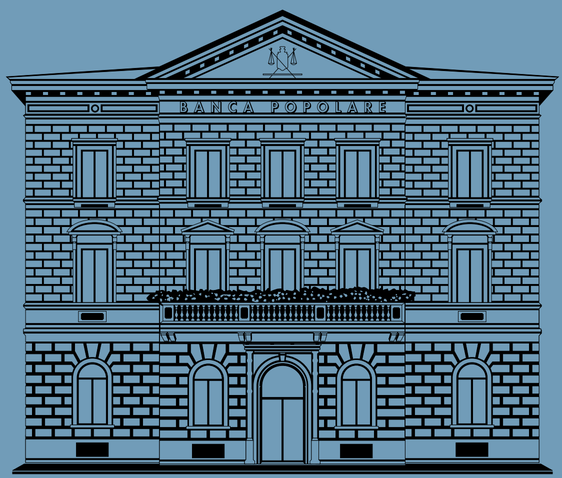
Banca Popolare di Sondrio



CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 30 SEPTEMBER 2020

Banca Popolare di Sondrio

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BANCA POPOLARE

Banca Popolare di Sondrio

Founded in 1871

CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 30 SEPTEMBER 2020

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: € 1,157,414,409
(Figures approved at the shareholders' meeting of 12 June 2020)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 25 September 2020:
  – Long-term: BB+
  – Short-term: B
  – Viability rating: bb+
  – Outlook: negative
  – Long-term Deposit Rating: BBB-
  – Long-term subordinated debt: BB-

- Rating given by DBRS Morningstar to Banca Popolare di Sondrio scpa on 2 April 2020:
  – Long-Term Issuer Rating: BBB (low)
  – Short-Term Issuer Rating: R-2 (middle)
  – Trend (outlook): negative
  – Long-Term Deposit Rating: BBB
  – Short-Term Deposit Rating: R-2 (high)

- Rating given by Scope Ratings to Banca Popolare di Sondrio scpa on 8 April 2020:
  – Issuer rating: 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*

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Auditors	LAURA VITALI
	LUCA ZOANI
Alternate Auditors	BRUNO GARBELLINI
	DANIELE MORELLI

ADVISORY COMMITTEE

Advisors	ALBERTO CRESPI
	ANTONIO LA TORRE
	ANDREA MONORCHIO
Alternate advisors	DIANA BRACCO
	CESARE MIRABELLI

DIREZIONE GENERALE

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

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

* Members of the Chairman's Committee

** 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 30 September 2020 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 applied during the period under review are consistent with the previous year.

Please refer to the consolidated financial statements at 31 December 2019 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 2019 have been presented as balance sheet comparatives.

Income statement comparatives are the results for the period ended 30 September 2019.

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.

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, 180,000,000 CHF.

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.

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 30 September 2020 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 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
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, has been consolidated.

The scope of consolidation also includes investees over which the Parent Company exercises a significant influence, that is, where the holding therein, directly or indirectly, is between 20% and 50% or, even in cases where the equity interest is lower, if one or more of the following circumstances apply:

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

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

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

d) there is an exchange of managers;

e) essential technical information is being provided.

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

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the company's net result for the year pertaining to the bank 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 or 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	34.715
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Rent2Go srl	Bolzano	12,050	33.333
Cossi Costruzioni spa	Sondrio	12,598	18.250
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 consolidated equity in the statement of comprehensive income.

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 November 2020 that would require any adjustments thereto, and nothing of significance has occurred that would require the provision of supplementary information.

INTERNATIONAL BACKGROUND

The global economy showed a significant recovery in the summer period thanks, in particular, to the exceptional stimulus measures adopted all over the world to cope with the extremely serious drop in production and commercial activities caused by the measures introduced to deal with the Covid-19 emergency.

