Banca Popolare di Sondrio

CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 31 MARCH 2019

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di Sondrio

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Founded in 1871

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

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Official List of Cooperative Banks no. A160536
Parent Company of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0 -
Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331 – Reserves: € 983,893,092 (Figures approved at the shareholders' meeting of 27 April 2019)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 13 June 2018:
  – Long-term: BBB-
  – Short-term: F3
  – Viability Rating: bbb-
  – Outlook: Stable

- Rating given by Dagong Europe Credit Rating to Banca Popolare di Sondrio scpa on 20 November 2018:
  – Long-term: BBB
  – Short-term: A-3
  – Individual Financial Strength Assessment: bbb
  – Outlook: Stable

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

Chairman	PIERGIUSEPPE FORNI
Auditors	LAURA VITALI LUCA ZOANI
Alternate Auditors	BRUNO GARBELLINI DANIELE MORELLI

ADVISORY COMMITTEE

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

GENERAL MANAGEMENT

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

Financial Reporting Officer MAURIZIO BERTOLETTI

* Members of the Chairman’s Committee

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

INTRODUCTION

Legislative Decree 25 of 15 February 2016 was passed to amend the Consolidated Finance Act by cancelling the disclosure requirements for the first and third quarter of the year, which issuers had to comply with, unless Consob obliged issuers to provide additional periodic financial information.

As in the past, our Group prefers full disclosure to the market, so we have prepared this interim financial report at 31 March 2019 in accordance with the recognition and measurement criteria of the International Accounting Standards (IAS/IFRS) adopted by the European Community and currently in force.

This consolidated interim report on operations has not been audited by the independent auditors.

BASIS OF PREPARATION

The financial statements presented in this consolidated interim report on operations comply with the mandatory reporting formats required for statutory reporting purposes by the Bank of Italy Regulation no. 262 dated 22 December 2005, 6th update of 30 November 2018.

The accounting policies adopted for the period are substantially unchanged with respect to the prior year, except for the adoption as from 1 January 2019 of the International Financial Reporting Standard IFRS 16, described in the following paragraph.

Please refer to the notes to the consolidated financial statements at 31 December 2018 for detailed information on the application of accounting standards.

All figures reported in the financial statements are stated in thousands of euro.

Balances at 31 December 2018 have been presented as balance sheet comparatives.

Income statement comparatives are the results for the period ended 31 March 2018.

In the preparation of the consolidated interim report on operations, greater use is made of estimates when compared to year end statutory reporting practices, particularly for cases where the accounting treatment does not comply with the accrual basis. This applies to both balance sheet and income statement components.

Banca Popolare di Sondrio Group’s transition to IFRS 16

IFRS 16, the new standard on leases issued by the IASB (International Accounting Standards Board) and endorsed by the European Commission in Regulation 1986/2017, from 1 January 2019 replaces IAS 17 and the related interpretations to clarify the definition of a lease (IFRIC 4 «Determining whether an arrangement contains a lease»; SIC 15 «Operating leases - incentives» and SIC 27 «Evaluating the substance of transactions involving the legal form of a lease») eliminating, for the lessee, the difference between finance and operating leases by introducing a single accounting model that recognises a lease asset («right of use») and the related lease liability in the financial statements. For the lessor, IFRS 16 essentially represents the continuation of IAS 17.

The purpose of the new international accounting standard is to «ensure that lessees and lessors disclose appropriate information in a manner that fairly represents the underlying transactions.

The disclosures provide the users of financial statements with the information needed to evaluate the effect of the leases on the financial position, economic results and cash flows of the entity».

On signing the contract, the entity must determine if it is, or contains, a lease. The contract is, or contains, a lease if:

- in exchange for a consideration, it grants the right to control the use of a specific asset for a period of time.
- During the entire period of use, the customer will have the right to obtain substantially all the economic benefits deriving from use of the asset and the right to decide how the asset should be used.

At the contract start date, the lessee must recognise both the right-of-use asset and the lease liability. On the date of initial recognition, the lease liability is the present value of the lease payments not yet made at that date. Subsequently, the amount of the lease liability is determined by increasing the carrying amount by the interest charged, decreasing it by the lease payments made and recalculating it with reference to any changes made to the lease or new considerations.

Again on initial recognition, the cost of the asset, being the right of use obtained, comprises the initial amount of the lease liability, the lease payments made on or prior to the start, net of any leasing incentives received, the initial direct costs incurred by the lessee and the estimated cost of removing or restoring the underlying asset. Subsequently, the asset is measured at historical cost and depreciated over the life of the contract or over its useful life if the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the asset consisting of the right of use reflects the fact that the lessee will exercise the purchase option.

In economic terms, the lease instalments previously recognised as administrative expenses are replaced by recognition of the interest charged on the lease liability and the depreciation charged on the right of use.

On first application, the lessee has two options for applying the standard. The lessee can apply the new standard to its lease contracts:

- retrospectively applying IAS 8 «Accounting policies, changes in accounting estimates and errors» and restating the comparative data; or
- retrospectively recognising the cumulative effect of apply the standard as an adjustment of the opening balance of retained earnings on the first-time application date (without restating the comparative data).

The Group decided not to apply the grandfathering option, which would have involved redetermining which leases were subject to the new standard. Instead, the Group elected to recognise the effects of first-time adoption using the «amended retrospective» approach, without therefore recognising them retrospectively in accordance with IAS 8. Based on this approach:

- the right of use is equal to the lease liability, i.e. it is equal to the present value of the future instalments to be paid for the expected duration of the contract and attributable to the lease component, net of VAT, discounted on the basis of the marginal interest rate (or «incremental borrowing rate») on the date of first-time adoption (FTA), adjusted for any prepaid expenses or accrued liabilities relating to the lease;
- the comparative figures for 2018 are not restated.

Lastly, lease contracts whose underlying assets are intangible are not subject to IFRS 16.

As allowed by IFRS 16, the Group opted to apply the following practical expedients on transition to the new standard:

- the exclusion from balance sheet recognition of lease contracts with a residual duration not exceeding 12 months (regardless of the original duration of the contract);
- estimate of lease duration based on prior experience and/or the information available on the date of first-time adoption about the future exercise of any extension or early termination options.

The operating rules used by the Group during the FTA phase for lease contracts classified as operating leases according to IAS 17 are summarised below:

- for the lessees, by applying the modified retrospective option that does not provide for restatement of the comparative figures for

2018, the right of use was considered equal to the value of the lease liability, adjusted for any prepaid expenses or accrued liabilities related to lease;

- the low-value contract exemption has been applied: the threshold applied is consistent with the USD 5,000 provided for in IFRS 16. This includes mobile phones not owned by the Company;
- the short-term contract exemption has been applied to contracts that end within 12 months of being applied for the first time. In particular, this includes property contracts with a natural expiry (including the first renewal) by 31 December 2019 or with a release date within the same term;
- the practical expedient of not separating service components from the lease components has not been applied, which means that the entire contract is accounted for as a lease;
- for the recognition and measurement of the lease payable at 1 January 2019:
  a. the discount rate applied was set by using the «incremental borrowing rate» approach based on the duration of the contract at 1 January 2019;
  b. the lease duration was determined by applying the principle of reasonableness; in particular, the Group has decided to consider only the first renewal period as reasonably certain on the FTA date (and on new contracts), unless there are specific contractual clauses, facts or circumstances that lead one to consider additional renewals or to determine the end of the lease;
  c. for the quantification of the right of use at 1 January 2019, the practical expedient used was to exclude initial direct costs from the measurement.

