balances (net financial position).

In this context, we can also estimate the impact of different hypothetical scenarios on liquidity positions detected, through subjection to stress test of the results obtained from the ordinary monitoring activity.

The risk monitoring also provides for the determination of "contingency indicators" and control of the respective thresholds of attention. Similar indicators refer to both the general market situation, in order to identify any signs of a liquidity crisis at the systemic level, and to the specific liquidity position, in order to identify early symptoms of difficulties which should manifest in the Group companies. In this regard, the Group, in line with the provision of the law has a dedicated Emergency Plan ("Contingency Funding Plan") with the aim of safeguarding the stability and continuity of its components.

As for the of medium-long term liquidity (structural liquidity), the main monitoring tool is the so-called "structural Maturity Ladder", defined as a ledger of cash flows in the medium and long-term positioned on predefined time intervals; this ledger is constructed by taking into account all the operations of collection and credit, as well as the portfolio securities, due from the date of reference, without limiting the time horizon.

Control is enhanced by the computation of specific "early warning indicators", which relate in particular to the following aspects: concentration of funding in terms of market supply, the deadline, the type of counterparty, the loans/deposits ratio; the degree of utilisation of the portfolio securities as collateral; degree of transformation of the maturities of the assets and liabilities.

The results of the monitoring activities are made available to the competent bodies and organisational units through the production of suitable information diagrams. The measurements carried out for the operational liquidity are also included in reporting to the Supervisory Board.

The control system of liquidity risk put in place by the Parent Company is accomplished through the intervention of various organisational levels.

The first line of defence is represented by the staff of the operational Units responsible for managing the company's liquidity, which provide an accurate analysis of the proper conduct of business expertise and prepare an informative summary of the daily operations.

The Risk Control Office in the Planning and directional controls Service acquires, verifies and processes the data for both the activities of the Parent Company and the Subsidiaries, useful to the systematic monitoring of liquidity, covering treasury operations which can be assimilated, as well as the reserve liquidity consisting of securities and other liquid assets, obtaining the determination of the profile of the liquidity imbalances in the short and medium-long term and the calculation of the relative indicators of synthesis.

The corporate bodies, informed by the Planning and directional controls Service, verify the liquidity situation of the Group and, if necessary, take the appropriate actions.

The subsidiaries also adopt their own methods to monitor the liquidity profiles.

In particular, Banca Popolare di Sondrio (SUISSE), in compliance with the requirements of Swiss law, verifies compliance with the threshold limits defined in percentage terms on the ratio between the amount of liquid assets and short-term liabilities .

Factorit carries out direct checks aimed at ensuring the balance of their own cash flows by finding suitable funds on the various maturity dates expected.

In the context of the Group, the Parent Company performs for the subsidiaries a function of preferred counterparty, both in the acquisition of new funds, and in the use of any surplus liquidity.

5.1.7.4 OPERATIONAL RISKS

Operational risk is the risk of loss resulting from inadequate or failed processes, human resources and systems, or from external events. This type includes, among other things, losses arising from fraud, human error, interruptions in operation, malfunction and unavailability of systems, breach of contract, and natural disasters. The scope of operational risk includes legal risk, but excludes strategic and reputational risks.

The Group, being fully aware that the occurrence of losses, in addition to the adverse impacts of an economic nature, could cause considerable damage to its image and reputation, adopts a system of operational risk management, in the process of continuous refinement, capable of mitigating its effects.

This system is based on methodologies for identifying, measuring and mitigating the operational risks based on approaches of both quantitative and qualitative nature, so as to detect the risk both in terms of actual losses and risk assessment which the Group could potentially incur.

Regarding the first of the two approaches, which consists of the identification of the hazardous phenomena which have led to operating losses, even minor, risk monitoring is carried out through the collection, recording and quantification of losses and the related assessment of trends, with particular attention to losses of a significant amount and the phenomena which occur with discontinuities.

The information thus obtained is stored in historic series in a special archive, which allows an overview of the manifestations of the risk, in order to identify, with greater efficiency, the areas on which to act in order to mitigate it.

The lack of statistical significance of the losses recorded within the Group suggests enriching the available data bases with information originating from the Italian Operating Losses Database (DIPO) promoted by the ABI, to whose population the Group has been contributing for several years; the identification of the integration methodology of the external source losses allows, through the use of an analysis control panel, periodic comparison with similar evidence of the system, with the aim of identifying possible areas of improvement in the organisational structure and internal control.

Regarding the second approach, the task of periodic self-evaluation of the entire risk management system, by analysing the control activities carried out in the various areas of operation, in terms of effectiveness and efficiency of the safeguards in place, allows the priority areas on which to act as a priority to be identified in order to improve responsiveness to changing business reality and the current regulations.

The corrective actions identified comprise, as a rule, the adjustment of the processes, organisational structures and systems to the specific needs of mitigation.

If such improvements do not allow the risk to be brought to levels deemed acceptable, and/or are not economically viable, the Group assesses the opportunity to take out insurance cover in order to transfer it to third parties.

This system combined detection of operating losses, the monitoring of the occurrence of events or hazardous phenomena and estimation of potential risks, albeit with some adjustments dictated by the different operating environment, is understood and applied by the subsidiaries.

5.1.7.5 INTEREST RATE RISK ON THE BANKING BOOK

The interest rate risk on the banking book consists of the possibility of incurring losses due to impairment of assets and/or increase in value of liabilities caused by adverse variations in interest rates on positions not included in the trading book.

The main sources of the fair value interest rate risk reside in funding operations (especially bonds) and lending (mainly mortgage loans and debt securities) at a fixed rate; cash flow rate risk originated by the other assets and liabilities on demand or at indexed rate, constituting the bulk of the total.

The measurement system and risk control consists essentially of a model inspired by the methodology defined by the Bank of Italy in Annex C of Title III, Chapter 1, of the “New regulations for the prudential supervision of banks” (as set forth by Circular No. 263 of 27 December 2006 , now Circular No. 285 of 17 December 2013 “Provisions for the prudential supervision of banks”, Part I) and the afore-mentioned internal model for the Asset & Liability Management (ALM), with the following characteristics.

As regards the main underlying assumptions and parameters, the ALM model supports the gap analysis, by the analysis of the sensitivity of the interest margin, and the duration analysis, for the sensitivity analysis of the net assets, only in a static perspective, on the operations in existence on the reference date, in three different scenarios for the development of interest rates processed by an outside supplier using an appropriate econometric model. The gap analysis and the related scenario analyses take into account a model of viscosity for current accounts in euro assets and liabilities and for savings deposits; for the rest, the transactions are treated according to their contractual terms without any assumptions on behavioural optionality.

The system covers the following activities in terms of financial instruments exposed to interest rate risk in the management or banking books.

The first includes items of interest bearing Assets and Funding with charges (except for demand and overnight deposits), as defined in the balance sheet format outlined by the National Association of Cooperative Banks, based on data from the supervisory Matrix, except banker's drafts and owned securities other than debt.

The second includes the same instruments, except also of the debt securities in the supervisory trading book and asset and liability term deposits (with underlying debt securities in the trading book).

Aggregation among the various risk profiles occurs by simple addition.

The internal scenario analysis policies and procedures involve calculating all the results under the three alternative scenarios mentioned, more or less favourable for the development of interest rates.

The General Management of the Parent Company periodically takes into consideration the ALM situation (integrated management of assets and liabilities) prepared each month and takes the necessary operational decisions.

With regard to the methods used by the subsidiaries, Banca Popolare di Sondrio (SUISSE), in compliance with Swiss regulations, performs a gap analysis on a quarterly basis and a duration analysis including all the positions set out in the financial statements (both within the trading book and in the banking book), in order to determine the impact on the income and assets of a change in interest rates of 100 basis points over a twelve month period, with reference to the main currencies of denomination of the accounting items. Besides the afore-mentioned measuring method, referring to all the positions in the financial statements, the subsidiary carries out an additional monthly survey of the gaps with a duration exceeding one year arising from deposit and loan operations at a fixed rate in the banking book. Finally, on a quarterly basis, Banca Popolare di Sondrio (SUISSE) carries out stress tests in order to measure the effect on the income and assets of abnormal and unforeseen changes in the interest rate curve for the major currencies in the financial statement.

For Factorit the interest rate risk arises from differences in the time and manner of re-pricing the interest rates on the company assets and liabilities. The occurrence of different fluctuations in interest rate conditions determines whether a modification of the interest margin expected is a fluctuation in the current value of assets and liabilities and, therefore, the economic value of the assets at risk.

The typical characteristics of the operations of the subsidiary, however, make marginal the impact of a change in interest rates on the current value of the assets and liabilities: the high rotation of the credits sold and the presence of exclusively short-term funding, ensuring close and frequent re-pricing, allow it in fact to keep aligned the lending and funding conditions in the market situations prevailing at the time.

5.1.7.6 OTHER SIGNIFICANT RISKS

The following describes the other significant risks assumed, managed and mitigated by the Group.

Strategic risk

Strategic risk is defined as the current or prospective risk of downturn on earnings or capital arising from changes in the operating environment or from adverse business decisions, improper implementation or updating of the strategic plan, failure to react in the face of changes in the competitive scenario, incorrect market positioning or taking the wrong management discontinuity choices.

The risk of equity investments is also included as part of the strategic risks. It represents the possibility of incurring losses in value relating to the portfolio of equity investments other than those held for trading and concerns, in particular, the equity interests characterised by stability and by a logic of long-term investment, outside the Group's scope.

The constant monitoring of management progress, on the most significant company sizes and all the other relevant variables, internal or external to the Group, allows the bodies with strategic responsibilities of the Parent Company to minimise this type of risk, allowing the adoption of timely adjustment or correction actions to also change the competitive environments and market dynamics.

The risk mitigation strategy is based primarily on the existence of scrupulous, cautious, decision-making processes, shared but at the same time marked by efficiency and streamlined, tending to reconcile the expectations and needs of different interest holders with internal and external constraints, in compliance with the fundamental principles of sound and prudent management.

Further mitigating measures consist of careful and constant observation of the reference markets, by a diligent performance of the strategic planning processes, capital and operational, by the continuity of the monitoring of the company and Group practices.

These criteria are applied to all contexts, with special attention to those pertaining to the definition of the strategic plan and the land use plans, the identification of the budget objectives, taking on or dismissal of investments, the introduction of new products and/or services and the entry of new operating or market segments, on operations having a significant economic, equity and financial impact, on human resource management policies, on changes in organisational structures.

A comparison of the financial results achieved in the final balance with the target values set out in the annual budget is periodically carried out. These activities, performed by the senior management of the Parent Company with the assistance of the relevant central units, in coping with any deviations from the forecasts or unexpected changes from the context, allow the effective monitoring of the ability to translate the strategic approaches into consistent actions on the organisational system and putting in place corrective actions to remedy problems or differences from the path pursued.

In relation to the assessment of the price risk associated with the holding of equity investments other than those held for trading, the findings of an internal model for the calculation of the VaR on the component relating to equity securities and UCIs included in the banking book are subject to periodic observation.

With particular reference to the portfolio of investments, the Group holds interests in companies which provide products and services which effectively integrate the commercial offer; these interests have a functional character and are preferably set in the context of collaborative initiatives between cooperative banks. In addition, in line with its cooperative bank vocation, the Parent Company provides financial support to businesses, including non-financial assets, especially if located in areas of traditional settlement.

In order to ensure the consistency of the operations with the established strategic guidelines, the Group is also equipped with a structure of control on the risks arising from investments in non-financial companies. Mitigation is pursued in particular by:

- adopting forms of organisational separation between the activity of equity investment and the remaining activity carried out by the Group, in particular the granting of credit;
- abstaining, in principle, unless special reasons exist, from the purchase of stakes in companies in temporary difficulty and aimed at the recovery of loans, limiting it to specific cases evaluated with extreme caution;
- limiting the establishment of credit relations with participated non-financial companies, safeguarding, in cases where this occurs, the objectivity of the lending procedures and responsiveness to market conditions;
- establishing a system of information flows within the Group and the individual components suitable to prevent undue movement of information between individuals and organisational units in a potential conflict of interest.

Reputational Risk

Reputational risk is the current or prospective risk of impact on earnings or capital arising from a negative perception of the Group by shareholders, customers, suppliers, counterparties, investors, Authorities, due to specific critical events affecting for example, certain areas of operation, products and processes.

The Group adopts policies to minimise the risk related to events likely to affect the positive perception thereof which multiple parties have. Given that the risk in question arises from the occurrence of other significant risks, actions are prioritised aimed to address in advance the emergence or worsening of the primary risks and, in the event of their occurrence, suitable initiatives are undertaken to limit the effects on the Group's image.

The measures taken to mitigate the risk of reputation are attributable to:

- the establishment and maintenance of clear, correct relationships, based on mutual respect with the different parties concerned (shareholders, clients, employees, local communities, suppliers, public authorities);
- the pursuit of trade policies characterised by the availability of simple products and easy to understand;
- the careful selection and development of human resources, the internalisation of the principles and ethical values which are derived from the tradition of cooperative credit, the clear

identification of roles, tasks and responsibilities within the organisational structure;
- the achievement of high quality standards in the delivery of services;
- the attention given to consistent, transparent, understandable, comprehensive and direct communication processes;
- the constant impetus given to cultural and promotional activities in the areas of settlement, with specific consideration to the communities and territories chosen.

Risk of Non-Compliance with Regulations

By risk of non-compliance is meant the risk of incurring legal or administrative sanctions, suffering significant financial losses or reputational damage arising from failure to comply with laws, regulations, codes of self-regulation, internal procedures and codes of conduct applicable to the Group's activity.

Monitoring the risk of non-compliance is also required by European Directive 2004/39 (MiFID) which, in relation to the provision of investment services, provides that intermediaries establish a permanent, effective, independent compliance monitoring function with defined responsibilities.

The joint Bank of Italy-Consob Regulation of 29 October 2007 assigns central importance to compliance, for the purpose of monitoring the rules and processes adopted for the provision of investment services.

The risk in question is monitored, predominantly, by the functions of compliance operating with the Group companies. The organisational management model for the risk of non-compliance adopted by the Group is, however, in a mixed model, in which the compliance functions directly perform certain activities in relation to the organic, the expertise, scale and complexity of the company, while otherwise it relies on the support of resources or specialist centres already operating in certain sectors.

This choice is consistent, on the one hand, with the traditional sensitivity of the Group in respect of the legal and reputational risks, on the other hand, with the research and development of forms of collaboration and synergy of mutual value, deriving from consolidated professionalism.

As part of the management of the risk of non-compliance, in line with the operational and size specifics of the Group companies, the following phases are identified:

- planning and organisation, implemented mainly through:
    - defining the organisational and methodological components which enable a proper management of the risk of non-compliance;
    - identifying the reference regulatory scope;
    - providing infrastructural facilities (resources, tools, etc.) for the benefit of the function;
    - defining and approving the plan of activities. This includes both the periodic evaluation of the adequacy of the overall system of management of the risk of non-compliance with the rules, and the programming of any measures deemed necessary to ensure effective management of the risk;
- analysing the reference legal sources: in this phase, the new regulations issued and the evolution of those in force with reference to the scope of operations of the compliance function are analysed;
- analysing the impact on the organisation: the consistency of the organisation and internal

procedures with the rules of hetero- and self- regulation are evaluated;
- identifying and evaluating risks: following the analysis conducted in the previous phase the specific risks and related controls to ensure compliance with regulations are identified and evaluated;
- identifying mitigation actions: the mitigation actions are thus established and shared with the top management and the actions to be taken communicated to the competent operating structures;
- monitoring: the mitigation actions implemented are then verified and the effective accommodation of differences previously recognised is found.

The interdisciplinary nature of the process of managing the risk of non-compliance requires the exchange of effective information flows between the control structures involved.

Real Estate Risk

Real estate risk is the risk of incurring losses arising from changes in the value of the property book owned by the Group.

In this regard, it is noted that the portfolio of real estate owned by the Group consists predominantly of assets used in the business, of instrumental or accessory nature, which are therefore firmly held and used in the ordinary course of the business operations.

In addition, the subsidiary Synergia Second S.r.l. a, having as its company purpose the leasing, management and maintenance, on behalf of the Parent Company and other Group companies, of real estate units intended for the performance of the corporate mission of each, does not take positions in real estate for purposes of investment.

Other Risks

The main sources of foreign exchange risk lie in the investment in Banca Popolare di Sondrio (SUISSE), due to the conversion of the traditional accounting services of each company which was operated with subsidiaries which conduct their business in currencies other than the Euro.

The Group also pays particular attention to the preparation of effective organisational, IT and training structures against the risks of money laundering and terrorism financing and, more generally, for purposes of crime prevention.

Specific internal procedures govern the risk of potential conflicts of interest with those subjects who, due to the role of senior management functions in the Group companies, or by virtue of obligations of control or significant influence, could affect the objectivity and impartiality of decisions.

To support the monitoring of the type of risk, the evolution of the timely handling of complaints in the field of investment services and transparency of banking services received by customers is then monitored and analysed, as symptomatic of the degree of appreciation enjoyed in relation to the quality of services offered.

The residual risk corresponds to the hypothesis that the process and the techniques recognised for mitigating credit risk are not fully effective and, therefore, may lead to additional losses.

With reference to this type of risk, the Group aims to formalise the principles for direct mitigation with respect to the development of algorithms for measuring exposure to risk.

The monitoring of the phenomenon is supported by a qualitative approach which involves the preparation and periodic compilation of self-assessment questionnaires, relating to internal processes of acquisition, appraisal, monitoring and enforcement of the principal means of mitigating credit and counterparty risk, as well as aspects which concern the adequacy of policies and management practices in terms of guarantees.

Each component of the Group must, on a periodical basis, complete questionnaires, taking account of their operational and organisational peculiarities and consistent with the primary and secondary legislation issued by the respective supervisory Authorities. The valuation model is designed and developed by the Risk Control office in the Planning and Directional Controls Service of the Parent Company.

New Risks

Finally, following the publication on 17 December 2013 of the Bank of Italy Circular No. 285 "Provisions for the prudential supervision of banks", the need to scrutinise the ICAAP for the following new risks has been introduced:

- country risk: the risk of losses caused by events which occur in a country other than Italy, refers to all exposures regardless of the nature of the parties, be they individuals, companies, banks or public administrations;
- transfer risk: risk that an exposure to an entity who borrows in a currency other than that in which it receives his main sources of income generates losses due to the difficulties of the debtor in converting the currency of their income to the currency in which the exposure is denominated;
- basis risk: in the context of market risk, it represents the risk of loss resulting from changes in the non-aligned values of offsetting positions, similar but not identical; in view of this risk, particular attention is paid to the possibilities inherent in the use of standardised methodology for the calculation of position risk, to offset positions in one or more equity securities included in an equity index with one or more positions in futures/other derivatives related to such index or to offset opposite positions in futures on share indices, which are not identical with regard to maturity, composition, or both;
- excessive leverage risk: risk which a particularly high level of debt in relation to the supply of equity makes the Group vulnerable, requiring the adoption of corrective measures to the strategic plan, including the sale of assets with accounting of losses which could result in adjustments on the value of the remaining assets.

The identification of the most appropriate ways to include current risk measurement and assessment methods in order to take account of new circumstances, and the analysis of the possible mechanisms for mitigation and control to be put in place.

With regard to the risk of excessive leverage, the Parent Company already provides the measurement of the exposure by the calculation of the "Leverage Ratio", as provided for in the Community provisions transposing the Basel III framework with the aim of identifying any imbalances between assets and liabilities at the Group level.

5.2 MAIN MARKETS

The Group's main markets are Italy and the Swiss Confederation, the territory in which the Group operates, at the Prospectus Date, through the 22 branches of the subsidiary Banca Popolare di Sondrio (SUISSE). At the Prospectus Date, the Group was present in Italy in 8 regions and 27 provinces of Italy: 77% of the territorial network is located in the Lombardy Region and an appreciable presence is also registered in the Region where there are 12.9% of branches of the Group.

The following tables summarise the competitive positioning of the Banca Popolare di Sondrio in Italy, in terms of branches, direct funding (excluding bonds) and loans, as at 31 December 2013 and 31 December 2012.

As at 31 December 2013, the Group's main market share in terms of branches, loans and funding was in the Lombardy Region, equal or close to 4%. In particular, the Group has a strong presence in the Lombardy provinces of historical settlement, i.e. Sondrio, Lecco and Como: in the province of Sondrio, the market share in terms of branches, loans and funding on the date indicated above was greater than 40%; still on the aforesaid date, in the provinces of Como and Lecco the market share in terms of branches was greater than 8% and the market share in terms of loans and funding varies from about 8% to more than 11%.

Market Shares in the Provinces/Regions

31 DECEMBER 2013	BRANCHES	LOANS (*)	FUNDING (*) (**)
LOMBARDY	**3.97%**	**4.02%**	**3.59%**
BERGAMO	2.03%	2.43%	2.25%
BRESCIA	3.37%	3.43%	3.16%
COMO	8.88%	7.57%	9.30%
CREMONA	1.81%	2.08%	3.07%
LECCO	8.73%	11.60%	11.66%
LODI	1.30%	1.17%	2.95%
MANTOVA	1.57%	1.21%	2.19%
MILAN	2.36%	3.16%	2.54%
MONZA-BRIANZA	3.67%	4.31%	5.49%
PAVIA	2.19%	2.68%	2.80%
SONDRIO	41.46%	40.79%	43.09%
VARESE	4.05%	3.10%	3.60%
LIGURIA	**0.54%**	**0.34%**	**0.66%**
GENOA	0.81%	0.52%	0.97%
SAVONA	0.56%	0.09%	0.27%
PIEDMONT	**0.46%**	**0.36%**	**0.54%**
ALESSANDRIA	0.69%	0.35%	0.27%
CUNEO	0.20%	0.23%	0.97%

31 DECEMBER 2013	BRANCHES	LOANS (*)	FUNDING (*) (**)
NOVARA	0.96%	0.74%	1.09%
TURIN	0.19%	0.28%	0.47%
VERBANO CUSIO OSSOLA	4.60%	2.00%	3.02%
VERCELLI	0.76%	0.06%	0.82%
VALLE D'AOSTA	**1.01%**	**4.22%**	**2.32%**
AOSTA	1.01%	4.22%	2.32%
TRENTINO ALTO ADIGE	**0.64%**	**0.73%**	**1.09%**
BOLZANO	0.49%	0.91%	0.97%
TRENTO	0.75%	0.50%	1.23%
EMILIA ROMAGNA	**0.11%**	**0.17%**	**0.17%**
PARMA	0.30%	0.31%	0.27%
PIACENZA	1.42%	0.69%	1.03%
VENETO	**0.12%**	**0.19%**	**0.29%**
VERONA	0.58%	0.71%	0.82%
LAZIO	**1.51%**	**2.43%**	**0.49%**
ROME	2.04%	2.61%	0.50%
TOTAL ITALY	**0.99%**	**1.47%**	**1.11%**

Source: prepared by the Company on Bank of Italy data on 31 December 2013.

(*) Market shares of loans, including non-performing loans, and funding for the province of residence of the customer. The fees are calculated on data system including the amounts attributable to the Cassa Depositi e Prestiti S.p.A.

(**) The data refer to the total of deposits (with agreed maturity, on demand, overnight and redeemable at notice), interest-bearing bonds, certificates of deposit, current accounts and liability term deposits.

Market Shares in the Provinces/Regions

31 DECEMBER 2012	BRANCHES	LOANS (*)	FUNDING (*) (**)
LOMBARDY	**3.77%**	**3.53%**	**3.94%**
BERGAMO	1.85%	2.59%	2.40%
BRESCIA	3.27%	3.02%	3.45%
COMO	8.64%	9.22%	7.22%
CREMONA	1.78%	3.12%	2.51%
LECCO	8.47%	11.28%	10.54%
LODI	1.26%	2.62%	1.35%
MANTOVA	1.52%	2.20%	1.08%
MILAN	2.07%	2.51%	3.12%
MONZA-BRIANZA	3.56%	5.52%	4.54%
PAVIA	2.13%	2.51%	2.73%
SONDRIO	40.80%	42.24%	40.13%

31 DECEMBER 2012	BRANCHES	LOANS (*)	FUNDING (*) (**)
VARESE	3.98%	3.49%	2.87%
LIGURIA	**0.21%**	**0.56%**	**0.29%**
GENOA	0.39%	0.82%	0.43%
SAVONA	0.00%	0.17%	0.08%
PIEDMONT	**0.34%**	**0.52%**	**0.41%**
ALESSANDRIA	0.34%	0.20%	0.13%
CUNEO	0.00%	0.82%	0.30%
NOVARA	0.94%	1.05%	0.76%
TURIN	0.09%	0.47%	0.41%
VERBANO CUSIO OSSOLA	4.60%	2.81%	2.15%
VERCELLI	0.75%	0.65%	0.09%
VALLE D'AOSTA	**1.02%**	**2.01%**	**2.86%**
AOSTA	1.02%	2.01%	2.86%
TRENTINO ALTO ADIGE	**0.62%**	**0.97%**	**0.78%**
BOLZANO	0.48%	0.98%	1.14%
TRENTO	0.73%	0.96%	0.37%
EMILIA ROMAGNA	**0.11%**	**0.16%**	**0.15%**
PARMA	0.28%	0.27%	0.24%
PIACENZA	1.37%	0.96%	0.62%
VENETO	**0.08%**	**0.28%**	**0.11%**
VERONA	0.42%	0.65%	0.36%
LAZIO	**1.43%**	**0.61%**	**2.56%**
ROME	1.91%	0.64%	2.76%
TOTAL ITALY	**0.93%**	**1.12%**	**1.48%**

Source: prepared by the Company on Bank of Italy data on 31 December 2012.

(*) Market shares of loans, including non-performing loans, and funding for the province of residence of the customer. The fees are calculated on data system including the amounts attributable to the Cassa Depositi e Prestiti S.p.A.

(**) The data refer to the total of deposits (with agreed maturity, on demand, overnight and redeemable at notice), interest-bearing bonds, certificates of deposit, current accounts and liability term deposits.

Market Shares in the Provinces/Regions

31 DECEMBER 2013	BPS BRANCHES	BANKING SYSTEM BRANCHES (*)	% BPS BRANCHES
LOMBARDY	**246**	**6,201**	**3.97%**
BERGAMO	15	739	2.03%

31 DECEMBER 2013	BPS BRANCHES	BANKING SYSTEM BRANCHES (*)	% BPS BRANCHES
BRESCIA	31	921	3.37%
COMO	31	349	8.88%
CREMONA	5	276	1.81%
LECCO	20	229	8.73%
LODI	2	154	1.30%
MANTOVA	5	318	1.57%
MILAN	44	1,866	2.36%
MONZA-BRIANZA	17	463	3.67%
PAVIA	7	319	2.19%
SONDRIO	51	123	41.46%
VARESE	18	444	4.05%
LIGURIA	**5**	**918**	**0.54%**
GENOA	4	495	0.81%
SAVONA	1	180	0.56%
PIEDMONT	**12**	**2,589**	**0.46%**
ALESSANDRIA	2	290	0.69%
CUNEO	1	512	0.20%
NOVARA	2	208	0.96%
TURIN	2	1,064	0.19%
VERBANO CUSIO OSSOLA	4	87	4.60%
VERCELLI	1	132	0.76%
VALLE D'AOSTA	**1**	**99**	**1.01%**
AOSTA	1	99	1.01%
TRENTINO ALTO ADIGE	**6**	**939**	**0.64%**
BOLZANO	2	407	0.49%
TRENTO	4	532	0.75%
EMILIA ROMAGNA	**4**	**3,603**	**0.11%**
PARMA	1	337	0.30%
PIACENZA	3	212	1.42%
VENETO	**4**	**3.413**	**0.12%**
VERONA	4	690	0.58%
LAZIO	**40**	**2.643**	**1.51%**
ROME	40	1.962	2.04%
GRAND TOTAL	**318**	**31,970**	**0.99%**

(*) Source: Prepared by the Company on Bank of Italy data on 31 December 2013.

Market Shares in the Provinces/Regions

31 DECEMBER 2012	BPS BRANCHES	BANKING SYSTEM BRANCHES (*)	% BPS BRANCHES
LOMBARDY	**242**	**6,426**	**3.77%**
BERGAMO	14	756	1.85%
BRESCIA	31	947	3.27%
COMO	31	359	8.64%
CREMONA	5	281	1.78%
LECCO	20	236	8.47%
LODI	2	159	1.26%
MANTOVA	5	329	1.52%
MILAN	41	1,976	2.07%
MONZA-BRIANZA	17	477	3.56%
PAVIA	7	329	2.13%
SONDRIO	51	125	40.80%
VARESE	18	452	3.98%
LIGURIA	**2**	**936**	**0.21%**
GENOA	2	507	0.39%
SAVONA	0	180	0.00%
PIEDMONT	**9**	**2,664**	**0.34%**
ALESSANDRIA	1	293	0.34%
CUNEO	0	524	0.00%
NOVARA	2	212	0.94%
TURIN	1	1.118	0.09%
VERBANO CUSIO OSSOLA	4	87	4.60%
VERCELLI	1	133	0.75%
VALLE D'AOSTA	**1**	**98**	**1.02%**
AOSTA	1	98	1.02%
TRENTINO ALTO ADIGE	**6**	**966**	**0.62%**
BOLZANO	2	419	0.48%
TRENTO	4	547	0.73%
EMILIA ROMAGNA	**4**	**3,780**	**0.11%**
PARMA	1	354	0.28%
PIACENZA	3	219	1.37%
VENETO	**3**	**3,530**	**0.08%**
VERONA	3	714	0.42%
LAZIO	**39**	**2,731**	**1.43%**
ROME	39	2,040	1.91%

31 DECEMBER 2012	BPS BRANCHES	BANKING SYSTEM BRANCHES (*)	% BPS BRANCHES
GRAND TOTAL	306	32,955	0.93%

(*) Source: Prepared by the Company on Bank of Italy data on 31 December 2012.

Sector information by geographical area

The data provided refers to the location of the branches.
We wish to point out, however, that the representation according to the alternative criterion, based on the residency of the counterparties, does not involve significant differences. The branches, for the Parent Company, are aggregated in the geographical areas corresponding to "Northern Italy" and to "Central Italy" because between these two areas, against the background of the complete homogeneity of products and services offered and sales and management policies, it is possible to determine a significant inequality in the composition of the reference customer base. In effect, while in the North in terms of volumes brokered, the most significant market shares refer to "non-financial companies" and to "consumer and production households", the "public administration" sector takes on particular importance in Central Italy. In addition, the existing inequalities between the Parent Company and the Swiss subsidiary, on the issue of the type of customer base served, products and services offered, sales and management policies, in addition to the domestic market, involve specific evidence from the data referring to the "Swiss" operational area.

The tables below contain the economic results, before tax, with reference to 2013 and 2012, as well as the quarter ended as at 31 March 2014 for each individual sector previously described.

The connection with the financial statements data is obtained through the "reconciliation" column.

Distribution by geographical area: economic data

Items	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 31/03/2014
Interest margin	123,048	17,258	6,973	147,279	439	147,718
Intermediation margin	249,472	29,606	17,658	296,736	-90	296,646
Net income from banking and insurance activities	134,853	22,683	17,279	174,815	-90	174,725
Gross operating profit	55,762	13,482	3,074	72,318	116	72,434

Items	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 31/12/2013
Interest margin	453,578	75,922	28,430	557,930	1,232	559,162

Intermediation margin	843,292	120,212	67,206	1,030,710	-16,731	1,013,979
Net income from banking and insurance activities	394,923	81,751	63,751	540,425	-16,731	523,694
Gross operating profit	85,671	45,355	3,541	134,567	-9,219	125,348

Items	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 31/12/2012
Interest margin	417,108	84,412	23,411	524,931	1,175	526,106
Intermediation margin	802,187	128,715	62,745	993,647	-2,912	990,735
Net income from banking and insurance activities	357,771	86,369	57,608	501,748	-2,912	498,836
Gross operating profit	56,689	49,595	-3,485	102,799	4,030	106,829

Distribution by geographical area: capital data

The tables below contain the capital data with reference to 2013 and 2012, as well as the quarter ended as at 31 March 2014 for each individual sector previously described.

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

Items	Northern Italy	Central Italy	Switzerland	Total 31/12/2013
Financial assets	25,496,187	2,431,299	3,662,295	31,589,781
Other assets	807,358	-	104,962	912,320
Property, plant and equipment	210,227	16,355	19,380	245,962

Intangible assets	19,555	1,227	1,083	21,865
Financial liabilities	18,838,657	7,429,015	3,539,762	29,807,434
Other liabilities	728,671	10,014	19,077	757,762
Funds	168,278	21,262	3,580	193,120
Guarantees issued	3,295,178	762,410	176,404	4,233,992
Obligations	752,211	324,955	32,894	1,110,060

Items	Northern Italy	Central Italy	Switzerland	Total 31/12/2012
Financial assets	25,233,280	2,671,729	3,547,216	31,452,225
Other assets	548,261	-	94,268	642,529
Property, plant and equipment	195,921	14,701	21,823	232,445
Intangible assets	19,075	1,186	1,666	21,927
Financial liabilities	18,408,539	7,657,781	3,413,302	29,479,622
Other liabilities	707,954	9,893	24,608	742,455
Funds	165,830	21,182	-	187,012
Guarantees issued	3,087,703	793,965	154,364	4,036,032
Obligations	938,156	380,173	39,022	1,357,351

5.3 EXCEPTIONAL FACTORS

In the 2013 financial year and in the period until the Prospectus Date, there were no exceptional factors which significantly influenced the activity of the Issuer and Banca Popolare di Sondrio.
Also with regards to the markets where the BPS Group operates - Italy and Switzerland - no extraordinary factors are found to have had a significant impact on the same.

5.4 ANY DEPENDENCY OF THE ISSUER ON INDUSTRIAL PROPERTY RIGHTS AND LICENSING AGREEMENTS

The Issuer declares that its own assets and/or income are not dependent on patents, licences, or industrial, commercial or financial contracts. As for the commercial contracts for distribution and/or brokering products and services related to the typical activity, the Issuer maintains standardised commercial contracts with suppliers specialised in mutual funds, pension funds, insurance policies reserved for retail customers in the scope of the so-called bank insurance, credit and debit cards, and funding of different kinds.

5.5 COMPETITIVE POSITIONING

With regard to the competitive position of the Issuer, please refer to the information provided in Paragraphs 5.1.4 and 5.2, Chapter V, Section I of this Prospectus.

CHAPTER VI - ORGANISATIONAL STRUCTURE

6.1 DESCRIPTION OF THE GROUP TO WHICH THE ISSUER BELONGS

The Issuer is the head of the Banca Popolare di Sondrio banking group, which includes the following subsidiaries:

- Banca Popolare di Sondrio (SUISSE) SA, registered office in Lugano (CH), a wholly-owned subsidiary bank under Swiss law;
- Factorit S.p.A., registered office in Milan, working in accounts receivable financing and management, 60.5% owned;
- Sinergia seconda S.r.l., registered office in Milan, a wholly-owned real estate company, mainly handling real estate used for business purposes.