After the huge contraction in GDP in the second quarter of 2020 –

except only for China, which, first hit by the pandemic, managed to restart its economic engine in a very short time – the summer period allowed many countries to resume a path of development. However, there are elements of uncertainty that, over time, tend to cast increasingly disturbing shadows over the world scenario. The decisive rise in infections in the most important economic areas of the globe, with the exception of China, suggests that new containment measures will have to be introduced, probably needed, but also very worrying in terms of what it will do to growth.

On the other hand, it is worth mentioning that the recovery that we saw in the third quarter of the year did not bring widespread benefits. While the world of industry was able to react effectively, the services sector proved less ready to cope with the effects of a crisis that has continued to afflict sectors such as tourism and air transport very heavily. World trade, which contracted by almost 45% in the second quarter of the year, showed signs of recovering in the third, while consumer price inflation stayed very low.

In the Euro-area, economic activity benefited from significant growth during the summer, but it still did not manage to return to pre-crisis levels. Negative inflation, an increase in the propensity for precautionary savings on the part of households and a drop in employment are further elements of concern against which the European Central Bank has confirmed its decidedly accommodative monetary policy stance.

As for Italy, the third quarter of the year saw a strengthening in the economic situation, with growth of around 12%. But also in Italy, there was a wide gap between the industrial sector, making good progress, and that of services, less ready to resume its growth path after being set back very seriously in the previous three months. The important measures to stimulate demand, both monetary and fiscal, contributed towards the significant economic progress. Households also saw some improvement during the summer period, but there is still a high propensity to boost savings dictated by worries about the future. In fact, the most recent developments in the pandemic show how the emergency cannot be considered behind us.

These general trends also appeared in Switzerland, whose economy, after a decidedly difficult first half of the year, showed a good recovery in the following three months. Some sectors performed better than others, so that the recovery remained incomplete and most sectors did not manage to return to the same levels as the previous year. Forecasts that were revised upwards at the beginning of the autumn are now having to deal with the sudden return of the pandemic, not only creating difficulties in the national scenario, but also hitting Switzerland's main trading partners with understandable consequences.

SUMMARY OF RESULTS

(in millions of euro)

Balance sheet	30/09/2020	31/12/2019	Change %
Loans to customers	28,841	27,387	5.31
Loans and receivables with customers measured at amortised cost	28,466	27,096	5.06
Loans and receivables with customers measured at fair value through profit or loss	375	291	28.66
Loans and receivables with banks	2,894	1,067	171.11
Financial assets that do not constitute loans	10,234	9,723	5.26
Equity investments	296	295	0.47
Total assets	47,457	41,146	15.34
Direct funding from customers	33,193	32,622	1.75
Indirect funding from customers	32,760	33,764	-2.97
Direct funding from insurance premiums	1,690	1,608	5.13
Customer assets under administration	67,642	67,993	-0.52
Other direct and indirect funding	15,580	10,068	54.74
Equity	2,956	2,842	4.02
Income statement	**30/09/2020**	**30/09/2019**	
Net interest income	362	341	6.36
Total income*	600	676	-11.22
Profit from continuing operations	93	182	-48.62
Profit of the period	64	123	-47.70
Capital ratios (%)	**30/09/2020**	**31/12/2019**	
CET1 Capital ratio (phased-in)	16.34%	15.75%	
Total Capital ratio (phased-in)	18.74%	18.64%	
Free capital	1,870	1,832	
Other information on the banking group	**30/09/2020**	**31/12/2019**	
Number of employees	3,305	3,299	
Number of branches	366	365	

* Total income is shown as per the reclassification made in the table commenting on the income statement.