The impacts of the FTA of the new standard are detailed below:

- Euro 223 million representing the value of the right of use connected to the lease of buildings, vehicles and office machines;
- Approximately Euro 222 million for the related lease liability to lessors given by the present value of lease payments due but not paid on the FTA date;
- Euro 1 million for prepaid expenses accounted for at 31 December 2018 for lease payments that are no longer subject to recognition following the introduction of the new standard, as the new accounting treatment envisages precise recognition of the lease liability.

The provisions introduced by IFRS 16, on FTA, entailed the recognition under assets of the rights of use and of the corresponding financial liabilities for property lease agreements and car rental contracts. These categories of contracts envisage the separation of «non-lease components», the recognition of which is subject to the provisions of IFRS 15.

The following categories are also within the scope of application of the standard, but are not included in the right of use:

- property lease contracts with natural expiry within 12 months;
- mobile phone rental contracts, as contracts in which the underlying asset is of modest value.

As required by the standard, the following were excluded:

- hire of lines and data transmission;
- certain types of property contracts: gratuitous loan agreements and free use concessions;
- «application services and projects»;
- sublease of properties in favour of employees;
- the various leases and rentals under licensing agreements pursuant to IAS 38 and for the provision of services attributable to IFRS 15.

The above changes arising on FTA, almost entirely attributable to property lease contracts, did not give rise to the recognition of profits or losses as a result of FTA to be recorded under equity and are immaterial with respect to CET1.

THE BANCA POPOLARE DI SONDRIO BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

Banca Popolare di Sondrio s.c.p.a. - Sondrio;

Group companies:

Banca Popolare di Sondrio (SUISSE) SA – Lugano (CH).

The Parent Company holds all the capital of Banca Popolare di Sondrio (SUISSE) SA, CHF 180,000,000.

Factorit spa - Milan.

The Parent Company holds 60.5% of the capital of Factorit spa, Euro 85,000,002.

Sinergia Seconda Srl – Milan

The Parent Company holds all the capital of Sinergia Seconda Srl, Euro 60,000,000.

Banca della Nuova Terra spa – Sondrio

The Parent Company holds all the capital of Banca della Nuova Terra spa, Euro 31,315,321.

PrestiNuova spa – Rome

The Parent Company holds all the capital of PrestiNuova spa, Euro 25,263,160.

Popso Covered Bond srl – Conegliano.

The Parent Company holds 60% of the capital of Popso Covered Bond srl, Euro 10,000.

SCOPE AND METHODS OF CONSOLIDATION

The consolidated interim report on operations presents the financial position as at 31 March 2019 and the results for the period then ended of Banca Popolare di Sondrio Banking Group, which comprises the Parent Company, Banca Popolare di Sondrio (SUISSE) SA, Factorit spa, Sinergia Seconda Srl, Banca della Nuova Terra spa, PrestiNuova spa and Popso Covered Bond srl, as well as the entities over which the Group exercises control as defined by IFRS 10.

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

FULLY CONSOLIDATED EQUITY INVESTMENTS:

Name	Location	Share capital (in thousands)	% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000	100
Factorit spa	Milan	85,000	60.5
Sinergia Seconda srl	Milan	60,000	100
Banca della Nuova Terra spa	Sondrio	31,315	100
PrestiNuova spa	Rome	25,263	100
Pirovano Stelvio spa *	Sondrio	2,064	100
Servizi Internazionali e Strutture Integrate 2000 srl *	Milan	75	100
Immobiliare San Paolo srl *	Tirano	10 **	100
Immobiliare Borgo Palazzo srl *	Tirano	10 **	100
Popso Covered Bond srl	Conegliano	10	60

* equity investments not included in the banking group
** held by Sinergia Seconda srl

In addition, Fondo Immobiliare Centro delle Alpi Real Estate, which is 100% held by the Parent Company, and Adriano SVP Srl, which carried out a securitisation of loans transferred by PrestiNuova spa, have been consolidated in compliance with the definition of control laid down in IFRS 10.

The scope of consolidation also includes the equity investments where the Parent Company exercises a significant influence in that the shareholding is between 20% and 50%; or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

a) it has a representative on the Board of Directors or the equivalent body of the affiliate;

b) it takes part in the decision-making process, including decisions regarding dividends;

c) there are significant transactions between the parent company and the affiliate;

d) there is an exchange of managers;

e) essential technical information is being provided.

These investments are valued using the equity method, except for insignificant interests which are valued at cost.

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the company's net result for the year attributable to the group is shown in a specific item in the income statement.

Any change in the other components of comprehensive income relating to these subsidiaries is presented as part of the Group's comprehensive income. Furthermore, in the event that an associate or joint venture recognises a change with direct allocation to equity, the Group recognises its share, where applicable, in the statement of changes in equity. Unrealised profits and losses deriving from transactions between the Group and associates or joint ventures are eliminated in proportion to the shareholding in the associates or joint ventures.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not subject to a separate impairment test.

After applying the equity method, the Group assesses whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. At each reporting date, the Group assesses whether there is objective evidence that the investments in associates or joint ventures have suffered impairment. In this case, the Group calculates the amount of the impairment as the difference between the recoverable value of the associate or joint venture and its carrying amount in its financial statements, recognising this difference in the profit or loss for the year under the heading «portion pertaining to the result of associates and joint ventures».

Any subsequent writebacks cannot exceed the impairment losses recorded previously. Upon the loss of significant influence over an associate or joint control over a joint venture, the Group assesses and recognises the residual investment at fair value. The difference between the carrying amount of the investment at the date of loss of significant influence or joint control and the fair value of the residual investment and the amounts received is recognised in the income statement.

The ownership percentages are specified in the following table:

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

Name	Location	Share capital (in thousands)	% held
Alba Leasing spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Arca Holding spa	Milan	50,000	21.137
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Rent2Go srl	Bolzano	3,800	33.333
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Rajna Immobiliare srl	Sondrio	20	50.000

* held by Banca Popolare di Sondrio (Suisse) SA.

TRANSLATION OF FINANCIAL STATEMENTS IN CURRENCIES OTHER THAN THE EURO

The quarterly report of Banca Popolare di Sondrio (SUISSE) SA is translated into euro using the official period-end exchange rate for balance sheet items, while costs and revenues are translated into euro using the average exchange rate for the period. Differences arising on translation of the financial statements are booked to «reserves».

SUBSEQUENT EVENTS

No events have taken place between the reporting date for this consolidated interim report and the date of its approval by the Board of Directors on 9 May 2019 that would require any adjustments thereto, and nothing of significance has occurred that would require the provision of supplementary information.

INTERNATIONAL BACKGROUND

According to the latest information available, the world's major economies continued to expand in the first quarter of the year. What's more, this trend seems to have been rather discontinuous, with sizeable differences between the main players on the international scene. The acceleration of the dynamics in the United States is significant, where GDP increased by 3.2%, beyond expectations.

On the other hand, China appears to have been affected by a slight slowdown (with the growth rate down from 6.6% in the last quarter of 2018 to 6.4% in the first quarter of 2019).

As for the European Union, official indications are not currently available, although it is plausible that the period of decline already seen at the end of 2018 has continued. This is also linked to the problem of exports due to the tariff question.