In compliance with current supervisory regulations, the Issuer carries out management, coordination and control activities for the companies that belong to the banking Group.

6.2 SUBSIDIARIES OF THE ISSUER

Aside from the subsidiaries within the banking group, specified above, the Issuer controls the following companies:

- Pirovano Stelvio S.p.A., a wholly-owned company that manages hotel facilities at Passo dello Stelvio, especially used for summer skiing, registered office in Sondrio;
- Rajna Immobiliare S.r.l., 50% owned (joint control), a real estate company with registered office in Sondrio.

The Issuer also has the following indirect wholly-owned subsidiaries, through Sinergia Seconda S.r.l.:

- Immobiliare Borgo Palazzo S.r.l., a real estate company with registered office in Milan;
- Immobiliare San Paolo S.r.l., a real estate company with registered office in Milan.

Following the entry into force of IFRS 10 which updated the concept of control, the special purpose vehicle Centro delle Alpi RMBS S.r.l., established in 2011, wholly-owned by SVM Securitisation Vehicles Management S.r.l., was recorded in the area of consolidation. It was involved in a securitisation operation of performing mortgage-backed debt instruments in which bonds issued by the special purpose vehicle, both senior and junior type, were entirely subscribed for by the Parent Company. In addition, in the area of consolidation the Flex Plus and European Equity divisions of the Popso (Suisse) investment fund unit trust, a company under Luxembourg law in which the Group has a percentage of voting rights or high overall exposure to benefits and risks the conditions where verified for which the Parent Company holds the management power for the significant assets.

The area of consolidation also includes the investments over which the Parent Company exercises considerable influence in as far as the share held is between 20% and 50% or, in the case of a lesser interest, one of more of the following circumstances is present:
a) representation on the board of directors or on an equivalent body of the owned company;
b) participation in the decision-making process, including participation in decisions
relating to dividends;

c) significant transactions between the investor and the investee;
d) the exchange of management personnel;
e) the supply of essential technical information.

The ownership percentages are specified in the table below:

Name	Office	Share capital (thousands)	Percentage stake %
Alba Leasing S.p.a.	Milan	325,000	20.950
Arca Vita S.p.a.	Verona	208,279	14.837
Banca della Nuova Terra S.p.a.	Milan	50,000	19.609
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi Srgpa	Milan	5,200	19.600
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milan	75	33.333
Sofipo S.A.	Lugano	(CHF) 2,000 *	30
Acquedotto dello Stelvio S.r.l.	Bormio	21 **	27
Sifas S.p.a.	Bolzano	1,209 **	21.614

* owned by Banca Popolare di Sondrio (SUISSE) SA
** owned by Pirovano Stelvio S.p.A.

CHAPTER VII - INFORMATION ON EXPECTED TRENDS

7.1 SIGNIFICANT TRENDS IN PRODUCTION, SALES AND STOCKS, AND THE EVOLUTION OF COSTS AND SALE PRICES

The income statement results of the Banca Popolare di Sondrio banking group improved in the first quarter of 2014 with respect to 31 March 2013. This reflects the capacity of Group members to actively compete in their respective markets by gradually expanding their client bases and confirming their support for local economies. The continuation of negative economic trends is still resulting in drastic write-downs on loans. The favourable results of ordinary operations have made it possible to recognise prudent provisions and therefore effectively cover deteriorated loans.

More specifically, the income statement shows an increase in the net interest margin - due to the decline in borrowing rates applied previously and despite the significant reduction in profitability of the securities portfolio - and net commissions from services. Compared to the quarter presented for comparison, income from trading and profits on securities available for sale rose significantly. As specified above, the application of extremely prudent measurement criteria has resulted in considerable write-downs on loans. For further information on the financial performance of the Group during the first quarter of 2014 for the BPS Group, please refer to Chapter XV.

The most recent findings on the evolution of the macroeconomic and financial scenarios regarding the year to date and up to the Prospectus Date did not present changes of particular significance.
Specifically, compared to a GDP that is expected to return to positive territory, albeit to a limited extent, the level of market interest rates is expected to remain at very low levels. With regard to the bank rate differential, the same is slightly expanded, because of the decrease in interest rates applied to the collection in the face of the stability of lending rates.

7.2 INFORMATION ON ANY KNOWN TRENDS, DEMANDS, COMMITMENTS OR EVENTS THAT ARE REASONABLY LIKELY TO HAVE A MATERIAL EFFECT ON THE ISSUER´S PROSPECTS FOR AT LEAST THE CURRENT FINANCIAL YEAR

The operations of the Issuer and the Group do not bring to light current or prospective trends, commitments or events that are reasonably likely to have a material effect on performance for the current financial year, except for what is specified in paragraph 7.1 above. This is also due to the desire of the Issuer as well as the Group companies to continue to focus their attention on their respective ordinary operations, therefore in principle excluding extraordinary transactions of any type, which in any event are not currently under way or planned. The trends that may influence business management are therefore those which are common to the credit system or which could arise in that area, especially associated with the evolution of domestic and international economic trends and financial market performance.

CHAPTER VIII - PROFIT FORECASTS AND ESTIMATES

This Prospectus does not contain forecast estimates and/or profits.

The issuer wishes to point out that with regard to what was published in the business outlook in the quarterly report at 31 March 2014 and, specifically the "essential maintenance of the interest margin", this forecast - entirely indicative, as the mere extension, from a conservative perspective, of considerations of a macroeconomic nature - should not be deemed current because the economic scenarios taken as a reference express high levels of uncertainty and the same prediction does not also refer to a defined period of time and is therefore not suitable for making comparisons.
With regard to the performance of the interest margin, the spread of government bonds will make a particular contribution and, in turn, is reflected both in the cost of collection and in that of the commitment and hence in the differential between interest rates payable and receivable.

CHAPTER IX - ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

9.1 INFORMATION ON ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

9.1.1 BOARD OF DIRECTORS

Pursuant to Article 32 of the Articles of Association, “The Board of Directors consists of fifteen members elected by the Shareholders' Meeting from amongst members entitled to participate and vote in Shareholders’ Meetings. The composition of the Board of Directors must be gender-balanced in accordance with current regulations.”

Pursuant to Article 33 of the Articles of Association, “Members of the Board of Directors must fulfil the subjective requirements established by law as well as by supervisory regulations for banks. At least two directors must also fulfil the independence requirements set forth in Article 147-ter, fourth paragraph, of Legislative Decree No. 58 of 24 February 1998.”

Pursuant to Article 34 of the Articles of Association, “Directors remain in office for three financial years, without prejudice to the rotation referred to below, and may be re-elected. Directors complete their term of office on the date of the shareholders’ meeting convened to approve the financial statements relating to the last year of their term in office. One-third of the Board of Directors is appointed each financial year. In this regard, if the end of the term of office of the directors cannot be determined based on length of time in the role, it will be determined based on the drawing of lots. Directors may be removed by the Shareholders’ Meeting at any time, without prejudice to the right to compensation for damages if this removal takes place without just cause.”

On the Prospectus Date, the Issuer's Board of Directors consists of the following fifteen members:

ROLE	NAME	PLACE AND DATE OF BIRTH	END OF TERM OF OFFICE
Honorary Chairman and Director	Piero Melazzini*	Sondrio, 22/12/1930	Approval of the 2016 financial statements
Chairman	Francesco Venosta*	Sondrio, 09/11/1960	Approval of the 2015 financial statements
Vice Chairman	Lino Enrico Stoppani*	Bagnolo Mella (Bs), 22/09/1952	Approval of the 2016 financial statements
Managing Director and General Manager	Mario Alberto Pedranzini*	Bormio (So), 11/06/1950	Approval of the 2016 financial statements
Director	Claudio Benedetti	Castione Andevenno (So), 20/10/1943	Approval of the 2014 financial statements
Director	Paolo Biglioli	Sondrio, 26/01/1939	Approval of the 2016 financial statements
Director	Federico Falck	Milan, 12/08/1949	Approval of the 2015 financial statements
Director	Attilio Piero Ferrari	Novara, 20/05/1947	Approval of the 2014 financial statements
Director	Giuseppe Fontana	Monza, 04/06/1954	Approval of the 2014 financial statements
Director	Cristina Galbusera*	Morbegno (So), 30/03/1952	Approval of the 2015 financial statements
Director	Nicolò Melzi di Cusano	Milan, 12/05/1938	Approval of the 2015 financial statements
Director	Adriano Propersi	Varese, 02/10/1947	Approval of the 2014 financial statements

ROLE	NAME	PLACE AND DATE OF BIRTH	END OF TERM OF OFFICE
Director	Annalisa Rainoldi	Sondrio, 20/12/1961	Approval of the 2016 financial statements
Director	Renato Sozzani*	Pavia, 06/03/1932	Approval of the 2014 financial statements
Director	Domenico Triacca*	Switzerland, 21/01/1943	Approval of the 2015 financial statements

* members of the Chairman's Committee (Executive Committee)

CVs are provided below for the members of the Board of Directors, who are domiciled in a professional capacity at the registered office of the Company.

Piero Melazzini, Honorary Chairman and Director

After obtaining his diploma in accounting, Mr Melazzini was hired by Banca Popolare di Sondrio on 1 May 1951. He spent his entire career there, holding the positions of General Manager from 1 March 1969 to 31 December 1994, member of the Board of Directors starting in January 1987, Managing Director from 1 June 1993 to 25 June 2009 and Chairman of the Board of Directors from 1 January 1995 to 26 April 2014, the date on which he was appointed Honorary Chairman. Chairman of Banca Popolare di Sondrio (SUISSE) S.A., registered office in Lugano, from its founding (3 May 1995) to 24 February 2014, he became a director of Factorit S.p.A. on 27 July 2010, where he was appointed Vice Chairman on 24 August 2010 and where he has been Chairman since 26 October 2012; he became a member of the Board of Directors of Unione Fiduciaria on 18 April 1969, where he has been Vice Chairman since 9 May 1974. He has been an auditor of the Italian Banking Association (ABI) since 1981 and Chairman of its Board of Auditors since 30 March 1983; member of the Board of Directors from the founding (14/10/1983), and Vice Chairman from 23 April 2002, of Arca SGR S.p.A., until the end of his term of office on 29 April 2011; Statutory Auditor of Fondazione Centesimus Annus - Pro Pontifice, from its founding (5/6/1993) to 21 November 2013. Amongst other roles, he was also a member of the Board of Directors from 9 June 1995 and Vice Chairman from 19 July 1996 of Arca Vita Spa, until the end of his term of office on 26 April 2012; member of the Board of Directors and Vice Chairman of Arca Assicurazioni Spa from 6 June 1997 until the end of his term of office on 26 April 2012; member of the Board of Directors and Vice Chairman of Associazione Nazionale fra le Banche Popolari (National Association of Cooperative Banks) since 8 July 2004; member of the Board of Directors of Istituto Europeo di Oncologia Srl from 19 September 2008 to 18 April 2014.

Francesco Venosta, Chairman

After earning a degree in Law from the University of Pavia in 1983, Mr Venosta began his career as a lawyer in 1988, and in 2000 was enrolled in the Special Register of Barristers of the Supreme Court. From 1994 to 2000 he was a research associate of Institutions of private law at the faculty of law at the University of Milan. In 1999, he became adjunct professor of civil law at the faculty of law at the University of Insubria in Como and, subsequently, associate professor from 2000 to 2005; that year, at the same faculty, he became an extraordinary full professor of Institutions of private law, becoming an ordinary full professor in 2008. During the 2012/2013 academic year, he was appointed adjunct professor of Institutions of private law at the faculty of law at the State University of Milan. He has published numerous articles and legal books. Member of the municipal council of Sondrio from 1985 to 1990 and from 1994 to 2003; councillor for economic and financial planning, organisation and personnel of the same municipality from 2003 to 2007. On 26 September 2000 he was appointed member of the Board of Directors of Banca Popolare di Sondrio; he became a member of the Chairman's Committee in 2002, Vice Chairman in 2011 and Chairman in 2014. He has been Arbitrator for the Union of Artisans of the province of Sondrio since 1987 and he was a member of the Governing Board of the Italian Association of Civil Law Scholars from 2007 to 2010.

Lino Enrico Stoppani, Vice Chairman

After earning a degree in Business and Economics from Catholic University of the Sacred Heart in Milan, Mr Stoppani qualified as a board certified accountant and enrolled in the register of auditors. He was a member of the Board of Directors of Peck S.p.A. from 1990 to 2013 and, previously, of Peck Magazzini dell'Alimentazione S.p.A. He is currently Vice Chairman of the Banca Popolare di Sondrio Board of Directors, on which he has been a director since 1996. He has been a director of Factorit S.p.A. since 2010 and sole director of Sinergia Seconda S.r.l., Immobiliare Borgo Palazzo S.r.l., Immobiliare San Paolo S.r.l., Passo Pordoi S.r.l. and Angelino S.r.l. since they were founded. He also has several roles in associations and institutions, such as Chairman of EPAM - Business Association of Milan and Province, director and member of the council of the Union of Commerce, Tourism, Services and Professions of the province of Milan, Monza and Brianza and Lodi and, since 2013, executive Vice Chairman for Expo. He has been Vice Chairman of Confcommercio (Italian General Confederation of Enterprises, Professions and Self-Employment) since 2010 and since 2014 he has been on the Board of the Order of Merit for Labour, responsible for choosing Knights of Labour.

Mario Alberto Pedranzini, Managing Director and General Manager

After earning a degree in Business and Economics, Mr Pedranzini began working for Banca Popolare di Sondrio on 3 January 1977. He has spent his entire career with the bank, becoming General Manager on 3 April 1997 and Managing Director on 21 December 2012. He has held numerous roles in various companies: member of the Board of Directors of Factorit S.p.A. from 1997 to 2005 and then since 2010; member of the Board of Directors of Centrosim S.p.A. from 1997 to 2011; member of the Board of Directors of the National Association of Cooperative Banks from 1998 to 2004; member of the Board of Directors of the leasing bank, Italease S.p.A., from 2001 to 2007; member of the Board of Directors of Arca Merchant S.p.A. from 2002 to 2005; member of the Board of Directors of Etica Sgr S.p.A. from 2002 to 2011; member of the Board of Directors of Co.Ba.Po. - Consortium of Cooperative Banks since 2004; director of the Italian Banking Association (ABI) since 2004; member of the Board of Directors of Banca della Nuova Terra from 2004 to 2012; member of the Board of Directors of Sì Holding S.p.A. from 2007 to 2010; member of the Board of Directors of Cartasì S.p.A. from 2010 to 2012; member of the Board of Directors of Arca SGR S.p.A. from 2011 to 2012; member of the Board of Directors of the Central Institute of Italian Cooperative Banks from 2011 to 2012; Chairman of Banca Popolare di Sondrio (SUISSE) S.A. since 2014.

Claudio Benedetti, Director

Mr Benedetti earned a degree in Law from the University of Milan and is the General Manager of Federchimica (Italian National Federation of the Chemical Industry) and Vice Chairman of ECEG (European Chemical Employers Group) in Brussels. He has roles on Confindustria (Italian Manufacturers' Federation) commissions, committees and working groups and is a member of the board of ECEG, of AFEM (Association of Federations Members), Cefic, Brussels, and of NAB (National Association Board), Cefic, Brussels; Supervisory ReachCentrum, Brussels and member of the Steering Committee of ICCA (International Council of Chemical Associations), Cefic, Brussels. He is also Chairman of Sc Sviluppo Chimica S.p.A. and Accademia S.p.A. and Vice Chairman of Certiquality S.r.l. and Unichim - Standardisation Association for the Chemical Industry. He is a member of the Board of Directors of Banca Popolare di Sondrio scpa, Centro Reach S.r.l., SFC -

Confindustria Training Systems and Fondazione 3M and a member of the Governing Board of UNI - Italian National Standards Body. Mr Benedetti has been awarded the title of Master of Labour and is enrolled in the special list of the Milan professional register of journalists.

Paolo Biglioli, Director

Mr Biglioli has a degree in Medicine and Surgery, and he specialised in general surgery in 1967, in angiology and vascular surgery in 1970 and in cardiovascular surgery in 1976. He gained national eligibility as a general and vascular surgeon in 1971-1972 and as a cardiac surgeon in 1976. After becoming a full-time lecturer of special surgical pathology and clinical medicine at the University of Sassari in 1978, he held the roles of director of general surgery and surgical treatment at the same university and director of the Institute of the same name. In 1983 he became professor of cardiovascular surgery at the faculty of medicine at the University of Sassari, from 1985 to 2008 he was director of cardiac surgery at the faculty of medicine and surgery at the University of Milan and from 1986 to 2007 at the Post-graduate School for Specialisation in cardiac surgery. From 1988 to 2002 he was director of the Special School for Cardiovascular Physiopathology Technicians and coordinator of the graduate course in cardiovascular physiopathology and cardiovascular perfusion techniques, and from 1992 to 2001 he was director of the Cardiology Institute at the University of Milan. Founder and President, together with Professor Andrea Sala, of the Italian Bank of Allografts (BIO) since 1992, he was also scientific director of the Monzino Cardiology Centre (research hospital) from 2001 to 2011. He is currently the honorary rector of Anzhen University Hospital in the province of Anhui, China and an honorary member of the Royal Belgian Society of Surgery and the French Society of Thoracic Surgery. In 2008 he was appointed member of the Board of Directors of Banca Popolare di Sondrio, where he is a member of the Remuneration Committee, the Related-Party Transactions Committee and the Governing Board of the Assistance Fund.

Federico Falck, Director

Mr Falck earned a degree in Mechanical Engineering from the Polytechnic University of Milan and began his professional career in 1977 at Acciaierie Ferriere Lombarde Falck S.p.A. (today Falck S.p.A.). After an internship at iron and steel industry companies in the United States, he primarily worked in manufacturing and procurement in the iron and steel business. He was Procurement Director for many years, and later he was appointed General Manager. He is currently Chairman of the Board of Directors of Falck Renewables S.p.A., a Falck Group company listed on the Milan Stock Exchange (STAR segment), and he is a member of the Board of Directors of Falck S.p.A., Banca Popolare di Sondrio scpa, Italcementi S.p.A. and Avvenire Nuova Editoriale Italiana S.p.A. He is also Regional Director of Ucid (Christian Union of Entrepreneurs and Executives), member of the council of the Governing Board of the Assolombarda regional business association, director of Fondazione Sodalitas and member of the Board of Directors of Fondazione Centesimus Annus. He has held several positions in companies and banks.

Attilio Piero Ferrari, Director

Mr Ferrari earned a degree in Business and Economics from Bocconi University in Milan, and also has a Master's degree in international finance from Ecole S. de Commerce in Paris. He is a board certified accountant and official auditor. He worked in the finance department of the company Ing. C. Olivetti di Ivrea from 1971 to 1975, and then at Finanziaria Tinove from 1976 to 1978, Alitalia from 1978 to 1979 and La Centrale Finanziaria Generale from 1979 to 1983. He was General Manager from the founding (1984) and Chief Executive Officer from 2000, of Arca s.g.r. S.p.A., until his retirement in 2010. He has held several other professional positions in companies such as: Zucchi S.p.A., Arca Vita S.p.A., Arca Banca S.p.A. and Assogestioni. He is a member of the Board of Directors of Banca Popolare di Sondrio scpa.

Giuseppe Fontana, Director

Mr Fontana has a degree from Luigi Bocconi University in Milan. He began working at the family business, Fontana Luigi S.p.A. in Veduggio, during his years as a student, and later became a full-time employee. Today, the company has become the Fontana Group, an international leader in the manufacture of standard and custom fasteners. Besides being Vice Chairman of Fontana Finanziaria S.p.A., the Group's holding company, Mr Fontana has several other positions in Group companies and is a member of the Board of Directors of Banca Popolare di Sondrio scpa. He has been on the Governing Board of Federmeccanica (Italian Federation of Metalworking Industries) since 1999 as permanent invited member representing Confindustria of Monza and Brianza and he was a member of the Council from 1995 to 2012. He was Vice Chairman of Confindustria of Monza and Brianza from 1995 to 2009, and he is still a director of that organisation today. Mr Fontana was Chairman of Confindustria of Lombardy and a member of the Board and Council of Confindustria of Rome from 2005 to 2009. For many years he was also a member of the Board of Directors of the SanPaolo Institute in Turin and Chairman of the Audit Committee and Managing Director of Banca Intesa SanPaolo.

Cristina Galbusera, Director

Ms Galbusera has a diploma in accounting and in November 1972 she began working at the family business, Galbusera S.p.A., in the various areas of the business (procurement department, secretarial office, accounts payable and general accounting, cash and banks office, production cost assessment and planning). Director at Galbusera S.p.A. since 1 June 1990, she has been a member of the Board of Directors since 26 January 2010. She is also a member of the Board of Directors of Esprinet SpA IT & Consumer Electronics Wholesaler and sole director of Quattrosorelle Srl and Unigal Srl, the family real estate companies. Chairman of Confindustria of Sondrio since 26 July 2013, she is also Chairman of the grocer's section of Confindustria of Sondrio and a member of the Board of Directors of Confindustria of Sondrio Services. She was a member of the Board of Directors of the Bank of Italy of Sondrio until 31 December 2011. She has been a member of the Board of Directors of Banca Popolare di Sondrio since 2012.

Nicolò Melzi di Cusano, Director

Mr di Cusano has a degree in Business and Economics and has spent his entire career at Banca Italease S.p.A., where he held the roles of General Manager from 1985 to 1999, member of the Board of Directors from 1999 to 2007, Managing Director from 1999 to 2002 and Chairman from 2002 to 2005. He was also Chairman of Itaca Service S.p.A., Essegibi S.p.A. and Italease Network S.p.A. from 2002 to 2005; Vice Chairman of Assilea from 2000 to 2005; director of the Italian Banking Association (ABI) from 2002 to 2005 and Alternate Auditor of Factorit S.p.A. from 1991 to 1996. He is currently a member of the Board of Directors of Banca Popolare di Sondrio (since 1992), Alternate Auditor of Unione Fiduciaria S.p.A. (since 2002) and Chairman of Medicus S.r.l. (since 1998).

Adriano Propersi, Director

Mr Propersi earned his degree in Business and Economics from the Università Cattolica del Sacro

Cuore (Catholic University of the Sacred Heart) in 1971, and has been enrolled in the register of board certified accountants since 1972. He is also enrolled in the register of auditors. He has his own professional office in Milan. Associate professor of business economics at the Polytechnic University of Milan, he has worked at that university since 1974 and at the Catholic University since 1971. He has authored several publications. Today, he is a member of the Board of Directors of Banca Popolare di Sondrio and also holds roles in various companies, including: Chairman of the Board of Directors of Imi Fabi S.p.A., Chairman of the Board of Statutory Auditors of Tecnocasa Partecipazioni S.p.A. and Statutory Auditor of Saipem S.p.A.

Annalisa Rainoldi, Director

Ms Rainoldi earned a degree in Business and Economics from the Università Cattolica del Sacro Cuore (Catholic University of the Sacred Heart) in Milan. In June 1985 she joined the family business, Rainoldi Legnami snc, where she has held roles of increasing responsibility and where she became a director in April 1988. She was director of Progetto Legno S.r.l. (later incorporated into Rainoldi Legnami snc) from 1997 to 2013 and director of Teleriscaldamento - Coogenerazione Valcamonica, Valtellina, Valchiavenna from 1999 to 2007. She has been a director of Rainoldi Mac S.r.l. since 2007, of Proenergia S.r.l. since 2011 and of Banca Popolare di Sondrio scpa since 2014.

Renato Sozzani, Director

An important figure in the hotel and tourism industry in the province of Sondrio, Mr Sozzani has held numerous positions in that industry, including President of business concerns from 1963 to 1976 and of the Hoteliers Association of the province of Sondrio from 1976 to 1991, and director of the Provincial Tourism Organisation from 1972 to 1989. He was also Chairman of the Union of Commerce, Tourism and Services of the province of Sondrio from 1989 to 2001 and of the Chamber of Commerce of Sondrio from 1998 to 2003, Vice Chairman of Bormio Terme S.p.A. and director of Società di Sviluppo Locale S.p.A. He is currently a member of the Board of Directors and of the Chairman's Committee of Banca Popolare di Sondrio, Chairman and Chief Executive Officer of Pirovano S.p.A. and director of La Provincia S.p.A., which publishes the newspaper of the same name in the provinces of Como, Sondrio, Lecco, Monza and Varese. Lastly, amongst his other roles, he is Honorary Chairman of the Hoteliers Association of the province of Sondrio and of the Union of Commerce, Tourism and Services of the province of Sondrio.

Domenico Triacca, Director

Mr Triacca has a diploma in accounting from the Mari Hilf school in Schwyz. He also audited a course in viticulture and wine-making in Alba and spent his last semester at the Wädenswil School of Oenology (Zurich). In 1965, he joined the family business Fratelli Triacca AG of Brusio/Campascio in which, after a period of time working closely with his father and other family members, he took over technical management in Italy halfway through the 1970s. He led the expansion of the business in Tuscany as well after the acquisition of Fattoria La Madonnina which, in just a few years, became a considerably sized company with a very well-equipped cellar for the vinification and ageing of Chianti Classico, to which another winemaker in Montepulciano was added in 1991. He retired in June 2008. He currently works alongside his son Marco managing a small winemaking company. He was one of the founding members of CERVIM (research centre for mountain viticulture, headquartered in Aosta) and for a few years was also the Chairman of Provinea, a foundation established to contribute to the defence of the land and the dissemination of the image of Valtellina. He has been a director of Banca Popolare di Sondrio since 2010.

None of the members of the Board of Directors has any family ties with other members of the Board of Directors or the senior managers of the Issuer.

The companies in which the members of the Board of Directors have held (in the last five years) or hold positions on the administration, management or control bodies, and of which they have been (in the last five years) or are members are listed below.

Piero Melazzini, Honorary Chairman and Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Factorit S.p.A.	Chairman of the Board of Directors	in office
Unione Fiduciaria S.p.A.	Vice Chairman	in office
Banca Popolare di Sondrio (SUISSE) SA	Chairman of the Board of Directors	no longer in office
Arca Assicurazioni S.p.A.	Vice Chairman	no longer in office
Arca Vita S.p.A.	Vice Chairman	no longer in office
Istituto Europeo di Oncologia S.r.l.	Director	no longer in office
Meliorbanca S.p.A.	Director	no longer in office
Unione Gestioni SIM S.p.A.	Director	no longer in office
Abiservizi S.p.A.	Chairman of the Board of Statutory Auditors	no longer in office
Bancaria Immobiliare S.p.A.	Chairman of the Board of Statutory Auditors	no longer in office

Francesco Venosta, Chairman

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Ser. Pro. Servizi Professionali S.r.l.	Director/Member	in office/member

Lino Enrico Stoppani, Vice Chairman

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Factorit S.p.A.	Director	in office
Immobiliare Borgo Palazzo S.r.l.	Sole Director	in office
Immobiliare San Paolo S.r.l.	Sole Director	in office
Passo Pordoi 5 S.r.l.	Sole Director	in office
Sinergia Seconda S.r.l.	Sole Director	in office
Peck S.p.A.	Director	no longer in office
Angelino S.r.l.	Member	no longer a member

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Francesco S.r.l.	Member	no longer a member

Mario Alberto Pedranzini, Managing Director and General Manager

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Factorit S.p.A.	Director	in office
Banca Popolare di Sondrio (SUISSE) SA	Chairman of the Board of Directors	in office
Arca SGR S.p.A.	Vice Chairman	no longer in office
Banca della Nuova Terra S.p.A.	Director	no longer in office
Cartasi S.p.A.	Director	no longer in office
Centrosim S.p.A.	Director	no longer in office
Etica SGR S.p.A.	Director	no longer in office
Istituto Centrale delle Banche Popolari Italiane S.p.A.	Director	no longer in office
SI Holding S.p.A.	Director	no longer in office

Claudio Benedetti, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Accademia S.p.A.	Chairman of the Board of Directors	in office
SC Sviluppo Chimica S.p.A.	Chairman of the Board of Directors	in office
Certiquality S.r.l.	Vice Chairman	in office
Centro Reach S.r.l.	Director	in office
SFC Sistemi Formativi Confindustria scpa	Director	in office

Paolo Biglioli, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Centro Cardiologico Monzino S.p.A.	Director/Scientific Director	no longer in office

Federico Falck, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Falck Renewables S.p.A.	Chairman of the Board of Directors	in office
Avvenire Nuova Editoria S.p.A.	Director	in office
Falck S.p.A.	Director	in office
Italcementi S.p.A.	Director	in office
Afl società semplice	Member	member
Finmeria S.r.l.	Member	member
Falck Energy S.p.A.	Chairman of the Board of Directors	no longer in office
Riesfactoring S.p.A.	Chairman of the Board of Directors	no longer in office

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Cassa di Risparmio di Parma e Piacenza S.p.A.	Director	no longer in office
Falck Renewables Wind Ltd	Director	no longer in office

Attilio Piero Ferrari, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Arca SGR S.p.A.	Chief Executive Officer	no longer in office

Giuseppe Fontana, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
F.D.M. S.r.l.	Chairman of the Board of Directors	in office
Fontana Fasteners Italia S.p.A.	Chairman of the Board of Directors	in office
Immobiliare Da Vinci S.r.l.	Chairman of the Board of Directors	in office
Lobo S.p.A.	Chairman of the Board of Directors	in office
Meridbulloni S.p.A.	Chairman of the Board of Directors	in office
Fontana America Inc.	Chairman of the Board of Directors	in office
Fontana Finanziaria S.p.A.	Vice Chairman/Member	in office/member
Loris Fontana e C. sapa	Vice Chairman/Member	in office/member
Società per azioni Villa d'Este	Vice Chairman	in office
Bulloneria Briantea S.p.A.	Chief Executive Officer	in office
Fontana Fastners R.D. S.r.l.	Chief Executive Officer	in office
Fontana Fasteners SA - Iberica	Chief Executive Officer	in office
Fontana Luigi S.p.A.	Chief Executive Officer	in office
Industria Bullonerie Speciali S.r.l.	Chief Executive Officer	in office
Commercio Veneta Bullonerie S.r.l.	Director	in office
Fire S.p.A.	Director	in office
Fontana Fasteners UK	Director	in office
Sofind International Holding BV	Director	in office
Sofind SA	Director	in office
CF Investimenti S.r.l.	Member	member
C.F.O. SIM S.p.A.	Member	member
Gisa S.r.l.	Member	member
Finanziaria Lago S.p.A.	Member	member
Parco Immobiliare S.p.A.	Member	member
Re.Vi.Fa. S.p.A.	Member	member

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Uni Investimenti S.r.l.	Member	member
Fontana R.D. S.r.l.	Chairman of the Board of Directors	no longer in office
Fontana USA Inc.	Chairman of the Board of Directors	no longer in office
Intesa Sanpaolo S.p.A.	Managing Director	no longer in office
Bulloneria Barge S.p.A.	Chief Executive Officer	no longer in office
Bulloneria Galvani S.r.l.	Chief Executive Officer	no longer in office
Finlobo S.p.A.	Chief Executive Officer	no longer in office
Banca Fideuram S.p.A.	Director	no longer in office
Be.Ve.Re.Co. S.r.l.	Director	no longer in office
Parcam S.r.l.	Director	no longer in office

Cristina Galbusera, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Confindustria Sondrio Servizi S.r.l.	Director	in office
Esprinet S.p.A.	Director	in office
Galbusera S.p.A.	Director	in office
Quattrosorelle S.r.l.	Sole Director/Member	in office/member
Unigal S.r.l.	Sole Director/Member	in office/member

Nicolò Melzi di Cusano, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Medicus S.r.l.	Chairman of the Board of Directors	in office

Adriano Propersi, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
IMI Fabi S.p.A.	Chairman of the Board of Directors	in office
Accademia S.p.A.	Chairman of the Board of Statutory Auditors	in office
Bea Ingranaggi S.p.A.	Chairman of the Board of Statutory Auditors	in office
Certiquality S.r.l.	Chairman of the Board of Statutory Auditors	in office
Immobiliare Giulini Tre S.p.A.	Chairman of the Board of Statutory Auditors	in office
Kiron Partner S.p.A.	Chairman of the Board of Statutory Auditors	in office
La Ducale S.p.A.	Chairman of the Board of Statutory Auditors	in office

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Miba S.r.l.	Chairman of the Board of Statutory Auditors	in office
SC Sviluppo Chimica S.p.A.	Chairman of the Board of Statutory Auditors	in office
Tecnocasa Franchising S.p.A.	Chairman of the Board of Statutory Auditors	in office
Tecnocasa Partecipazioni S.p.A.	Chairman of the Board of Statutory Auditors	in office
Tecnomedia S.r.l.	Chairman of the Board of Statutory Auditors	in office
Trade & Partners S.p.A.	Chairman of the Board of Statutory Auditors	in office
Abac S.p.A.	Auditor	in office
Saipem S.p.A.	Auditor	in office
Atlas Copco Blm S.r.l.	Statutory Auditor	in office
Feem Servizi S.r.l.	Statutory Auditor	in office
Roseto S.r.l.	Statutory Auditor	in office
Atlas Copco Italia S.p.A.	Alternate Auditor	in office
Banca Albertini Syz & C. S.p.A.	Alternate Auditor	in office
G.B.L. Fiduciaria S.p.A.	Alternate Auditor	in office
Leo Burnett Company S.r.l.	Alternate Auditor	in office
Tecnocasa International S.p.A.	Alternate Auditor	in office
Proma S.r.l.	Member	member
Family Partners S.p.A.	Chairman of the Board of Statutory Auditors	no longer in office
Raffineria di Gela S.p.A.	Chairman of the Board of Statutory Auditors	no longer in office
Seacom S.p.A.	Chairman of the Board of Statutory Auditors	no longer in office
Tecnocasa Holding S.p.A.	Chairman of the Board of Statutory Auditors	no longer in office
A.T. Kearney S.p.A.	Statutory Auditor	no longer in office
Eni Gas & Power Belgium S.p.A.	Statutory Auditor	no longer in office
Unicredit Business Partner scpa	Statutory Auditor	no longer in office

Annalisa Rainoldi, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Rainoldi Mac S.r.l.	Chairman of the Board of Directors/	in office/member

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
	Member	
Proenergia S.r.l.	Director	in office
Rainoldi Legnami S.r.l.	Director	in office
Progetto Legno S.r.l.	Director	no longer in office

Renato Sozzani, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Pirovano Stelvio S.p.A.	Chairman of the Board of Directors	in office
La Provincia S.p.A. - Editoriale	Director	in office
Vittoria di Sozzani e Giana snc	Member	member
Bormio Terme S.p.A.	Vice Chairman	no longer in office

Domenico Triacca, Director

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Fratelli Triacca sa	Director	no longer in office

To BPS's knowledge, in the past five years none of the members of the Issuer's Board of Directors: (i) has been found guilty of fraud; (ii) has been declared bankrupt or subject to insolvency proceedings or been involved in bankruptcy trials, receiverships or compulsory liquidations in the fulfilment of their tasks; or (iii) has been officially charged and/or fined by public or regulatory authorities (including the relative professional associations) or banned by a court from holding administrative, managerial or supervisory roles with regard to the Company or carrying out management or operational duties for any issuer.
It should be noted that, in addition to the above-mentioned five-year period, the administrative financial penalty, pursuant to Consob resolution No. 16651 of 8 October 2008, resulting from the supervisory activities conducted by the actual Authority into Banca Italease S.p.A., applied with regard to the 22 company representatives of the same Banca Italease including the current directors of the Issuer Dr Mario Alberto Pedranzini and Dr Nicolò Melzi di Cusano respectively fined €102,500 and €89,800 relating to the office of director in Banca Italese S.p.A, in the period in question. An appeal is currently pending at the Court of Cassation relating to the violations which were not granted an acquittal at previous judgments.