ALTERNATIVE PERFORMANCE INDICATORS	30/09/2020	31/12/2019
Key ratios		
Equity/Direct funding from customers	8.91%	8.71%
Equity/Loans and receivables with customers	10.25%	10.38%
Equity/Financial assets	28.88%	29.23%
Equity/Total assets	6.23%	6.91%
Profitability indicators*		
Cost/Income ratio	65.18%	57.09%
Net interest income/Total income	60.37%	50.40%
Administrative expenses/Total income	65.81%	57.40%
Net interest income/Total assets	0.76%	0.78%
Net financial income/Total assets	0.98%	1.25%
Asset quality indicators		
Texas ratio	42.22%	56.00%
Net non-performing loans/Equity	14.74%	23.51%
Net non-performing loans/Loans and receivables with customers	1.51%	2.44%
Loans and receivables with customers/Direct funding from customers	86.89%	83.95%
Cost of credit	0.59%	0.78%

Cost/Income ratio: the ratio between operating costs and total income
Texas ratio: the ratio between non-performing loans and the difference between equity and intangible assets, as the denominator.
Cost of credit: the ratio between net impairment losses on loans in the income statement, adjusted for the write-offs and charges deriving from the sale of NPLs, and total loans and receivables with customers.
* The ratios were calculated using the figures shown in the summary reclassified income statement. The comparative figures refer to 30-09-2019.

FUNDING

Bank funding showed a very positive trend during the period, supported above all by higher deposits from households and businesses. However, this is only partially a good thing, as the underlying purpose of these deposits is caution, which on the one hand highlights the fear of many about their future prospects, while on the other tend to hold down household consumption and business investment. The significant increase in funding is also due to the expansion of liabilities towards the Eurosystem. The action of the European Central Bank also contributed significantly to keeping the cost of funding at minimum levels.

As for our Group, direct funding from customers at 30 September 2020 amounted to 33,193 million, up by 1.75% on year-end 2019 and up by +2.44% on September 2019.

Indirect funding from customers amounted to 32,760 million, -2.97% on the end of 2019, with a fluctuating trend during the period, partly attributable to the volatility of financial markets.

Direct funding from insurance premiums increased to 1,690 million, +5.13%.

Total funding from customers therefore amounted to 67,642 million (-0.52%).

Amounts due to banks total 9,646 million, +122.90%. The substantial increase is essentially due to the refinancing operations arranged with the European Central Bank, which rose from 2,700 million at the end of 2019 to Euro 8,068 million. This is explained in the chapter on Treasury and Trading Operations.

Indirect deposits from banks amount to 5,934 million, +3.36%.

Total funding from customers and banks therefore came to 83,223 million, +6.61%.

The table of «Direct funding from customers» shows the various items in detail. Current accounts in euro and foreign currency rose to 29,001 million, +5.01%, and make up 87.37% of all direct funding. Bonds have decreased slightly to 2,669 million, -1.57%. Savings deposits amounted to 526 million, +1.31%. Time deposit accounts amounted to 648 million, -31.44%. Repo transactions have been virtually non-existent (2 million compared with 509 million), while certificates of deposit amounted to 1 million and continue to be entirely marginal. Bank drafts amounted to 138 million, +50.82%. Lease liabilities, recognised in accordance with IFRS 16, amounted to 208 million, -7.87%.

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	30/09/2020	%	31/12/2019	%	Change %
Savings deposits	525,733	1.58	518,948	1.59	1.31
Certificates of deposit	887	0.00	1,391	0.00	-36.23
Bonds	2,669,438	8.04	2,711,880	8.31	-1.57
Repo transactions	1,700	0.01	509,383	1.56	-99.67
Bank drafts and similar	137,970	0.42	91,482	0.28	50.82
Current accounts	26,494,418	79.82	25,259,856	77.44	4.89
Time deposit accounts	648,098	1.95	945,335	2.90	-31.44
Current accounts in foreign currency	2,506,639	7.55	2,358,120	7.22	6.30
Lease liabilities	207,619	0.63	225,354	0.70	-7.87
Total	**33,192,502**	**100.00**	**32,621,749**	**100.00**	**1.75**

TOTAL FUNDING

(in thousands of euro)	30/09/2020	%	31/12/2019	%	Change %
Total direct funding from customers	33,192,502	39.87	32,621,749	41.78	1.75
Total indirect funding from customers	32,759,988	39.36	33,763,873	43.25	-2.97
Total direct funding from insurance premiums	1,690,007	2.03	1,607,591	2.06	5.13
Total	**67,642,497**	**81.28**	**67,993,213**	**87.10**	**-0.52**
Due to banks	9,646,364	11.59	4,327,709	5.54	122.90
Indirect funding from banks	5,933,793	7.13	5,740,763	7.35	3.36
Grand total	**83,222,654**	**100.00**	**78,061,685**	**100.00**	**6.61**