A fairly mixed picture overall, where there are still risks linked to a possible intensification of tensions in certain crisis areas around the world and repercussions from the protectionist measures that hinder free trade.

As for Italy, after 2018 closed with a hint of a recession, in the new year GDP rose slightly in the first quarter: +0.2%. The positive trend seems to be attributable to the foreign channel, while domestic consumption remained stable or weak.

In Switzerland, after positive results in 2018, the growth forecasts for 2019 have been revised downwards because of the difficulties in the international situation. In particular, the slowdown in Germany, a fundamental trading partner, may weigh on the level of exports.

SUMMARY OF RESULTS

(in millions of euro)

Balance sheet	31/03/2019	31/12/2018	% change
Loans to customers	25,962	25,845	0.45
Loans and receivables with customers measured at amortised cost	25,751	25,604	0.57
Loans and receivables with customers measured at fair value through profit or loss	211	241	-12.27
Loans and receivables with banks	1,330	1,321	0.68
Financial assets that do not constitute loans	10,272	11,065	-7.17
Equity investments	226	221	2.26
Total assets	40,772	41,128	-0.87
Direct funding from customers	30,496	31,063	-1.82
Indirect funding from customers	31,541	30,182	4.50
Direct funding from insurance premiums	1,447	1,410	2.60
Customer assets under administration	63,485	62,655	1.32
Other direct and indirect funding	10,944	10,524	3.99
Equity	2,726	2,651	2.82

Income statement	31/03/2019	31/03/2018	% change
Net interest income	120	120	-0.02
Total income	227	211	7.30
Profit from continuing operations	51	56	-9.69
Profit for the period	35	43	-18.47

Key ratios (%)		
Cost/income ratio	60.14	61.64
Net interest income/Total assets	0.29	0.29
Net financial income/Total assets	0.45	0.44
Net interest income/Total income	53.01	56.89
Administrative expenses/Total income	62.56	67.23
Profit for the period/Total assets	0.09	0.10
Non-performing loans/Loans and receivables with customers	2.98	2.94
Loans to customers/Direct deposits	85.13	83.20

Capital ratios (%)		
CET1 Capital ratio	12.06%	12.03%
Total Capital ratio	13.49%	13.61%
Free capital	1,227	1,228

Other information on the banking group		
Number of employees	3,255	3,254
Number of branches	362	362

FUNDING

The period in question saw the continuation of a monetary situation characterised by an abundance of liquidity which, according to the latest indications of the ECB, seems destined to remain in the coming months as well.

At system level, funding increased slightly, +1.2% on the previous year, confirming the gap between the positive trend in deposits and the ever present contraction in bonds.

As for our Group, direct customer deposits amounted to 30,496 million, -1.82%.

Indirect funding from customers amounted to 31,541 million, +4.50%.

Insurance premium income came to 1,447 million, +2.60%.

Total funding from customers therefore amounted to 63,485 million (+1.32%).

Amounts due to banks totalled 6,309 million, +2.31%. As in prior years, this total includes the refinancing operations arranged with the European Central Bank, which amounted to 4,600 million at the end of the year. Indirect funding from banks rose from 4,358 million to 4,636 million, +6.37%.

Total deposits from customers and banks therefore came to 74,429 million (+1.71%).

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	31/03/2019	%	31/12/2018	%	% change
Savings deposits	523,491	1.72	527,859	1.70	-0.83
Certificates of deposit	1,466	0.00	1,594	0.01	-8.06
Bonds	2,545,041	8.34	2,349,650	7.56	8.32
Repo transactions	2,100	0.01	100	0.00	–
Bank drafts and similar	138,841	0.45	128,439	0.40	8.10
Current accounts	23,941,083	78.51	24,944,658	80.31	-4.02
Time deposit accounts	733,549	2.41	806,856	2.60	-9.09
Current accounts in foreign currency	2,377,171	7.80	2,303,356	7.42	3.20
Lease liability	233,592	0.76	–	–	–
Total	**30,496,334**	**100.00**	**31,062,511**	**100.00**	**-1.82**

TOTAL FUNDING

(in thousands of euro)	31/03/2019	%	31/12/2018	%	% change
Total direct funding from customers	30,496,334	40.97	31,062,511	42.44	-1.82
Total indirect funding from customers	31,541,389	42.38	30,182,455	41.24	4.50
Total direct funding from insurance premiums	1,446,891	1.94	1,410,180	1.93	2.60
Total	**63,484,614**	**85.29**	**62,655,147**	**85.61**	**1.32**
Due to banks	6,308,554	8.48	6,165,836	8.43	2.31
Indirect funding from banks	4,635,895	6.23	4,358,442	5.96	6.37
Grand total	**74,429,063**	**100.00**	**73,179,424**	**100.00**	**1.71**

Considering the individual components, current accounts in euro and foreign currency dropped to 26,318 million, -3.41%, and make up 86.32% of all direct funding. Bonds have increased by 8.32%, to 2,545 million. Time deposit accounts have fallen to 734 million, -9.09%. Repo transactions amounts were insignificant; savings deposits were stable at 523 million, -0.83%. Certificates of deposit stood at 2 million, on the levels of the comparative period, and remain entirely marginal. Bank drafts amounted to 139 million, +8.10%. The new item represented by the lease liabilities as required by IFRS 16, amounting to Euro 234 million, is significant.

As regards asset management, please see the chapter on Treasury and Trading Operations.

LOANS TO CUSTOMERS

The unfavourable trend in the economic cycle was reflected in the dynamics of bank loans, which marked an annual increase of 0.8%, while the process of improving credit quality continued in a significant way. Overall, offer conditions remained relaxed, although there was some sign of tightening, with rates still at all-time lows. The increase in bond yields recorded on Italian financial markets is very gradually being transmitted to credit conditions, thanks to the abundant liquidity and competitive pressure among banks.

The long-standing function of supporting the economy of the territories that we serve has been at the heart of our Group's activities, which we have done according to a rigorous and professional selection of borrowers.

For our Group, lending amounted to 25,962 million, up 0.45% on the previous year. The trend during the year was rather subdued. The ratio of loans to direct deposits from customers is 85.13% compared with 83.20% last year. Several different technical forms have contributed in varying degrees to the trend in loans. These items are equal to the sum of the loans included in line item «40. financial assets measured at amortised cost - b) loans and receivables with customers» and line item «20. financial assets measured at fair value through profit or loss - c) other financial assets mandatorily measured at fair value».