Also note that the director Professor Adriano Propersi was the recipient of a Consob challenge on 20 June 2013, sent to the Board of Statutory Auditors of Saipem S.p.A. and to the actual company as a former statutory auditor of Saipem, in relation to alleged violations, by said Board of Statutory Auditors, pursuant to Article 149, paragraph three of the TUF (failure to declare irregularities discovered to Consob, a violation punishable with an administrative fine). Following defence briefs and hearings by the above-mentioned Board of Statutory Auditors, which contest the findings, the proceedings are currently in the phase of being defined.

The Board of Directors includes the following committees made up of independent, non-executive directors, whose functions are governed by the respective regulations.

Related-Party Transactions Committee:

This committee is made up of three directors who are appointed each year by the Board of Directors at the first board meeting subsequent to the Ordinary Shareholders' Meeting. The members elect their own chairman. The following directors are currently on the committee:

- Adriano Propersi, chairman;
- Nicolò Melzi di Cusano, member;
- Paolo Biglioli, member.

With respect to the provisions of CONSOB Regulation No. 17221/2010 as amended, the rules pursuant to Bank of Italy Circular No. 263/2006 and the Internal Regulation, the Related-Party Transactions Committee mainly:

- analyses and provides a reasoned opinion to the Board of Directors on the suitability of the procedures prepared by the bank to ensure the transparency and substantive and procedural fairness of transactions implemented by the directors, statutory auditors, members of the general management and other parties indicated in the afore-mentioned regulations (related parties and associated parties);
- analyses and provides a reasoned opinion to the Board of Directors on the bank's interest in carrying out the transactions implemented by the afore-mentioned parties, which are of greater importance or of lesser importance and not excluded by the procedures, as well as on the cost-effectiveness and substantive fairness of the relative conditions;
- collaborates with the compliance department in preparing quarterly reporting on the afore-mentioned transactions to be submitted to the Board of Directors and to the Board of Statutory Auditors;
- every six months, acknowledges the disclosure provided in the bank's annual financial statements and in the consolidated half-yearly report concerning related-party transactions.

Remuneration Committee:

This committee is made up of three directors who are appointed each year by the Board of Directors at the first board meeting subsequent to the Ordinary Shareholders' Meeting. The members elect their own chairman. The following directors are currently on the committee:

- Nicolò Melzi di Cusano, chairman;
- Paolo Biglioli, member;
- Adriano Propersi, member.

With respect to the Bank of Italy's “Provisions on remuneration and incentive policies and practices in banks and banking groups” and the Internal Regulation, the Remuneration Committee primarily:

- provides advice and suggestions on the compensation of officers and managers of the internal control functions;
- plays an advisory role in the determination of criteria for the remuneration of the most important personnel, including of companies within the Group;
- directly supervises the correct application of rules relating to the remuneration of managers of internal control functions, in close connection with the Board of Statutory Auditors;

- provides an assessment on the achievement of performance targets linked to the variable portion of remuneration for members of the General Management and executives.

Control and Risk Committee:

This committee has from three to five directors who are appointed each year by the Board of Directors at the first board meeting subsequent to the Ordinary Shareholders' Meeting. The members elect their own chairman.

The following directors are currently on the committee:

- Adriano Propersi, chairman;
- Nicolò Melzi di Cusano, member;
- Paolo Biglioli, member;
- Attilio Ferrari, member.

With respect to the provisions of the Bank of Italy supervisory regulations and the Internal Regulation, the Control and Risk Committee primarily:

- supports the Board of Directors in determining the guidelines of the internal control and risk management system and in the associated periodic verification of the adequacy and functioning of that system;
- supports the Board of Directors in defining the risk appetite, the periodic monitoring of risk exposure and the preventive assessment of entry into new markets, the launch of new, particularly significant activities and the offer of new products;
- verifies compliance by the internal control functions with the guidelines adopted by the Board of Directors with respect to such functions, and examines their planned activities and annual reports.

9.1.2 BOARD OF STATUTORY AUDITORS

Pursuant to Article 48 of the Articles of Association, "The Board of Statutory Auditors consists of three statutory auditors and two alternates, who may or may not be members, elected by the Ordinary Shareholders' Meeting which also appoints the chairman of that Board. The statutory auditors remain in office for three financial years until the date of the Shareholders' Meeting convened to approve the financial statements for the last year of their appointment, and they may be re-elected. Statutory auditors may be removed by the Shareholders' Meeting only for just cause. The resolution for their removal must be approved by the court, after consulting with the party concerned. Causes for ineligibility and disqualification are set forth by law as well as in Article 17 above. In any event, the statutory auditors may not take on roles in bodies other than control bodies at other Group companies or at companies in which the bank holds, even indirectly, a strategic shareholding. Persons that have exceeded the limits on the number of administration and control offices that may be held by one person as set forth by law and the associated implementing regulations, or who are members of administrative or control bodies of other banks, with the exception of category institutes and investees, may not hold the role of statutory auditor. The statutory auditors must also fulfil the requirements of integrity, professionalism and independence laid down by current laws. The composition of the Board of Statutory Auditors must be gender-balanced in accordance with current regulations."

All members of the Board of Statutory Auditors fulfil the independence requirements pursuant to

Article 148, third paragraph of the Consolidated Finance Law.

On the Prospectus Date, the Issuer's Board of Statutory Auditors consists of the following five members:

ROLE	NAME	PLACE AND DATE OF BIRTH	END OF TERM OF OFFICE
Chairman	Piergiuseppe Forni	Sondrio, 21/12/1947	Approval of the 2014 financial statements
Statutory Auditor	Pio Bersani	Carmagnola (To), 28/02/1935	Approval of the 2014 financial statements
Statutory Auditor	Mario Vitali	Morbegno (So), 24/11/1954	Approval of the 2014 financial statements
Alternate Auditor	Bruno Garbellini	Tirano, 29/06/1967	Approval of the 2014 financial statements
Alternate Auditor	Daniele Morelli	Sondrio, 14/04/1960	Approval of the 2014 financial statements

CVs are provided below for the members of the Board of Statutory Auditors. All members of the Board of Statutory Auditors domiciled in a professional capacity at the registered office of the Company.

Piergiuseppe Forni, Chairman

Mr Forni earned a degree in Mathematics from the University of Milan in 1971 and qualified as a mathematics and physics teacher in 1974. He was a secondary school mathematics and physics teacher from 1973 to 2006. He has been enrolled in the register of auditors since 1995. He was a Statutory Auditor of Banca Popolare di Sondrio from 1983 to 2012, the year he was appointed Chairman of the Board of Statutory Auditors. He has also been Chairman of the Board of Statutory Auditors of Pirovano Stelvio S.p.A. since 2013, and Statutory Auditor of Sinergia Seconda S.r.l. since 2002 and of Società di Sviluppo Locale S.p.A. since 2009. He was Chairman of the Board of Statutory Auditors of Ripoval S.p.A. from 2005 to 2008 and Statutory Auditor of Pirovano Stelvio Spa from 2003 to 2012. Member of the municipal council of Sondrio from 2008 to 2011.

Pio Bersani, Statutory Auditor

After earning a degree in Business and Economics, Mr Bersani earned a post-graduate diploma in business management and qualified as a board certified accountant and auditor. He worked at Arthur Andersen & Co. from 1960 to 1973. Director of IFI S.p.A. responsible for control and supervision over the foreign holdings of IFI International from 1974 to 1976, he was director of Administrative Management at Fiat S.p.A. from 1977 to 1979, where he reported directly to the Chief Executive Officer. He acted as a management consultant from 1980 to 2000 as the Chief Executive Officer of Bersani-Vitale S.r.l., of which he was also a founding member with Prof. Marco Vitale. Besides running his own office, he has also been a member of the professional organisation DCA (Associated Accountants) since 2001. He is currently a Statutory Auditor of Banca Popolare di Sondrio scpa, Factorit S.p.A. and Sinergia Seconda S.r.l., and Chairman of the Board of Statutory Auditors of Unione Property S.p.A.

Mario Vitali, Statutory Auditor

Mr Vitali earned a degree in Political Economy from Luigi Bocconi University in 1978, and he has been enrolled in the register of auditors since 1987 and in the order of board certified accountants and accounting professionals for the province of Sondrio since 1980. Co-owner of the "Studio Vitali Dottori Commercialisti" accounting firm since 1980, with offices in Sondrio, Tirano and Morbegno, in his thirty years of professional activity he has carried out assurance and advisory roles in the areas of accounting, taxes and corporate affairs for his firm's clientele, primarily in the province of Sondrio. He has held numerous positions as either Chairman or member of the Board of Statutory Auditors of commercial and financial companies, including: Chairman of the Board of Statutory Auditors for over ten years of Consorzio Collettiva Fidi tra le piccole e medie industrie della Provincia di Sondrio scrl (credit Guarantee Consortium for small and medium enterprises of the province of Sondrio) and Artigiana cooperativa di garanzia e fidi della Provincia di Sondrio società cooperativa (artisans' cooperative of guarantees and credit of the province of Sondrio). He currently holds several positions, including director of Società Elettrica in Morbegno Società cooperativa per azioni, Chairman of Sinergia Seconda S.r.l., Chairman of the Board of Statutory Auditors of Latteria Sociale Valtellina sca, and Statutory Auditor of Banca Popolare di Sondrio scpa, Alba Leasing S.p.A., Factorit S.p.A., Federfidi Lombardia scrl, Free Work Servizi S.r.l. and Ring Mill S.p.A.

Bruno Garbellini, Alternate Auditor

Mr Garbellini has a degree in Business and Economics from the Università Cattolica del Sacro Cuore (Catholic University of the Sacred Heart) in Milan. He has been enrolled in the order of board certified accountants of Sondrio since 1995 and in the single register of auditors since 1999. He is also an expert witness for the Court of Sondrio, and he has been enrolled in the list of auditors of local authorities since 2013. After a brief period of employment with Banca Popolare di Sondrio at a local branch and at the Rome head office, he worked at a professional firm specialised in corporate and tax matters located in the province of Varese. He has owned his own firm in Tirano since 1998 and another firm with partners in Milan since 2009. He has been an alternate auditor of Banca Popolare di Sondrio since 2013.

Daniele Morelli, Alternate Auditor

Mr Morelli earned a degree in Business Economics with a specialisation in accounting from Luigi Bocconi University in Milan in 1987, and he has been enrolled in the register of board certified accountants of the province of Sondrio since January 1997, in the register of auditors since November 1999 and in the register of expert witnesses at the Court of Sondrio since November 2000. After beginning his career working in administration at Banca Popolare di Sondrio from July 1987 to February 1988, from March 1988 to October 1996 he was employed by Autoleasing Valtellinese Spa and then by Finauto Valtellinese Srl, initially as a member of the office staff and later on as administrative director and finally as general attorney. From October 1996 to March 1998 he worked at Studio Commercialisti Vitali accounting firm in Sondrio specialising in accounting, tax and bankruptcy matters and was also responsible for initiating and handling labour requirements and advisory services. From March 1998 to March 1999 he was the administrative director of the Impresa Castelli Ing. Leopoldo Spa group in Morbegno. Since April 1999 he has worked as a board certified accountant, primarily providing advisory services to companies in the province, and he opened his own office in Sondrio in July 2000. He is a Statutory Auditor and auditor for local companies and authorities. He has been secretary of the order of board certified accountants and accounting professionals since January 2008 and auditor of the municipality of Sondrio since September 2009. He has been an alternate auditor of Banca Popolare di Sondrio since 2012.

None of the members of the Board of Statutory Auditors has any family ties with other members of the Board of Statutory Auditors or with members of the Board of Directors or the senior managers of the Issuer.

The companies in which the members of the Board of Statutory Auditors have held (in the last five years) or hold positions on the administration, management or control bodies, and of which they have been (in the last five years) or are members are listed below.

Piergiuseppe Forni, Chairman

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Pirovano Stelvio S.p.A.	Chairman of the Board of Statutory Auditors	in office
Sinergia Seconda S.r.l.	Statutory Auditor	in office
Società di Sviluppo Locale S.p.A.	Auditor	in office

Pio Bersani, Statutory Auditor

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Unione Property S.p.A.	Chairman of the Board of Statutory Auditors	in office
Factorit S.p.A.	Statutory Auditor	in office
Sinergia Seconda S.r.l.	Statutory Auditor	in office
Pirovano Stelvio S.p.A.	Alternate Auditor	in office
Dottori Commercialisti associati società professionale	Member	member
Arca SGR S.p.A.	Director	no longer in office
Polis Fondi SGR pa	Director	no longer in office
Brm S.r.l.	Chairman of the Board of Statutory Auditors	no longer in office
MTM S.r.l.	Chairman of the Board of Statutory Auditors	no longer in office
Zavoli S.r.l.	Statutory Auditor	no longer in office
Etica SGR S.p.A.	Statutory Auditor	no longer in office
Imi Holding Italia S.p.A.	Statutory Auditor	no longer in office
Inarcheck S.p.A.	Statutory Auditor	no longer in office
Starcell S.p.A.	Alternate Auditor	no longer in office

Mario Vitali, Statutory Auditor

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Società Elettrica in Morbegno scpa	Director	in office
Sinergia Seconda S.r.l.	Chairman of the Board of Statutory Auditors	in office

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Latteria di Delebio sca	Chairman of the Board of Statutory Auditors	in office
Pezzini S.p.A.	Chairman of the Board of Statutory Auditors	in office
Alba Leasing S.p.A.	Statutory Auditor	in office
Edil-Strade Valtellina scc	Auditor	in office
El. It. E. S.p.A.	Statutory Auditor	in office
Factorit S.p.A.	Statutory Auditor	in office
Federfidi Lombardia S.r.l. consortile	Auditor	in office
Free Work Servizi S.r.l.	Statutory Auditor	in office
Micro Mill S.p.A.	Statutory Auditor	in office
Ring Mill S.p.A.	Auditor	in office
Rubiera Special Steel S.p.A.	Statutory Auditor	in office
Siderval S.p.A.	Statutory Auditor	in office
Datavit S.r.l.	Member	member
Balgera S.r.l.	Chairman of the Board of Statutory Auditors	no longer in office
Carpenteria Leggera Aerotermica S.r.l.	Chairman of the Board of Statutory Auditors	no longer in office
Lattesì Valtellina sca	Chairman of the Board of Statutory Auditors	no longer in office
Bio Energia Villa S.r.l.	Statutory Auditor	no longer in office
Sandrini Costruzioni S.r.l.	Statutory Auditor	no longer in office

Bruno Garbellini, Alternate Auditor

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Edilnord S.r.l. in liquidation	Chairman of the Board of Statutory Auditors	in office
Industria Legnami tirano S.r.l.	Chairman of the Board of Statutory Auditors	in office
Società di Depurazione Media Valle S.p.A.	Chairman of the Board of Statutory Auditors	in office
Baradello 2000 S.p.A.	Auditor	in office
Colavev sca	Statutory Auditor	in office
Fratelli Pedrotti in liquidation	Statutory Auditor	in office
La Fonte S.r.l.	Statutory Auditor	in office
Legnotech S.p.A.	Statutory Auditor	in office
Marmipedrotti Graniti S.p.A. in liquidation	Statutory Auditor	in office
Prime Group International S.p.A.	Statutory Auditor	in office
S.C.I.S. Caterina Impianti S.p.A.	Statutory Auditor	in office

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Bormio Golf S.p.A.	Alternate Auditor	in office
Centro Distribuzione Utensili scpa	Alternate Auditor	in office
Goppion S.p.A.	Alternate Auditor	in office
Ti. Ge. Co. S.r.l.	Member	member
Azienda Energetica Valtellina Valchiavenna S.p.A.	Director	no longer in office
Servizi Pubblici Locali Tirano S.r.l.	Director	no longer in office
Tank SGR S.p.A.	Director	no longer in office
Montagne di Valfurva S.r.l.	Statutory Auditor	no longer in office
Sarca 16 S.r.l.	Statutory Auditor	no longer in office

Daniele Morelli, Alternate Auditor

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Balgera S.r.l.	Sole Auditor	in office
Giamarca S.r.l.	Statutory Auditor	in office
Ing. Leopoldo Castelli S.p.A. Costruzioni	Auditor	in office
Pirovano Stelvio S.p.A.	Statutory Auditor	in office
Faggi Farma S.r.l.	Statutory Auditor	no longer in office
Samas Italy S.r.l.	Statutory Auditor	no longer in office
Sandrini Costruzioni S.r.l.	Statutory Auditor	no longer in office
Società Depurazione Sondrio e Uniti S.p.A.	Statutory Auditor	no longer in office

To BPS's knowledge, in the past five years none of the members of the Issuer's Board of Statutory Auditors: (i) has been found guilty of fraud; (ii) has been declared bankrupt or subject to insolvency proceedings or been involved in bankruptcy trials, receiverships or compulsory liquidations in the fulfilment of their tasks; or (iii) has been officially charged and/or fined by public or regulatory authorities (including the relative professional associations) or banned by a court from holding administrative, managerial or supervisory roles with regard to the Company or carrying out management or operational duties for any issuer.

It should be noted that, in addition to the above-mentioned five-year period, the administrative financial penalty, pursuant to Consob resolution No. 16651 of 8 October 2008, resulting from the supervisory activities conducted by the actual Authority into Banca Italease S.p.A., applied with regard to the 22 company representatives of the same Banca Italease including the current statutory auditor of the Issuer Dr Pio Bersani, fined €89,800 relating to the office of statutory auditor at Banca Italese S.p.A, in the period in question. An appeal is currently pending at the Court of Cassation relating to the violations which were not granted an acquittal at previous judgments.

9.1.3 ARBITRATION BOARD

The same is comprised of three members and two alternates, elected by the Ordinary Shareholders' Meeting from among the members.
Their office shall last for three years, to expire at the Shareholders' Meeting called for the approval of the financial statements for the third year in office, they can be re-elected and provide their services free of charge, except for reimbursement for expenses. Their withdrawal must be properly justified.

At the date of this Prospectus, the Issuer's Arbitration Board is comprised of the following five members.

ROLE	NAME	PLACE AND DATE OF BIRTH	END DATE FOR ROLE
Standing arbitrator	Alberto Crespi	Milan, 01/05/1923	Approval of 2015 financial statements
Standing arbitrator	Giuseppe Guarino	Naples, 15/11/1922	Approval of 2015 financial statements
Standing arbitrator	Andrea Monorchio	Reggio Calabria, 24/6/1939	Approval of 2015 financial statements
Alternate arbitrator	Diana Bracco	Milan, 03/07/1941	Approval of 2015 financial statements
Alternate arbitrator	Antonio La Torre	Messina, 01/03/1928	Approval of 2015 financial statements

The Arbitration Board shall decide—according to equity and by an absolute majority, without recourse to procedural formalities—on any dispute that may arise between the company and the shareholders and between the shareholders themselves in relation to the interpretation or application of the Articles of Association and any other resolution or decision of the Company Bodies regarding company relations, except for disputes relating to the rejection of applications for admission to the company and the exclusion of shareholders, on which the Arbitration Board shall decide based on the applications for review referred to in Articles 11 and 17 of the Articles of Association.

9.1.4 GENERAL MANAGEMENT AND SENIOR MANAGERS

Pursuant to Article 55 of the Articles of Association, "The general management consists of the General Manager and the other members appointed by the Board of Directors, which identifies the number of members and their authorities. At least ten members of the Board of Directors must vote in favour for the appointment, suspension, removal and dismissal of the General Manager. The favourable vote of the absolute majority of members of the Board of Directors is required for the appointment, removal and dismissal of the other members of the general management."

Pursuant to Article 64 of the Articles of Association "The Board of Directors, following the compulsory, but not binding, opinion of the Board of Statutory Auditors, appoints the Chief Financial Officer, bestowing on him the powers and means to exercise the tasks conferred under the terms of the law. The Board of Directors also has the right to revoke the position of the Chief Financial Officer.
The Chief Financial Officer should have gained sufficient professional experience in administration and/or accounting for an adequate period of time in the field of banking, finance, property or insurance."

On the Prospectus Date, the Issuer's General Management consists of the following six members:

ROLE	NAME	PLACE AND DATE OF BIRTH
Managing Director and General Manager	Mario Alberto Pedranzini	Bormio (So), 11/06/1950
Senior Deputy General Manager	Giovanni Ruffini	Sondrio, 04/08/1939
Deputy General Manager	Giuseppe Franco Paganoni	Albosaggia (So), 25/10/1939
Deputy General Manager	Mario Erba	Sondrio, 18/07/1946
Deputy General Manager	Milo Gusmeroli	Delebio (So), 01/10/1960
Deputy General Manager	Cesare Poletti	S. Felice sul Panaro (Mo), 14/10/1949

As at the Prospectus Date, the Manager in charge of drawing up the company's financial statements is Mr Maurizio Bertoletti, born in Ponte in Valtellina (So) on 2/11/1947.
The CVs of the members of the General Management and of the Manager in charge of drawing up the company's financial statements are provided below.

Mario Alberto Pedranzini, Managing Director and General Manager

After earning a degree in Business and Economics, Mr Pedranzini began working for Banca Popolare di Sondrio on 3 January 1977. He has spent his entire career with the bank, becoming General Manager on 3 April 1997 and Managing Director on 21 December 2012. He has held numerous roles in various companies: member of the Board of Directors of Factorit S.p.A. from 1997 to 2005 and then since 2010; member of the Board of Directors of Centrosim S.p.A. from 1997 to 2011; member of the Board of Directors of the National Association of Cooperative Banks from 1998 to 2004; member of the Board of Directors of the leasing bank, Italease S.p.A., from 2001 to 2007; member of the Board of Directors of Arca Merchant S.p.A. from 2002 to 2005; member of the Board of Directors of Etica Sgr S.p.A. from 2002 to 2011; member of the Board of Directors of Co.Ba.Po. - Consortium of Cooperative Banks since 2004; Director of the Italian Banking Association (ABI) since 2004; member of the Board of Directors of Banca della Nuova Terra S.p.A. from 2004 to 2012; member of the Board of Directors of Sì Holding S.p.A. from 2007 to 2010; member of the Board of Directors of Cartasì S.p.A. from 2010 to 2012; member of the Board of Directors of Arca SGR S.p.A. from 2011 to 2012; member of the Board of Directors of the Central Institute of Italian Cooperative Banks from 2011 to 2012; Chairman of Banca Popolare di Sondrio (SUISSE) S.A. since 2014.

Giovanni Ruffini, Senior Deputy General Manager

Mr Ruffini has a diploma in accounting, and he was hired to work at the head office of Banca Popolare di Sondrio in 1959. He was manager of the Securities and Foreign office from 1964 to 1973 and manager of the International/Exchange service from 1973 to 1990. In 1990 he was appointed Superintendent of the Foreign/Exchange/Securities area and the Western Lario Branches area, which includes the Lugano representative office, and the Rome and Varese area. In 1991 he became Principal General Director. In 1995, he became a member of the Board of Directors of Banca Popolare di Sondrio (SUISSE). Appointed Deputy General Manager in 1996, from 1997 to 2012 he was a member of the Board of Directors of Sofipo S.A., Lugano. Senior Deputy General Manager since 1997, from 1998 to 2011 he was a director of B&A Broker S.p.A. From 1999 to 2013 he was a director of Popso (SUISSE) Investment Fund Sicav, Luxembourg, and from 2012 to 2014 he was a director of Arca SGR S.p.A. He is currently a director of Unione Fiduciaria S.p.A., and director and Vice Chairman of Arca Vita S.p.A. and of Arca Assicurazioni S.p.A.

Giuseppe Franco Paganoni, Deputy General Manager

Mr Paganoni has a diploma in accounting. He was hired by Banca Popolare di Sondrio in 1959, where he has spent his entire career gaining extensive and diverse experience at the accounting, development and secretary offices of the head office and the data processing centre. After becoming manager of the accounting office, he was appointed general director, then executive general director, executive principal general director and, subsequently, on 3 April 1997, Deputy General Manager, the role he still holds today. He has held positions in several companies, including: Vice Chairman and then Chairman of Cilme S.p.A., director, Vice Chairman and Chairman of Ripoval S.p.A., director of Cilme-Multitel S.p.A., later Cim Italia S.p.A., director of Tramonto S.p.A., later renamed Release S.p.A., director of Key Client Card & Solutions S.p.A. and director of Polis Fondi SGR.p.A. He is currently a director and the Chief Executive Officer of Pirovano Stelvio S.p.A., director of the Central Institute of Italian Cooperative Banks and director of CartaSi S.p.A.

Mario Erba, Deputy General Manager

Mr Erba has a diploma in accounting, and he worked at Ing. C. Olivetti & C. Spa in Milan from 1965 to 1967. Hired by Banca Popolare di Sondrio in 1967, he was named manager of the Foreign and Exchange service in 1990, General Director in 1999 and Deputy General Manager in 2006, a role he still holds today. He is currently Chairman of the Board of Directors of Coopération Bancaire pour l'Europe Geie, Brussels (since 2008); member of the Board of Directors of Sintesi 2000 S.r.l. (since 2000); member of the Board of Directors of Arca SGR S.p.A. (since 2014); member of the Board of Directors of the Italo-Iranian Chamber of Commerce, Rome (since 2011); member of the Board of Directors of the Italo-Libyan Chamber of Commerce, Rome (since 2012); member of the Board of Directors of the Italy-Uzbekistan Chamber of Commerce, Milan (since 2014); member of the Italian Banking Association (ABI) Banks and Markets technical committee, Rome (since 2012); member of the Board of Directors of Arca Vita S.p.A. (since 2012); member of the Board of Directors of Arca Assicurazioni S.p.A. (since 2013); member of the Executive Committee of the Italia Swift Group - CEGIS (elected on 30 November 2012 for the 2013-2015 period); member of the Advisory Board of Assocamerestero (Association of Italian Chambers of Commerce Abroad), Rome (since November 2013). Awarded the title of Master of Labour in 2008, he is provincial consul of Sondrio for the Federation of Italian Masters of Labour headquartered in Rome (elected by the Meeting of the Masters of Labour of the province of Sondrio beginning on 1 January 2009) and national board member of the Federation of Italian Masters of Labour in Rome (elected on 11 December 2012 for the 2013-2015 period).

Milo Gusmeroli, Deputy General Manager

With a diploma in accounting, Mr Gusmeroli was hired by Banca Popolare di Sondrio in 1979. Initially he worked in the network, and then took on a central role in the credit assessment office. Later, he became the manager of the special loans service. After additional experience in the commercial sphere as a branch area coordinator, he became the manager of the secretary and general affairs service and, later, of the inspectorate service. Currently as a Deputy General Manager, he oversees the organisation, information systems and company security service.

Cesare Poletti, Deputy General Manager

Mr Poletti has a degree in Business and Economics from Luigi Bocconi University in Milan. He was hired by Banca Popolare di Sondrio in 1975 and has spent his entire career there, first at the head office and later at the services centre. In 1996 he was appointed manager of the newly established management planning and control service, a position he continues to hold. In 2006 he became general director and in 2011 principal general director. He has been a Deputy General Manager since 1 February 2014. He has also been the manager of the anti-money laundering department since May 2011.

Maurizio Bertoletti, Chief Financial Officer

Having gained a degree in Economics and Business Studies from the Luigi Bocconi University of Milan, Maurizio Bertoletti joined Banca Popolare di Sondrio in 1974. He initially worked in the network and in 1991 took up the post in charge of the administration and general accounting division of the Bank. He has been Chief Financial Officer since 2007.

None of the senior managers have any family ties with members of the Board of Directors, members of the Board of Statutory Auditors or the senior managers of the Issuer.

The companies in which the members of the general management have held (in the last five years) or hold positions on the administration, management or control bodies, and of which they have been (in the last five years) or are members are listed below.

Mario Alberto Pedranzini, Managing Director and General Manager

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Factorit S.p.A.	Director	in office
Banca Popolare di Sondrio (SUISSE) SA	Chairman of the Board of Directors	in office
Arca SGR S.p.A.	Vice Chairman	no longer in office
Banca della Nuova Terra S.p.A.	Director	no longer in office
Cartasi S.p.A.	Director	no longer in office
Centrosim S.p.A.	Director	no longer in office
Etica SGR S.p.A.	Director	no longer in office
Istituto Centrale delle Banche Popolari Italiane S.p.A.	Director	no longer in office
SI Holding S.p.A.	Director	no longer in office

Giovanni Ruffini, Senior Deputy General Manager

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Arca Assicurazioni S.p.A.	Vice Chairman	in office
Arca Vita S.p.A.	Vice Chairman	in office
Banca Popolare di Sondrio (SUISSE) SA	Director	in office
Unione Fiduciaria S.p.A.	Director	in office
Motori Sondrio S.r.l.	Member	member
Arca SGR S.p.A.	Director	no longer in office
B. & A. Broker S.p.A.	Director	no longer in office
Popso (Suisse) Investment Fund sicav	Director	no longer in office
Sofipo SA	Director	no longer in office

Giuseppe Franco Paganoni, Deputy General Manager

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Cartasi S.p.A.	Director	in office
Pirovano Stelvio S.p.A.	Director	in office
Istituto Centrale delle Banche Popolari Italiane S.p.A.	Director	in office
Key Client Card & Solutions S.p.A.	Director	no longer in office
Polis Fondi SGR pa	Director	no longer in office
Release S.p.A.	Director	no longer in office

Mario Erba, Deputy General Manager

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
Arca Assicurazioni S.p.A.	Director	in office
Arca Vita S.p.A.	Director	in office
Arca SGR S.p.A.	Director	in office
Sintesi 2000 S.r.l.	Director	in office

Milo Gusmeroli, Deputy General Manager

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
-	-	-

Cesare Poletti, Deputy General Manager

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
-	-	-

Maurizio Bertoletti, manager in charge of drawing up the company's financial statements

COMPANY	POSITION/ SHAREHOLDING	STATUS ON PROSPECTUS DATE
-	-	-

To the Issuer's knowledge, in the past five years none of the senior managers of the Issuer have been found guilty of fraud or involved in bankruptcy trials, receiverships or compulsory liquidations in the fulfilment of their tasks nor, lastly, have they been officially charged and/or fined by public or regulatory authorities (including the relative professional associations) or banned by a court from holding administrative, managerial or supervisory roles with regard to the Issuer or carrying out management or operational duties for any issuer.

It should be noted that, in addition to the above-mentioned five-year period, the administrative financial penalty, pursuant to Consob resolution No. 16651 of 8 October 2008, resulting from the supervisory activities conducted by the actual Authority into Banca Italease S.p.A., applied with regard to the 22 company representatives of the same Banca Italease including the current director general of the Issuer Dr Mario Alberto Pedranzini, fined €102,500 relating to the office of director at Banca Italese S.p.A, in the period in question. An appeal is currently pending at the Court of Cassation relating to the violations which were not granted an acquittal at previous judgments.

9.2 CONFLICTS OF INTEREST OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGERS

To the Issuer´s knowledge, on the Prospectus Date no member of the Board of Directors or the Board of Statutory Auditors and none of the key officers have private interests in conflict with their obligations associated with their roles or positions, except for those inherent in transactions resolved upon by the competent bodies in observance of Article 2391 of the Italian Civil Code and Article 136 of the Consolidated Banking Law.
In more detail, should there be conflicts of interest pursuant to Article 2391 of the Italian Civil Code, the officer is required to disclose his or her interests (personal or on behalf of third parties) in a specific transaction. In addition, pursuant to Article 136 of the Consolidated Banking Law, persons carrying out administration, management and control functions at a bank may not take on obligations of any type whatsoever or directly or indirectly enter into purchase and sale transactions with the bank for which they carry out such functions, unless unanimously approved in advance by the management body, without prejudice to the obligations set forth in the Italian Civil Code concerning the interests of directors and related-party transactions. Such resolution must be approved by unanimous vote of all members of the control body.

With respect to CONSOB and Bank of Italy regulations on related-party transactions, please note that the Issuer has adopted the "Regulation on related-party transactions" and the "Regulation on transactions with associated parties", respectively, which *inter alia*: define the scope of application, identifying criteria for keeping a register of related parties; set forth the decisions taken by the Issuer with respect to the options set forth by CONSOB and Bank of Italy regulations also with regard, *inter alia*, to exceptions to the application of the procedures; refer to the established procedures for involving the Related-Party Transactions Committee, made up of Independent Directors. The afore-mentioned internal regulations are published on the company website "www.popso.it".

A table of assets, liabilities, income, expenses, guarantees given and guarantees received in relation to transactions with related parties, broken down by type between the directors, statutory auditors, key officers and their relatives is provided in the explanatory notes of the Issuer's Annual Report, Part H Related-party transactions, point 2 Information on related-party transactions.

9.3 AGREEMENTS OR ARRANGEMENTS WITH THE MAJOR SHAREHOLDERS, CLIENTS, SUPPLIERS OR OTHER PERSONS, PURSUANT TO WHICH MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT OR CONTROL BODIES OR SENIOR MANAGERS ARE CHOSEN

To the Issuer´s knowledge, on the Prospectus Date there are no agreements and/or arrangements with the major shareholders, clients, suppliers or other persons concerning the selection of members of the Board of Directors and the Board of Statutory Auditors and key officers.

9.4 ANY RESTRICTIONS AGREED UPON BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS AND SENIOR MANAGERS AS REGARDS THE DISPOSAL OF SECURITIES OF THE ISSUER

There are no restrictions in place on the disposal of securities of the Issuer agreed upon by members of the Board of Directors and the Board of Statutory Auditors and key officers.

CHAPTER X - REMUNERATION AND BENEFITS

The "Remuneration Report" prepared by the Issuer pursuant to Article 123-ter of the Consolidated Finance Law includes information on the remuneration and benefits paid in 2013 to the members of the Board of Directors and the Board of Statutory Auditors and key officers. The Report is published on the company website "www.popso.it" in the "Informativa societaria" section.