LOANS TO CUSTOMERS

Leaving behind the most acute phase of the health emergency, the gradual recovery that began in May and June continued, albeit partially, in the third quarter. The strong demand for funds was also satisfied thanks to better supply conditions, favoured by the State guarantee on new loans and by expansive monetary policy measures.

In terms of loans to customers, the bank continued to provide significant support to households and businesses during the very serious economic and financial crisis caused by the Covid-19 pandemic. Starting last March, the Parent Company promptly activated a series of interventions for the benefit of customers and the territories served in compliance with the government measures introduced mainly by the Cura Italia and Liquidity Decrees, with initiatives promoted by ABI at the banking system level and, lastly, on a voluntary basis for the benefit of certain categories and contractual relationships, mostly without the characteristics to access the two concessions mentioned above. The main initiatives include the granting of moratoria/suspensions on loans disbursed by the bank for the benefit of households and businesses: starting from March and up to 30 September, a total of almost 24,000 loans were granted for a residual debt of over 4,500 million, mostly attributable to the Cura Italia decree in support of SMEs (60% of the residual debt) and to households (17% of the residual debt). In this regard, after the extension of the deadline of the moratoria from 30 September 2020 to 31 January 2021, it is worth noting the recent willingness of EU institutions to extend the various government measures until 30 June 2021. Also worth noting is the immediate activation of short-term personal loans and temporary cash lines to replace unused self-liquidating lines of credit, as well as loans and rescheduling of payments of sector contributions for professionals enrolled in pension funds agreed with the Parent Company. The aim was to buffer liquidity needs, often resulting from the limits imposed by the Authorities on business activities. Joining the agreement to regulate the granting of advances of amounts owed by INPS to workers laid off temporarily as a result of the health emergency should also be mentioned. Subsequently, with the introduction of the Liquidity Decree in April, all of the types of financing were activated for the benefit of companies envisaged by article 13 (Central Guarantee Fund for SMEs) and by art. 1 (SACE). Particular emphasis is placed on the substantial numbers relating to the loans referred to in art. 13: as a whole, at 30 September, there were about 17,000 proposals approved for a total of over 1,719 million, including loans fully guaranteed by the Government for an amount up to 30,000 euro (13,000 cases for a total of 261 million), also issued through Confidi, mainly for the province of Sondrio, and ISMEA. It should be noted that with reference to the new disbursements under art. 13 and art. 1 mentioned above, these are backed by a State guarantee for a total of approximately 88% of the amount concerned. An analysis was also carried out to identify the economic sectors most affected by the crisis, with in-depth analyses at the level of credit portfolio area by area, as well as assessments relating to the quality of the Bank's loan portfolio and the ability of customers to meet the commitments arising from their financial liabilities in a context of uncertainty like the present one. In addition, the Parent Company has always continued to provide ordinary credit to support the financial needs of businesses and households, reflecting its ongoing attention and proximity to its area of origin, even more so in the critical situation that the whole country is going through.

With reference to the Bank of Italy's communication of 30 June 2020, which implements the European Banking Authority's «Guidelines on Covid -19 measures reporting and disclosure» (EBA/GL/2020/07), please refer to the following paragraph of this Report: «Significant accounting policies and uncertainties about the use of estimates when preparing the consolidated financial statements», which explains the accounting treatment of these exposures, and to the Third Pillar public disclosure published on the Company's website for the additional information, also of a quantitative nature, requested by the Banking Authority.

In accordance with IFRS 9, it has been necessary to take account of this state of affairs when assessing loans to customers, even if at present it is difficult to evaluate the impact and duration of the crisis on business activities.