Mortgage loans performed well, coming in at 10,076 million, +1.61%; they are the main component of loans to customers with 38.81%. Other transactions and unsecured loans increased: 5,448 million, +5.66% , equal to 20.98% of loans to customers. Current accounts decreased by 0.34%, from 4,253 to 4,239 million. Advances have gone up to 515 million, +9.71%. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, passed from 1,204 to 1,014 million, -15.77%. Personal loans also have gone down by -1.53% from 495 to 487 million, as did advances subject to collection of 228 million, -1.21%. Factoring transactions decreased by 9.07% to 1,961 million. Debt securities amounted to 263 million at the end of 2018 and have also declined by -6.06%, to 247 million; they derive from the securitisation of loans to customers made by

LOANS TO CUSTOMERS

(in thousands of euro)	31/03/2019	%	31/12/2018	%	% change
Current accounts	4,238,521	16.33	4,252,855	16.46	-0.34%
Foreign currency loans	890,726	3.42	855,104	3.31	4.17%
Advances	514,996	2.00	469,429	1.82	9.71%
Advances subject to collection	227,787	0.88	230,584	0.89	-1.21%
Discounted portfolio	7,379	0.03	5,801	0.02	27.20%
Artisan loans	55,696	0.21	58,858	0.23	-5.37%
Agricultural loans	20,604	0.08	20,764	0.08	-0.77%
Personal loans	487,222	1.88	494,795	1.91	-1.53%
Other unsecured loans	5.447,550	20.98	5,155,908	19.95	5.66%
Mortgage loans	10,076,035	38.81	9,915,925	38.37	1.61%
Net non-performing loans	772,913	2.98	760,412	2.94	1.64%
Repo transactions	1,014,457	3.91	1,204,429	4.66	-15.77%
Factoring	1,960,995	7.55	2,156,486	8.34	-9.07%
Fixed-yield securities	247,423	0.94	263,374	1.02	-6.06%
Total	**25,962,304**	**100.00**	**25,844,724**	**100.00**	**0.45%**

Banca della Nuova Terra spa and Alba Leasing spa. Foreign currency loans have grown to 891 million, +4.17%.

Total loans includes loans assigned but not derecognised of 1,622 million in relation to the issue of covered bonds and securitisations. These loans have not been derecognised because the chosen structure does not meet the requirements of IAS 39.

Total impaired loans have risen by 2.37% to 1,895 million and represent 7.30% (formerly 7.16%) of loans to customers. In absolute terms, the trend is in contrast with the system, but it does not reflect the work performed and the efforts made to contain them.

Writedowns of impaired loans totalled 2,188 million, -5.73%, representing 53.59% of the gross amount, compared with 55.63% at the end of 2018 and 51.79% at the end of 2017. The reduction in coverage largely follows the write-off of already non-performing positions. The table gives a overview of impaired and performing loans.

Net non-performing loans amount to 773 million, +1.65%, coresponding to 2.98% of total loans and receivables with customers, compared with 2.94% at 31 December 2018. The adjustments to cover estimated losses on non-performing loans have fallen to 1,601 million, -7.00%, representing 67.44% of the gross amount compared with 69.36% last year; this decline is related to what described above. The substantial adjustments reflect prudential valuation criteria, particularly for positions backed by collateral in the form of real estate. This follows the recommendations of the Supervisory Authority during its inspections at the Parent Company over the years. It is one of the highest coverage percentages at national level. Considering the amounts

LOANS TO CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/03/2019	31/12/2018	(+/-)	% change
Impaired loans	Gross exposure	4,082,549	4,171,707	-89,158	-2.14%
	Adjustments	2,187,980	2,320,944	-132,964	-5.73%
	Net exposure	**1,894,569**	**1,850,763**	**43,806**	**2.37%**
- Non-performing loans	Gross exposure	2,373,591	2,481,444	-107,853	-4.35%
	Adjustments	1,600,643	1,721,031	-120,388	-7.00%
	Net exposure	**772,948**	**760,413**	**12,535**	**1.65%**
- Unlikely to pay loans	Gross exposure	1,615,289	1,585,177	30,112	1.90%
	Adjustments	576,752	579,483	-2,731	-0.47%
	Net exposure	**1,038,537**	**1,005,694**	**32,843**	**3.27%**
- Past due and/or impaired overdrawn exposures	Gross exposure	93,669	105,086	-11,417	-10.86%
	Adjustments	10,585	20,430	-9,845	-48.19%
	Net exposure	**83,084**	**84,656**	**-1,572**	**-1.86%**
Performing	Gross exposure	24,196,484	24,111,603	84,881	0.35%
	Adjustments	128,749	117,644	11,105	9.44%
	Net exposure	**24,067,735**	**23,993,959**	**73,776**	**0.31%**
Total loans and receivables with customers	Gross exposure	28,279,033	28,283,312	-4,279	-0.02%
	Adjustments	2,316,729	2,438,588	-121,859	-5.00%
	Net exposure	**25,962,304**	**25,844,724**	**117,580**	**0.45%**

written off in prior years against non-performing loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 76.89%.

Unlikely-to-pay loans relate to exposures, excluding non-performing loans, that the debtor is deemed unlikely to settle in full, without recourse by the bank to the collection of guarantees or similar forms of protection. These have risen to 1,039 million, +3.27%, coresponding to 4.00% of total loans and receivables with customers, compared with 3.89% in the previous year. The related adjustments, which ensure a coverage ratio of 35.70%, amounted to 577 million, -0.47% on the comparative period, when they amounted to 579 million.

Past due and/or impaired overdrawn exposures, other than non-performing or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 83 million, -1.86%, and represent 0.32% of total loans and receivables with customers compared with 0.33% in the comparison period, with a level of coverage of 11.30%. The related adjustments amounted to 10 million, -48.19%.

In addition to the adjustments made to impaired loans, provisions against performing loans totalled 129 million, +9.44%, giving coverage of 0.53% compared with 0.49%.

The increase in the coverage ratio is mainly related to the use of less favourable macroeconomic scenarios in the models used in preparing the general adjustments. Adjustments totalled 2,317 million overall, -5%.

TREASURY AND TRADING OPERATIONS

After an extraordinarily difficult 2018, the first quarter of 2019 was marked by a brilliant recovery in the international financial markets.

At 31 March 2019, net interbank borrowing amounts to 4,979 million, up by 134 million from 4,845 million at the end of 2018.

Cash and liquid assets total 1,922 million, compared with 1,577 million.

The Group and the system were highly liquid. At the end of the year, the Parent Company arranged two Targeted Longer-Term Refinancing Operations (T-LTRO II) with the ECB for a total of 4,600 million. The first, arranged for 1,100 million on 23 June 2016, with repayment on 24 June 2020 and a right to early repayment from 27 June 2018, is a zero rate operation (subject to reduction in the event of an increase in eligible lending, with respect to the assigned benchmark).

The second one was stipulated in March 2017, for 3,500 million, as the Parent Company decided to take part in the last operation aimed at refinancing the T-LTRO II programme by the ECB with maturity on 24 March 2021, with the target of stimulating the real economy, guaranteeing further liquidity to the banking system.

Excluding these T-LTRO II operations, the net balance of loans and receivables with banks less amounts due to banks would have been negative for 379 million.

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

The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are considerably higher than the established minimums. The Group has a substantial portfolio of refinanceable assets that, net of the haircuts applied, total 11,364 million, compared with 11,923 million, of which 6,244 available and 5,120 committed.

At 31 March 2019 the portfolios of financial assets consisting of securities amounted to a total of 10,272 million, a decrease of 7.17% compared with 11,065 million at 31 December 2018. This decrease is related to the sale of Italian government securities (BTP and CTZ with very short maturities) to reposition the portfolio with respect to Italy's sovereign risk, only partially offset by purchases of high-rated securities for the sake of diversification.

The following table summarises the various amounts involved and the percentage changes.