CHAPTER XI - BOARD OF DIRECTORS' PRACTICES

The “Report on Corporate Governance and ownership structures” prepared by the Issuer pursuant to Article 123-*bis* of the Consolidated Finance Law includes information on the practices of the Board of Directors. The Report is published on the company website “www.popso.it” in the “Informativa societaria” section.

CHAPTER XII - EMPLOYEES

12.1 SHAREHOLDINGS AND STOCK OPTIONS

The table below shows the BPS Shares held by the members of the Board of Directors and the Board of Statutory Auditors and the key officers of the Issuer on the Prospectus Date:

SURNAME AND NAME	ROLE	NUMBER OF SHARES HELD
Piero Melazzini	Honorary Chairman and Director	285,200
Francesco Venosta	Chairman	34,424
Lino Enrico Stoppani	Vice Chairman	50,000
Mario Alberto Pedranzini	Managing Director and General Manager	47,000
Claudio Benedetti	Director	3,000
Paolo Biglioli	Director	19,300
Federico Falck	Director	5,000
Attilio Piero Ferrari	Director	22,000
Giuseppe Fontana	Director	448,000
Cristina Galbusera	Director	206,000
Nicolò Melzi di Cusano	Director	110,000
Adriano Propersi	Director	14,000
Annalisa Rainoldi	Director	7,522
Renato Sozzani	Director	25,000
Domenico Triacca	Director	6,000
Piergiuseppe Forni	Chairman of the Board of Statutory Auditors	7,120
Pio Bersani	Statutory Auditor	1,120
Mario Vitali	Statutory Auditor	21,000
Bruno Garbellini	Alternate Auditor	11,400
Daniele Morelli	Alternate Auditor	500

NUMBER OF MANAGERS WITH STRATEGIC RESPONSIBILITIES	NUMBER OF SHARES HELD
5	31,105

Save as for the Pre-Emptive Subscription Rights relating to BPS Shares and the rights relating to the allocation of the Free Shares, on the Prospectus Date the officers indicated in the table above (and all other members or shareholders) hold no option or allocation rights on the ordinary shares of Banca Popolare di Sondrio.

The Issuer has never assigned stock options, therefore on the Prospectus Date there are no stock options assigned to the members of the Board of Directors and the Board of Statutory Auditors or to key officers.

12.2 DESCRIPTION OF ANY AGREEMENTS FOR THE PARTICIPATION OF EMPLOYEES IN THE CAPITAL OF THE ISSUER

At the Prospectus Date, there are no agreements for the participation of employees in the capital of the Issuer.

CHAPTER XIII - MAJOR SHAREHOLDERS

13.1 SHAREHOLDERS HOLDING INVESTMENTS EXCEEDING 2% OF THE SHARE CAPITAL

Based on the shareholders' register and other information available to the Issuer, no member holds more than 2% of the Issuer´s share capital on the Prospectus Date.
Pursuant to Article 30, paragraph 2 of the Consolidated Banking Law and Article 14 of the Articles of Association which, in governing the limits of share ownership, refer to what was "established by the law" for a people's bank with no one being able to own shares in excess of 1.00% of the share capital. If the Bank discovers that this limit has been exceeded, the owner will be charged with violation of the ban. The excess shares should be sold within one year of the challenge; when this period has elapsed, the capital rights which have accrued until the sale of the excess shares are acquired by the Bank.
Pursuant to Article 30, paragraph 3 of the Consolidated Banking Law, the above-mentioned ban does not apply to UCIs in securities, for which the limits set out by the regulations for each of them are valid.
With regard to the provisions of the Consolidated Banking Law which determine the share ownership capital at 1% (except for UCIs) note that Article 14 of the Articles of Association makes provision that "No one, shareholder or non-shareholder, can be the holder of shares for a total nominal value exceeding the investment limit in the share capital established by the law and therefore this formula is compatible with the current regulatory dictat."

13.2 DIFFERENT VOTING RIGHTS FOR MAJOR SHAREHOLDERS

Since the Issuer has issued exclusively ordinary shares, all members of Banca Popolare di Sondrio are entitled to the same voting rights in the shareholders' meeting. Therefore, the major shareholders have the same voting rights as other shareholders. In compliance with current regulations on cooperative banks, each member is entitled to one vote, irrespective of the number of shares held.

Note that with regard to the provisions of Articles 29 *et seq.* of the TUB and in the light of the contents of the Articles of Association of the Bank, Article 8, until owners of shares have submitted a request and been accepted as shareholders they can only exercise rights of a capital nature.

A summary of the preordained statutory provisions governing the procedure for acquiring the status of shareholder is given below.

(Article 8) Whoever intends to become a shareholder should submit a request to the Board of Directors indicating the number of shares purchased or subscribed for, general details, domicile and any other information and/or declaration required by law or generally by the company and specifically they should expressly state that they accept the principles of the Articles of Association. In the case of minors the requests should be signed by the legal representative.

(Article 9) The Board of Directors decides on the merit of the requests for admission as a shareholder through an adequately reasoned deliberation, with regard to the interests of the company, the spirit of cooperation and the statutory requirements.

(Article 10) Acceptance of the request for admission as a shareholder is recorded in the shareholder's register and the applicant is notified, within ninety days of the receipt of the actual request, through a letter addressed to the domicile indicated therein.

(Article 11) The applicant is notified of rejection as a shareholder within the same ninety day term from the receipt of the request by the company. Within thirty days of receipt of the rejection notice, the applicant can submit an appeal to the Ethics and disciplinary committee to re-examine their request for admission. The Ethics and disciplinary committee, established according to regulations and including a representative of the applicant, makes its pronouncement within thirty days of receiving the application, arranging the re-examination or rejecting the application and, in any case, it notifies the Board of Directors of its decision. If the Ethics and disciplinary committee re-examines the case, the Board of Directors makes a definitive pronouncement on the request, through a reasoned deliberation.

(Article 12) The status of shareholder is acquired through registration in the shareholder's register, when the prescribed formalities are complied with.

There is no minimum number of Bank shares that need to be purchased in order for an individual to request shareholder status.

13.3 SPECIFICATION OF THE CONTROLLING ENTITY PURSUANT TO ARTICLE 93 OF THE CONSOLIDATED BANKING LAW

No party directly or indirectly controls the Issuer due to its legal status as a cooperative bank, which, as specified in point 13.2 above, means that each member may cast one vote only in the shareholders' meeting, irrespective of the size of the shareholding.

13.4 AGREEMENTS THAT COULD RESULT IN A CHANGE IN CONTROL OF THE ISSUER

To the Issuer´s knowledge, there are no agreements at the Prospectus Date that could result in a change in the legal structure, and therefore in the control, of the Issuer.

CHAPTER XIV - RELATED-PARTY TRANSACTIONS

Information on related-party transactions, as defined in the principles adopted pursuant to Regulation (EC) No. 1606/2002, is provided below for the year 2013 and until the Prospectus Date.

The 2013 Annual Report (explanatory notes, part H, pp. 479-481) provides information on related-party transactions for 2013.
The Issuer makes use of the system of incorporation by reference to the above-mentioned document, pursuant to Article 11 of Directive 2003/71/EC and Article 28 of Regulation (EC) No. 809/2004. This document was previously published and filed with CONSOB and is available to the public on the Issuer's website (www.popso.it) as well as at the Issuer's registered office.

For ease of consultation, the following table shows the impact on the consolidated financial position on the income statement as at 31 December 2013 of transactions with subsidiaries, associates, directors, auditors, key officers, relatives and other related parties of the Group.

31-12-2013 thousands €	**Assets**	**Liabilities**	**Income**	**Expenses**	**Guarantees given**	**Guarantees received**
Directors	48	11,463	2	317	-	-
Auditors	830	187	27	4	22	20
Management	2	1,728	-	46	23	-
Relatives	1,716	26,765	72	779	69	9,493
Subsidiaries	2,227,390	913,962	33,394	27,191	296,527	34,818
Associates	478,530	136,969	6,362	2,936	106,395	3,159
Other related parties	303,866	140,028	4,057	5,398	31,083	30,530

As at 31 December 2013, the exposure to subsidiaries is mainly due to the existing relationships with Banca Popolare di Sondrio (SUISSE) SA and Factorit spa, while what is attributable to associates amounts to €365 million for Alba Leasing spa and €76 million for Banca della Nuova Terra spa; activities with other related parties include loans of €191 million granted to the subsidiary Release spa. The impact of these operations on key economic balances of the Group is contained.

In the first quarter of 2014, the aggregate of related-party transactions did not record any significant changes compared to 31 December 2013.

Between 31 March 2014 and until the Prospectus Date, no significant transactions were carried out with related parties of the Group and there were no significant changes in the parties and entities identified as related parties of the Group.

CHAPTER XV – FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS, LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

15.1 FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2013 AND 31 DECEMBER 2012 AND FOR THE FIRST QUARTER OF 2014

The Prospectus contains information about the Group's assets, liabilities, financial position and profits and losses for the years ended 2012 and 2013 and for the quarter ended 31 March 2014.

It is specified that CONSOB may conduct auditing on the Issuer's 2013 consolidated Financial Statements and on the separate Financial Statements as at 31/12/2013 subject to the terms required by law.

Information about the Group's assets, liabilities, financial position and profits and losses for 2013 and 2012 and for the quarter ended 31 March 2014 can be found, respectively, in the 2013 Financial Statements, the 2012 Financial Statements and the Consolidated Quarterly Financial Report as at 31 March 2014. The Issuer makes use of the system of incorporation by reference to the above-mentioned documents, pursuant to Article 11 of Directive 2003/71/EC and Article 28 of Regulation (EC) No. 809/2004. These documents have previously been published and submitted to Consob and are publicly available on the Issuer's website (www.popso.it) as well as at the registered offices of the Issuer and Borsa Italiana.

To facilitate consultation of the Group's consolidated financial statements included by reference in the Prospectus, the table below gives the page numbers of the main sections of the statements.

	Consolidated Financial Statements		
	31/03/14	2013	2012
Report on Operations	9	327	331
Report of the External Auditors	102	448	486
Balance Sheet	30	346	352
Income Statement	32	348	354
Statement of Comprehensive Income	33	349	355
Statement of Changes in Equity	34	350	356
Statement of Cash Flows	36	352	358
Notes to the Financial Statements	39	355	1093

Below is a selection of information on the main consolidated financial and economic data as at 31 March 2014, compared with the data for the financial years 2013 and 2012 for the balance sheet and with the data as at 31 March 2013 for the income statement and the statement of comprehensive income.

Financial statements

The tables that follow show the consolidated balance sheets as at 31 March 2014 compared with the data for 2013 and 2012, and the consolidated income statement and consolidated statement of comprehensive income as at 31 March 2014 compared with the first quarter of 2013, as well as with the 2013 and 2012 data.

CONSOLIDATED BALANCE SHEET

(amounts in thousands of €)

Asset items	31/03/14	31/12/13	31/12/2012	31/03/2014-31/12/2013	31/12/2013-31/12/2012
10. Cash and cash equivalents	159,733	196,517	183,746	-18.72%	6.95%
20. Financial assets held for trading	3,247,654	3,154,594	2,070,237	2.95%	52.38%
30. Financial assets carried at fair value	96,509	79,226	104,224	21.81%	-23.98%
40. Available-for-sale financial assets	3,495,122	3,375,500	2,438,079	3.54%	38.45%
50. Financial assets held to maturity	175,734	182,621	204,644	-3.77%	-10.76%
60. Receivables due from banks	969,667	733,954	1,179,977	32.12%	-37.80%
70. Receivables due from customers	24,599,550	23,904,559	25,308,798	2.91%	-5.55%
80. Hedging derivatives	-	2,923	52	-100%	n/a
100. Equity investments	158,429	156,404	146,214	1.29%	6.97%
120. Tangible assets	245,812	245,962	232,445	-0.06%	5.82%
130. Intangible assets	23,334	21,865	21,927	6.72%	-0.28%
of which:					
- Goodwill	8,959	8,959	8,959	-	-
140. Tax assets	338,741	342,310	197,241	-1.04%	73.55%
a) current	1,720	33,478	19	-94.86%	n/a
b) prepaid	337,021	308,832	197,222	9.13%	56.59%
b1) of which pursuant to Law 214/2011	294,769	269,858	151,545	9.23%	78.07%
160. Other assets	261,674	373,493	261,542	-29.94%	42.80%
Total assets	**33,771,959**	**32,769,928**	**32,349,126**	**3.06%**	**1.30%**

(amounts in thousands of €)

Asset and liability items	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
10. Payables due to banks	3,152,056	3,067,978	3,204,024	2.74%	-4.25%
20. Payables due to customers	24,369,974	23,710,352	23,250,752	2.78%	1.98%
30. Outstanding securities	2,964,132	2,964,974	2,934,560	-0.03%	1.04%
40. Financial liabilities held for trading	32,609	36,550	44,336	-10.78%	-17.56%
60. Hedging derivatives	33,775	27,580	45,950	22.46%	-39.98%
80. Tax liabilities	73,320	36,889	117,654	98.76%	-68.65%

a) current	22,690	662	83,255	n/a	-99.20%
b) deferred	50,630	36,227	34,399	39.76%	5.31%
100. Other liabilities	862,384	720,873	624,801	19.63%	15.38%
110. Employee severance indemnities	40,702	40,527	42,352	0.43%	-4.31%
120. Provisions for risks and charges	157,961	152,593	144,660	3.52%	5.48%
a) retirement and similar obligations	102,098	100,539	95,729	1.55%	5.02%
b) other provisions	55,863	52,054	48,931	7.32%	6.38%
140. Valuation reserves	44,815	16,782	-7,876	167.04%	313.00%
170. Reserves	848,791	794,781	771,917	6.80%	2.96%
180. Issue premiums	171,450	171,450	171,450	-	-
190. Share capital	924,444	924,444	924,444	-	-
200. Treasury shares (-)	-24,316	-24,316	-24,316	-	-
210. Non-controlling interests (+/-)	78,116	75,438	70,112	3.55%	7.60%
220. Profit (loss) for the period	41,746	53,033	34,306	-21.28%	54.59%
Equity and liability items	**33,771,959**	**32,769,928**	**32,349,126**	**3.06%**	**1.30%**

CONSOLIDATED INCOME STATEMENT

(amounts in thousands of €)

Items	31/03/14	31/03/2013	31/03/2014-31/03/2013	31/12/2013	31/12/2012	31/12/2013-31/12/2012
10. Interest and similar income	247,541	256,213	-3.38%	1,018,114	1,012,433	0.56%
20. Interest and similar expenses	-99,823	-132,532	-24.68%	-458,952	-486,327	-5.63%
30. Net interest income	**147,718**	**123,681**	**19.43%**	**559,162**	**526,106**	6.28%
40. Fee and commission income	79,056	71,715	10.24%	305,579	308,135	-0.83%
50. Fee and commission expense	-5,258	-4,987	5.43%	-22,578	-24,142	-6.48%
60. Net fees and commissions	**73,798**	**66,728**	**10.60%**	**283,001**	**283,993**	-0.35%
70. Dividends and similar income	296	80	270.00%	2,699	2,934	-8.01%
80. Net trading income	51,343	7,922	548.11%	111,055	161,241	-31.12%
90. Net hedging income	129	-105	-222.86%	-45	615	-107.32%
100. Gains (losses) on disposals or repurchases of:	21,883	13,785	58.75%	52,720	9,573	n/a
b) available-for-sale financial assets	21,800	13,469	61.85%	52,518	7,740	n/a
c) financial assets held to maturity	-	-	-	55	584	-90.58%
d) financial liabilities	83	316	-73.73%	147	1,249	-88.23%
110. Net change in value of financial assets and liabilities carried at fair value	1,479	2,528	-41.50%	5,387	6,273	-14.12%

120. Intermediation margin	**296,646**	**214,619**	**38.22%**	**1,013,979**	**990,735**	2.35%
130. Net value adjustments/write-downs on:	-121,921	-89,344	36.46%	-490,285	-491,899	-0.33%
a) loans and receivables	-121,562	-86,146	41.11%	-463,866	-484,215	-4.20%
b) available-for-sale financial assets	-174	-1,946	-91.06%	-12,881	-5,225	146.53%
d) other financial transactions	-185	-1,252	-85.22%	-13,538	-2,459	n/a
140. Net income from banking activities	**174,725**	**125,275**	**39.47%**	**523,694**	**498,836**	4.98%
170. Net income from banking and insurance activities	**174,725**	**125,275**	**39.47%**	**523,694**	**498,836**	4.98%
180. Administrative expenses:	-114,175	-109,286	4.47%	-441,175	-426,307	3.49%
a) personnel expenses	-55,805	-54,355	2.67%	-219,088	-217,177	0.88%
b) other administrative expenses	-58,370	-54,931	6.26%	-222,087	-209,130	6.20%
190. Provisions for risks and charges	-640	1,004	-163.75%	-2,850	-3,167	-10.01%
200. Net value adjustments/write-downs on tangible assets	-4,025	-4,187	-3.87%	-17,056	-17,045	0.06%
210. Net value adjustments/write-downs on intangible assets	-2,569	-2,362	8.76%	-12,360	-12,489	-1.03%
220. Other operating income/expense	18,362	17,044	7.73%	73,465	62,305	17.91%
230. Operating costs	**-103,047**	**-97,787**	**5.38%**	**-399,976**	**-396,703**	0.83%
240. Profits (losses) on equity investments	756	1,607	-52.96%	1,620	4,416	-63.32%
270. Profits (losses) on disposals of investments	-	8	-100.00%	10	280	-96.43%
280. Operating profit (loss) before taxes	**72,434**	**29,103**	**148.89%**	**125,348**	**106,829**	17.34%
290. Taxes on income from continuing operations	-28,023	-16,672	68.08%	-64,671	-66,646	-2.96%
300. Operating profit (loss) after taxes	**44,411**	**12,431**	**257.26%**	**60,677**	**40,183**	51.00%
320. Profit (loss) for the period	**44,411**	**12,431**	**257.26%**	**60,677**	**40,183**	51.00%
330. Profit (loss) for the period attributable to non-controlling interests	-2,665	-1,897	40.48%	-7,644	-5,877	30.07%
340. Profit (loss) for the period attributable to the Parent Company	**41,746**	**10,534**	**296.30%**	**53,033**	**34,306**	54.59%

STATEMENT OF COMPREHENSIVE INCOME

	31/03/2014	31/03/2013	31/03/2014-31/03/2013	31/12/2013	31/12/12	31/12/2013-31/12/2012
10. Profit (Loss) for the period	**44,411**	**12,431**	**257.26%**	**60,677**	**40,183**	51.00%
Other income net of taxes without reversal in the income statement						
40. Defined-benefit plans	-	-	-	-1,639	-14,402	-88.62%

60. Share of valuation reserves relating to equity investments valued at net equity	13	-18	-172.22%	-130	-133	-2.26%
Other income net of taxes with reversal in the income statement						
100. Available-for-sale financial assets	26,613	-12,715	-	25,441	50,437	-49.56%
120. Share of valuation reserves relating to equity investments valued at net equity	1,407	-438	-	986	11,744	-91.60%
130. **Total other income net of taxes***	**28,033**	**-13,171**	-	**24,658**	**47,646**	**-48.25%**
140. Comprehensive income (items 10+130)	**72,444**	**-740**	-	**85,335**	**87,829**	**-2.84%**
150. Consolidated comprehensive income attributable to non-controlling interests	-2,665	-1,897	40.48%	-7,677	-5,795	32.48%
160. **Consolidated comprehensive income attributable to the Parent Company**	**69,779**	**-2,637**	-	**77,658**	**82,034**	**-5.33%**

The table below shows the consolidated statement of cash flows of the Group for the years ended 31 December 2013 and 31 December 2012, and for the first quarter of 2014 and the first quarter of 2013.

Consolidated Statement of Cash Flows (indirect method)

	31/03/14	31/03/13	31/12/13	31/12/12
A. OPERATING ACTIVITIES				
1. Operations	**132,101**	**110,643**	**616,808**	**649,588**
- net profit for the period (+/-)	41,746	10,534	53,033	34,306
- gains/losses on financial assets held for trading and on assets carried at fair value (+/-)	-39,188	-1,656	-55,972	-79,760
- gains/losses on hedging activities (-/+)	-128	106	46	-616
- net value adjustments/write-downs (-/+)	123,473	90,712	497,989	509,469
- net value adjustments on tangible and intangible fixed assets (+/-)	6,596	6,549	29,415	29,533
- net provisions for risks and charges and other costs/revenues (+/-)	8,234	2,924	27,223	27,920
- unpaid taxes and duties (+)	28,024	16,672	64,670	66,646
- net value adjustments/write-downs on disposal groups, net of tax effect (+/-)	0	-	-	-
- other adjustments (+/-)	-36,656	-15,198	404	62,090
2. Cash flows generated/absorbed by financial assets	**-1,020,286**	**-925,938**	**-725,543**	**-3,268,378**
- financial assets held for trading	-39,039	-1,116,228	-1,011,996	171,919
- financial assets carried at fair value	1,579	-25	28,794	-16,316
- available-for-sale financial assets	-90,032	-233,006	-929,460	-1,680,069
- receivables due from banks: on demand	-115,839	92,905	194,680	-141,943
- receivables due from banks: other receivables	-110,377	55,611	236,671	437,507
- receivables due from customers	-772,997	397,857	872,870	-2,126,344
- other assets	106,419	-123,052	-117,102	86,868

3. Cash flows generated/absorbed by financial liabilities	**851,621**	**783,907**	**-158,768**	**2,745,247**
- payables due to banks: on demand	31,901	21,173	-187,414	140,298
- payables due to banks: other payables	45,034	85,443	57,125	-510,413
- payables due to customers	646,253	460,012	514,489	3,264,166
- outstanding securities	364	3,480	33,836	189,318
- financial liabilities held for trading	-10,253	-3,055	-32,219	-65,562
- financial liabilities carried at fair value	-	-	-	-
- other liabilities	138,322	216,854	-227,049	-272,560
Net cash flows generated/absorbed by operating activities	**-36,564**	**-31,388**	**50,033**	**126,457**
B. INVESTMENT ACTIVITIES				
1. Cash flows generated by	**13,425**	**11,242**	**48,404**	**27,132**
- sales of equity investments	-	-	-	-
- dividends earned on equity investments	-	-	14,127	168
- sales of financial assets held to maturity	13,420	11,226	34,250	26,628
- sales of tangible assets	**5**	16	27	336
- sales of intangible assets	-	-	-	-
- sales of subsidiaries and divisions	-	-	-	-
2. Cash flows absorbed by	**-14,227**	**-31,142**	**-71,982**	**-62,830**
- purchases of equity investments	-	-14,665	-16,509	-10,280
- purchases of financial assets held to maturity	-6,449	-12,071	-12,179	-13,242
- purchases of tangible assets	-3,920	-1,856	-30,966	-25,467
- purchases of intangible assets	-3,858	-2,550	-12,328	-13,841
- purchases of subsidiaries and divisions	-	-	-	-
Net cash flows generated/absorbed by investment activities	**-802**	**-19,900**	**-23,578**	**-35,698**
C. FUNDING ACTIVITIES				
- issues/purchases of treasury shares	-	-	-	701
- issues/purchases of equity instruments	-	-	-	-
- distribution of dividends and other purposes	-	-	-12,390	-29,083
Net cash flows generated/absorbed by funding activities	**-**	**-**	**-12,390**	**-28,382**
NET CASH FLOWS GENERATED/ABSORBED DURING THE PERIOD	**-37,366**	**-51,288**	**14,065**	**62,377**

Balance sheet entries	**31/03/2014**	**31/03/2013**	**31/12/2013**	**31/12/2012**
Cash and cash equivalents at beginning of period	196,517	183,745	183,746	121,014
Total net liquidity generated/absorbed during the period	-37,366	-51,288	14,065	62,377
Cash and cash equivalents: effect of exchange rate fluctuations	582	-748	-1,294	355
Cash and cash equivalents at end of period	**159,733**	**131,709**	**196,517**	**183,746**

FY 2014 (amounts in thousands of €)	Balance at 31/12/2013	Change in opening balances	Balance at 01/01/2014	Previous year's profit allocation: Reserves	Previous year's profit allocation: Dividends and other purposes	Changes for the period: Changes in reserves	Changes for the period – Operations on shareholders' equity: Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income for the period	**Group net equity at 31/03/2014**	**Net equity attributable to non-controlling interests at 31/03/2014**
Share capital															
a) ordinary shares	958,019	10	958,029	-	-	-	-	-	-	-	-	-	-	**924,444**	**33,585**
b) other shares				-	-	-	-	-	-	-	-	-	-		
Issue premiums	**175,807**	**2**	**175,809**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**171,450**	**4,359**
Reserves															
a) from profits	819,511		819,511	60,677	-	978	-	-	-	-	-	-	-	**845,562**	**35,604**
b) other	5,186		5,186		-		-	-	-	-	-	-	-	**3,229**	**1,957**
Valuation reserves	**16,728**		**16,728**		**-**		**-**	**-**	**-**	**-**	**-**	**-**	**28,033**	**44,815**	**-54**
Equity instruments					**-**		**-**	**-**	**-**	**-**	**-**	**-**			
Treasury shares	**-24,316**		**-24,316**		**-**		**-**	**-**	**-**	**-**	**-**	**-**		**-24,316**	
Profit for the period	**60,677**		**60,677**	**-60,677**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**44,411**	**41,746**	**2,665**
Group net equity	**1,936,174**		**1,936,174**	**-**	**-**	**977**	**-**	**-**	**-**	**-**	**-**	**-**	**69,779**	**2,006,930**	

Net equity attributable to non-controlling interests	**75,438**	**12**	**75,450**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**2,665**	**-**	**78,116**

FY 2013 (amounts in thousands of €)	Balance at 31/12/2012	Change in opening balances	Balance at 01/01/2013	Previous year's profit allocation		Changes in reserves	Changes for the period – Operations on shareholders' equity						Comprehensive income for the period	**Group net equity at 31/12/2013**	**Net equity attributable to non-controlling interests at 31/12/2013**
				Reserves	Dividends and other purposes		Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options			
Share capital															
a) ordinary shares	958,019	-	958,019	-	-	-	-	-	-	-	-	-	-	**924,444**	**33,575**
b) other shares		-		-	-	-	-	-	-	-	-	-	-		
Issue premiums	**175,807**	-	**175,807**	-	-	-	-	-	-	-	-	-	-	**171,450**	**4,357**
Reserves															
a) from profits	793,088	-	793,088	27,693	-	-1,270	-	-	-	-	-	-	-	**791,552**	**27,959**
b) other	5,186	-	5,186	-	-		-	-	-	-	-	-	-	**3,229**	**1,957**
Valuation reserves	**-7,930**	-	**-7,930**	-	-		-	-	-	-	-	-	**24,658**	**16,782**	**-54**
Equity instruments		-		-	-		-	-	-	-	-	-			
Treasury shares	**-24,316**	-	**-24,316**	-	-		-	-	-	-	-	-		**-24,316**	
Profit for the period	**40,183**	-	**40,183**	**-27,693**	**-12,490**		-	-	-	-	-	-	**60,677**	**53,033**	**7,644**
Group net equity	**1,869,925**	-	**1,869,925**	-	**-10,139**	**-1,270**	-	-	-	-	-	-	**77,658**	**1,936,174**	
Net equity attributable to non-controlling interests	**70,112**	-	**70,112**	-	**-2,351**	-	-	-	-	-	-	-	**7,677**	-	**75,438**

FY 2012 (amounts in thousands of €)	Cash on hand at 31/12/2011	Change in opening balances	Balance at 01/01/2012	Previous year's profit allocation: Reserves	Previous year's profit allocation: Dividends and other purposes	Changes in reserves	Changes for the period – Operations on shareholders' equity: Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income for the period	**Group net equity at 31/12/2012**	**Net equity attributable to non-controlling interests at 31/12/2012**
Share capital															
a) ordinary shares	958,019		958,019											**924,444**	**33,575**
b) other shares															
Issue premiums	**176,868**		**176,868**				**-1,061**							**171,450**	**4,357**
Reserves															
a) from profits	741,555		741,555	47,889		3,644								**768,688**	**24,400**
b) other	5,186		5,186											**3,229**	**1,957**
Valuation reserves	**-44,329**		**-44,329**			**-11,247**							**47,646**	**-7,876**	**-54**
Equity instruments															
Treasury shares	**-26,079**		**-26,079**				**3,656**	**-1,893**						**-24,316**	
Profit for the period	**77,372**		**77,372**	**-47,889**	**-29,483**								**40,183**	**34,306**	**5,877**
Group net equity	**1,822,663**		**1,822,663**		**-27,871**	**-7,603**	**2,595**	**-1,893**					**82,034**	**1,869,925**	
Net equity attributable to non-controlling interests	**65,929**		**65,929**		**-1,612**								**5,795**		**70,112**

Direct funding

The table below shows the total direct funding as at 31 December 2013, 31 December 2012 and 31 March 2014.

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Savings deposits	542,638	543,921	570,398	-0.24%	-4.64%
Certificates of deposit	6,346	9,038	29,569	-29.79%	-69.43%
Bonds	2,860,391	2,881,231	2,829,810	-0.72%	1.82%
Repurchase agreements	109,188	210,968	533,811	-48.24%	-60.48%
Bank drafts and other	97,395	74,705	75,183	30.37%	-0.64%
Current accounts	17,990,430	16,839,397	15,350,320	6.84%	9.70%
Time deposits	3,352,767	3,852,033	4,564,397	-12.96%	-15.61%
Foreign currency accounts	2,374,951	2,264,033	2,231,824	4.90%	1.44%
Total	**27,334,106**	**26,675,326**	**26,185,312**	**2.47%**	**1.87%**

As at 31 March 2014, direct funding stands at €27,334 million, up by 2.47% since the end of 2013, with growth for current accounts in euros and foreign currencies, which are up by 6.61% to €20,365 million, while bonds show a slight decline of 0.72% to €2,860 million. Term deposit accounts amount to €3,353 million, down by 12.96%. Savings deposits are essentially stable at €543 million (-0.24%), while repurchase agreements show a fall of 48.24% to €109 million. Certificates of deposit amount to €6 million, with bank drafts up by 30.37% to €97 million.

As at 31 December 2013, direct funding amounts to €26,675 million compared with €26,185 million as at 31 December 2012, an increase of €490 million (+1.87%). Even in a difficult and competitive environment, the Group has succeeded in increasing the direct component of its funding.

With regard to the individual items, current accounts in euros and foreign currencies show an increase of 8.65% to €19,103 million, partly at the expense of term deposit accounts, which are down by 15.61% to €3,852 million, partly due to the funding costs reduction policy. Current accounts in euros and foreign currencies represent 71.62% of all direct funding. Bonds are stable, with a slight increase from €2,830 to €2,881 million (+1.82%). Savings deposits are down by 4.64% to €544 million, with repurchase agreements also falling by 60.48% to €211 million. Certificates of deposit show a fall of 69.43% to €9 million, confirming the marginal nature of this component. Bank drafts are also slightly down at €75 million (-0.64%).

In 2012, direct funding showed an increase of €3,507 million (+15.46%) to €26,185 million, an extremely satisfactory result helped partly by constant efforts to satisfy customers' needs in terms of instruments and conditions, but also by the customers' propensity to invest in the short term. This brought sustained growth for term deposit accounts, which were up by 55.78% to €4,564 million, helped by customers' preference for a simple operational instrument of limited duration and capable of providing satisfactory returns.

Current accounts in euros and foreign currencies rose from €15,111 to €17,582 million, an increase of 16.36%, and accounted for 67.15% of total direct funding. Bonds increased from €2,608 to €2,830 million (+8.52%). Certificates of deposit, while remaining a marginal component, rose by 6.42% to €30 million. Repurchase agreements showed a sharp decline, largely due to the competition from term deposits, falling by 58.05% to €534 million. Savings deposits fell by 8.57% to €570 million, while bank drafts were down by 29.24% to €75 million.

Loans to customers

The table below provides a summary of Banca Popolare di Sondrio Group's lending in the financial years ended 31 December 2013 and 31 December 2012 and in the quarter ended on 31 March 2014.

(amounts in thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Current accounts	6,496,904	6,415,216	6,993,848	1.27%	-8.27%
Loans in foreign currencies	1,526,264	1,497,522	1,774,826	1.92%	-15.62%
Advances	473,938	438,528	476,586	8.07%	-7.99%
STC advances	234,468	254,092	274,594	-7.72%	-7.47%
Discounted portfolio	10,971	11,626	13,859	-5.63%	-16.11%
Loans and mortgages to craftsmen	16,791	17,173	19,233	-2.22%	-10.71%
Loans to farmers	27,469	32,363	33,861	-15.12%	-4.42%
Personal loans	170,924	166,907	143,846	2.41%	16.03%
Other operations and unsecured loans	4,065,424	4,031,078	4,264,327	0.85%	-5.47%
Mortgages	8,934,255	8,880,310	8,720,540	0.61%	1.83%
Non-performing loans	506,162	460,681	290,743	9.87%	58.45%
Repurchase agreements	614,919	49,412	485,863	n/a	-89.83%
Factoring	1,521,061	1,649,651	1,816,672	-7.79%	-9.19%
Total	**24,599,550**	**23,904,559**	**25,308,798**	**2.91%**	**-5.55%**

As at 31 March 2014, loans to customers stood at €24,600 million, an increase of 2.91% compared with the end of 2013.

As at 31 December 2013, total net lending amounted to €23,905 million, a fall of €1,404 million compared with €25,309 million as at 31 December 2012 (-5.55%).

The table below shows the ratio between net lending and direct funding as at 31 December 2013, 31 December 2012 and 31 March 2014.

(amounts in thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Net lending	24,599,550	23,904,559	25,308,798	2.91%	-5.55%

(amounts in thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Direct funding	27,334,106	26,675,326	26,185,312	2.47%	1.87%
Net lending/Direct funding	90.00%	89.61%	96.65%		

The tables below provide summary information on the quality of the Banca Popolare di Sondrio Group's loans to customers as at 31 March 2014, 31 December 2013 and 31 December 2012.