In continuity with what was done in previous quarters, an approach was adopted which, compared with the scenarios used previously, takes into account the worsening of the forecast scenarios to be used in the process of quantifying credit risk adjustments, according to the most recent projections of how the macroeconomic context is likely to evolve.

At a system level, customer loans continued to increase significantly, both on an annual basis and compared with 31 December 2019. This is partly attributable to the effects of the various extraordinary measures introduced by the Government and the ECB and the greater use of credit lines by companies, in conjunction with the increased liquidity needs because of the health emergency and the related reduction in turnover. On the other hand, household demand fell as the prospects for the residential property market deteriorated and people spent less on durable consumer goods.

Competition between banks also contributed to this expansion, with particularly low interest rates continuing to be applied to businesses and households. The proportion of non-performing loans to total loans decreased slightly, both gross and net of adjustments, while the coverage ratio fell slightly after the sale of bad loans. However, it is worth emphasising that, following the effects of the health emergency, we are expecting an increase in the loans most at risk, albeit partially mitigated by the support measures adopted so far.

For our Group, lending amounted to 28,841 million, up 5.31%. The ratio of loans to deposits comes to 86.89% compared with 83.95% 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».

The trend in other unsecured transactions and loans was positive, reaching 8,733 million, +37.63%; these make up the second largest component of loans to customers with 30.28%. There was a moderate increase in mortgage loans, 11,083 million, +3.99%, which represent the main item of loans with 38.43%. The trend in residential mortgage loans by the subsidiary Banca Popolare di Sondrio (SUISSE) SA was particularly dynamic. Advances increased to 493 million, +5.42%.

Current accounts decreased by 15.31%, from 3,929 to 3,328 million. The same applies to factoring transactions, which fell by 25.22%, from 2,222 million to 1,662 million.

Repo transactions, which are a temporary investment of liquidity with institutional counterparties, also decreased from 1,099 million to 771 million, -29.82%, as did personal loans, -4.09%, from 478 to 458 million; the same goes for advances subject to collection, -18.61% from 240 to 195 million, and foreign currency loans, -5.67% from 989 to 933 million. Debt securities, which amounted to 206 million at the end of 2019, increased by 222.59% to 665 million; they derive from the securitisation of loans to customers carried out by Banca della Nuova Terra spa and Alba Leasing spa, also including the securities issued by the SPV Diana and held by the Parent Company. With regard to the Senior bond issued by the SPV Diana, the State guarantee was granted by decree of the Minister of the Economy and Finance signed on 12 August 2020.

LOANS TO CUSTOMERS

(in thousands of euro)	30/09/2020	%	31/12/2019	%	Change %
Current accounts	3,327,629	11.54	3,929,023	14.35	-15.31
Foreign currency loans	933,352	3.24	989,436	3.61	-5.67
Advances	492,670	1.71	467,330	1.71	5.42
Advances subject to collection	195,171	0.68	239,783	0.88	-18.61
Discounted portfolio	2,960	0.01	4,738	0.02	-37.53
Artisan loans	66,398	0.23	59,767	0.22	11.09
Agricultural loans	15,930	0.06	21,079	0.08	-24.43
Personal loans	458,197	1.59	477,733	1.74	-4.09
Other unsecured loans	8,732,601	30.28	6,344,987	23.17	37.63
Mortgage loans	11,083,176	38.43	10,658,264	38.92	3.99
Non-performing loans	435,771	1.51	668,068	2.44	-34.77
Repo transactions	771,291	2.67	1,099,082	4.00	-29.82
Factoring	1,661,646	5.75	2,222,085	8.11	-25.22
Fixed-yield securities	664,615	2.30	206,022	0.75	222.59
Total	**28,841,407**	**100.00**	**27,387,397**	**100.00**	**5.31**

Total loans include loans assigned but not derecognised of 1,600 million in relation to the issue of covered bonds. These loans have not been derecognised because the structure chosen does not meet the requirements of IFRS for derecognition.