FINANCIAL ASSETS (DEBT SECURITIES, VARIABLE-YIELD SECURITIES, MUTUAL FUNDS AND DERIVATIVES) BY PORTFOLIO

(in thousands of euro)	31/03/2019	31/12/2018	% change
Financial assets held for trading	239,705	251,044	-4.52
of which, derivatives	34,735	31,668	9.68
Other financial assets mandatorily measured at fair value	374,289	366,287	2.18
Financial assets measured at fair value through other comprehensive income	3,395,511	4,423,618	-23.24
Financial assets measured at amortised cost	6,262,386	6,024,006	3.96
TOTAL	**10,271,891**	**11,064,955**	**-7.17**

As in the past, the portfolio mostly comprises domestic government securities, despite the significant sales as previously reported. Movement remained high, albeit at lower levels than in the comparative period, and mainly involved the HTCS and HTC portfolios. In this regard, continuation of an expansionary monetary policy has held down yields on Italian public debt securities at minimum levels: zero or even negative rates for short maturities. The duration of the portfolio is around 4 years with respect to about three-and-a-half years in the prior year.

Financial assets held for trading

The size of the trading portfolio remained lower than in the prior year, with transactions limited almost entirely to shares. This portfolio totals 240 million, down 4.52% from 251 million previously.

The composition of the trading portfolio is simple and transparent.

(in thousands of euro)	31/03/2019	31/12/2018	% change
Floating-rate Italian government securities	54,442	59,089	-7.86
Fixed-rate Italian government securities	59,710	54,008	10.56
Bank bonds	11,540	11,109	3.88
Bonds of other issuers	1,981	1,925	2.91
Variable-yield securities	64,081	83,095	-22.88
Mutual funds	13,216	10,150	30.21
Net book value of derivative contracts	34,735	31,668	9.68
TOTAL	**239,705**	**251,044**	**-4.52**

Sales of financial assets have continued, with shares falling to 64 million from 83 million in the prior year (-22.88%), which represents 26.73% of the portfolio compared with 33.10%. The profit from trading activity has fallen considerably, while the quiet period on financial markets has positively influenced the net balance of unrealised gains and losses.

The overall net trading result has increased by 85.17% to 21.004 million compared with 11.343 million in 2018, due to the good tone on the financial markets.

Other financial assets mandatorily measured at fair value

The other financial assets mandatorily measured at fair value have increased by 2.18% to 374 million from 366 million.

The portfolio relates almost entirely to various types of funds and Sicavs. This slight increase is largely due to the growth of Mutual funds in portfolio.

(in thousands of euro)	31/03/2019	31/12/2018	% change
Bank bonds	8,696	8,988	-3.25
Other bonds	35,039	33,943	3.23
Variable-yield securities	1	2	-50.00
Mutual funds in euro	307,568	301,084	2.15
Mutual funds in foreign currency (USD)	22,985	22,270	3.21
Total	**374,289**	**366,287**	**2.18**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS) totals 3,396 million, -23.24%. The decrease is due to substantial sales of Italian government securities, fixed-income ones in particular and, to a lesser extent, Spanish securities.

Among these, Italian government securities have decreased by 31.09% to 2,406 million; they represent the principal component, accompanied by fixed-income Spanish and French government securities for 305 million, +11.36%, with a view to diversification.

In accordance with established operational practices, this portfolio contains part of the invested liquidity in order to contain, if only partially, the impact on the income statement of the volatility always found in the financial markets.

The bonds were essentially stable, comprising bank bonds for 485 million, +0.27%, and corporate bonds for 73 million, +3.47%. Variable-yield securities increased by 21.34%, to 127 million.

No impairment tests to identify permanent losses were required during the period and, accordingly, it was not necessary to recognise any related writedowns in the income statement.

(in thousands of euro)	31/03/2019	31/12/2018	% change
Floating-rate Italian government securities	647,206	592,896	9.16
Fixed-rate Italian government securities	1,758,749	2,898,339	-39.32
Foreign government securities	304,410	273,356	11.36
Bank bonds	485,300	483,996	0.27
Other bonds	72,597	70,160	3.47
Variable-yield securities	127,249	104,871	21.34
TOTAL	**3,395,511**	**4,423,618**	**-23.24**

Financial assets measured at amortised cost

The securities measured at amortised cost constitute part of the financial assets measured at amortised cost (HTCS) and total 6,262 million, compared with 6,024 million, +3.96%. Its composition shows an increase in Italian and foreign bank bonds of high standing (especially covered and supranational ones), which altogether rose from 75 to 277 million.

(in thousands of euro)	31/03/2019	31/12/2018	% change
LOANS AND RECEIVABLES WITH BANKS	**276,613**	**75,059**	**268.53**
Italian bank bonds	197,792	15,744	1156.30
Foreign bank bonds	78,821	59,315	32.89
LOANS AND RECEIVABLES WITH CUSTOMERS	**5,985,773**	**5,948,947**	**0.62**
Floating-rate Italian government securities	810,502	809,779	0.09
Fixed-rate Italian government securities	3,594,342	3,599,927	-0.16
Foreign government securities	1,418,369	1,418,467	-0.01
Other bonds	162,560	120,774	34.60
TOTAL	**6,262,386**	**6,024,006**	**3.96**

ASSET MANAGEMENT

After a 2018 better forgotten for the asset management industry, in the first quarter of 2019 the stabilisation of financial markets favoured a return of interest in the sector.

Our Group also suffered from the general climate. Funding activities performed well overall, with an increase in volume.

The assets managed in various forms totalled 5,609 million at the end of March, up by 3.81% since December 2018, of which 3,691 million, +5.91%, relates to the mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; the Group's asset management schemes came to 1,648 million, -0.91%.

INFORMATION ON EXPOSURE TO SOVEREIGN DEBT

CONSOB with communication no. DEM/11070007 of 05/08/2011, and more recently with communication of 31/10/2018, invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard we communicate that the overall exposure of the Group as at 31 March 2019 amounted to € 9,297 million and was structured as follows:

a) Loans and securities to public administrations: 8,689 million;

b) Loans and securities to state-owned or local government-owned enterprises: 405 million;

c) Loans and securities to other public administrations and miscellaneous entities: 203 million.

Note that the exposure to sovereign debtors consists mainly of Italian government securities held by the Parent Company.

EQUITY INVESTMENTS

Equity investments amount to 226 million. The increase of 5 million essentially reflects the measurement at equity of these investments.

APROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets total 596 million compared with 361 million at the end of 2018. The former totalled 563 million, +71.57%, the second category amounted to 33 million, substantially unchanged. The significant increase is related to the entry into force of IFRS 16 to replace IAS 17. It has got rid of the accounting duality between finance and operating leases for lessees, introducing instead a single accounting model that involves booking an asset (right of use) and lease liabilities in the balance sheet.

Intangible assets include 13 million of goodwill. Goodwill is subjected to annual impairment testing to check for any loss of value. The most recent test was performed when preparing the consolidated financial statements at 31 December 2018. It was not deemed necessary to repeat the procedure at 31 March 2019.

PROVISIONS

These comprise employee severance indemnities of 43 million, +0.37%, and the provisions for risks and charges totalling 256 million, +3.00% compared with the figure at the end of 2018.

HUMAN RESOURCES

At 31 March 2019 the Banking Group had 3,255 employees with an increase of one person on the end of 2018, to which should be added 3 employees of the subsidiary Pirovano Stelvio spa.

CAPITAL AND RESERVES

Consolidated shareholders' equity at 31 March 2019, inclusive of valuation reserves and the profit for the period, amounts to 2,725.613 million, being an increase of 74.791 million, +2.82% compared with 31 December 2018.