(amounts in thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Deteriorated loans - Gross exposure	3,132,248	3,024,910	1,995,430	3.55%	51.59%
Impairment losses	1,310,247	1,186,438	690,543	10.44%	71.81%
Net exposure	**1,822,001**	**1,838,472**	**1,304,887**	**-0.90%**	**40.89%**
– Non-performing loans - Gross exposure	1,317,068	1,179,504	689,914	11.66%	70.96%
Impairment losses	810,907	718,823	399,171	12.81%	80.08%
Net exposure	**506,161**	**460,681**	**290,743**	**9.87%**	**58.45%**
– Impaired loans - Gross exposure	1,381,290	1,305,665	745,280	5.79%	75.19%
Impairment losses	447,969	406,531	224,489	10.19%	81.09%
Net exposure	**933,321**	**899,134**	**520,791**	**3.80%**	**72.65%**
– Restructured loans - Gross exposure	88,127	51,163	60,343	72.25%	-15.21%
Impairment losses	11,053	8,344	12,004	32.47%	-30.49%
Net exposure	**77,074**	**42,819**	**48,339**	**80.00%**	**-11.42%**
– Past-due loans - Gross Exposure	345,763	488,578	499,893	-29.23%	-2.26%
Impairment losses	40,318	52,740	54,879	-23.55%	-3.90%
Net exposure	**305,445**	**435,838**	**445,014**	**-29.92%**	**-2.06%**

Deteriorated loans as at 31 March 2014, net of impairment losses, amounted to €1,822 million, representing a slight fall of 0.90% compared with 31 December 2013, reflecting the continuing difficulties of the overall economic situation.

Deteriorated loans in 2013 were up by 40.89% compared to 31 December 2012 to €1,838 million, due to the negative economic situation and more prudential provision criteria. The relevant table provides a summary of the exposure to deteriorated loans.

Net non-performing loans, i.e. after write-downs, were up by 58.45% compared to 31 December 2012 to €461 million, accounting for 1.93% of total loans to customers, compared with 1.15% in the previous year.

The trend in non-performing loans, despite the scale of the adjustments made, is symptomatic of the continuing difficulties faced by businesses and households. Impairment losses in 2013 rose from 57.86% in 2012 to 60.94%. If account is taken of the amounts moved on to the income statement in previous years on already non-performing positions, for which the bank maintains accounting records in case of any recoveries, the coverage of these loans stands at 74.79%.

Impaired loans, i.e. loans to borrowers suffering temporary difficulties that it is believed may be resolved, rose by 72.65% in 2013 to €899 million, accounting for 3.76% of total loans to customers, compared with 2.06% in 2012.

Restructured loans in 2013 amounted to €43 million, representing a fall of 11.42%, largely due to transfers to other categories of deteriorated loans.

Past-due loans in 2013 fell by 2.06% to €436 million. Total write-downs on deteriorated loans increased by 71.81% rising from €691 million to €1,186 million, with a gross coverage of 39.22%.

The table below shows the coverage of loan exposures only for debts still recognised in the balance sheet as at 31 March 2014, 31 December 2013 and 31 December 2012:

Coverage of loans to customers	31/03/14	31/12/13	31/12/12
Non-performing loans	61.57%	60.94%	57.86%
Impaired loans	32.43%	31.14%	30.12%
Restructured loans	12.54%	16.31%	19.89%
Deteriorated past-due loans	11.66%	10.79%	10.98%
Deteriorated loans	41.83%	39.22%	34.61%
Performing loans	0.65%	0.66%	0.73%

Loans to customers: trend of gross deteriorated loans

31 March 2014

Causes/Categories (amounts in thousands of €)	Non-performing loans	Impaired loans	Restructured loans	Past-due loans
A. Gross opening exposure	**1,179,509**	**1,305,666**	**51,162**	**488,578**
- of which: sold and not derecognised	3,750	14,799	-	22,693
B. Increases	**164,361**	**284,133**	**51,301**	**179,825**
B.1 transfers from performing loans	22,068	92,848	23,837	162,857
B.2 transfers from other categories of deteriorated loans	132,539	158,885	13,295	10,922
B.3 other increases	9,754	32,400	14,169	6,046
C. Decreases	**26,797**	**208,509**	**14,336**	**322,640**
C.1 transfers to performing loans (including non-deteriorated past-due loans)	-	21,673	1,949	127,777
C.2 derecognitions	8	-	-	-
C.3 collections	21,800	43,298	7,995	22,798
C.4 gains on disposals	-	-	-	-
C.4 bis losses on disposals	-	-	-	-
C.5 transfers to other categories of deteriorated loans	806	138,620	4,392	171,822
C.6 other decreases	4,183	4,918	-	243

Causes/Categories (amounts in thousands of €)	**Non-performing loans**	**Impaired loans**	**Restructured loans**	**Past-due loans**
D. Closing gross exposure	**1,317,073**	**1,381,290**	**88,127**	**345,763**
- of which: sold and not derecognised	5,920	16,915	-	14,658

31 December 2013

Causes/Categories	Non-performing loans	Impaired loans	Restructured loans	Past-due loans
A. Gross opening exposure	689,918	745,279	60,343	499,893
- of which: sold and not derecognised	857	2,710	-	8,832
B. Increases	592,307	1,044,510	40,717	491,846
B.1 transfers from performing loans	165,514	723,597	13,817	457,687
B.2 transfers from other categories of deteriorated loans	383,760	269,359	24,129	7,552
B.3 other increases	43,033	51,554	2,771	26,607
C. Decreases	102,716	484,123	49,898	503,161
C.1 transfers to performing loans (including non-deteriorated past-due loans)	-	30,097	7	86,770
C.2 derecognitions	24,183	257	-	-
C.3 collections	76,548	100,079	8,064	101,113
C.4 gains on disposals	-	-	-	-
C.4 bis losses on disposals	-	-	-	-
C.5 transfers to other categories of deteriorated loans	483	338,670	41,827	305,696
C.6 other decreases	1,502	15,020	-	9,582
D. Closing gross exposure	1,179,509	1,305,666	51,162	488,578
- of which: sold and not derecognised	3,750	14,799	-	22,693

31 December 2012

Causes/Categories	Non-performing loans	Impaired loans	Restructured loans	Past-due loans
A. Gross opening exposure	**558,902**	**450,132**	**91,142**	**236,952**
- of which: sold and not derecognised				
B. Increases	**350,366**	**513,850**	**6,274**	**486,130**
B.1 transfers from performing loans	172,535	388,176	5,337	455,115
B.2 transfers from other categories of deteriorated loans	138,298	102,225	-	4,341
B.3 other increases	39,533	23,449	937	26,674
C. Decreases	**219,350**	**218,703**	**37,073**	**223,189**
C.1 transfers to performing loans		39,927	1,977	45,590
C.2 derecognitions	153,929	1,821		

Causes/Categories	Non-performing loans	Impaired loans	Restructured loans	Past-due loans
C.3 collections	63,850	54,657	8,268	48,571
C.4 gains on disposals				
C.5 transfers to other categories of deteriorated loans	19	102,270	26,828	115,747
C.6 other decreases	1,552	20,028		13,281
D. Closing gross exposure	**689,918**	**745,279**	**60,343**	**499,893**
- of which: sold and not derecognised	857	2,710		8,832

The tables below show the trend in total value adjustments for deteriorated loans to customers as at 31 March 2014 and for the financial years 2013 and 2012.

31 March 2014

Causes/Categories (thousands of €)	Non-performing loans	Impaired loans	Restructured loans	Past-due loans
A. Total opening adjustments	**718,822**	**406,531**	**8,344**	**52,740**
- of which: sold and not derecognised	1,073	2,612	-	1,818
B. Increases	**101,508**	**105,866**	**5,512**	**22,902**
B.1 value adjustments	59,182	84,847	1,305	20,637
B.1 bis losses on disposals	-	-	-	-
B.2 transfers from other categories of deteriorated loans	42,121	20,478	4,110	1,488
B.3 other increases	205	541	97	777
C. Decreases	**9,423**	**64,428**	**2,803**	**35,324**
C.1 writebacks on valuation	399	10,570	1,155	1,144
C.2 writebacks due to collections	7,935	4,777	-	566
C.2 bis gains on disposals	-	-	-	-
C.3 derecognitions	8	-	-	-
C.4 transfers to other categories of deteriorated loans	1,039	45,877	1,291	19,988
C.5 other decreases	42	3,204	357	13,626
D. Total closing adjustments	**810,907**	**447,969**	**11,053**	**40,318**
- of which: sold and not derecognised	1,715	3,142	-	1,688

31 December 2013

Causes/Categories (thousands of €)	Non-performing loans	Impaired loans	Restructured loans	Past-due loans
A. Total opening adjustments	**399,171**	**224,488**	**12,004**	**54,879**
- of which: sold and not derecognised	213	292	-	581
B. Increases	**372,240**	**307,669**	**5,376**	**34,162**

Causes/Categories (thousands of €)	Non-performing loans	Impaired loans	Restructured loans	Past-due loans
B.1 value adjustments	258,544	272,839	2,293	33,168
B.1 bis losses on disposals	-	-	-	-
B.2 transfers from other categories of impaired loans	113,593	34,552	3,040	954
B.3 other increases	93	278	43	40
C. Decreases	**52,589**	**125,626**	**9,036**	**36,301**
C.1 writebacks on valuation	21,380	13,743	141	706
C.2 writebacks due to collections	4,937	289	-	245
C.4 bis gains on disposals	-	-	-	-
C.3 derecognitions	24,181	585	-	-
C.4 transfers to other categories of impaired loans	380	107,989	8,895	34,875
C.5 other decreases	1,711	3,020	-	475
D. Total closing adjustments	**718,822**	**406,531**	**8,344**	**52,740**
- of which: sold and not derecognised	1,073	2,612	-	1,818

31 December 2012

Causes/Categories (thousands of €)	Non-performing loans	Impaired loans	Restructured loans	Past-due loans
A. Total opening adjustments	**280,192**	**72,131**	**7,803**	**14,848**
- of which: sold and not derecognised	-	-	-	-
B. Increases	**292,875**	**200,945**	**12,255**	**69,944**
B.1 value adjustments	237,871	178,774	12,255	69,456
B.1 bis losses on disposals	-	-	-	-
B.2 transfers from other categories of impaired loans	54,948	21,794	-	314
B.3 other increases	56	377	-	174
C. Decreases	**173,896**	**48,588**	**8,054**	**29,913**
C.1 writebacks on valuation	16,592	3,574	387	371
C.2 writebacks due to collections	1,798	191	-	37
C.2 bis gains on disposals	-	-	-	-
C.3 derecognitions	153,925	1,821	-	-
C.4 transfers to other categories of impaired loans	-	39,967	7,667	29,422
C.5 other decreases	1,581	3,035		83
D. Total closing adjustments	**399,171**	**224,488**	**12,004**	**54,879**
- of which: sold and not derecognised	213	292	-	581

Net interbank position

The tables below show the receivables and payables due from and to banks as at 31 March 2014, 31 December 2013 and 31 December 2012.

Receivables due from banks: breakdown by product

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
A. Receivables due from Central Banks	263,792	107,438	259,560	145.53%	-58.61%
1. Term deposits	-	-	-	-	-
2. Compulsory reserve	262,023	105,504	259,560	148.35%	-59.35%
3. Repurchase agreement receivables	-	-	-	-	-
4. Other	1,769	1,934	-	-8.53%	-
B. Receivables due from banks	705,875	626,516	920,417	12.67%	-31.93%
1. Loans and advances	705,875	626,516	920,405	12.67%	-31.93%
1.1 Current accounts and demand deposits	356,542	236,810	436,013	50.56%	-45.69%
1.2 Term deposits	315,473	361,215	433,249	-12.66%	-16.63%
1.3 Other loans and advances:	33,860	28,491	51,143	18.84%	-44.29%
- Repurchase agreement receivables	-	-	10,427	-	-100.00%
- Financial leasing	-	-	-	-	-
- Other	33,860	28,491	40,716	18.84%	-30.03%
2. Debt securities	-	-	12	-	-100.00%
2.1 Structured securities	-	-	-	-	-
2.2 Other debt securities	-	-	12	-	-100.00%
Total	**969,667**	**733,954**	**1,179,977**	**32.12%**	**-37.80%**

These receivables are not subject to any specific coverage.
Fair value (level 3) is assumed to be equal to the balance sheet value in the case of on-demand or short-term receivables.

Payables due to banks: breakdown by product

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
1. Payables due to banks	1,854,900	1,851,122	1,838,354	0.20%	0.69%
2. Payables due to banks	1,297,156	1,216,856	1,365,670	6.60%	-10.90%
2.1 Current accounts and demand deposits	293,626	239,938	427,359	22.38%	-43.86%
2.2 Term deposits	666,543	606,036	608,112	9.98%	-0.34%
2.3 Loans and advances	334,202	364,300	323,884	-8.26%	12.48%
2.3.1 Repurchase agreement payables	-	-	-	-	-
2.3.2 Other	334,202	364,300	323,884	-8.26%	12.48%
2.4 Payables for commitments to repurchase	-	-	-	-	-

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
own capital instruments					
2.5 Other payables	2,785	6,582	6,315	-57.69%	4.23%
Total	**3,152,056**	**3,067,978**	**3,204,024**	**2.74%**	**-4.25%**

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
A. Receivables due from banks	969,667	733,954	1,179,977	32.12%	-37.80%
B. Payables due to banks	3,152,056	3,067,978	3,204,024	2.74%	-4.25%
Net interbank position (A-B)	**-2,182,389**	**-2,334,024**	**-2,024,047**	**-6.50%**	**15.31%**
Payables due to central banks for LTRO	1,800,000	1,800,000	1,800,000	-	-
Net interbank position (excluding LTRO)	**-382,389**	**-534,024**	**-224,047**	**-28.39%**	**138.35%**

As at 31 March 2014, the net interbank position showed a negative balance of €2,182 million, down by 6.50% compared with the figure of €2,334 million at the end 2013. The change is mainly due to the good liquidity situation.

At the end of 2013, the net interbank position showed a negative balance of €2,334 million, up by €310 million compared with €2,024 million at the end of 2012. The change is mainly attributable to the increase in the financial assets held in the portfolio, partially offset by the decrease in loans to customers due to the fall in demand. The overall net interbank position, excluding ECB lines of credit for LTRO (€1,800 million as at 31 December 2012, 31 December 2013 and 31 March 2014), is negative for €534 million, an increase compared with €224 million at the end of 2012.

The liquidity situation, monitored on a daily basis over a period of three months, was kept optimal at all times. The stock of high-quality financial assets meeting the ECB eligibility criteria was constant.

Treasury activities, which are traditionally intense, showed the prevalence of lending activities, albeit at a lower level than in 2013, compared with funding activities. In the periods considered, the Parent Company maintained a significant position in terms of activities on the e-MID and New MIC platforms. For the New MIC platform, the December 2013 figures rank us as Italy's third-largest trader in terms of volumes exchanged between the operating counterparties.

At the Prospectus Date, the latest estimates for the LCR (Liquidity Hedging ratio) and NSFR (Net Stable Funding Ratio) indices referred to the end of the 2013 financial period are above the fully phased target levels established by the new regulations.

For further information on the liquidity profiles of the Banca Popolare di Sondrio Group, please refer to Section One, Chapter III, Paragraph 3.1.11 of the Prospectus.

Financial assets portfolio

As at 31 March 2014, portfolio financial assets amounted to €7,015 million, up by 3.24%. This rise is attributable in particular to the segment of financial assets held for trading and available for sale, continuing the process of growth seen in the previous year, helped by the presence of abundant liquidity on the markets.

The table below shows the size of the individual assets:

Financial assets

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Financial assets held for trading (HFT - Held for Trading)	3,247,654	3,154,594	2,070,237	2.95%	52.38%
of which derivatives	*34,820*	*37,687*	*45,042*	*-7.61%*	*-16.33%*
Financial assets carried at fair value (CFV - Carried at Fair Value)	96,509	79,226	104,224	21.81%	-23.98%
Available-for-sale financial assets (AFS - Available For Sale)	3,495,122	3,375,500	2,438,079	3.54%	38.45%
Financial assets held to maturity (HTM - Held to Maturity)	175,734	182,621	204,644	-3.77%	-10.76%
Total	**7,015,019**	**6,791,941**	**4,817,184**	**3.28%**	**40.99%**
Hedging derivatives	-	2,923	52	-100.00%	n/a
Overall total	**7,015,019**	**6,794,864**	**4,817,236**	**3.24%**	**41.05%**

Information on financial assets at fair value: the fair value hierarchy

	31/03/14			31/12/13			31/12/12			31/03/2014-31/12/2013			31/12/2013-31/12/2012		
	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	3,154,531	33,398	59,725	3,059,729	36,810	58,055	1,699,356	368,727	2,154	3.10%	-9.27%	2.88%	80.05%	-90.02%	n/a
2. Financial assets at fair value	96,509	-	-	79,226	-	-	30,676	73,548	-	21.81%	-	-	158.27%	-	-
3. Financial assets available for sale	3,381,365	-	113,757	3,257,770	-	117,730	2,221,907	204,917	11,255	3.79%	-	-3.37%	46.62%	-	n/a
4. Hedging derivatives	-	-	-	-	2,923	-	-	52	-	-	-100.00%	-	-	n/a	-
5. Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**6,632,405**	**33,398**	**173,482**	**6,396,725**	**39,733**	**175,785**	**3,951,939**	**647,244**	**13,409**	**3.68%**	**-15.94%**	**-1.31%**	**61.86%**	**-93.86%**	**n/a.**

As in the past, the portfolio shows a prevalence of Italian government bonds, with a further increase during the period in question, due to the attractive yields and the improved sentiment regarding Italian sovereign risk, reflected by the positive changes in the outlook. The limited duration of all these securities (less than 3 years) is a further indicator of a contained risk profile.

These portfolios contained bonds representing so-called "sovereign debt", issued by central and local governments and by governmental bodies, with a total value of €6,224 million as at 31 March 2014. These portfolios did not include securities issued by peripheral states of the euro area.

During 2013, financial assets rose by 41.05%. The increase of €1,978 million compared with 2012 mainly concerned the portfolio of financial assets held for trading and available for sale, and related in particular to purchases of CCT, BOT and BTP.

Financial assets held for trading

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Variable-rate Italian government bonds	1,816,730	1,791,494	1,290,480	1.41%	38.82%
Fixed-rate Italian government bonds	1,102,234	1,037,321	346,706	6.26%	199.19%
Bank bonds	154,887	161,114	264,375	-3.86%	-39.06%
Bonds from other issuers	36,658	24,830	28,157	47.64%	-11.82%
Securitisations	35,182	33,804	38,424	4.08%	-12.02%
Equities and UCI units	67,143	68,344	57,053	-1.76%	19.79%
Total	**3,212,834**	**3,116,907**	**2,025,195**	**3.08%**	**53.91%**
Net value of derivative contracts	34,820	37,687	45,042	-7.61%	-16.33%
Overall total	**3,247,654**	**3,154,594**	**2,070,237**	**2.95%**	**52.38%**

The details of the portfolio of securities held for trading, broken down by asset type, is as follows:

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Debt securities	3,145,690	3,048,562	1,968,142	3.19%	54.90%
Equities	44,058	42,369	40,673	3.99%	4.17%
UCI units	23,086	25,976	16,380	-11.13%	58.58%
Total	**3,212,834**	**3,116,907**	**2,025,195**	**3.08%**	**53.91%**
Debt securities	97.91%	97.81%	97.18%	0.11%	0.64%
Equities	1.37%	1.36%	2.01%	0.88%	-32.32%
UCI units	0.72%	0.83%	0.81%	-13.78%	3.04%
Total	100.00%	100.00%	100.00%		

The analysis by type of asset shows that the increase during the period in question relates almost entirely to debt securities, which at 31 March 2014 represent 97.91% of the portfolio.
The total amount of financial assets at €34.8 million (€40.6 million as at 31 December 2013 and €45.1 million at 31 December 2012) includes derivatives held for trading and hedging; this is in reference to almost all Over the Counter (OTC) contracts whose assessment is performed on valuation models that either use significant observable market parameters or are obtained from independent sources (Level 2).

Financial assets available for sale

(thousands of €)	31/03/2014	31/12/2013	31/12/2012	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Variable rate Italian government bonds	1,658,575	1,683,206	1,260,650	-1.46%	33.52%
Fixed rate Italian government bonds	1,588,958	1,488,516	947,723	6.75%	57.06%
Bank bonds	40,525	40,609	65,628	-0.21%	-38.12%
Bonds of other issuers	19,153	22,605	11,787	-15.27%	91.78%
UCI equities and units	187,911	140,564	152,291	33.68%	-7.70%
Total	**3,495,122**	**3,375,500**	**2,438,079**	**3.54%**	**38.45%**

The breakdown of the portfolio of bonds available for sale by type of asset is as follows:

(thousands of €)	31/03/2014	31/12/2013	31/12/2012	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Debt securities	3,307,211	3,234,936	2,285,788	2.23%	41.52%
Equities	69,299	67,302	79,403	2.97%	-15.24%
UCI units	118,612	73,262	72,888	61.90%	0.51%
Total	**3,495,122**	**3,375,500**	**2,438,079**	**3.54%**	**38.45%**
Debt securities	94.62%	95.84%	93.75%	-1.27%	2.23%
Equities	1.98%	1.99%	3.26%	-0.50%	-38.96%
UCI units	3.40%	2.17%	2.99%	56.68%	-27.42%
Total	100.00%	100.00%	100.00%		

Exposures to sovereign states (sovereign risk)

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Exposures to EU countries	**6,222,208**	**6,051,372**	**3,913,958**	**2.82%**	**54.61%**
Italy	6,216,722	6,047,269	3,911,026	2.80%	54.62%
Germany	1,201	1,202	1,204	-0.08%	-0.17%
Other EU countries	4,285	2,901	1,728	47.71%	67.88%
Exposures to other countries	**1,414**	**877**	**3,411**	**61.23%**	**-74.29%**
Switzerland	-	-	2,521	-	-100.00%
USA	819	813	827	-	-1.69%
Other countries	595	64	63	829.69%	1.59%
Total	**6,223,622**	**6,052,249**	**3,917,369**	**2.83%**	**54.50%**

The Group's total exposure in debt securities issued by sovereign states as at 31 March 2014 amounts to €6,224 million, compared with €6,052 million at the end of 2013 and €3,917 million at the end of

2012.

Almost all of the Group's exposure to sovereign risk is concentrated in Italian government bonds.

Classification by portfolio of exposures in debt securities issued by sovereign states

(thousands of €)	31/03/14	31/12/13	31/12/12	31/03/2014-31/12/2013	31/12/2013-31/12/2012
Financial assets held for trading	2,929,453	2,833,816	1,643,558	3.37%	72.42%
Financial assets carried at fair value	493	493	29,767	-	-98.34%
Available-for-sale financial assets	3,258,828	3,183,014	2,219,401	2.38%	43.42%
Financial assets held to maturity	34,848	34,926	24,643	-0.22%	41.73%
Exposures in debt securities	**6,223,622**	**6,052,249**	**3,917,369**	**2.83%**	**54.50%**
Debt securities as % of securities portfolio	**91.59%**	**89.07%**	**81.32%**		

In the period under review, exposure in sovereign debt securities has progressively increased, both in absolute terms and as a proportion of the Group's overall securities portfolio.

As at 31 March 2014, exposure in loans to national and local authorities stands at €75 million. Loans to companies part-owned by national or local authorities amount to €434 million, while those to miscellaneous public bodies total €269 million. These loans are concentrated mainly in Italy and represent 3.16% of consolidated loans to customers as at 31 March 2014.
As at 31 March 2014, financial assets valued on the basis of quoted prices in active markets (Level 1) or observable market inputs (Level 2) represent 97.49% of total financial assets and liabilities carried at fair value, compared with 97.37% in 2013 and 99.71% in 2012.

Instruments valued to a significant extent on the basis of non-observable parameters (Level 3) constitute a marginal share (2.51%). These investments, mostly classified in the portfolio of "Available-for-sale financial assets", consist mainly of equity investments valued on the basis of internal models, from private equity funds and real estate funds. These are investments that, by their nature, require different assumptions and estimates in the valuation process, including in relation to their relative illiquidity.

Financial liabilities

The following table summarises the information on financial liabilities carried at fair value for fair value hierarchy.

Information on financial liabilities carried at fair value: fair value hierarchy

(thousands of €)	31/03/14			31/12/13			31/12/12			31/03/2014-31/12/2013			31/12/2013-31/12/2012		
	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3
1. Financial liabilities held for trading	500	32,109	-	29	36,521	-	687	43,649	-	1624,14%	-12.08%	-	-95.78%	-16.33%	-

2. Financial liabilities carried at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Hedging derivatives	-	33,775	-	-	27,580	-	-	45,950	-	-	22.46%	-	-	-39.98%	-
4. Outstanding securities	-	2,972,635			2,985,293			2,931,855			-0.42%			1.82%	
Total	**500**	**3,038,519**	-	**29**	**3,049,394**	-	**687**	**3,021,454**	-	**1624,14%**	**-0.36%**	-	**-95.78%**	**0.92%**	-

Financial liabilities held for trading

Financial liabilities held for trading are mainly represented by derivative instruments, brokered to meet the needs of customers, and the fair value of which is obtained using valuation techniques that use significant observable market parameters (Level 2).

Outstanding securities

Outstanding securities amounted, as at 31 March 2014 to €2,964 million, essentially unchanged compared to 31 December 2013. Such instruments are measured on the balance sheet at an amortised cost and have a fair value of €2,973 million as at 31 March 2014; they are classified at level 2 and are mainly represented by bonds issued.

The aggregate in question, as at 31 March 2014 includes securities deriving from the issuance of the following subordinated loans:

- an initial loan for the residual amount of €210 million, effective from 26 February 2010 and expiring on 26 February 2017, with an annual depreciation prediction of 20%, taking effect as of 20 February 2013, issued at a rate of 4%, which will gradually increase to 5%;
- a second loan for a total of €400 million, effective from 23 November 2011 and expiring on 23 November 2018, with an annual depreciation prediction of 20%, taking effect as of 23 December 2014, with the rate increasing from 4.50% up to 6%.

Both bonds described belong to the category of loans subordinated to “Lower Tier 2” and, as such, shall count as part of the supplementary regulatory capital.
The remaining outstanding bonds, which have a different nature than those mentioned above, have a contained average term: about two-thirds of the total are in fact expected to expire by 2016.

The changes in fair value of financial assets and liabilities held for trading are recorded under item 80 in the income statement “Net result of trading assets” and at 31 March 2014 the net imbalance of these capital gains and capital losses was positive by €38.1 million. The changes in fair value of financial assets and liabilities valued at fair value are recorded under item 110 in the income statement “Net result of assets and liabilities valued at fair value” and at 31 March 2014 the net imbalance of these capital gains and capital losses was positive by €1.1 million. The changes in fair value of financial assets available for sale are recorded in a dedicated shareholder’s equity reserve, known as the Valuation reserve until the assets are cancelled or a loss in value is detected; at the time of cancellation or the detection of a loss in value the cumulative profits or losses are ascribed to the income statement. As at 31 March 2014 the balance of the reserve from the net imbalance of these capital gains and capital losses was positive by €58.9 million. Net adjustments in value as at 31 March 2014 in the income statement for this category of assets showed a deterioration of €0.2 million. The changes in fair value of hedging derivatives are recorded under item 90 of the income statement “Net result of hedging assets”, which, at 31 March 2014 was positive by €0.1 million.

Net equity, regulatory capital and regulatory capital ratios

The consolidated net equity of the Group as at 31 March 2014, including valuation reserves and profits for the period, amounts to €2,006.930 million, an increase of €70.756 (+3.65%) compared with €1,936.174 million as at 31 December 2013. The change observed during the period is mainly attributable to the operating profit of €41.746 million and the change in valuation reserves, which show a positive balance of €44.815 million compared with €16.782 million at the end of 2013.

With reference to the regulatory capital, determined according to "Basel II" rules (regulation in force until 31 December 2013), the information relating to the financial years 2013 and 2012 is set out below.

(thousands of €)	2013	2012	2013 /2012
A. Core capital before the application of prudential filters	**1,932,587**	**1,909,007**	**1.24%**
B. Core capital prudential filters:	-3,936	-20,170	-80.49%
B1 - positive IAS/IFRS prudential filters (+)	-	-	-
B2 - negative IAS/IFRS prudential filters (-)	-3,936	-20,170	-80.49%
C. Core capital including items to be deducted (A+B)	**1,928,651**	**1,888,837**	**2.11%**
D. Items to be deducted from Core capital	53,478	46,083	16.05%
E. Total Core capital (TIER1) (C-D)	**1,875,173**	**1,842,754**	**1.76%**
F. Supplementary capital before the application of prudential filters	**682,150**	**753,935**	**-9.52%**
G. Supplementary capital prudential filters:	-1,631	-2,106	-22.55%
G1- positive IAS/IFRS prudential filters (+)	-	-	-
G2- negative IAS/IFRS prudential filters (-)	-1,631	-2,106	-22.55%
H. Supplementary capital including items to be deducted (F+G)	**680,519**	**751,829**	**-9.48%**
I. Items to be deducted from Supplementary capital	53,478	46,083	16.05%
L. Total Supplementary capital (TIER2) (H-I)	**627,041**	**705,746**	**-11.15%**
M. Items to be deducted from total Core and Supplementary capital	-	-	-
N. Total capital (E + L - M)	**2,502,214**	**2,548,500**	**-1.82%**
O. Tier 3 capital (TIER 3)	-	-	-
P. Total capital including TIER 3 (N + O)	**2,502,214**	**2,548,500**	**-1.82%**

The highest-quality capital component, Core or Tier 1 capital, amounts to €1,875.173 million as at 31 December 2013, showing an increase of €32.419 million (+1.76%). At the same date, regulatory capital stands at €2,502.214 million, a reduction of €46.286 million (-1.82%) compared with the end of December 2012, linked to the decrease in supplementary capital due to partial repayments of the subordinated loans component in accordance with the repayment schedule.

Regulatory capital requirements

(thousands of €)	2013	2012	2013 /2012
A. RISK ASSETS			
A.1 Credit and counterparty risk	21,572,775	22,444,131	-3.88%
1. Standardised method	21,572,775	22,444,131	-3.88%
2. Method based on internal ratings	-	-	-
2.1 Basis	-	-	-
2.2 Advanced	-	-	-
3. Securitisations	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS			
B.1 Credit and counterparty risk	1,725,822	1,795,530	-3.88%
B.2 Market risks	38,379	27,618	38.96%
1. Standard method	38,379	27,618	38.96%
2. Internal models	-	-	-
3. Concentration risk	-	-	-
B.3 Operating risk	136,261	118,165	15.31%
1. Basic method	136,261	118,165	15.31%
2. Standardised method	-	-	-
3. Advanced method	-	-	-
B.4 Other prudential requirements	-	-	-
B.5 Other items of calculation	-	-	-
B.6 Total prudential requirements	1,900,462	1,941,313	-2.10%
C. RISK ASSETS AND REGULATORY RATIOS			
C.1 Risk-weighted assets	23,755,775	24,266,413	-2.10%
C.2 Core capital/Risk-weighted assets (Tier 1 capital ratio)	7.89%	7.59%	3.95%
C.3 Regulatory capital including Tier 3/Risk-weighted assets (Total capital ratio)	10.53%	10.50%	0.29%

The reduction in risk-weighted assets seen in 2013 is attributable to the reduced exposure on loans to customers.

In 2013, the Core Tier 1 Ratio shows an increase of 30 bps, rising from 7.59% at the beginning of the year to 7.89% as at 31 December 2013, mainly due to the profit recorded for the year.

1 January 2014 marked the entry into force of the new legislation on prudential requirements for credit institutions and investment companies introduced by the CRD IV, the CRR and Circular No. 285. The above legislation entails the application, as of 1 January 2014, of Basel III, which sets more stringent capital requirements, both in terms of the requirement for a higher-quality capital base and due to the introduction of higher threshold levels and the requirement for additional capital buffers.

In view of the numerous changes made to the regulatory reporting requirements by the new Basel III rules, the Bank of Italy, as an exceptional measure, has set the date of 30 June 2014 for the submission of prudential reporting relating to 31 March 2014, with reference to the regulatory capital and the capital ratios calculated on the basis of the Basel III provisional ("*Phase in*") regime. On the Prospectus date, the related calculations are still underway.

For further information concerning the capital adequacy and the regulatory ratios of the Banca Popolare di Sondrio Group, please refer to Section One, Chapter III, Paragraph 3.1.1 of the Prospectus.

Financial performance of the Group

The table below sets out the restated data contained in the Group's reports on operations included in the 2013 and 2012 annual financial statements and in the consolidated interim reports on operations as at 31 March 2014 and 31 March 2013, in order to comment on the Group's financial performance.

(thousands of €)	31/03/14	31/03/13	31/03/2014-31/03/2013	31/12/13	31/12/12	31/12/2013-31/12/2012
Net interest income	147,718	123,681	19.43%	559,162	526,106	6.28%
Dividends	296	80	270.00%	2,699	2,934	-8.01%
Net fees and commissions	73,798	66,728	10.60%	283,001	283,993	-0.35%
Net income from financial activities	74,834	24,130	210.13%	169,117	177,702	-4.83%
Intermediation margin	**296,646**	**214,619**	**38.22%**	**1,013,979**	**990,735**	**2.35%**
Net value adjustments on loans and financial assets	-121,921	-89,344	36.46%	-490,285	-491,899	-0.33%
Net financial income	**174,725**	**125,275**	**39.47%**	**523,694**	**498,836**	**4.98%**
Personnel expenses	-55,805	-54,355	2.67%	-219,088	-217,177	0.88%
Other administrative expenses	-58,370	-54,931	6.26%	-222,087	-209,130	6.20%
Other operating income/expense	18,362	17,044	7.73%	73,465	62,305	17.91%
Provisions for risks and charges	-640	1,004	-163.75%	-2,850	-3,167	-10.01%
Value adjustments on tangible and intangible fixed assets	-6,594	-6,549	0.69%	-29,416	-29,534	-0.40%
Operating costs	**-103,047**	**-97,787**	**5.38%**	**-399,976**	**-396,703**	**0.83%**
Operating profit (loss)	**71,678**	**27,488**	**160.76%**	**123,718**	**102,133**	**21.13%**
Profits (losses) on equity investments and other investments (+/-)	756	1,615	-53.19%	1,630	4,696	-65.29%
Pre-tax profit	**72,434**	**29,103**	**148.89%**	**125,348**	**106,829**	**17.34%**
Taxes on income from continuing operations	-28,023	-16,672	68.08%	-64,671	-66,646	-2.96%
Net profit	**44,411**	**12,431**	**257.26%**	**60,677**	**40,183**	**51.00%**
Profit attributable to non-controlling interests	-2,665	-1,897	40.48%	-7,644	-5,877	30.07%

(thousands of €)	31/03/14	31/03/13	31/03/2014-31/03/2013	31/12/13	31/12/12	31/12/2013-31/12/2012
Profit attributable to the Parent Company	**41,746**	**10,534**	**296.30%**	**53,033**	**34,306**	**54.59%**

Comments are given below on the key financial figures with regard to both income and expenses. Net interest income shows steady growth in all the periods considered, while net fees and commissions remain essentially stable in 2012 and in 2013, while as at 31 March 2014 they show growth of 10.60% with respect to the comparison figure. Net income from financial activities in relation to the securities portfolios was characterised, in the periods considered, by the impact of the volatility on the financial markets. The solid result of €177.702 million achieved in 2012 was facilitated by the substantial capital gains recorded for the portfolio of government bonds and by the gains on disposals of the same after a year with substantial capital losses on securities.