Total gross non-performing loans have fallen by 26.14% to 2,756 million and make up 9.03% of total gross loans compared with 12.58% at the end of 2019. Net non-performing loans fell to 1,236 million, -21.50%, compared with 1,574 million; in 2019 they decreased by 14.96%. This aggregate comes to 4.28% (formerly 5.75%) of loans to customers. The decrease is mainly due to the sale of customer loans, but also to the effects of strengthening the structures responsible for the disbursement, management and monitoring of credit.

The adjustments recorded for non-performing loans total 1,521 million, -29.53%, representing 55.17% of the gross amount compared with 57.83% last year and 55.63% at the end of 2018. The reduction derives from the sale mentioned above.

The table gives an overview of performing and non-performing loans.

LOANS TO CUSTOMERS - PERFORMING AND NON-PERFORMING LOANS

(in thousands of euro)		30/09/2020	31/12/2019	(+/-)	change %
Non-performing loans	Gross exposure	2,756,426	3,732,063	-975,636	-26.14
	Adjustments	1,520,807	2,158,087	-637,280	-29.53
	Net exposure	**1,235,619**	**1,573,976**	**-338,357**	**-21.50**
- Bad loans	Gross exposure	1,403,269	2,264,503	-861,234	-38.03
	Adjustments	967,499	1,596,444	-628,946	-39.40
	Net exposure	**435,771**	**668,059**	**-232,288**	**-34.77**
- Unlikely-to-pay loans	Gross exposure	1,297,479	1,401,400	-103,921	-7.42
	Adjustments	546,155	552,225	-6,070	-1.10
	Net exposure	**751,324**	**849,175**	**-97,850**	**-11.52**
- Past due and/or overdrawn exposures	Gross exposure	55,678	66,160	-10,482	-15.84
	Adjustments	7,153	9,417	-2,264	-24.04
	Net exposure	**48,524**	**56,742**	**-8,218**	**-14.48**
Performing loans	Gross exposure	27,765,269	25,937,252	1,828,017	7.05
	Adjustments	159,480	123,831	35,649	28.79
	Net exposure	**27,605,788**	**25,813,421**	**1,792,367**	**6.94**
Total loans and receivables with customers	Gross exposure	30,521,695	29,669,315	852,380	2.87
	Adjustments	1,680,288	2,281,918	-601,630	-26.37
	Net exposure	**28,841,407**	**27,387,397**	**1,454,011**	**5.31**

Net bad loans, after adjustments, amount to 436 million, -34.77% (-12.15% in December 2019), corresponding to 1.51% of total loans and receivables with customers, compared with 2.44% at 31 December 2019. The significant reduction is essentially due to the completion of the sale of bad loans (Diana Project) which took place on 17 June and involved the derecognition of gross bad loans for 872 million; this transaction was explained in detail in the explanatory notes to the Consolidated interim financial report at 30 June 2020. Net bad loans have reached percentages that are comparable with those of the system. As usual, the adjustments made continue to be substantial in application of extremely prudent valuation criteria, especially with regard to those positions that are secured against property. In particular, loans that fall within the scope of the sale currently being structured are valued also taking into account the sales scenarios.

The adjustments to cover estimated losses on non-performing loans have fallen to 967 million, -39.40%, representing 68.95% of the gross amount of such loans, compared with 70.50% last year. It is a physiological reduction, the effect of the sale mentioned previously; the coverage ratio is still in line with the highest at national level. Considering the amounts written off in prior years against bad loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 83.62%.

Unlikely-to-pay loans are made up of exposures, other than bad loans, for which the debtor is unlikely to settle in full without the bank having to enforce guarantees or similar forms of protection. Net of adjustments, these have decreased to 751 million, -11.52%, equal to 2.60% of total loans to customers, compared with 3.10% last year. The related adjustments, which ensure a coverage ratio of 42.09%, amounted to 546 million, -1.10% on the comparative period, when they amounted to 552 million; the coverage ratio was 39.41% last year.