This aggregate does not reflect the effects of distributing the 2018 profit reported by the Parent Company. The Ordinary Shareholders' Meeting of 27 April 2019 approved the distribution of a dividend of 0.05 euro for each of the 453,385,777 shares outstanding at 31 December 2018. The dividend will be paid on 22 May 2019, going ex-coupon on 20 May.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares without par value, amounts to 1,360.157 million, unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million.

Reserves rose to 1,274.125 million, +9.77%, mainly following allocation of the profit for 2018.

The valuation reserves, representing the net unrealised gains and losses recorded on financial assets measured at fair value through other comprehensive income and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a positive net balance of 2.807 million compared with a negative balance of 34.452 million at the end of 2018. It was positively impacted by the favourable trend of financial markets.

The value of the shares held in the Parent Company has gone from 25.375 million to 25.382 million, so substantially stable.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force pursuant to Regulation (EU) no. 575/2013 (CRR) and EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 amended the limits for capital ratios that, since January 2019, are 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio. In the context of its powers, the ECB has the authority, using the information gathered during the prudential review and assessment process, to set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the bank was informed in a communication dated 5 February 2019, at the end of the annual review process, about the Supervisory Board's decision regarding the new minimum coefficients applicable from 1 March for 2019.

The minimum capital levels required of our Banking Group are:

– a minimum Common Equity Tier 1 ratio of 9.25% (formerly 8.375%), calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.5%, formerly 1.875%) and an additional Second Pillar requirement (2.25%, formerly 2%);

– a minimum requirement of Tier 1 Ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (6%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (2.25%);

– a minimum Total Capital ratio of 12.75% (formerly 11.875%), being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (2.5%, formerly 1.875%) and an additional Pillar 2 requirement (2.25%, formerly 2%).

While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank.

A «Pillar 2 Guidance», which acts as a guide to the prospective evolution of the Group's capital, was added to the two ratios in 2017. This parameter is confidential, unlike the two minimum requirements, and - based on the ECB's guidelines - is not considered relevant in the calculation of distributable dividends.

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,014 million at 31 March 2019.

In the interests of full disclosure, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their class 1 primary capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of IFRS 9, starting from 1 January 2018. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 95% in 2018 to 25% in 2022, until it is completely eliminated in 2023.

The figures for these coefficients at 31 March 2019 and the minimum requirements are given below.

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	12.06%	9.25%
Tier 1 capital ratio	12.09%	10.75%
Total Capital Ratio	13.49%	12.75%

The leverage ratio is 6.01%, applying the Phased In transitional criteria in force for 2017, and 5.97% based on the Fully Phased criteria. These figures rank among the best when compared with those of the main Italian and European banking groups.

The following ratios of capital (and reserves, including profit for the period) to the principal balance sheet aggregates are shown with comparative figures at 31 December 2018:

– *capital/direct funding from customers*
  8.94% v. 8.53%;;

– *capital/loans and receivables with customers*
  10.50% v. 10.26%;

– *capital/financial assets*
  26.53% v. 23.96%;

– *capital/total assets*
  6.68% v. 6.44%;

– *net non-performing loans/capital*

28.36% v. 28.69%.

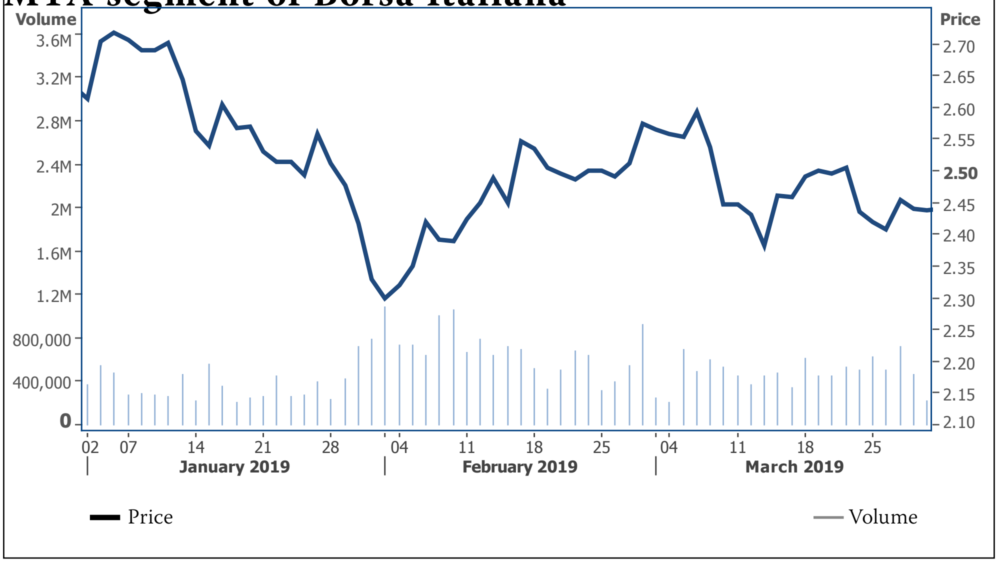
BPS STOCK

BPS stock is listed on the Screen-Traded Market (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index.

The stock closed the first three months of 2019 with a performance of -7.37%, marking a reference price at 29 March 2019 of 2.438 euro, compared with 2.632 euro at the end of 2018. During the quarter, the stock recorded an intraday minimum and maximum of Euro 2.226 on 1 February and Euro 2.76 on 8 January.

The average daily volume of securities traded on the MTA market of Borsa Italiana in the first three months of the year was 501 thousand, down form 761 thousand in the same period of 2018.

BANCA POPOLARE DI SONDRIO stock - MTA segment of Borsa Italiana



Source THOMSON REUTERS

As regards the treasury shares held by the parent company, the balance at 31 March 2019 was equal to 3,650,000 shares, unchanged on the end of 2018 and on twelve months earlier. There are also 24,431 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies. A total of 25.322 million has been drawn from the reserve for the purchase of treasury shares, out of the Euro 30 million available.

The shareholder base at 31 March 2019 consists of 169,507 members, a decrease of 1,164 members compared with the end of 2018.

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

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group, as shown is greater detail in the following tables, has been assessed by both Fitch Ratings and Dagong Europe Credit Rating.

Their latest ratings, unchanged with respect to last year, were released on 13 June 2018 by Fitch Ratings and 20 November 2018 by Dagong Europe Credit Rating.

FITCH RATINGS – issued on 13 June 2018

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

(NF), indicates that according to Fitch it is unlikely that aid could come from an external source (probability of support lower than 40%).	**No Floor**
OUTLOOK (prospettiva) It is a prospective evaluation regarding possible changes in the long-term rating over a period of 1-2 years. It can be «positive», «stable» or «negative».	**Stable**

DAGONG EUROPE CREDIT RATING – issued on 20 November 2018

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

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

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

(in thousands of euro)	Equity	of which: Profit for the year
Equity of the Parent Company as of 31.03.2019	2,429,692	26,376
Consolidation adjustments	(2,533)	(2,533)
Difference with respect to the carrying amounts of equity investments in:		
– companies consolidated on a line-by-line basis	254,857	6,991
– companies valued using the equity method	43,596	4,067
Balance as of 31.03.2019, as reported in the consolidated financial statements	**2,725,612**	**34,901**

INCOME STATEMENT

While the first three months of 2018 featured a positive general economic situation, albeit with a slowdown in growth rates, the start of 2019 suggests very limited growth prospects for the current year.