The net financial result of €169.117 million recorded in 2013 was down by 4.83% on the previous year due to a significant reduction in the imbalance, which nevertheless remained positive, between capital gains and losses, while the result as at 31 March 2014 benefits from a significant improvement in "sentiment" towards government securities, with a rise from €24.130 million as at 31 March 2013 to €74.834 million.

Impairments of loans, which had shown a strong increase in 2012 compared with the previous year, were virtually stable over the two years, falling slightly from €491.899 million in 2012 to €490.285 million, and remain high in 2014 due to the continuing negative economic climate, the uncertainty that still persists with regard to any recovery, and the need to strengthen controls in the face of the deterioration in credit quality. As pointed out by Bank of Italy in the circular sent to all Italian banks on 13 March 2013, the persistence of the economic recession and the continuing uncertainty regarding the prospects of a recovery in domestic demand resulted in a strengthening of controls in the face of the deterioration in the quality of the assets held, primarily by adjusting total loan impairments according to the trend in the current economic context.

Operating costs in the period showed limited growth, rising from €396.703 million in 2012 to €399.976 million in 2013 (+0.83%) and from €97.787 million as at 31 March 2013 to €103.047 million as at 31 March 2014 (+5.38)%.

Operating profit, representing the difference between the operating income and operating costs mentioned above, is therefore positive in all the periods considered.

Despite the difficulties encountered, as highlighted above, the Group recorded a positive result in all the periods considered: €41.746 million as at 31 March 2014, €10.534 million as at 31 March 2013, €53.033 million in 2013 and €34.306 million as at 31 December 2012.

For further comments on the financial performance in the first quarter of 2014, please refer to page 24 of the consolidated quarterly financial Report as at 31 March 2014.

For further comments on the financial performance in 2013 compared with 2012, please refer to pages 340-341-342 and 343 of the 2013 annual report.

For comments on the financial performance in 2012, please refer to pages 345-346-347 and 348 of the 2012 annual report.

15.2 FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2013 AND 31 DECEMBER 2012

This chapter does not include the financial statements of Banca Popolare di Sondrio for the years ended 31 December 2013 and 31 December 2012, since these do not provide any significant additional information with respect to what is reported in the consolidated financial statements.

15.3 AUDITING OF ANNUAL FINANCIAL INFORMATION FOR PREVIOUS YEARS

15.3.1 AUDITING OF INFORMATION FOR PREVIOUS YEARS

The 2013 Financial Statements, approved by the Board of Directors on 25 March 2014 and by the Shareholders' Meeting on 26 April 2014, were audited by the External Auditors, who issued their report without reservations on 4 April 2014. A copy of this report is annexed hereunder as well as to this Prospectus.

The 2012 Financial Statements, approved by the Board of Directors on 26 March 2013 and by the Shareholders' Meeting on 27 April 2013, were audited by the External Auditors, who issued their report without reservations on 4 April 2013. A copy of this report is annexed hereunder as well as to this Prospectus.

EXTERNAL AUDITORS' REPORT FOR 2012

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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

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

1 We have audited the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2012, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the parent's directors restated some of the corresponding figures included in the prior year consolidated financial statements. We audited such consolidated financial statements and issued our report thereon on 29 March 2012. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of expressing an opinion on the consolidated financial statements at 31 December 2012.

3 In our opinion, the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2012 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Banca

Popolare di Sondrio Group as at 31 December 2012, the results of its operations and its cash flows for the year then ended.

4 The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of a directors' report on operations and a report on the corporate governance and the ownership structure, published in the "informativa societaria" section of Banca Popolare di Sondrio S.C.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report on operations and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and the ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report on operations and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and the ownership structure are consistent with the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2012.

Milan, 4 April 2013

KPMG S.p.A.

(signed on the original)

Paolo Valsecchi
Director of Audit

EXTERNAL AUDITORS' REPORT FOR 2013

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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

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

1 We have audited the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2013, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 4 April 2013 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2013 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Banca Popolare di Sondrio Group as at 31 December 2013, the results of its operations and its cash flows for the year then ended.

4 The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of a directors' report on operations and a report on the corporate governance and the ownership structure, published in the "informativa societaria" section of Banca Popolare di Sondrio S.C.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report on operations and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and the ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report on operations and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and the ownership structure are consistent with the consolidated financial statements of the Banca Popolare di Sondrio Group as at and for the year ended 31 December 2013.

Milan, 4 April 2014

KPMG S.p.A.

(signed on the original)

Paolo Valsecchi
Director of Audit

EXTERNAL AUDITORS' REPORT RELATING TO THE CONSOLIDATED INTERIM REPORT ON OPERATIONS AS AT 31 MARCH 2014

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Auditors' report on review of condensed interim consolidated financial statements

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

Introduction

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

Scope of review

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

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

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

Conclusion

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

Milan, 29 May 2014

KPMG S.p.A.

(signed on the original)

Paolo Valsecchi
Director of Audit

15.3.2 FINANCIAL INFORMATION CONTAINED IN THE PROSPECTUS THAT IS NOT EXTRACTED FROM THE AUDITED FINANCIAL STATEMENTS

The Prospectus contains financial information extracted from the audited consolidated financial statements for the years ended 31 December 2013 and 31 December 2012. In addition, the Prospectus also includes other restated financial information deriving from the above-mentioned financial statements.

15.4 DATE OF THE MOST RECENT FINANCIAL INFORMATION

The most recent audited financial information included in the Prospectus relates to the 2013 Financial Statements.

The Prospectus also contains consolidated financial information relating to the quarter 31 March 2014, subject to limited audit.

15.5 INTERIM PERIOD FINANCIAL INFORMATION AND OTHER FINANCIAL INFORMATION

After the date of the consolidated financial statements of the Group for the financial year ended 31 December 2013, the Issuer has published quarterly financial information relating to the quarter ended 31 March 2014.

15.6 DIVIDEND POLICY

The dividend policy of the Issuer is determined by the statutory requirements specified below, and by the need to strengthen capital management through self-financing, i.e. the appropriation to reserves of part of the net profit for the year. Due attention is naturally given to members and shareholders in terms of the payment of dividends, which Banca Popolare di Sondrio has always paid since its inception.

Pursuant to Article 60 of the Articles of Association, “From the net profit resulting from the annual financial statements approved by the Shareholder’s Meeting, the following sums are first deducted: the proportion earmarked for the legal or ordinary reserve, in the amount required by law; an amount not less than 20% and not greater than 30% for the statutory or extraordinary reserve. The remaining profit is distributed as follows: a) to the members, in an amount established according to prudential criteria by the Shareholders’ Meeting on the proposal of the Board of Directors; (b) the remainder on the proposal of the Board of Directors and in accordance with the resolutions of the Shareholders’ Meeting, which may constitute or increase reserves howsoever named, in addition to the reserve for the acquisition of shares of the company and a fund to be used for assistance, charity, and cultural and social initiatives. At the time of preparing the financial statements, the Board of Directors may provide for the appropriation of profits to constitute or increase reserves, prior to the determination of the net profit of referred to in paragraph 1.”

Pursuant to Article 15 of the Articles of Association, “Dividends not collected within five years from the day on which they become payable shall remain vested in the company.”

As mentioned earlier, Bank of Italy, in a communication dated 13 March 2013, recommended to all banks the adoption of dividend distribution policies that make it possible to maintain – at individual and consolidated level – current and future capital adequacy conditions consistent with all the risks assumed and adequate for facilitating compliance with the prudential requirements established in the CRD IV and the CRR, and for ensuring coverage of the internal capital levels calculated in the context of the ICAAP process.
Lastly, it should be noted that on 17 December 2013 the Bank of Italy issued Circular No. 285 – “Supervisory provisions for banks” in which, among other things, it anticipates which “Capital conservation measures”, constraints on the supply of capital that banks are bound to comply with in order to approve the distribution of dividends.

15.6.1 DIVIDENDS DISTRIBUTED

The amount of the dividend per share relating to financial years 2010 and 2013 are given below:

- financial year 2012 €0.033 per share
- financial year 2013 €0.05 per share

15.7 LEGAL AND ARBITRATION PROCEEDINGS

Banca Popolare di Sondrio and the companies of the Group are involved in a number of judicial, legal and administrative proceedings relating to the conduct of their normal activities. Details of the most significant in the Issuer's opinion of these are provided below.

Judicial and legal proceedings brought against the Issuer

As at the Prospectus Date, the court and legal proceedings brought by the Issuer and the Group companies are, in the opinion of the Issuer, to be deemed, in principle, physiological and in line with the principles contained, in relation to the activity carried out, to the size of the Group itself, to the risks inherent to the banking business and the provision of investment services. There is, however, a risk that the Issuer and its subsidiaries may suffer economic losses in relation to the proceedings in progress, including those related to litigation pending in the field of compound interest.

In accordance with the likelihood of loss of this nature and with the current accounting standards, the Issuer’s consolidated quarterly financial report dated 31 March 2014 notes a prudent provision against existing legal disputes, including tax litigation for €35.26 million, which the Company believes to be reasonable, compared to a total claim, whereas already quantified, amounting to €164.45 million.

At the Prospectus Date, in the Issuer's opinion, the only significant case in progress against the Issuer is that brought by Alitalia - Linee Aeree Italiane S.p.A. in extraordinary administration, which in a writ of summons served on 28 August 2011 demanded the invalidation, with respect to the proceedings, of remittances in the amount of €17,812,155.55, corresponding to credit entries made to the company’s account.

The Company’s legal counsel has argued, supplying the relevant accounting evidence, that there are no remittances in settlement, since operations were always carried out through “balanced” transactions. As a precautionary measure, however, the Issuer has set aside a nominal provision of €4,500,000.00.

Dispute relating to the compound interest

In judgments 2374/1999 and 3096/1999, the Court of Cassation declared unlawful the quarterly capitalisation of debit interest on current accounts, and consequently any contractual clause that provides for the quarterly compounding of interest has only a transactional nature and does not follow any "regulatory" use, so that it is unsuitable to derogate from the mandatory rule that prohibits the charging of compound interest pursuant to Article 1283 of the Italian Civil Code. This approach has also been confirmed by recent rulings by the Court of Cassation (S.U. 24418/2010 and order No. 20172/2013 VI Civil Section). Subsequently, Legislative Decree No. 342/99 has affirmed the lawfulness of sub-annual compounding of interest on current bank accounts, provided credit interest and debit interest are calculated according to the same periodicity, the disputes arising subsequent to these judgments have therefore concerned contracts concluded prior to the date of entry into force of Legislative Decree No. 342/99.

With regard to the compounding of interest on bank accounts, Article 2, paragraph 61 of Legislative Decree No. 225 of 29 December 2010 (known as the "Thousand Extensions" decree), converted with amendments by Law No. 10/2011, introduced a rule concerning the definitive interpretation of Article 2935 of the Civil Code which, as regards the prescription of legal actions concerning the repayment of the interest paid unduly, established that the ten-year term commences from the time of the entry of the corresponding transaction on the account rather than from the day of closure of the current account. With judgment No. 78, of 5 April 2012, the Constitutional Court declared this article constitutionally unlawful, giving fresh impetus to the dispute in this regard.

As at the Prospectus Date, the total number of cases pending against the Group related to compound interest is maintained, in absolute terms, at levels which the Issuer believes to be physiological and the risk is still fronted by prudential provisions for risks and charges. As at 31 March 2014, the total prudential provisions set aside for compound interest and usury amount to €3 million. The total *petitum* already identified and sought for the two types amounts to a total of €2.05 million.

In light of the rulings on the *dies a quo* regarding the commencement of the statute of limitations for the legal actions pertaining to the repayment of the interest unduly paid, the total number of cases pending with regard to compound interest could see an increase, with possible negative effects on the economic situation, equity and/or financial condition of the Issuer and/or the Group.

Note should also be taken of the recent provisions on the compounding of interest introduced by Law No. 147 of 27 December 2013 (the "2014 Stability Law"). In this regard, Article 1, paragraph 629, amending Article 120 of the TUB, expressly provides that "*periodically capitalised interest may not produce any additional interest and that, in subsequent capitalisation operations* [, such interest must be] *calculated exclusively on the principal sum.*" The Legislator, with broad delegation, then assigned to the ICCS the task of dictating procedures and criteria for the production of interest in (banking) transactions, without establishing anything with regard to the end of the intervention. Until such time as the implementing regulation is issued, it is possible that there could be further scenarios of potential disputes with customers.

Ongoing disputes with tax authorities

With regard to the tax situation of the Group, in relation to the Issuer, the financial years up to 2005 can be regarded as settled as far as tax is concerned. For 2006, 2007 and 2008, the Parent Company has received notices of IRES and IRAP assessment from the Italian Revenue Agency with regard to the deductibility of interest expense paid to counterparty customers and banks resident in “tax haven” countries. Faced with these challenges, appropriate appeals have been lodged for the years 2006, 2007 and 2008. At the Prospectus Date, these appeals are pending before the Provincial Tax Commission of Milan. With regard to this case, in May 2014 the Company received the request for information relating to 2009 and it is believed that the IRES and IRAP assessment notifications for 2009 containing the said challenges present in the documents referring to previous years will follow.

For the same financial years, the Parent Company has received notices of VAT assessment with regard to the non-application of VAT on fees and commissions received as custodian bank. The dispute concerns the financial years 2006, 2007 and 2008. Penalties and interest were also charged for 2006 and 2007, while there are no penalties for 2008, as specified below. In view of the complexity of the dispute and the many uncertainties on points of interpretation, and because the dispute concerns all financial intermediaries that carry out custodian bank activities, reflecting a radical change with respect to the practices followed practically since time immemorial, the Revenue Agency, with resolution No. 97/E of 17 December 2013, formalised a compromise solution that provides for only partial lump-sum liability for VAT on these fees and commissions and no imposition of penalties for the previous years under assessment. The assessment for 2008 reflects the content of this resolution. The Parent Company, after carefully assessing the new provision, has decided that the VAT assessment for 2008 can be settled by making the requested payment, while for 2006 and 2007, whose notices of assessments were challenged in a timely manner, it considered that the dispute must be settled, formulating a legal settlement proposal with the financial Administration, in the light of the above-mentioned resolution, which does not provide for the imposition of any penalties and reduces the amount demanded. In May 2014 the Company received, in this regard, the information questionnaire relating to 2009, and it must be considered that similar demands will follow for the years up to 2013.

The total amount claimed by the Revenue Agency in relation to the IRES and IRAP assessments in progress is €2.7 million in taxes, of which one third has already been paid, plus interest and penalties.

With reference to the dispute which could arise with the Financial Administration on the subject of VAT relating to fees perceived as depositary bank for the years 2009 to 2013, whose claims have been substantially reduced through Resolution No. 97/E mentioned above and to the dispute already existing and the one that may arise on the matter of IRES and IRAP for interest payable paid to residents in tax haven countries, the Parent Company believes that the provision of €2 million included in the legal disputes fund insufficient to fulfil any possible charges that might arise in this regard.

In 2013 and 2014, notices of assessment were received in relation to the substitute tax on medium- to long-term loans granted as part of a pool with other banks for which the contracts were signed outside Italy. The Revenue Agency, departing from an earlier position, asserts that these contracts were prepared in Italy even if they were signed abroad, and are therefore liable to substitute tax. Almost all of these contracts provide for the possibility of charging the additional tax back to the borrowing counterparties. The Parent Company has instructed its lawyers to file the related appeals after consulting with the other member banks of the pool and the recipients of the loans.

There is a dispute pending with the Financial Administration relating to the company Immobiliare Borgo Palazzo Srl, entirely controlled by the subsidiary Sinergia Seconda S.r.L. following a refutation of "non operation" put forward following investigations. The first and second degree judgments rejected the claims of the Financial Administration which sought recourse from the Supreme Court. No provisions were made in this regard on the basis of the valid grounds that the company deems to have supported by the judgments and regulatory changes made later on.

Investigations by supervisory authorities

The Company, during the period of 8 January to 24 April 2013, was subjected to an audit by the Bank of Italy on the "Assessment of the adequacy of impairment losses on non-performing loans, impaired loans and restructured loans and the related policies and application practices."

The audit, which has not led to the initiation of any disciplinary proceedings, has highlighted weaknesses in the planning and implementation of the policies concerning provisioning, defining internal rules and practices in use, observations that have been the subject of careful reflection, timely feedback in dealing with Bank of Italy and resulting initiatives, implemented and under-way, aimed at adapting the structures, revising the regulatory system, redefining the provisioning policies, from a more conservative standpoint, consistent with the prolonged unfavourable economy, the growing difficulties in the housing market and the uncertainty about future trends in the economic environment.

As implemented in terms of the classification of deteriorated loans, quantification of the value adjustments and provisions related to loans is reflected in the balance sheet data for 2012 and 2013, and in the hedging ratios.

As part of a focused investigation, but in a logic of complementarities, it was noted that, despite the presence of a business situation characterised by technical profiles which were on the whole positive, it is clear that the group has weaknesses related to governance, the organisational structure, in the planning and management of risks, which are not fully adapted to the growth process related to the size and operations of the Group. In this regard, initiatives have been undertaken—while others are being implemented gradually—to strengthen the structure of the Group in the relevant areas.

15.8 SIGNIFICANT CHANGES IN THE ISSUER'S FINANCIAL OR COMMERCIAL SITUATION AFTER 31 DECEMBER 2013

There were no significant changes in the Issuer's financial or commercial situation after the close of the 2013 financial year.

CHAPTER XVI – SUPPLEMENTARY INFORMATION

16.1 SHARE CAPITAL

16.1.1 SUBSCRIBED AND PAID-UP SHARE CAPITAL

At the Prospectus Date, the Issuer's share capital, fully subscribed and paid-up, amounts to €924,443,955, divided into No. 308,147,985 ordinary shares with a nominal value of €3.00 each, of which No. 3,020,000 shares included in the property book (0.98%).

16.1.2 SHARES NOT REPRESENTING CAPITAL

At the Prospectus Date, the Issuer has not issued any shares other than ordinary shares, nor any shares not representing capital.

16.1.3 AMOUNT OF ANY CONVERTIBLE OR EXCHANGEABLE BONDS OR BONDS WITH WARRANTS, WITH AN INDICATION OF THE CONDITIONS AND PROCEDURES FOR CONVERSION, EXCHANGE OR SUBSCRIPTION

The Issuer does not have any outstanding convertible or exchangeable bonds or bonds with warrants.

16.1.4 EXISTENCE OF PURCHASE RIGHTS AND/OR OBLIGATIONS ON AUTHORISED BUT NOT ISSUED CAPITAL OR OF AN UNDERTAKING TO INCREASE THE CAPITAL

Since the only operation on capital resolved by the Issuer concerns the Offer mentioned in Section II, paragraph 4.1.6 of this Prospectus, to which the reader is referred, details are given of the resolutions adopted by the Shareholders' Meeting and the Board of Directors of the Issuer in relation to the Offer. There are currently no commitments and/or plans to increase the Issuer's share capital.

Apart from those arising from the Subscription Rights Offer, there are currently no other purchase rights and/or obligations on authorised but unissued share capital.

16.1.5 INFORMATION REGARDING THE CAPITAL OF ANY MEMBERS OF THE GROUP OFFERED UNDER OPTION

At the Prospectus Date, there are no shares of companies of the Banca Popolare di Sondrio Group offered under option, either conditionally or unconditionally.

CHAPTER XVII – MAJOR CONTRACTS

At the Prospectus Date, the Issuer and the companies belonging to the Group do not have any major contracts in the course of implementation, signed and/or scheduled other than those concluded within the context of their respective normal activities.

CHAPTER XVIII – INFORMATION ORIGINATING FROM THIRD PARTIES, EXPERT OPINIONS AND DECLARATIONS OF INTEREST

18.1 EXPERT REPORTS

Apart from the market sources indicated in Section One, Chapter 5 of the Prospectus, as well as the Issuer's rating, no opinions and/or reports attributed to experts are contained in the Prospectus.

18.2 INFORMATION ORIGINATING FROM THIRD PARTIES

The Prospectus does not contain any additional information originating from third parties other than that referred to in paragraph 18.1. In this regard, it is confirmed that such information has been accurately reproduced and that, so far as the Issuer is aware and is able to ascertain from information published by the third parties in question, no facts have been omitted which would render the reproduced information inaccurate or misleading.

CHAPTER XIX – DOCUMENTS AVAILABLE TO THE PUBLIC

The following documents, among others, are available at the Issuer's registered office at Piazza Garibaldi 16, Sondrio and in the "corporate information" section of the company's website at "www.popso.it":

- Articles of Association;
- 2013 Annual Report;
- 2012 Annual Report;
- Interim Financial Report as at 31 March 2014;
- Report on corporate governance and ownership structure.

SECTION TWO

CHAPTER I – PERSONS RESPONSIBLE

1.1 PERSONS RESPONSIBLE FOR THE PROSPECTUS

Please refer to Section One, Chapter I, Paragraph 1.1 of the Prospectus.

1.2 DECLARATION OF RESPONSIBILITY

Please refer Section One, Chapter I, Paragraph 1.2 of the Prospectus.

CHAPTER II –RISK FACTORS

For a detailed description of the specific risk factors for the Issuer, the market in which it operates and the financial instruments covered by the Offer, please refer to Section I, Chapter III, of the Prospectus.

CHAPTER III – BASIC INFORMATION

3.1 WORKING CAPITAL DECLARATION

Pursuant to Regulation (EC) No. 809/2004 and on the basis of the definition of working capital contained in the "ESMA Recommendation 2013/319"—as the means by which the Group obtains the cash resources necessary to meet maturing bonds, the Issuer believes that the available working capital is sufficient to satisfy its own current needs and those of the Group falling within the 12 months subsequent to the Prospectus Date.

3.2 OWN FUNDS AND DEBT

The following table shows the total direct deposits and the net interbank position as at 31 March 2014.

Total direct revenues and net interbank revenues (in thousands of €)	31/03/14	31/12/13
Payables to customers	24,369,974	23,710,352
Outstanding securities	2,964,132	2,964,974
Total direct funding	**27,334,106**	**26,675,326**
Payables to central banks for the LTRO	**1,800,000**	**1,800,000**
Receivables from banks	969,667	733,954
Payables to other banks (without LTRO)	1,352,056	1,267,978
Net interbank: receivables-payables (without LTRO)	-382,389	-534,024

Guaranteed exposure to banks relates to exposure with regard to the ECB and the EIB - European Investment Bank and represents 67% of entire exposure. On 23 April 2014 the Parent Company made the early repayment to the European Central Bank of the LTRO loan due on 26 February 2015 for a value of €500 million.

GROUP CAPITAL (in thousands of €)	31/03/14	31/12/13
Capital	924,444	924,444
Share premium reserve	171,450	171,450
Reserves	848,791	794,781
Treasury shares	-24,316	-24,316
Valuation reserves	44,815	16,782
Operating result	41,746	53,033
Total	**2,006,930**	**1,936,174**

3.3 INTERESTS OF THE NATURAL AND LEGAL PERSONS INVOLVED IN THE OFFER

As at the Prospectus Date, so far as the Issuer is aware, no member of the Board of Directors, the Board of Statutory Auditors or senior management has interests which are in conflict with the obligations arising from the office or qualification held with the Issuer or the Group, except those which may be related to individual transactions submitted to the competent bodies of the Issuer or the companies belonging to the Group.

Some financial institutions participating in the Guarantee Consortium, their subsidiary companies or associated companies (i) have credit relations with Group companies, (ii) offer or have offered consultancy and investment banking services to the Company and/or companies which are part of the Group and/or to shareholders of the latter, for which they have received or are receiving commission and/or (iii) hold, on their own account or on behalf of their clients, investments in the share capital of the Bank. The Guarantors could therefore find themselves in a potential conflict of interest situation. Specifically, it should be noted that Banca IMI, a company belonging to the Intesa Sanpaolo banking group, finds itself in a conflict of interest situation because (i) Banca IMI operates as a Joint Global Coordinator and Joint Bookrunner under the scope of the Offer, together with other intermediaries, and will receive fees for the services provided; (ii) Intesa Sanpaolo S.p.A., overall, also through its subsidiaries, has provided significant funding to Banca Popolare di Sondrio and to the Group; (iii) companies belonging to the Intesa Sanpaolo banking group, including Banca IMI, in the normal exercising of their activities could continuously provide lending, advisory, investment banking and corporate finance services to Banca Popolare di Sondrio; (iv) Banca IMI provides activities (including market making in regulated markets and/or multilateral trading systems) and investment services which could involve financial instruments issued by the Issuer and/or by Group companies or other instruments related to the latter. Guarantors which find themselves in any of the situations described above, in line with the requirements of the management policies for conflicts of interest, have identified and implemented adequate measures to ensure that the risk of conflicts of interest that would damage to the interests of its clients be adequately mitigated.

3.4 REASONS FOR THE OFFER AND THE USE OF PROCEEDS

The capital increase is intended, *in primis*, to strengthen the Group’s capital adequacy ratios, so as to allow full compliance with the prudential limits prescribed by current regulations (Basel III) already in the current year, as well as to address any impacts arising from the *Comprehensive Assessment,* in relation to which banks subjected to AQR and Stress Tests, given their systemic importance, will also be required to comply with the following, as a benchmark for the outcome of these exercises: (i) in the Baseline scenario, a Tier I Core Capital of 8%; and (ii) the Adverse scenario, a Tier 1 Core Capital of 5.5%.

In this regard, the internal estimates on the Banca Popolare di Sondrio Group’s position on 1 January 2014—obtained both though the application of the “fully-phased” New Rules, as well as the provisions of the transitional CRR and the CRD IV, as integrated by the Bank of Italy with Circular No. 285 (“Phase-in”)—are noted below.

REGULATORY RATIOS “BASEL III” (ESTIMATE AT 01.01.2014)	“Phase in” %	“Fully phased” %
Common equity Tier 1 / Risk-weighted assets (CET1 ratio)	8.03%	7.88%

Tier 1 / Risk-weighted assets (Tier 1 ratio)	8.04%	7.91%
Own funds / Risk-weighted assets (Total Capital ratio)	10.88%	10.48%

In this context, as is apparent from the table below, the Capital Increase, in the scenario that takes place in the maximum amount of €350 million, would mean, as of 1 January 2014, the full compliance with the prudential requirements provided for by the supervisory regulations and would allow to address at the Issuer judgment, the impacts that could arise from the findings of the *Comprehensive Assessment*.

REGULATORY RATIOS “BASEL III” (ESTIMATE AT 01.01.2014, INCLUDING THE CAPITAL INCREASE)	**“Phase in” %**	**“Fully phased” %**
Common equity Tier 1 / Risk-weighted assets (CET1 ratio)	9.45%	9.30%
Tier 1 / Risk-weighted assets (Tier 1 ratio)	9.46%	9.33%
Own funds / Risk-weighted assets (Total Capital ratio)	12.30%	11.90%

With regard to the financial profiles, the proceeds from the Capital Increase equal to the maximum net amount of up to €331.8 million—assuming full subscription of the same (net of fees to be paid to the Guarantors and the other costs relating to performing the transaction)—will be used to:

(i) help contribute to the financial support that the Bank traditionally accorded to deserving households and businesses – the local economies of the areas covered. The intent is also to actively respond to the desired recovery in credit demand arising from the reversed trend – and therefore growth – of the production cycle. On this operating basis, the Bank intends to continue the growth of its market share and customer base;

(ii) support the expected structural growth, specifically through the opening, over the next three years, of a dozen new branches per year, as the concrete expression of the will to autonomously continue internal growth development in line with the practices of the previous years.
Other areas of intervention, in terms of operational and structural strengthening, refer to (a) the targeted strengthening of the relationship with the investee companies; (b) the projects for expansion and modernisation of branches, in addition to the ability to acquire, in the presence of favourable opportunities, valuable property located in central urban areas in which the Bank intends to establish itself; (c) the strengthening of safeguards in relation to various risk profiles, with particular regard to credit; (d) the investments required for the acquisition of innovative IT systems, such as to improve operational efficiency and support the evolution of the virtual channel.

For further information on the effects of the capital increase, please refer to Section One, Chapter III, Paragraph 3.1.1.

CHAPTER IV – INFORMATION REGARDING THE FINANCIAL INSTRUMENTS

4.1 INFORMATION REGARDING THE BPS SHARES

4.1.1 DESCRIPTION OF THE BPS SHARES

The Object of the Subscription Rights Offer is BPS Shares, with a regular dividend and a par value of €3, with the same characteristics as the Issuer's outstanding shares at the Prospectus Date. The BPS Shares shall be assigned ISIN code IT000784196 and shall be issued with coupon No. 37 and following. Pre-Emptive Subscription Rights to subscribe for BPS Shares shall be assigned ISIN code IT0005025066. The information relating to the number of BPS Shares under option is set out in the following Chapter V.

4.1.2 LEGISLATION GOVERNING THE ISSUANCE OF THE BPS SHARES

BPS Shares object of the Offer shall be issued in compliance with Italian legislation and shall be subject to the same regulatory framework.

4.1.3 CHARACTERISTICS OF THE BPS SHARES

The BPS Shares shall be registered, freely transferable, with a par value of €3, with regular dividend at their date of issue and subject to the dematerialisation rules set forth in Articles 83-*bis* and following of the TUF and its implementing regulations, and will be entered into the centralised management system overseen by Monte Titoli.

4.1.4 ISSUE CURRENCY

The BPS Shares have been issued in Euros.

4.1.5 DESCRIPTION OF THE RIGHTS RELATED TO THE BPS SHARES AND THE PROCEDURE FOR THEIR EXERCISE

The BPS Shares have the same characteristics and grant the same administrative and financial rights of the Banca Popolare di Sondrio shares outstanding as of the Prospectus Date.

In particular, the BPS Shares are ordinary, registered, freely transferable and indivisible and assign to each individual member—regardless of the number of shares owned by Banca Popolare di Sondrio—one vote at the Issuer's ordinary and extraordinary meetings. It should be noted that the BPS Shares arising from the Capital Increase will not, however, grant the right to the allocation of Free Shares deriving from the Free Capital Increase, which will be performed simultaneously with the start of the Subscription Rights Offer.

The free shares, in turn, shall have no Pre-Emptive Subscription Rights and, therefore, will not participate in the Subscription Rights Offer.

The ordinary Banca Popolare di Sondrio shares are admitted to listing by the MTA. The BPS shares shall be traded automatically according to that set forth in Article 2.4.1 of the Borsa Regulations, on the same market in which the ordinary Banca Popolare di Sondrio shares are traded at the time of issue.

Acquisition of Membership Status

Pursuant to Article 7 of the Articles of Association, "Physical persons may be admitted to membership, including minors. In addition, legal persons may also make up part of the company, along with any kind of companies, consortia, associations and other collective entities. The same must designate in writing the person authorised to represent them; any change in such designation is unenforceable until the company has been duly notified of the same. In all cases, those who are members in any way are not eligible, as such, for corporate offices. Interdicted, incapacitated, or bankrupted parties who have not obtained a rehabilitation judgment, along with all those who have been banned, even temporarily, from public office. Admission to membership is also evaluated on the basis of any relationship already in place."

Pursuant to Article 8 of the Articles of Association, "Whoever wishes wants to become a member must submit to the Board of Directors an application stating the number of shares purchased or subscribed for, the party's identity, address and any other information and/or declaration required by law or required in general by the company and in particular must expressly state to accept the provisions of the Articles of Association. An application put forth by a minor must be signed by the legal representative of the same. The holder of shares, until admission to membership has been sought and obtained, can only exercise pecuniary content rights."

Pursuant to Article 9 of the Articles of Association, "the Board of Directors decides on applications for admission to membership by duly motivated resolution, having regard to the interests of the company, in the spirit of the cooperative and statutory requirements."

Pursuant to Article 10 of the Articles of Association, "the acceptance of an application for admission to membership shall be noted on the shareholders' register and communicated to the applicant within ninety days from the date of receipt of such application, by letter addressed to the address specified by the applicant."

Pursuant to Article 11 of the Articles of Association, "the refusal of admission to membership must be communicated to the applicant within a period of ninety days from the date of the company's receipt of the application. Within thirty days of receiving a rejection notice, the applicant may submit to the company's Arbitration Board a motion for reconsideration of his or her application for admission. The Arbitration Board, established pursuant to the Articles of Association and including a representative of the applicant, shall decide within thirty days of receipt of the application, providing for a review of the application or its rejection and, in any case, shall communicate its decision to the Board of Directors. If the Arbitration Board provides for a review, the Board of Directors shall definitively decide on the question, issuing a reasoned decision."

Pursuant to Article 12 of the Articles of Association, "Membership status is acquired by registration in the register of shareholders, once all due formalities have been fulfilled. "

Property rights

Pursuant to Article 60 of the Articles of Association, "Profit for equity resulting from the annual financial statements approved by the Shareholders' Meeting are mostly used: in the portion allocated to the legal or ordinary reserve, to the extent provided for by law; a share of no less than 20% and not more than 30% is used for statutory or extraordinary reserve. The remaining profit is distributed as follows: a) to shareholders, to the extent that, according to the proposal of the Board of Directors, it is fixed according to what is deemed prudent; b) the remaining is distributed according to that proposed by the Board of Directors and in accordance with the resolutions of the Shareholders' Meeting, which may constitute or increase reserves, however denominated, in addition to the reserve for the purchase of shares in a fund and used for assistance, charity initiatives cultural and social interest. The Board of Directors, during the preparation of the financial statements, may provide for the allocation of profits to the constitution and increase of reserves prior to the determination of net profit referred to in section one."

4.1.6 RESOLUTIONS AND AUTHORISATIONS

The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio of 26 April 2014 resolved:

1) to approve the mixed capital increase transaction according to the terms set forth by the Board of Directors, described as follows:

- the free assignment of new ordinary shares with a par value of €3, dividend rights, up to a maximum nominal amount of €100 million, to be transferred, in an appropriate amount, from "share premium" to "capital";
- simultaneous extraordinary issue of ordinary shares in payment at the par value of €3 to be offered to directors and the shareholders up to an amount of €350 million, or a total amount which is not substantially lower, even in order to achieve the exact ratio pertaining to an option for directors and shareholders, including any premium, an amount to be determined by the Board of Directors during implementation;
- payment of a refund, commensurate with the number of new shares paid-up in cash, to be determined by the Board of Directors;

2) to vest the Board of Directors with the broadest powers in order to determine, with respect to the resolution referred to in point 1) above, all of the terms, procedures and conditions of the transaction and, in particular:

- the issue price for the paid-up, ordinary and €3 par value (three Euros) shares, including any premium, taking into consideration the market conditions, the price of the share, and the bank's economic and financial transactions and prospectus;
- the number of ordinary and €3 par value (three Euros) shares allocated free of charge and offered as an option, taking into consideration any related ratios and option assignment in proportion to the shares held, and providing for any rounding;
- the exact execution period for the transaction, to be completed within the current year;
- the amount of any reimbursement commensurate with the number of new shares paid-up in cash;

additionally, to provide for:

- the offer of the Pre-Emptive Subscription Rights not exercised, pursuant to that set forth in Article 2441, paragraph three, of the Civil Code;
- withdrawal of amounts from the "share premium" to be transferred to "capital" for the free

portion of the transaction.