The decrease in unlikely-to-pay loans and the related provisions is due to the transfer of the positions at greatest risk to bad loans, as well as to higher collections.

Past due and/or overdrawn exposures, other than those classified as bad 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 49 million, -14.48%, with coverage of 12.85% and represent 0.17% of total loans to customers compared with 0.21% the previous year.

Performing loans amount to 27,606 million, +6.94%, and the related provisions totalled 159 million compared with 124 million, 0.57% compared with 0.48% the previous year. The increase in coverage is linked to the higher adjustments made in the third quarter, partly for an update of the scenarios and partly to increase the coverage of homogeneous portfolios considered to be at greater risk.

Adjustments totalled 1,680 million overall, -26.37%.

TREASURY AND TRADING OPERATIONS

After considerable turbulence in the first quarter, which pushed share prices down and caused large swings in government bond yields in a context of reduced liquidity, the improvement in financial markets seen in the second quarter continued during the summer. This was helped by the substantial interventions made by the Monetary Authorities and the expectations aroused by the wide-ranging measures adopted to support Europe's economies, including the agreement reached by the European Council for the instrument called Next Generation EV intended to finance the recovery of the European Union and the strengthening of the Pandemic Emergency Purchase Programme (PEPP) of public and private securities.

However, the market trend remains conditioned by the evolution of the pandemic and by the capacity of the national health service to respond to the resurgence that has taken place in the autumn.

Since the beginning of July, the yields on Italian government bonds have decreased on all maturities and the spread compared with the yield on ten-year German securities has fallen, reaching levels that are slightly lower than those seen before the pandemic.

As for our Group, at 30 September 2020, the net interbank position showed a credit balance of 6,752 million, compared with one of 3,261 million at the end of 2019. Cash and liquid assets total 4,347 million, compared with 1,826 million.

At the end of the period, the Parent Company arranged three T-LTROs with the ECB for a total of 8,068 million. The first operation still outstanding was launched with 1,600 million on 18 December 2019, expiring on 21 December 2022 and with the option of quarterly early repayment starting from September 2021. The second one was completed on 25 March 2020 for the amount of 2,100 million with expiry on 29 March 2023 with the option of voluntary early repayment from September 2021. The third, of 4,368 million, began on 24 June 2020 and expires on 28 June 2023, also with the option of early repayment from September 2021. All transactions have a zero interest rate, but accrue negative interest in favour of the Parent Company if the loans disbursed exceed the target assigned by the ECB. However, negative remuneration is expected for the period from 24 June 2020 to 23 June 2021. On 25 March, the residual loan of 1,100 million relating to the T-LTRO-II refinancing programme was repaid. Without these operations, the net interbank position would have been a debit balance of 1,316 million.

Liquidity, which was good in the first half of the year, helped by the trend in deposits, became abundant following the bank's participation in the new T-LTRO in June, as mentioned above. The exposure to liquidity risk is monitored both in the short term, taking a 3-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 higher than the established minimums. The stock of high quality financial assets eligible for refinancing with the ECB, net of haircuts, amounted to 14,260 million, of which 5,550 free and 8,710 committed.

Being able to draw on the abundant liquidity in the system, also as a result of the expansionary actions of the ECB, internal treasury management was intensive, as usual, with a limited preponderance of funding transactions. Following the introduction last year of the ECB tiering mechanism, which allows banks to deposit with the ECB up to 6 times the mandatory reserve at a favourable fixed rate of 0%, the use of this deposit facility has been downsized.

The volume of repo operations on the MMF market, mainly for funding purposes, guaranteed by the Central Clearing House, has grown significantly.