In this context, our Group achieved a result for the period of Euro 34.901 million, down by 18.47% on the Euro 42.809 million of the first three months of 2018.

On 1 January 2019 the new accounting standard IFRS 16 came into force, replacing IAS 17 which governed leases. The Group has exercised the option provided by the principle of not restating comparative data. Therefore, the figures are not fully comparable with regard to administrative expenses and value adjustments on property, equipment and investment property and interest expense.

Continuation of the ECB's expansive monetary policy, destined to continue throughout the current year, and the targeted longer-term refinancing operations already launched and those announced, albeit at price conditions to be defined in the coming months, have helped keep rates at minimum levels. Government bond yields have remained extremely poor, when not negative. On the other hand, the reduction in the margins

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	31/03/2019	31/03/2018	(+/-)	% change
Net interest income	120,200	120,228	-28	-0.02
Dividends	561	551	10	1.81
Net fee and commission income	75,528	76,290	-762	-1.00
Result of financial activities	30,474	14,266	16,208	113.61
Total income	**226,763**	**211,335**	**15,428**	**7.30**
Net adjustments to loans and financial assets	-43,259	-29,295	-13,964	47.67
Gains/losses on contractual amendments not resulting in derecognition	-695	-871	176	-20.21
Net financial income	**182,809**	**181,169**	**1,640**	**0.91**
Personnel costs	-60,785	-59,791	-994	1.66
Other administrative expenses	-78,023	-81,365	3,342	-4.11
Other operating income/expense	16,060	15,180	880	5.80
Net accruals to provisions for risks and charges	-1,220	3,110	-4,330	-139.23
Adjustments to property, equipment and investment property and intangible assets	-12,405	-7,408	-4,997	67.45
Operating costs	**-136,373**	**-130,274**	**-6,099**	**4.68**
Operating profit (loss)	**46,436**	**50,895**	**-4,459**	**-8.76**
Net gains (losses) on equity investments and other investments	4,067	5,027	-960	-19.10
Profit (loss) before tax	**50,503**	**55,922**	**-5,419**	**-9.69**
Income taxes	-15,419	-12,072	-3,347	27.73
Profit (loss)	**35,084**	**43,850**	**-8,766**	**-19.99**
Profit (loss) attributable to non-controlling interests	-183	-1,041	858	-82.42
Profit (loss) attributable to the Parent Company	**34,901**	**42,809**	**-7,908**	**-18.47**

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Personnel expenses and other operating income have been reclassified, excluding the contra-entry represented by the proceeds from the post-employment benefits fund of 3.064 million.

applied on disbursements to companies and individuals continued, as the tightening determined by the uncertainty of the economic prospects tended to be offset by the competitive pressure among credit institutions. The net interest income therefore came to 120.200 million, -0.02%, substantially stable.

Net fee and commission income showed a slightly downward trend, coming in at 75.528 million, -1.00%. Net fees and commissions from loans, guarantees given and acceptance of orders declined, whereas those arising from the placement of asset management and insurance products, as well as those related to collections and payments, have enjoyed a good trend.

Dividends totalling 0.561 million were collected, compared with 0.551 million.

The net profit from securities, foreign exchange and derivatives operations (the sum total of income statement line items 80, 90, 100 and 110) amounted to 30.474 million, compared with 14.266 million, +113.61%.

The more accommodating approach of the central banks had positive effects on financial markets, whose volatility fell sharply, recovering the losses suffered at the end of 2018.

Analysing the individual portfolios, the trading one showed a result of 21.004 million. The result from the sale of financial assets/liabilities (line item 100) amounted to 2.783 million.

Gains on disposal or repurchase of financial assets measured at fair value through other comprehensive income amounted to 2.132 million. The sale of financial assets measured at amortised cost generated a gains of 0.357, while financial liabilities recorded gains of 0.294 million. Lastly, other financial assets and liabilities measured at fair value through profit or loss recorded a profit of 6.687 million.

Income from banking activities therefore rose to 226.763 million, compared with 211.335 million, +7.30%.

Within this aggregate, the weighting of net interest income was 53.01% compared with 56.89%.

While, on the one hand, the trend in the economic situation has seen a slowdown in non-performing loans, on the other, it has to deal with not particularly favourable future macroeconomic scenarios, with negative repercussions on provisions for the period. Our Group has continued to evaluate exposures to customers according to the existing rigorous policies.

Net adjustments for credit risk (income statement line item 130) amounted to 43.259 million, compared to 29.295 million, +47.67%. Net adjustments for credit risk relating to financial assets measured at amortised cost, consisting of exposures to customers and banks in the form of loans and securities, amounted to 44.234 million compared with 31.806 million, an increase largely due to the growth in general write-downs on performing loans to customers in relation with less favourable macroeconomic scenarios. Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income consisted of reversals of 0.975 million relating to fixed-yield securities, while the comparative period recorded reversals for 2.511 million.

The ratio of net adjustments to loans to customers to total loans to customers, also known as the cost of credit, has further improved to 0.68% from 0.93% at 31 December 2018.

Line item 140, which is used for the recognition of gains/losses on contractual amendments not resulting in derecognition, arising from modifications to contractual cash flows, reported a loss for the period just ended of 0.695 million, compared with 0.871 million.

This leads to net financial income of 182.809 million, compared with 181.169 million (+0.91%).

A great deal of attention has been paid to holding down operating costs, but they still came to 136.373 million, +4.68%, partly for physiological reasons and partly due to an increase in charges to help stabilise the banking system. The ratio of operating costs/income from banking activities, known as the «cost income ratio», is 60.14% compared with 61.64% at 31 March 2018.

Analysing each item, after reclassifying the deferral of income earned by the fund for post-employment benefits, administrative expenses were 1.66% lower at 138.808 million; personnel expenses rose to 60.785 million, +1.66%. In turn, other administrative expenses have gone from 81.365 million to 78.023 million, -4.11%. The decrease is partly linked to the new accounting rules for lease contracts introduced by IFRS 16. They include an estimate of the cost for ordinary contributions to the National Resolution Fund cost and to the Interbank Deposit Protection Fund of 21 million.

There are also substantial consulting and IT costs linked to regulations that are in constant evolution.

Net accruals to provisions for risks and charges included provisions of 1.220 million, compared with a release of 3.110 million. This now includes provisions for credit risk relating to commitments and guarantees given.

Depreciation and amortisation amounted to 12.405 million, +67.45%. This increase is largely attributable to the new accounting rules envisaged by IFRS 16 concerning leases, as commented on «other administrative expenses».

Other operating income, net of charges, comes to 16.060 million, an increase of 5.80%.

The operating profit therefore came to 46.436 million, -8.76%.

Net profits on equity and other investments amounted to 4.067 million, compared with 5.027 million, -19.10%.

Profit before income taxes therefore totalled 50.503 million, -9.69%.

After deducting income taxes of 15.419 million, +27.73%, and the non-controlling interest of 0.183 million, the profit for the year comes to 34.901 million, -18.47%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 30.53% compared with 21.59% in the comparative period.

DISTRIBUTION BY GEOGRAPHICAL AREA

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

The contribution made to the Group by this subsidiary is summarised by the following statistics: the «Suisse» holds 9.25% of direct funding from customers and 12.15% of loans and receivables with customers, generating

7.28% of net fee and commission income and 10.95% of net interest income.