The Extraordinary Shareholders' Meeting also decided, upon completion of the resolutions above, to delegate to the Chairman, the Vice-Chairmen and the Chief Executive Officer, jointly and severally, the authority needed to legally make public and executive these shareholder resolutions; and furthermore, the authority to make any changes to the same decisions, deletions and/or additions in response to any directions from the competent authority for the approval, filing, registration and publication law.

The Board of Directors' meeting of 5 June 2014 therefore resolved, in relation to the aforementioned proxy implementation:

- the free issue of No. 30,814,798 new BPS ordinary shares with a par value of €3 without Pre-Emptive Subscription Rights, to be allocated to members and shareholders in the ratio of 1 Free Share for every 10 ordinary shares owned, for an amount of €92,444,394.00, also voting to give effect to the free allocation on 9 June 2014;
- the issue against payment of No. 114,422,994 BPS new ordinary shares with a par value of €3, to be offered to members and shareholders, before the free allocation of shares, in the ratio of No. 3 BPS Shares for every No. 8 BPS Shares held, at a price of €3.00, the nominal value, for a total value of €343,268,982.00.

In the same meeting it was also decided not to require members and shareholders to pay commission (expenses) for the subscription of Shares subject to the Offer.

4.1.7 ISSUE DATE OF THE BPS SHARES

The BPS Shares subscribed for under the Offer will be credited to the accounts of intermediaries participating in the centralised management system overseen by Monte Titoli at the close of the last business day of the Option Period and will therefore be available from the settlement day forward.
The BPS Shares subscribed for by the end of the Market Offer will be credited to the accounts of intermediaries participating in the centralised management system overseen by Monte Titoli at the close of the last business day of the Pre-Emptive Subscription Rights and will therefore be available from the settlement day forward.

4.1.8 LIMITATIONS ON THE FREE TRANSFERABILITY OF BPS SHARES

There are no restrictions on the free transferability of the BPS Shares in accordance with law or the Articles of Association, except that set forth in Article 22 of the Articles of Association, which is set out hereunder:

The shares are, by shareholders' agreement, subject, from their origin, to recourses and privileges in favour of the company, even if they are not filed with the same, as a guarantee of any direct or indirect obligation of the shareholder to the company. To this end the company has in any case the right to retain the shares that it has on deposit or in any case which it has in its custody.
If the member is in default to the company, or is subject to insolvency proceedings, the Board of Directors, without prejudice to any other action and without the need for prior notice or legal formalities, may at its discretion dispose of all or part of the shareholder's shares up to the company's credit, including expenses and fees, or proceed, including by way of the use of the reserve referred to in Article 21, to compensation up to the same credit on the basis of the closing price recorded on the day of the operation in a regulated market on which the security is traded. In case of shareholder bankruptcy, compensation occurs at the declaration date of the same.
If the company is not in custody of the shares and the shareholder does not promptly comply with notices made to him by registered letter stating that he deposit the same with the company, the Board

of Directors shall cancel the same and issue duplicate shares without formalities or restrictions, giving effect to the provisions of the preceding paragraph.
The company has the right to offset, also pursuant to Article 1252 of the Civil Code, its own credit toward the excluded shareholder both with the proceeds from the shares sold, as well as with the amount corresponding to those purchased directly, as well as with the right of the shareholder upon liquidation of the share resulting from the exclusion measure when said liquidation does not operate as it should. Any difference in excess is kept at the disposal of the member in a non-interest bearing account.

4.1.9 TAX REGIME OF THE SHARES

The information set out below summarises certain aspects of the tax regime governing the purchase, holding and sale of the BPS Shares, according to the Italian tax legislation in force at the Prospectus Date and in relation to specific investor categories.

What follows is not an exhaustive analysis of all the tax consequences of the buying, holding and disposal of BPS Shares for all investor categories.

The tax regime applicable to the purchase, holding and disposal of BPS Shares, set forth below, is based on the current legislation and practice as at the Prospectus Date—it being understood that the same are subject to change, including with retroactive effect—and thus represents a mere introduction to the subject.

When such an event occurs, this section shall not be updated to reflect the changes, even if, as a result of these changes, the information contained in this section becomes no longer valid.
Note that significant changes to the taxation system for financial revenue were introduced through Law Decree No. 66 of 24 April 2014, Specifically, for the purposes noted here, pursuant to Article 3 of the above-mentioned Law Decree "*revenues and substitute taxes on interest, bonuses and any other income in Article 44 of the Consolidated Law on income taxes, pursuant to the decree of the President of the Republic No. 917 of 22 December 1986, and miscellaneous income of Article 67, paragraph 1, c-bis) to c-quinquies) of the same consolidated law, wherever they occur, are established in the measure of 26 percent.*"
If the above-mentioned Law Decree is converted into law without any further amendments, the new arrangements will apply to interest, bonuses and any other income of a financial nature becoming payable with effect from 1 July 2014.

Investors are therefore required to consult with their advisors regarding the tax regime applicable to the purchase, holding and disposal of the BPS Shares, and to verify the nature and origin of the amounts received as distributions on such shares from the Issuer (dividends or reserves).

A) Definitions

For the purposes of Section 4.2.14 of the Prospectus, the defined terms have the meanings set forth below:

"Assignment of Classified Shares": the assignment of shares other than savings shares, rights or securities through which shares may be acquired which exceed, over a period of twelve months, the limits for the qualification of Classified Share. The twelve-month period runs from the time when the securities and rights held represent a percentage of the voting rights or holdings in the capital exceeding the afore-mentioned limits. For rights or securities through which shares may be acquired, one must take into account the percentage of the voting rights or capital investment which can potentially be linked to the shares;

"Assignment of Non-Classified Shares": the assignment for consideration of the afore-mentioned financial instruments besides the Assignment of Classified Shares;
"Non-Classified Shares": shareholdings in companies listed on regulated markets besides Classified Shares;
"Classified Shares": shareholdings in companies listed on regulated markets consisting of the holding of shares (other than savings shares), rights or securities, through which such holdings may be acquired, which in total represent a percentage of the voting rights exercisable in the ordinary shareholders' meeting at more than 2% or a holding in the capital or assets of more than 5%.

B) Tax regime of dividends

Dividends paid on the Issuer's Shares will be subject to the tax treatment normally applicable to dividends attributable to limited companies residing in Italy for tax purposes.

The following different methods of taxation are provided for the different categories of recipients.

1. Natural persons residing in Italy for tax reasons and not engaged in entrepreneurial activity

Dividends paid to natural persons residing in Italy for tax purposes for shares owned by outside business constituents and falling under the category of Non-Classified Shares, entered into the centralised deposit system overseen by Monte Titoli (such as the Issuer's shares) shall be subject to a substitute tax at a rate of 20%, with the obligation for compensation, pursuant to Article 27-*ter* of Presidential Decree No. 600 of 29 September 1973 ("Presidential Decree 600/1973"); there is no obligation on the part of shareholders to indicate the dividends received in the tax return. This substitute tax is levied by the institutions with which the securities are deposited, participating in the centralised deposit system overseen by Monte Titoli, as well as, through a tax representative appointed in Italy (in particular, a bank or a SIM resident in Italy, a permanent establishment in Italy of non-resident banks or investment firms or a central securities depository authorised pursuant to Article 80, TUF), by the non-resident parties (depositories) who participate in the Monte Titoli system or foreign depository Systems participating in the Monte Titoli system.

Following the entry into effect of Legislative Decree No. 213 of 24 June 1998 on the dematerialisation of securities, this taxation method is the default regime for shares traded on Italian regulated markets, such as the Issuer's Shares.

Dividends paid to natural persons residing in Italy for tax purposes for shares owned by outside business constituents and falling under the category of Classified Shares shall not be subject to any withholding tax or substitute tax as long as the entitled parties, upon payment, declare that the profits received relate to Classified Shares.

These dividends partially make up the shareholder's total taxable income.

The Ministry of Economy and Finance Decree dated 2 April 2008 (the "MD of 2 April 2008")—in

Article 1, paragraph 38 of Law No. 244 of 24 December 2007 (the "2008 Finance Law")—has recalculated the contribution percentage to the generation of income in the amount of 49.72%. This rate applies to dividends consist of profits made by the company starting from the year following the current year up to 31 December 2007. The previous contribution percentage to the formation of income still applies, accounting for 40% of the profits produced up to the current year, up to 31 December 2007. Moreover, starting from the distribution resolutions following that relating to the profit for the current financial year up to 31 December 2007 on the effects of taxation of the recipient, the dividends distributed are considered to primarily consist of profits made by the company up to said year.

2. Natural persons residing in Italy for tax purposes and not engaged in business activities with interests in the asset management regime

Dividends paid to natural persons residing in Italy for tax purposes for shares owned by outside business constituents and falling under the category of Non-Classified, in an asset management contract with an authorised intermediary, in relation to which the option has been exercised for the asset management scheme in Article 7 of Legislative Decree No. 461 of 21 November 1997 ("Legislative Decree 461/1997"), are not subject to any withholding tax or substitute tax and contribute to the formation of the resulting annual accrued management income, to be subject to a withholding tax of 20% (26% as from 1 July 2014).

3. Natural persons residing in Italy for tax purposes and engaged in business activities

Dividends paid to natural persons residing in Italy for tax purposes on shares related to the company are not subject to any withholding tax or substitute tax on the condition that the right holders, upon payment, declare that the profits collected relate to investments connected to the business. These dividends contribute to form the total taxable income of the shareholder. The Ministerial Decree of 2 April 2008—pursuant to Article 1, paragraph 38 of the 2008 Finance Law—has recalculated the contribution percentage to the generation of income in the amount of 49.72%. This rate applies to dividends made up of profits generated by the company starting from the year following the current year up to 31 December 2007. The previous contribution percentage to the formation of income still applies, accounting for 40% of the profits produced up to the current year to 31 December 2007. Moreover, starting from the distribution resolutions following that relating to the profit for the current financial year up to 31 December 2007, on the effects of recipient taxation, the dividends distributed are considered to primarily consist of profits made by the company up to that year.

4. General partnerships, limited partnerships, partnerships and the like referred to in Article 5 of the Presidential Decree dated 22 December 1986, No. 917 (hereinafter, the "TUIR (Tax Code)"), (including unincorporated associations formed between individuals for the associated exercise of arts and professions) companies and entities referred to in Article 73, first paragraph, letters a) and b) of the TUIR, residing in Italy for tax purposes

Dividends received by general partnerships, limited partnerships, partnerships and the like referred to in Article 5 of the TUIR by the companies and entities referred to in Article 73, paragraph one, lett. a) and b) of the TUIR, that is, by limited companies and partnerships limited by shares, limited liability companies, public and private entities that have as their exclusive or main purpose the exercise of commercial activities (so-called commercial entities) residing in Italy for tax purposes are not subject to any withholding tax or substitute tax in Italy and form part of the recipient's total taxable income, to be taxed according to the normal rules, in the following ways:

1. distributions in favour of those subject to IRPEF (general partnerships, limited partnerships, partnerships) partially contribute to form the recipient's total taxable income; the Ministerial Decree dated 2 April 2008—pursuant to Article 1, paragraph 38 of the Finance Law 2008—has recalculated the contribution percentage to the generation of income in the amount of 49.72%. This rate applies to dividends consisting of profits made by the company starting from the year subsequent to the current year, up to 31 December 2007. The previous contribution percentage still applies to the formation of income, equal to 40%, for the profits generated up to the current year to 31 December 2007. Furthermore, starting from the distribution deliberations following that relating to the profit for the current financial year to 31 December 2007, as to the effects of taxation of the recipient, the dividends distributed are primarily considered to consist of profits made by the company up to said year;
2. distributions for those subject to IRES (companies limited by shares, limited liability companies, partnerships limited by shares and commercial entities) combine to form the total taxable income of the recipient limited to 5% of their amount, or for the entire amount, if relating to securities held for trading by parties subject to IAS/IFRS international accounting principles.

For certain types of companies and under certain conditions, dividends achieved combine to form a corresponding net value of production, subject to regional tax on productive activities (IRAP).

5. Entities listed in Article 73(1), lett. c) of the TUIR and residing in Italy for tax purposes

Dividends received by the entities referred to in Article 73, paragraph one, lett. c) of the TUIR, that is, by public and private entities residing in Italy for tax purposes, besides companies, not having as their object the exercise of exclusive or principal business activities, are not subject to any withholding tax or substitute tax in Italy and contribute to form the total income subject to IRES, limited to 5% of their amount.

6. Entities which are exempt and excluded from the company's income tax

For shares such as the Shares issued by the Issuer, entered into the centralised deposit system overseen by Monte Titoli, the dividends received by residents exempt from corporate income tax (IRES) are subject to a substitute tax at a rate of 20% (26% as from 1 July 2014) applied by the resident entity (adhering to the centralised deposit system overseen by Monte Titoli), at which the Shares are deposited or, through a tax representative appointed in Italy, by the (depositary) non-resident subject belonging to the system Monte Titoli System or foreign Depositories participating in the Monte Titoli System.

The tax is not applicable with respect to persons "excluded" from income tax pursuant to Article 74, paragraph 1 of the TUIR. (i.e. government bodies and administrations, including those organised independently, even if they contain legal personalities, municipalities, consortia of local bodies, associations and public land administrators, mountain communities, provinces and regions).

7. Italian pension funds and UCIs

The profits received from (a) Italian pension funds subject to the regime set forth in Article 17 of Legislative Decree No. 252 of 5 December 2005 ("Decree 252"), and (b) Italian undertakings for collective investment ("UCI"), other than real-estate investment trusts, are not subject to withholding tax or substitute tax. For the afore-mentioned pension funds, such profits shall contribute, pursuant to the ordinary rules, to the formation of the overall result of the relevant accrued annual portfolio, subject to substitute tax at a rate of 11%. The UCI established in Italy and subject to supervision (other than real-estate investment trusts) are exempt from income tax pursuant to Article 73, paragraph 5-*quinquies*, of the TUIR. The proceeds from the aforementioned UCI received by the subscribers upon redemption, repayment or distribution in constant holding of units/shares are subject to the withholding tax set forth in Article 26-*quinquies* of Presidential Decree No. 600/1973.

8. Italian real-estate investment funds

Pursuant to Decree Law No. 351 of 25 September 2001 ("Decree 351"), converted with amendments by Law No. 410 of 23 November 2001, and following changes made by Article 41-*bis* of Decree Law No. 269 of 30 September 2003, converted with amendments into Law 326/2003 ("Decree 269"), distributions of profits received by real-estate investment trusts set up in Italy in accordance with Article 37 of the TUF or Article 14-*bis* of Law No. 86 of 25 January 1994 ("Law 86"), are not subject to withholding tax or substitute tax and do not discount any taxation in the hands of said funds. In some cases, the income earned by a non-institutional Italian real-estate investment fund could be held to transparency (and thus contribute to the formation of taxable income in Italy) by non-institutional investors who have a stake of more than 5% of the fund's assets.

9. Entities not residing in Italy for tax purposes who hold shares through a permanent establishment in the State

The distributions of profits received by parties non-residing in Italy who hold shares through a permanent establishment in Italy to which the holding is effectively connected are not subject to any withholding or substitute tax in Italy and form part of the total income of the permanent establishment to be subject to taxation in accordance with the ordinary rules at 5% of their total amount, or for the entire amount if relating to securities held for trading by persons who apply the IAS/IFRS international accounting principles. If the distributions are attributable to a share that is not connected to a permanent establishment in Italy of non-resident recipient, please refer to the following paragraph.

10. Entities not residing in Italy for tax purposes who do not hold shares through a permanent establishment in the State

Dividends—from shares or similar securities placed in the centralised deposit system overseen by Monte Titoli (such as the Issuer's Shares) and received by parties not residing in Italy for tax purposes and lacking a permanent establishment in the territory of the State to which participation is attributable—are, in principle, subject to a withholding tax of 20% (26% as from 1 July 2014) pursuant to Article 27-*ter* of Presidential Decree 600/1973. This substitute tax is levied by resident parties with which the securities are deposited, belonging to the centralised deposit system managed by Monte Titoli, as well as through a tax representative appointed in Italy (in particular, a bank or a SIM resident in Italy, a stable establishment in Italy of non-resident banks or investment firms or a central securities depository authorised pursuant to Article 80 of the TUF) by non-residents who participate in the Monte Titoli system or foreign Depositories participating in the Monte Titoli System.

Shareholders not residing in Italy for tax purposes who are withholding the afore-mentioned substitute tax on dividends—other than participants in savings and pension funds and companies and entities as established and residing in EU Member States or in States party to the Agreement on the European Economic Area, which will be discussed further—are entitled, in respect of refund applications to be submitted in accordance with the terms and conditions of the law, to reimbursement up to 1/4 (26% as from 1 July 2014) of the withholding tax imposed in Italy pursuant to Article 27-*ter*, as long as they can prove that they have paid tax on the same profits in a foreign country by presenting to the competent Italian tax authorities the relevant certificate from the tax authorities of the foreign state.

As an alternative to the above refund, individuals residing in countries with which agreements are in place to avoid double taxation may request the application of a withholding tax on dividends to the (reduced) extent set forth under the applicable agreement. To this end, the entities at which the shares are deposited, participating in the centralised deposit system overseen by Monte Titoli, must acquire the following in a timely manner:

- a declaration from the non-resident subject and effective beneficiary of the profits, containing identification data of the same subject, demonstration of the existence of all the conditions required for the application of the agreement and any necessary elements necessary for determining the amount of the applicable rate pursuant to the Convention;
- a certificate from the competent tax authority of the State where the effective beneficiary of the proceeds is a resident, attesting to residence in the given State pursuant to the agreement.

The Italian tax authorities have, however, agreed with the tax authorities of some foreign states on specific ways to ensure a more efficient and easier refund or total or partial exemption of the withholding tax applicable in Italy. With a Provision issued by the Inland Revenue Director dated 10 July 2013, forms were approved for the application of the reduced rate pursuant to the agreements against double taxation on income stipulated by Italy. If the documentation is not submitted to the depositary prior to the payment of dividends, the withholding tax is levied at the rate of 20% (26% as from 1 July 2014). In that case, the beneficiary of the dividends can still request a refund from the Administration of the difference between the applied and the substitute tax applicable under the agreement by using the appropriate application for reimbursement, accompanied by the documents referred to above, to be submitted in accordance with the terms and conditions of the law.

In the case in which recipients and beneficiaries of the dividends are companies or entities (i) residing for tax purposes in a Member State of the European Union or in one of the States party to the Agreement on the European Economic Area and included in the list to be prepared with the appropriate Ministry of Economy and Finance Decree pursuant to Article 168-*bis* of the TUIR, and (ii) subject, pursuant to the same, to tax on corporate income, such persons may benefit from the application of a reduced withholding tax on dividends at 1.375% of the corresponding amount. Until the issue of said Ministry of Economy and Finance Decree, the Member States party to the Agreement on the European Economic Area that are relevant for the purposes of the application of the aforementioned amount of 1.375% are those included in the list contained in the Ministry of Economy and Finance Decree dated 4 September 1996 and subsequent amendments. Pursuant to Article 1, paragraph 68 of the 2008 Finance Law , the substitute tax of 1.375% only applies to dividends deriving from profits made as of the year following the year in progress at 31 December 2007. For the purposes of the application of the 1.375% substitute tax, non-resident beneficiaries must make a prompt and specific request to the depository of the Shares subject to the substitute tax, accompanied by the appropriate certificate of residence and tax status issued by the competent authorities of the

State to which they belong.

In the case in which recipients and beneficiaries of the dividends are pension funds established in a Member State of the European Union or in a State party to the Agreement on the European Economic Area and included in the list to be prepared with the Decree issued by the Ministry of Economy and Finance pursuant to Article 168-*bis* of the TUIR, such persons may benefit from the application of a reduced substitute tax on dividends at 11% of the corresponding amount. Until the issue of said Ministry of Economy and Finance Decree, the Member States party to the Agreement on the European Economic Area that are relevant for the purposes of the application of the aforementioned amount of 11% are those included in the list contained in the Ministry of Economy and Finance Decree dated 4 September 1996 and subsequent amendments. For the purposes of the application of the 11% substitute tax, non-resident pension funds must make a prompt and specific request to the depository of the Shares subject to the substitute tax, accompanied by the appropriate documentation.

Pursuant to Article 27-*bis* of Presidential Decree 600/1973, approved in implementation of Directive No. 435/90/EEC of 23 July 1990, and then transfused into Directive No. 96/2011 of 30 November 2011, in the case in which the dividends are received by a company that (a) takes one of the forms set forth in the annex to the afore-mentioned Directive, (b) is tax resident in a Member State of the European Union without being regarded, pursuant to an agreement on double taxation with a third State, as a resident outside the European Union, (c) is subject, in the State of residence, without the possibility to benefit from option schemes or waivers that are not geographically or temporally limited, to one of the taxes listed in the annex to the afore-mentioned Directive and (d) that has a direct holding in the Issuer of no less than 10% of the share capital, for an uninterrupted period of at least one year, this company has the right to claim from the Italian tax authorities a refund of the substitute applied to dividends received by it. To this end, the non-resident company must produce a certificate issued by the competent tax authorities of the foreign State indicating that the non-resident company satisfies the afore-mentioned requirements, along with documentation certifying the existence of the afore-mentioned conditions. Furthermore, as clarified by the Italian tax authorities, upon verification of the aforementioned conditions and as an alternative to the submission of a request for a refund following payment of the dividend, provided that the minimum one-year holding period in the Issuer has already expired at the time of distribution the same dividend, the non-resident company can directly petition the depository of the Shares for the withholding tax by submitting, in a timely manner, the same documents indicated above to the intermediary in question.

With regard to non-resident companies that are directly or indirectly controlled by non-residents in European Union member states, the scheme for reimbursement or withholding tax can be invoked only on the condition that the same companies demonstrate that they do not hold a stake in the Company for the exclusive or main purpose of benefitting from the scheme in question.

Dividends attributable to entities or international organisations that enjoy exemption from taxation in Italy as a result of laws or international agreements ratified in Italy are not subject to substitute tax.

C) Taxation of the distribution of reserves set forth in Article 47, paragraph five, of the TUIR

The information provided in this Section summarises the tax regime applicable to the distribution by the Issuer—in cases other than reduction of surplus capital, withdrawal, exclusion, redemption or liquidation—of the Capital Reserves set forth in Article 47, paragraph five, of the TUIR, that is, including, reserves or other funds established with premiums, with adjustment interest paid by subscribers, with payments made by shareholders toward non-refundable loans or capital accounts and monetary revaluation balances exempt from (hereinafter, also "Capital Reserves").

1. Natural persons not engaged in an entrepreneurial activity and residing in Italy for tax purposes

Independently of the shareholders' meeting, the sums received by Italian resident individuals not engaged in entrepreneurial activity as distributions of capital reserves contribute to form profits for their recipients within the limits and to the extent that there is, in the distributing company, profits for the year and retained earnings (except for the portion of them set aside for deferred tax). The amounts classified as profits are subject, depending on whether the shares are non-classified and/or not related to the company, to the same rules set forth above for dividends. The sums received by way of distribution of Capital Reserves for the above period—net of the amount that might be classified as profit—reduce, in the same amount, the cost of the investment recognised for tax purposes. It follows that, when subsequently sold, the taxable gain is calculated as the difference between the sale price and the cost of the investment recognised for tax purposes, reduced by an amount equal to the sums received through distribution of capital reserves (net of any amount which can be qualified as profits). According to the interpretation set forth by the tax authorities, sums received as Capital Reserves distributions, in excess of the tax cost of the investment, constitute profits within the rules described above for dividends. Special rules may apply in relation to investments for which the individual has opted for the so-called "asset management" regime in Article 7 of Legislative Decree 461/1997.

2. General partnerships, limited partnerships and the like as set forth in Article 5 of the TUIR, partnerships, companies and entities referred to in Article 73, paragraph one, lett. a) and b) of the TUIR, and natural persons engaged in entrepreneurial activity, residing in Italy for tax purposes

For physical persons who hold Shares in the exercise of entrepreneurial activities, general partnerships, limited partnerships and the like (excluding simple partnerships) set forth in Article 5 of the TUIR, as well as the companies and entities referred to in Article 73, paragraph one, lett. a) and b) of the TUIR, residing in Italy for tax purposes, any sums received by way of distribution of Capital Reserves are considered profits within the limits and to the extent that there are net income and retained earnings (subject to the quotas allocated to them for deferred tax) for the company making the payment. The amounts classified as profits are subject to the same afore-mentioned rules for dividends. The sums received from the distribution of Capital Reserves, net of any amount qualifying as profit, reduce the cost of the investment recognised for tax purposes by an equal amount. The sums received as distribution of Capital Reserves, in excess of the tax cost of the investment, constitute capital gains and, as such, are subject to the regime set forth in Paragraph D) below.

3. Italian pension funds and UCI (other than real-estate investment trusts)

Based on a systematic interpretation of the rules, the amounts received by Italian pension funds subject to the regime set forth in Article 17 of Decree 252, as distribution of Capital Reserves, must contribute to form the net operating surplus accrued for the tax period in which the distribution takes place, subject to an 11% substitute tax. The value of the shares at the end of the same tax period must be included in the calculation for the yearly result of these pension funds. The sums paid into UCI established in Italy subject to supervision (besides real-estate investment trusts) as distribution of Capital Reserves must not, on the other hand, discount any taxation in the hands of these investment undertakings.

4. Parties not residing in Italy for tax purposes and lacking a permanent establishment in the State

For the parties not residing in Italy for tax purposes (whether individuals or corporations) and lacking a permanent establishment in Italy to which the share is attributable, the taxation of the amounts received through distribution of Capital Reserves is the same as that indicated for physical persons residing in Italy for tax purposes. Similarly to what has been shown for individuals and corporations residing in Italy, sums received through distribution of Capital Reserves, net of any amount that may qualify as profit, reduce the cost of the investment recognised for tax purposes by an equal amount.

5. Parties not residing in Italy for tax purposes with a permanent establishment in the State

For parties not residing in Italy for tax purposes who hold shares through a permanent establishment in Italy to which the holding is effectively connected, the sums received through distribution of Capital Reserves are subject, in the hands of the permanent establishment, to the same tax rules applied to the companies and entities referred to in Article 73, paragraph one, lett. a) and b) of the TUIR, residing in Italy for tax purposes, referred to in paragraph (ii) above.

Should the distribution of Capital Reserves arise from an investment that is not connected to a permanent establishment in Italy for the non-resident recipient, please refer to the explanations in sub-section (iv) above.

D. Tax regime for capital gains arising from transfer of shares

1. Individuals resident – for tax purposes- in Italy and not engaged in business

Capital gains, other than those obtained from the conduct of commercial business, realized by individuals residing –for tax purposes - in Italy from the transfer, for consideration, of shareholdings, as well as of securities or rights by means of which such shareholdings may be acquired, are subject to a different tax regime depending on whether or not it is a transfer of Classified Shares.

Transfers of Classified Shares

Capital gains arising from Transfers of Classified Shares acquired other than by the doing of commercial business by individuals residing in Italy for tax purposes are included in the calculation of the taxable income of the recipient taxpayer, limited to 49.72% of the amount thereof. For such capital gains, taxation occurs at the time of the annual tax return. If the Transfer of Classified Shares generates a capital loss, the portion corresponding to 49.72% thereof is carried forward as a deduction, up to the level of 49.72%, from the amount of the capital gains of the same character realized in subsequent tax periods, but not beyond the fourth period, provided that such loss is indicated in the income tax return for the tax period in which it was realized.

Transfers of Non-Classified Shares

Capital gains not obtained from the conduct of commercial business, realized by individuals residing – for tax purposes – in Italy from the transfer, for consideration, of shareholdings (as well as of securities or rights by means of which shareholdings may be acquired), and which do not qualify as

Transfers of Classified Shares, are subject to a substitute tax of 20% (26% as from 1 July 2014). The taxpayer may opt for one of the following taxation methods:

(a) Taxation based on the income tax return. Returns are to indicate the capital gains and losses realized during the year. The substitute tax of 20% (26% as from 1 July 2014) is determined at that time on the capital gains net of the pertinent losses of the same nature and is paid by the deadlines provided for the payment of income taxes due on the balance according to the return. Excess losses, provided that they are stated in the income tax return, may be deducted up to the level of the pertinent gains of the same nature carried out in subsequent tax periods, but not beyond the fourth period. The tax return criterion is mandatory if the taxpayer does not choose one of the two regimes referred to below at points (b) and (c).

(b) Regime for savings under administration (optional). This regime may be applied provided that (i) the Shares are deposited with banks or resident securities brokerage firms or other resident entities identified by the appropriate ministerial decrees and (ii) the shareholder opts (by written communication sent to the intermediary) for the application of the regime for savings under administration referred to in Article 6 of Legislative Decree 461/1997. In the event that the taxpayer opts for that regime, the substitute tax with a rate of 20% (26% as from 1 July 2014) is applied and paid at the time of the individual transfer by the intermediary with whom the shares are deposited in custody or under administration, on each gain realized. Any losses may be offset within the scope of the same contract by computing the amount of the losses in reduction of – and up to the level of – the gains of the same nature realized in later transactions carried out in the same tax period or in subsequent tax periods, but not beyond the fourth period. If the custodianship or administration contract is eliminated, any losses (shown by the appropriate certificate issued by the intermediary) may be deducted, but not beyond the fourth tax period after the tax period of realization, from the gains of the same nature realized within the scope of another savings under administration contract in the name of the same taxpayers as those in the originating deposit or relationship, or they may be deducted in the income tax return. In the case of the option for the regime for savings under administration, the taxpayer is not required to include such gains and/or losses in his own income tax return.

(c) Regime for savings under management (optional). A prerequisite for choosing this regime (as referred to in Article 7 of Legislative Decree 461/1997) is the conferral of the task of asset management to an authorized intermediary. Under this regime, a substitute tax of 20% (26% as from 1 July 2014) is applied by the intermediary at the end of each tax period, to the increase in the value of the assets managed accruing in the tax period, even if not received, net of, among other things, income subjected to withholding, income exempt from or otherwise not subject to taxes, income included to calculate the total income of the taxpayer, and income deriving from Italian real estate investment mutual funds. Under the managed savings regime, the gains relating to Non-Classified Shares are included in calculating the increase in the managed assets accrued in the tax period, subject to the 20% (26% as from 1 July 2014) substitute tax. A negative result from management, obtained in a tax period, may be computed to reduce the result of the management of the next four tax periods to the extent of the entire amount of the capacity of each of them. If the management relationship terminates, the negative management results accrued (shown by the appropriate certificate issued by the manager) may be deducted, but not beyond the fourth tax period after the tax period of accrual, from the gains realized within the scope of another contract to which the regime of savings under administration is applicable, or may be utilized (to the extent of the amount of the capacity thereof) within the scope of another contract for which the regime of savings under management has been opted for, provided that the contract or deposit at issue is in the name of the same taxpayers as those of the originating deposit or relationship, or else they may be deducted by those same taxpayers at the time of the income tax return, according to the same rules as those applicable to excess losses, as referred to above at point (a). In the case of an option for the regime for savings under management, the taxpayer is not required to include the gains and/or losses in his own income tax return.

2. Individuals doing business, general partnerships, limited partnerships, and the equivalent as referred to in Article 5 of the Consolidated Income Tax Law (TUIR), residing –for tax purposes – in Italy

Capital gains realized by individuals in the course of business, general partnerships, limited partnerships, and the equivalent as referred to in Article 5 of the TUIR, residing – for tax purposes – in Italy, from transfers, for consideration, of shares are included, to the full extent thereof, in the calculation of the taxable business income, subject to tax in Italy in accordance with the ordinary regime. As clarified by the finance administration, negative income items realized by individuals in the course of business, general partnerships, limited partnerships, and the equivalent as referred to in Article 5 of the TUIR, residing –for tax purposes – in Italy, from transfers, for consideration, of Shares would be fully deductible from the taxable income of the transferring taxpayer. However, where the conditions set forth at points (a), (b), (c) and (d) of paragraph (iii), below, are fulfilled, the gains are included in the calculation of the taxable business income to a partial extent equalling 49.72% of the pertinent amount. The losses realized involving shareholdings with the prerequisites referred to at points (a), (b), (c) and (d) of paragraph (iii), below, are deductible to a partial extent analogous to that provided for the taxation of gains.

For the purposes of determining the capital gains and losses relevant to taxation, the tax cost of the shares transferred is applied net of impairment losses deducted in prior tax periods.

3. Companies and entities referred to in Article 73 (1), letters a) and b) of the TUIR, residing - for tax purposes – in Italy

Capital gains realized by companies and entities referred to in Article 73 (1), letters a) and b) of the TUIR, including joint stock companies and limited partnerships, limited liability companies, and public and private entities that have as their exclusive or main purpose the conduct of commercial business, which reside – for tax purposes – in Italy, from the transfer, for consideration, of Shares are included in calculating the taxable business income to the full extent thereof in the financial year in which they were realized or, for shareholdings held for a period of not less than three years (one year for amateur sports clubs) or recognized among financial fixed assets in the last three financial statements, optionally, by the straight-line method in the financial year itself and in subsequent financial years, but not beyond the fourth financial year. However, pursuant to Article 87 of the TUIR (containing the so-called "participation exemption" regime), the capital gains realized involving shareholdings in companies and entities indicated in Article 73 of the TUIR are not included in calculating the taxable income to the extent that they are exempt at the level of 95% of their amount if such shareholdings fulfil the following requirements:

(a) uninterrupted ownership from the first day of the twelfth month preceding the month of the occurrence of the transfer, deeming the shares or units acquired on the most recent date to be transferred first;

(b) classification within the category of financial fixed assets in the first financial statements ending during the period of ownership;

(c) tax residence of the subsidiary in a State or territory referred to in the decree of the Minister of the Economy and Finance issued pursuant to Article 168-*bis* of the TUIR, or, alternatively, proof – resulting from the performance of an inquiry following the methods referred to in paragraph 5, letter b) of Article 167 of the TUIR – that the shareholdings have not led, since the beginning of the ownership period, to placing the income in States or territories other than those identified in that decree under Article 168-*bis* of the TUIR;

(d) the subsidiary does commercial business in accordance with the definition referred to in Article 55 of the TUIR; however, this requirement does not apply to shareholdings in companies the securities of which are not traded on regulated markets.