SUBSEQUENT EVENTS AND OUTLOOK FOR OPERATIONS

No significant events have taken place since 31 March 2019.

As regards the outlook, it is reasonable to assume that the Group can generate a good level of revenue during the rest of the current year, even if the evolution of the economy and financial markets is an unknown factor.

Sondrio, 9 May 2019

THE BOARD OF DIRECTORS

Certification of the Manager responsible for preparing the Company’s accounting documents

The Manager responsible for preparing the Company’s accounting documents, Maurizio Bertoletti, certifies, pursuant to art. 154 bis, para. 2, of the Consolidated Finance Law, that the accounting information contained in this consolidated interim report for the period ended 31 March 2019 agrees with the underlying documents, registers and accounting entries.

The Manager responsible
for preparing the Company’s
accounting documents

CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT AT 31 MARCH 2019

PRESENTATION OF COMPARATIVE AMOUNTS

The comparative balance sheet amounts at 31/12/2018 and the income statement comparatives for the period ended 31/03/2018 have simply been restated.

This means that the balance sheet amounts at 31 December 2018 and the income statement amounts for the period ended 31 March 2018, which do not reflect the impact of applying IFRS 16, are not comparable on a like-for-like basis with the figures presented in the period under review.

CONSOLIDATED BALANCE SHEET
(in thousands of euro)

ASSET ITEMS			31-03-2019		31-12-2018
10.	CASH AND CASH EQUIVALENTS		**1,921,930**		**1,577,163**
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		**825,183**		**858,069**
	a) financial assets held for trading	239,705		251,044	
	c) other financial assets mandatorily measured at fair value	585,478		607,025	
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**3,395,511**		**4,423,618**
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST		**33,066,388**		**32,873,554**
	a) Loans and receivables with banks	1,329,500		1,320,621	
	b) Loans and receivables with customers	31,736,888		31,552,933	
70.	EQUITY INVESTMENTS		**225,843**		**22,957**
90.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**563,016**		**328,161**
100.	INTANGIBLE ASSETS		**33,313**		**33,259**
	of which:				
	- goodwill	12,632		12,632	
110.	TAX ASSETS		**444,639**		**465,040**
	a) current	28,203		31,834	
	b) deferred	416,436		433,206	
130.	OTHER ASSETS		**295,759**		**348,364**
	TOTAL ASSETS		**40,771,582**		**41,128,185**

THE CHAIRMAN
Francesco Venosta

THE BOARD OF STATUTORY AUDITORS
Piergiuseppe Forni, Chairman
Laura Vitali - Luca Zoani

EQUITY AND LIABILITY ITEMS			31-03-2019		31-12-2018
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		**36,804,887**		**37,228,347**
	a) Due to banks	6,308,553		6,165,836	
	b) Customer deposits	27,846,260		28,630,307	
	c) Debt securities in issue	2,650,074		2,432,204	
20.	FINANCIAL LIABILITIES HELD FOR TRADING		**66,086**		**57,211**
40.	HEDGING DERIVATIVES		**16,382**		**16,826**
60.	TAX LIABILITIES		**32,180**		**29,767**
	a) current	3,569		4,252	
	b) deferred	28,611		25,515	
80.	OTHER LIABILITIES		**733,503**		**760,091**
90.	POST-EMPLOYMENT BENEFITS		**43,382**		**43,222**
100.	PROVISIONS FOR RISKS AND CHARGES		**256,317**		**248,850**
	a) commitments and guarantees given	42,853		46,163	
	b) pension and similar obligations	163,725		160,734	
	c) other provisions for risks and charges	49,739		41,953	
120.	VALUATION RESERVES		**2,807**		**(34,452)**
150.	RESERVES		**1,274,125**		**1,160,683**
160.	SHARE PREMIUM RESERVE		**79,005**		**79,005**
170.	SHARE CAPITAL		**1,360,157**		**1,360,157**
180.	TREASURY SHARES (-)		**(25,382)**		**(25,375)**
190.	NON-CONTROLLING INTERESTS (+/-)		**93,232**		**93,049**
200.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**34,901**		**110,804**
	TOTAL LIABILITIES AND EQUITY		**40,771,582**		**41,128,185**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S ACCOUNTING DOCUMENTS
Maurizio Bertoletti

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

ITEMS			31-03-2019		31-03-2018
10.	INTEREST AND SIMILAR INCOME		148,698		149,810
	of which: interest income calculated using the effective interest method	146,840		149,233	
20.	INTEREST AND SIMILAR EXPENSE		(28,498)		(29,582)
30.	**NET INTEREST INCOME**		**120,200**		**120,228**
40.	FEE AND COMMISSION INCOME		80,491		80,928
50.	FEE AND COMMISSION EXPENSE		(4,963)		(4,638)
60.	**NET FEE AND COMMISSION INCOME**		**75,528**		**76,290**
70.	DIVIDENDS AND SIMILAR INCOME		561		551
80.	NET TRADING INCOME		21,004		11,343
90.	NET HEDGING GAINS (LOSSES)		–		(13)
100.	GAINS/LOSSES FROM SALES OR REPURCHASES OF:		2,783		4,759
	a) financial assets measured at amortised cost	357		1,221	
	b) financial assets measured at fair value through other comprehensive income	2,132		3,586	
	c) financial liabilities	294		(48)	
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		6,687		(1,823)
	b) other financial assets mandatorily measured at fair value	6,687		(1,823)	
120.	**TOTAL INCOME**		**226,763**		**211,335**
130.	NET ADJUSTMENTS FOR CREDIT: RISK RELATING TO		(43,259)		(29,295)
	a) financial assets measured at amortised cost	(44,234)		(31,806)	
	b) financial assets measured at fair value through other comprehensive income	975		2,511	
140.	GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(695)		(871)
150.	**NET FINANCIAL INCOME**		**182,809**		**181,169**
180.	**NET FINANCIAL AND INSURANCE INCOME**		**182,809**		**181,169**
190.	ADMINISTRATIVE EXPENSES:		(141,872)		(142,086)
	a) personnel expenses	(63,849)		(60,721)	
	b) other administrative expenses	(78,023)		(81,365)	
200.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(1,220)		3,110
	a) commitments for guarantees given	3,308		3,860	
	b) other net provisions	(4,528)		(750)	
210.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY EQUIPMENT AND INVESTMENT PROPERTY		(9,388)		(4,226)
220.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(3,017)		(3,182)
230.	OTHER OPERATING INCOME/EXPENSE		19,124		16,110
240.	**OPERATING COSTS**		**(136,373)**		**(130,274)**
250.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		4,067		5,016
280.	NET GAINS ON SALES OF INVESTMENTS		–		11
290.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**50,503**		**55,922**
300	INCOME TAXES		(15,419)		(12,072)
310.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**35,084**		**43,850**
330.	**PROFIT (LOSS) FOR THE PERIOD**		**35,084**		**43,850**
340.	PROFIT (LOSS) FOR THE PERIOD OF NON-CONTROLLING INTERESTS		(183)		(1,041)
350.	**PROFIT (LOSS) FOR THE PERIOD OF THE PARENT COMPANY**		**34,901**		**42,809**
	BASIC EPS		**0.077**		**0.094**
	DILUTED EPS		**0.077**		**0.094**