The requirements referred to at points (c) and (d) must be fulfilled without interruption as of the time of realization of the capital gains, at least since the beginning of the third tax period prior to such realization. Transfers of shares or units belonging to the category of financial fixed assets and of those belonging to the category of current assets are to be considered separately with reference to each category. In view of the mentioned requirements, losses realized from the transfer of shareholdings are not deductible from business income.

For the purposes of determining the relevant capital gains and losses, the tax cost of the shares transferred is applied net of impairment losses deducted in prior tax periods.

The losses and negative differences between revenues and costs related to shares that do not fulfil the requirements for the exemption are not recognized – up to the level of the non-taxable amount of dividends, or else of their prepayments – as receipts in the thirty-six months preceding their realization/acquisition. This provision (i) applies with respect to shares acquired in the 36 months preceding the realization/acquisition provided that the conditions referred to in the preceding points (c) and (d) are fulfilled but (ii) does not apply to taxpayers who prepare the financial statements on the basis of the international accounting standards referred to in Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002.

In relation to the losses and negative differences between revenues and costs involving shares deductible from business income, it must also be noted that, pursuant to Article 5-quinquies, paragraph 3, of Legislative Decree 203 of 30 September 2005, converted with amendments by Law 248 of 2 December 2005, if the amount of such losses, resulting from transactions in shares traded on regulated markets, is greater than €50,000.00, even as a result of multiple transactions, the taxpayer must inform the Inland Revenue as to the data and information regarding the transaction. The detail of the information that must be included in the communication, as well as the procedural methods and deadlines for such communication, are contained in the Inland Revenue decision of 29 March 2007.

In addition, pursuant to Article 1, paragraph 4, of Legislative Decree 209 of 24 September 2002, with respect to losses totalling more than €5,000,000 arising from the transfer of shareholdings that constitute financial fixed assets, even those realized as a result of multiple realizations, the taxpayer must notify the Inland Revenue as to the data and information necessary in order to allow the verification of the compliance of the transfer transactions with the provisions of Article 37-*bis* of Presidential Decree 600/1973. This requirement does not apply to taxpayers who prepare the financial statement according to the international accounting standards.

For certain types of companies and under certain conditions, capital gains realized by the aforementioned taxpayers from the transfer of shares are also included in the calculation of the pertinent net value of production, subject to the regional tax on productive activities (IRAP).

4. Entities referred to in Article 73 (1), letter c) of the TUIR and simple partnerships and the equivalent pursuant to Article 5 of the TUIR (including associations lacking legal capacity, constituted by individuals for the joint exercise of arts and professions), residing – for tax purposes – in Italy

Capital gains realized, outside of business activities, by non-commercial entities residing in Italy and by simple partnerships that are residents, are taxed under the same rules as gains realized by individuals on their shareholdings not held under the business regime.

5. Italian pension funds and Italian UCIs (other than real estate investment mutual funds)

Capital gains relating to shares held by Italian pension funds subject to the regime referred to in Article 17 of Decree 252/2005 are included in the calculation of the annual management result accrued subject to the substitute tax at the rate of 11%. Capital gains involving shareholdings held by UCIs established in Italy under supervision (other than real estate investment mutual funds) do not, however, bear any tax applicable to such investment undertakings.

6. Italian real estate investment mutual funds

Under Legislative Decree 351/2001 and as a result of the changes made by Article 41-*bis* of Legislative Decree 269/2003, the income, including the gains deriving from transfers of shares, obtained by the Italian real estate investment mutual funds established pursuant to Article 37 of the TUF and Article 14-*bis* of Law 86/1994 do not bear any tax applicable to such funds.

In some cases, the income earned by a non-institutional Italian real estate investment mutual fund may be attributed, for transparency, to (and thus be included in calculating the taxable income of) the pertinent non-institutional investors who hold a stake of more than 5% of the fund assets.

7. Entities not residing – for tax purposes – in Italy and having permanent organizations within the territory of the State

With regard to non-residents who hold the shareholding through a permanent organization in Italy to which the shareholding is effectively linked, the capital gains realized from the transfer of the shareholding are included in calculating the income of the permanent organization according to the tax regime provided for gains realized by companies and entities referred to in Article 73, paragraph 1, letters a) and b) of the TUIR, residing – for tax purposes – in Italy, as indicated above in paragraph (iii). If the shareholding is not linked to a permanent organization in Italy of the non-resident, reference is made to that set forth in paragraph (viii), below.

8. Entities not residing – for tax purposes – in Italy and lacking a permanent organization within

the territory of the State

- Non-Classified Shares

Capital gains realized by taxpayers not residing – for tax purposes – in Italy and lacking a permanent organization in Italy (through which shareholdings are held) arising from the transfer, for consideration, of shareholdings that are not qualified as Transfers of Classified Shares in Italian companies traded on regulated markets (such as the Issuer) are not subject to taxation in Italy even if the shareholdings are held there. In order to benefit from that exemption from taxation in Italy, the Italian intermediary may require the presentation of a self-certification, attesting to non-residence in Italy for tax purposes, from shareholders not residing in Italy for tax purposes to whom the regime of assets under administration applies or who have opted for the assets under management regime under Articles 6 and 7 of Legislative Decree 461/1997.

- Classified Shares

Capital gains realized by taxpayers not residing – for tax purposes – in Italy and lacking a permanent organization in Italy (through which shareholdings are held) arising from Transfers of Classified Shares are included in the calculation of taxable income in Italy of the recipient business taxpayer. These capital gains are subject to taxation only at the time of the annual tax return, given that they cannot be subject to either the regime of assets under administration or the regime for assets under management. This is under reservation, however, where the pertinent requirements apply, of applicability of the provisions of international agreements against double taxation, if more favourable.

E. Tax on securities exchange contracts and stamp duty

Pursuant to Article 37 of Legislative Decree 248 of 31 December 2007, converted into Law No. 31 of 28 February 2008, the tax on securities exchange contracts referred to in Royal Decree 3278 of 30 December 1923 has been repealed.

Following the repeal of the tax on securities exchange contracts, under the rules in force at the date of publication of this Prospectus, records for the purpose of the trading of securities incur the following recording tax: (i) authenticated private documents and public records incur a fixed recording tax of €200; (ii) authenticated non-private documents incur a fixed recording tax of €200 only "in the event of use" or as a result of voluntary recording.

F. Financial transactions tax (Tobin Tax)

Subject to certain exclusions and exemptions provided for by the rules, transfers of ownership of shares issued by companies residing in Italy, among others, are generally subject to the tax on financial transactions referred to in Article 1, paragraphs 491 to 500, of Law 228 of 24 December 2012.
Specifically, the tax applies to purchases of shares issued in Italy by companies with capital of more than €500 million (according to the list published by CONSOB by 10 December every year):

The tax is due from the taxpayers to whom ownership is transferred regardless of the residence of the counterparties and of the place where the transaction occurs. The tax is applied at a rate of 0.2% of the transaction value, determined based on the net balance of the daily settlements (calculated for each taxpayer with reference to the number of securities involved in the transactions settled within the same day per individual financial instrument). The rate is reduced by half for transfers that occur as a result of transactions carried out on regulated markets or multilateral trading systems. Among others, transactions for the issuance and cancellation of equity securities and transactions for the temporary acquisition of securities (such as, for example, transactions of financing through securities) are excluded from the tax. Banks and other qualified intermediaries intervening in the execution of the transactions are generally liable for the payment of the tax. In the absence of intermediaries that intervene in the transaction, the tax must be paid by the taxpayer.

1. Taxation of rights regime

The Decree of the Minister of the Economy and Finance of 21 February 2013, as supplemented by the Decree of the Minister of the Economy and Finance of 16 September 2013, in governing the taxation of financial transactions referred to in Article 1, paragraphs 491 to 500 of Law 228 of 24 December 2012, specified that Pre-Emptive Subscription Rights as referred to in Article 2441 of the Civil Code are considered to be securities on a par with those identified in Article 7, paragraph 1, letter b) of the MEF Decree of 21 February 2013, thus including them in the category of derivative instruments.
The tax on transactions in derivative instruments is due both on purchases and sales and, to a measured extent, is differentiated according to the type of the financial instrument and the value of the contract, as indicated in the table below, attached to the above-mentioned law:

	Notional value of the contract (€ 000)							
Financial instrument	**0-2.5**	**2.5-5**	**5-10**	**10-50**	**50-100**	**100-500**	**500-1000**	**Greater than 1000**
Futures contracts, certificates, covered warrants, and option contracts on yields, measurements or indices relating to the shares.	0.01875	0.0375	0.075	0.375	0.75	3.75	7.50	15
Futures contracts, warrants, certificates, covered warrants, and option contracts on shares.	0.125	0.25	0.5	2.50	5	25	50	100
Swaps on shares and related yields, ratios or measurements. Forward contracts relating to shares and related yields, ratios or measurements. **Financial contracts for differences linked to shares and the pertinent yields, indices, or measurements.** Any other security entailing a cash settlement determined with reference to the shares, yields or measurements. The combinations of the aforesaid contracts or securities.	**0.25**	**0.5**	**1**	**5**	**10**	**50**	**100**	**200**

G. Stamp tax

Article 13, paragraphs 2-*bis* and 2-*ter*, of the Tariff, Part One, attached to Presidential Decree 642 of 26 October 1972, and the related notes 3-*bis* and 3-*ter* provide the rules for the proportional stamp tax generally applicable (reserving several exemptions/exceptions) on the periodic communications sent by Italian financial intermediaries to their customers relating to financial instruments deposited with them, which also include shares.

Not subject to the proportional stamp tax are, among other things, statements and communications that Italian brokerages send to persons other than customers, as defined in the Decision of the Governor of the Bank of Italy of 20 June 2012, to which, instead, a fixed stamp tax applies at a rate of €2 for each original copy in accordance with Article 13, paragraph 1, of the Tariff, Part One, attached to Presidential Decree 642 of 26 October 1972. The proportional stamp tax does not apply to, among other things, communications received by pension funds and healthcare funds.

Paragraph 2-*ter* of Article 13 of the Tariff, Part One, attached to Presidential Decree 642 of 1972 provides that, where applicable, the proportional stamp tax applies at the level of 2 per mil per annum. There is no set minimum. For taxpayers other than individuals, a maximum ceiling of €14,000 per annum is provided for. It is assumed that, in any event, periodic communications are sent to customers at least once a year, even where the Italian intermediary is not required to prepare and send communications. In such case, the tax is to be applied on 31 December of each year and, in any event, at the end of the relationship with the customer.

The tax rate is applied to the market value of the financial instruments or, in the absence thereof, to the nominal or redemption value, as shown by the communication sent to the customer. The tax applies both to resident investors as well as to non-resident investors, for financial instruments held with Italian intermediaries.

H. Tax on the value of financial assets

Individuals residing in Italy who hold financial assets abroad generally must pay a tax on their value (the so-called "IVAFE"). The tax also applies to stakes in the capital or assets of residents in Italy that are held abroad.

The tax, calculated on the value of the financial assets and due in the proportion of the share owned and of the holding period, is applied at the rate of 2 per mil The value of the financial assets is generally comprised of the market value, determined at the end of each calendar year at the place where they are held, partially using the documentation from the foreign intermediary as reference. If, at 31 December, the assets are no longer held, reference is made to the market value of the assets as determined at the end of the ownership period. For financial assets that have quotes on regulated markets, such values must be utilized.
A tax credit equal to the amount of the wealth tax paid in the State in which they financial assets are held is deducted from the tax due, up to the amount thereof. The credit cannot in any case exceed the tax due in Italy.

No tax credit applies if, with the country in which the financial assets are held, an agreement against double taxation is in force (also covering taxes with the character of wealth taxes) that provides, for the assets, for exclusive taxation in the country of residence of the owner. In such cases, for any wealth taxes that may be paid abroad, a request for refund may be made to the tax administration of the country where such taxes are applied notwithstanding the provisions of the agreements.

The data on the financial assets held abroad are to be indicated in the RW table of the annual income tax return, as specified in further detail hereunder.

I. Tax monitoring obligations

For the purposes of the tax monitoring rules, individuals, non-commercial entities, simple partnerships and equivalent entities that are residents – for tax purposes – in Italy, are required to indicate in the RW table of the annual income tax return (or on a special form, in some cases there is exemption from the obligation to submit the annual income tax return) the amount of the investments (including any eventual Shares) held abroad in the tax period and through which income may be obtained that is taxable in Italy. With regard to the Shares, such monitoring requirements do not apply if the Shares are not held abroad and, in any case, if they are deposited with an Italian intermediary responsible for collecting the pertinent income, provided that the financial flows and income deriving from the Shares are subject to withholding or substitute tax by the intermediary itself.

J. Tax on estates and donations

Legislative Decree 262 of 3 October 2006, converted, with amendments, by Law 286 of 24 November 2006, has applied the estates and donation tax to *causa mortis* transfers of property and rights by donation or without valuable consideration and to the creation of restrictions on use. For matters not covered by paragraphs 47 to 49 and 51 to 54 of Article 2 of Law 286 of 2006, to the extent appropriate, the provisions of Legislative Decree 346 of 31 October 1990, in the version in force at 24 October 2001, are to apply.

Subject to certain exceptions, the estates and donation tax applies to residents on all property and rights transferred, wherever they may exist. For non-residents, the estates and donation tax applies only to property and rights existing within the territory of Italy. In any event, shares in companies that have their registered office or administrative office or main purpose in Italy are deemed to exist within the territory of Italy.

a) Estate tax

Pursuant to Article 2, paragraph 48 of Law 286 of 24 November 2006, subject to certain exceptions, causa mortis transfers of property and rights are generally subject to the estate tax, at the following rates, which are applied on the overall net value of the property:

(i) for property and rights inherited by the spouse and the direct-line relatives, the rate is 4%, with an exemption of €1,000,000 per beneficiary;

(ii) for property and rights inherited by other relatives up to the fourth degree and by direct-line relatives by affinity as well as by indirect-line relatives by affinity up to the third degree, the rate is 6% (with an exemption of €100,000 per beneficiary, only for brothers and sisters);

(iii) for property and rights inherited by others, the rate is 8% (with no exemption).

If the beneficiary bears a handicap that is recognized as serious in accordance with Law 104 of 5 February 1992, the estate tax applies only to the portion of the value of the share or of the bequest that exceeds the amount of €1,500,000.

b) Donation tax

Pursuant to Article 2, paragraph 49 of Law 286 of 24 November 2006, for donations and acts of gratuitous transfers of property and rights and the creation of restrictions on the use of property, the donation tax is generally determined by applying the following rates to the total value of the property and rights net of the charges borne by the beneficiary, or, if the donation is made jointly to multiple recipients or if a single act comprises multiple dispositions in favour of different recipients, to the value of the attributable shares in the property or rights:

1. in the case of a donation or gratuitous transfer to the spouse and the direct-line relatives, the donation tax is applied at the rate of 4%, with an exemption of €1,000,000 per beneficiary;

2. in the case of a donation or gratuitous transfer to other relatives up to the fourth degree and the direct-line relatives by affinity as well as indirect-line relatives by affinity up to the third degree, the donation tax is applied at the rate of 6% (with an exemption of €100,000 per beneficiary, only for brothers and sisters);

3. in the case of a donation or gratuitous transfer to others, the donation tax is applied at the rate of 8% (with no exemption).

If the beneficiary bears a handicap that is recognized as serious in accordance with Law 104 of 5 February 1992, the donation tax applies only to the portion of the value that exceeds the amount of €1,500,000.

CHAPTER V – CONDITIONS OF THE OFFER

5.1 CONDITIONS AND STATISTICS PERTAINING TO THE OFFER, EXPECTED TIMETABLE AND METHODS OF OFFER SUBSCRIPTION

5.1.1 CONDITIONS TO WHICH THE OFFER IS SUBJECT.

The Offer is not subject to any conditions.

5.1.2 TOTAL AMOUNT OF THE OFFER AND OF THE FREE CAPITAL INCREASE

The Offer is in the maximum amount of €343,268,982.00, for the maximum No. of 114,422,994 BPS Shares resulting from the Capital Increase.
BPS Shares will be offered to the Issuer's shareholders at the Offer Price, on the basis of an option ratio of No. 3 BPS Shares for every No. 8 ordinary Banca Popolare di Sondrio shares held before the first allocation of the Free Shares.

The following table summarises the above data relating to the Offer and the Free Capital Increase:

Number of BPS Shares subject to the Offer	114,422,994
Option ratio*	3 every 8
Offer Price (€)	3.00
Total counter-value of the Capital Increase (€)	343,268,982.00
Number of Banca Popolare di Sondrio shares outstanding at the Prospectus Date	308,147,985
Number of Free Shares allocated in execution of the Free Capital Increase	30,814,798
Allocation ratio	1 every 10
Total amount of the Free Capital Increase (€)	92,444,394.00
Number of Banca Popolare di Sondrio shares after execution of the Free Capital Increase and after the Offer in the event of full subscription of the Capital Increase	453,385,777
Share capital of Banca Popolare di Sondrio after execution of the Free Capital Increase and after the Offer in the event of full subscription of the Capital Increase (€)	1,360,157,331.00
Percentage of BPS Shares of total ordinary shares of Banca Popolare di Sondrio after execution of the Free Capital Increase and after the Offer in the event of full subscription of the Capital Increase.	25.24%

(*) The Shares deriving from the free increase do not benefit from the Pre-Emptive Subscription Right.

5.1.3 VALIDITY PERIOD OF THE SUBSCRIPTION RIGHTS OFFER AND METHODS OF SUBSCRIPTION

The Offer Period runs from 9 June 2014 to 4 July 2014 (inclusive). The Pre-Emptive Subscription Rights that will confer the right to subscribe for BPS Shares must be exercised, under penalty of expiry, during the Offer Period through authorized intermediaries participating in the centralized management system, and which are required to give the pertinent instructions to Monte Titoli by 3:30 p.m. on the last day of the Offer Period. Therefore, each subscriber must submit the appropriate application for subscription in the manner and by the deadline that his depository intermediary will have communicated to him to ensure compliance with the deadline indicated above.

The subscription form will contain the items of identification for the Subscription Rights Offer and the following information, reproduced in such manner as to enable facile reading:

1. Notice that the participant may receive a copy of the Prospectus free of charge;
2. Reference to Chapter III, “Risk Factors”, of the Prospectus.

A sample copy of the subscription form will also be available at the establishment of the Issuer for such intermediaries as may so request.

The Pre-Emptive Subscription Rights will be able to be traded on the Stock Exchange from 9 June 2014 to 27 June 2014 (inclusive). Notwithstanding that specified above, the trading or, in general, the execution of acts of disposition involving the Pre-Emptive Subscription Rights and/or the BPS Shares shall only be carried out through an authorized intermediary participating in the Monte Titoli centralized management system.

Subscription Rights Offer subscriptions cannot be subjected to any condition, and they are to be irrevocable, except as provided for by law.
The Subscription Rights Offer will become irrevocable on the date of filing with the Companies Register of Sondrio of the related notice, pursuant to Article 2441, second paragraph, of the Italian Civil Code.

The following table summarises the guideline timetable for the Subscription Rights Offer:

Start of the Offer Period and of the trading period for the Pre-Emptive Subscription Rights	9 June 2014
Last trading day for the Pre-Emptive Subscription Rights	27 June 2014
End of the Offer Period and final deadline for subscription of BPS Shares	4 July 2014
Announcement of the results of the Offer	Within five working days from the end of the Offer Period

It is noted that the Subscription Rights Offer timetable is a guideline and may change upon the occurrence of events and circumstances beyond the control of the Issuer, including special conditions of volatility in the financial markets, that could be detrimental to the success of the Offer. Any eventual changes of the Offer Period will be communicated to the public with appropriate notice to be published in the same manner as the publication of the Prospectus. The Issuer will, in any event, launch the Offer by and not later than one month from the issuance of CONSOB's approval of the Prospectus.

Pre-Emptive Subscription Rights not exercised by the end of the Offer Period will be offered on the Stock Exchange by the Issuer within the month following the end of the Offer Period, for at least five trading days, according to Article 2441, third paragraph, of the Italian Civil Code. The dates of the start and end of the Market Offer period will be announced to the public by means of the appropriate notice, which shall also contain the number of Pre-Emptive Subscription Rights not exercised under the Market Offer. The final results of an eventual Market Offer will be the subject matter of an announcement to be made within five working days from the end of the Market Offer.

The Issuer is not liable for any possible delays attributable to authorized intermediaries in the execution of the instructions given by the applicants in relation to participation in the Subscription Rights Offer. Verification of the regularity of the acceptances received by the authorized intermediaries will be carried out by them themselves.

5.1.4 REVOCATION AND SUSPENSION OF THE SUBSCRIPTION RIGHTS OFFER

The Subscription Rights Offer will become irrevocable on the date of the filing, in the Register of Companies of Sondrio, of the pertinent notice under Article 2441, second paragraph, of the Italian Civil Code.

If the Subscription Rights Offer is not activated within the deadlines provided for in the Prospectus, such circumstance will be announced in the manner provided for by Article 66, second and third paragraphs, of the Issuers' Regulations, to the public and to CONSOB by the Stock Exchange trading day prior to the date of the commencement of the Offer Period and, thereafter, by notice published in at least one daily periodical with national circulation and simultaneously forwarded to CONSOB.

5.1.5 DESCRIPTION OF THE POSSIBILITY OF REDUCING THE SUBSCRIPTION AND OF THE METHODS FOR REFUNDING THE EXCESS AMOUNT PAID BY SUBSCRIBERS

No possibility of reducing the subscription, even partially, is provided for, and therefore no refunding of the amount paid is provided for.

5.1.6 MINIMUM AND/OR MAXIMUM AMOUNT OF SUBSCRIPTION

The Subscription Rights Offer is meant for BPS shareholders and members on the basis of an option ratio of No. 3 BPS Shares every No. 8 of Banca Popolare di Sondrio shares held prior to the allocation of the Free Shares, at the price of €3.00, the nominal value, for a total amount of €343,268,982.00. No minimum and maximum subscription quantities are provided for.

5.1.7 POSSIBILITY OF WITHDRAWING AND/OR REVOKING SUBSCRIPTION

Subscription to the Offer is irrevocable, except as provided for by law. Therefore, no possibility is provided for withdrawing BPS Share subscriptions, except in the case of revocation as provided for by Article 95-*bis*, paragraph 2, of the TUF and, thus, in the case of the publication of a supplement to the Prospectus pending Offer pursuant to Article 94, paragraph 7, of the TUF.

5.1.8 MANNERS AND TERMS OF PAYMENT AND DELIVERY OF BPS SHARES

Full payment for the BPS Shares must be made upon their subscription with the authorized intermediary to whom the subscription application was submitted by exercise of the pertinent Pre-Emptive Subscription Rights. No accessory charges or expenses borne by the subscribers are provided for by the Issuer.

BPS Shares subscribed for by the end of the Offer Period will be credited to the accounts of the intermediaries participating in the centralized management system operated by Monte Titoli at the end of the accounting day on the last day of the Option Period and will therefore be available starting from the next settlement day.

BPS Shares subscribed for by the end of the Market Offer will be credited to the accounts of the intermediaries participating in the centralized management system operated by Monte Titoli at the end of the accounting day on the last day for the exercise of the Pre-Emptive Subscription Rights and will therefore be available starting from the next settlement day.

5.1.9 PUBLICATION OF THE RESULTS OF THE OFFER

Within five working days from the end of the Offer Period, the Issuer shall announce the results of the Subscription Rights Offer by means of a specific press release. The Issuer will offer on the Stock Exchange any Pre-Emptive Subscription Rights not exercised at the end of the Offer Period within the month following the expiry of the Offer Period, pursuant to Article 2441, third paragraph, of the Italian Civil Code. By the day before the start of any eventual Market Offer, a notice is to be published in at least one daily periodical of national circulation, which notice is to indicate the number of unexercised Pre-Emptive Subscription Rights to be offered on the Stock Exchange and the dates of sessions in which the Market Offer will be made. The Issuer will announce the final results of the Offer, through a specific press release, within five working days from the end of the Market Offer.

5.1.10 PROCEDURE FOR THE EXERCISE OF PRE-EMPTIVE RIGHTS, FOR THE ABILITY TO TRADE SUBSCRIPTION RIGHTS AND FOR THE TREATMENT OF UNEXERCISED SUBSCRIPTION RIGHTS

The Issuer's Articles of Association do not provide for pre-emption rights on the BPS Shares. The Pre-Emptive Subscription Rights must be exercised, under penalty of expiry, during the Offer Period established from 9 June 2014 to 4 July 2014, inclusive. The Pre-Emptive Subscription Rights will be able to be traded on the MTA from 9 June 2014 to 27 June 2014, inclusive.
The Pre-Emptive Subscription Rights not exercised by 4 July 2014, inclusive, will be offered by the Issuer on the MTA in accordance with Article 2441, paragraph 3, of the Italian Civil Code.

5.2 DISTRIBUTION AND ALLOCATION PLAN

5.2.1 COMMITMENTS TO SUBSCRIBE FOR BPS SHARES

To the Issuer's knowledge, no shareholder and/or member, nor member of the Board of Directors and of the Board of Statutory Auditors, nor key officer, has committed to subscribe for the BPS Shares and/or has made statements relating to such subscription.

5.2.2 INFORMATION TO BE REPORTED PRIOR TO ALLOCATION

No communications to subscribers prior to the allocation of the BPS Shares are provided for.

5.2.3 PROCEDURE FOR INFORMING SUBSCRIBERS AS TO THE AMOUNT ALLOTTED

Announcement of the allocation of the BPS Shares will be made by the authorized intermediaries participating in the centralized system operated by Monte Titoli, including the Issuer, with respect to the BPS Shares administered by them.

5.2.4 OVERALLOTMENT AND GREENSHOE

These circumstances are not applicable to the Offer.

5.3 ESTABLISHING THE OFFER PRICE

5.3.1 OFFER PRICE AND EXPENSES BORNE BY THE SUBSCRIBER

The Offer Price for the BPS Shares is equal to €3.00 per Share, the nominal value, and it was established by the Board of Directors on 5 June 2014 in implementation of the resolution of the extraordinary meeting on 26 April 2014. No expenses borne by the subscribers are provided for.

5.3.2 PROCEDURE FOR ANNOUNCEMENT OF THE OFFER PRICE

The Offer Price is already determined on the Prospectus Date and, therefore, no further procedures are envisaged for its disclosure.

5.3.3 LIMITATION OF THE PRE-EMPTIVE SUBSCRIPTION RIGHT

The BPS Shares are offered to all members and shareholders of the Issuer, pursuant to Article 2441, first paragraph, of the Italian Civil Code, regarding the BPS Shares owned prior to the free increase, without any limitation.

5.4 PLACEMENT AND SUBSCRIPTIONS

5.4.1 INDICATION OF THOSE IN CHARGE OF PLACEMENT OF THE SUBSCRIPTION RIGHTS OFFER, AND OF THE PLACING AGENTS

As this involves an Subscription Rights Offer, there is no entity in charge of placement, nor any placement pool.

5.4.2 NAME AND ADDRESS OF ORGANISATIONS PLACED IN CHARGE OF FINANCIAL SERVICE AND OF CUSTODIANS

Acceptance of the Subscription Rights Offer will take place at the authorized intermediaries participating in the centralized system operated by Monte Titoli, including the Issuer, with respect to the BPS Shares administered by them.

5.4.3 SUBSCRIPTION AND GUARANTEE COMMITMENTS

On 27 May 2014, the Issuer appointed Banca IMI and Mediobanca with the mandate (the "Mandate") to promote a consortium for the subscription of a number of BPS Shares corresponding to the Pre-Emptive Subscription Rights which were not exercised at the end of the Market Offer up to a maximum amount of €350 million (the "Guarantee Consortium").

Under the scope of the Guarantee Consortium, Banca IMI and Mediobanca will act as Joint Global Coordinators and Joint Bookrunners, BNP Paribas and Nomura as Joint Bookrunners, Banca Akros as Co-Bookrunner, Banca Aletti, Intermonte SIM e Keefe, Bruyette & Woods, A Stifel Company as Co-Lead Managers (together with the Joint Global Coordinators, Joint Bookrunners and Co-Bookrunner, overall the "Guarantors"). The guarantee obligations will be only undertaken on the signing of the Guarantee Contract (the "Guarantee Contract" or the "Contract").

The Mandate requires the Guarantee Contract to be concluded by the day prior to the launch of the Subscription Rights Offer and the content of the Guarantee Contract must be in line with market practices for similar transactions. Specifically, the Contract requires the commitment of the Guarantors to subscribe for a number of BPS Shares corresponding to the number of Pre-Emptive Subscription Rights not exercised at the end of the Market Offer up to a maximum amount corresponding to the effective value of the Capital Increase, as well as the usual clauses governing the effectiveness of the guarantee commitment or giving the right to the Joint Global Coordinators to withdraw from the Contract.

Specifically, the Guarantee Contract includes the right of the Joint Global Coordinators to withdraw from the Guarantee Contract (also in the name of and on behalf of the other Guarantors) if:

1. extraordinary circumstances occur such as those provided for in market practice which, *inter alia*, include serious changes in the political situation, acts of war, terrorism and the like, or major changes in the financial, economic, monetary, fiscal, regulatory or market situation, both nationally or internationally, or if, in Italy and/or on the international markets, significant distortions occur in the banking system involving clearance or settlement, or if moratoria occur in the system of bank payments that are not declared by the competent Authority or if or suspensions or limitations on the trading of the Sondrio BP securities occur for at least one full trading day (for reasons other than the announcement of the Offer), or more generally on the Mercato Telematico Azionario (screen-based stock market)organised and managed by Borsa Italiana S.p.A., which are such to render the Subscription Rights Offer and/or the Market Offer—in the reasonable opinion of the Joint Global Coordinators—harmful or inadvisable to carry out or continue or as such to jeopardise the success of the Subscription Rights Offer and/or the Market Offer;
2. changes occur in the share capital, announcements or distribution of extraordinary dividends for the Company and/or the Group or changes and/or events in general take place, including of a legal and/or administrative nature relating to the Company and/or the Group which, according to the reasonable opinion of the Joint Global Coordinators, affect or likely to affect the activity and/or financial condition, earnings and/or prospects

of the Company and/or the Group, which are such to render, in the reasonable opinion of the Joint Global Coordinators, harmful or inadvisable the carrying out or continuation of the Subscription Rights Offer and/or the Market Offer or such to jeopardise the success of the Offer or make significantly more burdensome the fulfilment of the subscription obligations;

3. there is a failure to fulfil the obligations undertaken by the Issuer by way of the Guarantee Contract or there is a breach of the declarations and warranties made by the Issuer in the Guarantee Contract;
4. a supplement to the Prospectus is published under Article 94, paragraph seven, of the TUF (the "Supplement"), in the case in which, with respect to any Supplement, the amount of exclusions exercised pursuant to Article 95-*bis*, paragraph two, of the TUF, have or could have, according to the good faith judgment of the Joint Global Coordinators, a significant adverse effect on the Capital Increase and/or the Offer; or
5. BP Sondrio's ordinary shares are delisted.

5.4.4 DATE ON WHICH THE GUARANTEE AND SUBSCRIPTION AGREEMENT WAS OR WILL BE ENTERED INTO

It is provided that the Guarantee Contract will be entered into before the start of the Subscription Rights Offer.

CHAPTER VI – LISTING FOR TRADING AND MEANS OF TRADING

6.1 APPLICATION FOR LISTING FOR TRADING

Upon the premise that the Banca Popolare di Sondrio Shares outstanding are traded on the Mercato Telematico Azionario (screen-based stock market) of Borsa Italiana, pursuant to Article 2.4.1 of the Borsa Regulations (the Rules of the Markets Organised and Managed by Borsa Italiana S.p.A.), the BPS Shares will be traded via automation at that market.

6.2 OTHER REGULATED MARKETS

As of the Prospectus Date, the Company's Shares are listed and traded only on the MTA market of Borsa Italiana.

6.3 PRIVATE PLACEMENT SIMULTANEOUS WITH THE OFFER

This is a circumstance not applicable to the Offer.

6.4 COMMITMENTS BY INTERMEDIARIES ON SECONDARY MARKET TRANSACTIONS

This is a circumstance not applicable to the Offer.

6.5 STABILISATION

No stabilisation activities are provided for by the Issuer and/or entities appointed by it.

CHAPTER VII – LOCK-UP AGREEMENTS

7.1 LOCK-UP AGREEMENTS

If the Guarantee Contract is signed, the Bank will be obliged to undertake, starting from the signing date of this Guarantee Contract and for 180 days following the conclusion of the Offer, not to make any changes to the structure and composition of the share capital, any issue of Company shares and to ensure that the Group companies do not issue financial instruments that are convertible into Company shares or which give the right to purchase and/or subscribe for Company shares or issues of any sort of instruments which have the same effects, even only economic, as the transactions referred to above, without the prior written authorisation of the Joint Global Coordinators, which cannot be unreasonably denied, with the exception of (i) the Free Capital Increase, (ii) the Subscription Rights Offer (iii) the Market Offer and (iv) any transactions that become necessary as a result of provisions of the competent supervisory authorities.

CHAPTER VIII – EXPENSES CONNECTED WITH THE ISSUE/OFFER

8.1 TOTAL NET PROCEEDS AND ESTIMATE OF TOTAL EXPENSES OF THE OFFER

The Capital Increase transaction will result, if fully subscribed for, in an inflow of new funds for an estimated maximum total amount of €331.8 million, net of expenses related to carrying out the transaction, estimated at a maximum of €11.5 million, inclusive of subscription fees.

CHAPTER IX – DILUTION

9.1 AMOUNT AND PERCENTAGE OF DILUTION

The Offer does not give rise to effects of dilution involving the share of the stake in the capital of the Issuer pertaining to the members and shareholders who subscribe for BPS Shares in relation to the Pre-Emptive Subscription Rights entitled to them.
The members and shareholders of the Issuer who decide not to subscribe for the Subscription Rights Offer for the share entitled to them would suffer a dilution of their own shareholding under option. The maximum percentage of dilution (calculated assuming full subscription of the Capital Increase) is of 25.24%.

CHAPTER X – ADDITIONAL INFORMATION

10.1 ADVISORS INVOLVED IN THE ISSUE

No advisors involved in the Offer are mentioned in the Prospectus.

10.2 OTHER DATA SUBJECT TO AUDIT

In Section Two of the Prospectus no additional data are indicated beyond the data reported in Section One that are subject to full audit or limited audit.

10.3 OPINIONS OR REPORTS PREPARED BY EXPERTS

For a description of the opinions and of the reports from third parties, reference is made to Section One, Chapter 18, Paragraph 18.1 of the Prospectus.

10.4 INFORMATION DERIVING FROM THIRD PARTIES

No further information deriving from third parties appears in the Prospectus other than as indicated in Section One, Chapter 18, Paragraph 18.2 of the Prospectus.