The portfolios of financial assets comprising securities at 30 September 2020 totalled 10,234 million, up by 5.26% on 2019. The increase is also due to the purchases made to use part of the liquidity deriving from the funds borrowed from the ECB last June as part of the T-LTRO programme. The increases concerned both government and corporate securities, mainly senior financial securities, and involved the HTC segment. 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)	**30/09/2020**	**31/12/2019**	Change %
Financial assets held for trading	216,060	214,466	0.74
of which, derivatives	52,714	32,161	63.91
Other financial assets mandatorily measured at fair value	510,498	399,779	27.70
Financial assets measured at fair value through other comprehensive income	2,563,932	2,591,229	-1.05
Financial assets measured at amortised cost	6,943,509	6,517,073	6.54
Total	**10,233,999**	**9,722,547**	**5.26**

As in the past, the portfolio mostly comprises domestic government securities, slightly up despite the sales of securities near to maturity. There was a good volume of transactions during the period, with a substantial increase on the comparison period, mainly involving the HTCS portfolio. The sales carried out mainly concerned this portfolio, while significant capital losses were still recorded, reflecting the increased volatility of the markets, albeit in sharp decline compared with the previous quarters. As mentioned previously, purchases were made also to use the liquidity deriving from the ECB's T-LTRO operations and with a view to portfolio diversification. The average duration of the portfolio is around three and a half years, in line with the prior year.

Financial assets held for trading

The trading portfolio, which is not significant compared with the total security portfolio (2.11%), amounts to 216 million, +0.74% on 214 million in the comparison period.

(in thousands of euro)	30/09/2020	31/12/2019	Change %
Floating-rate Italian government securities	42,645	17,590	142.44
Fixed-rate Italian government securities	25,291	65,108	-61.16
Variable-yield securities	60,010	57,212	4.89
Mutual funds	35,400	42,395	-16.50
Net book value of derivative contracts	52,714	32,161	63.91
Total	**216,060**	**214,466**	**0.74**

The composition of the portfolio is still simple and transparent. Equities, amounting to 60 million compared with 57 million in the same period of last year (+4.89%), represent 27.77% of the portfolio versus 26.67% at 31 December 2019; the presence of Italian government securities has fallen to 68 million, -17.85%. The change in the portfolio recorded an increase in securities at floating rates, 43 million, and a decline in those at fixed rates, 25 million, -61.16%. Mutual funds also decreased to 35 million, -16.50%, while the net value of derivative contracts increased to 53 million, +63.91%.

Other financial assets mandatorily measured at fair value

Financial assets mandatorily measured at fair value have increased by 27.70% to 510 million from 400 million. The portfolio mainly consists of funds in euro, representing 85.76%, which have increased through purchases of short-term bonds in particular.

(in thousands of euro)	30/09/2020	31/12/2019	Change %
Bank bonds	16,542	17,061	-3.04
Other bonds	27,088	29,992	-9.68
Variable-yield securities	-	1	-
Mutual funds in euro	437,821	323,173	35.48
Mutual funds in foreign currency (USD)	29,047	29,552	-1.71
Total	**510,498**	**399,779**	**27.70**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS), which fell in the first half by 11.84%, again shows a decrease, albeit more limited, of 1.05%. Sales of Italian government bonds, particularly fixed-rate BTPs, which began in the second quarter of 2018 and continued throughout 2019, slowed down during the period, whereas floating-rate government bonds, mostly CCTs with short/medium-term maturities, increased.

Bank bonds fell mainly due to the repayment of State-guaranteed bank bonds, while corporate bonds increased. Among these, Italian government bonds increased slightly, +1.77%, to a total of 1,461 million, compared with

1,436 million, with a shift in favour of those at variable rates, +66.53%, to the detriment of those at fixed rates, down by 51.88%; they still represent the principal component (57%), with diversification represented by foreign government securities totalling 427 million, +40.07%; French securities were sold and Spanish securities were purchased.

Variable-yield securities increased by 61.38%, largely due to the revaluation of the interest held in Nexi Payments Spa on the basis of the assessments made during the extraordinary transfer of a line of business to it by Intesa Spa.

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

The positive performance by financial markets with the decrease in the interest spread led to the re-absorption of the significant capital losses which had been booked to equity in the first half.

(in thousands of euro)	30/09/2020	31/12/2019	Change %
Floating-rate Italian government securities	1,083,486	650,637	66.53
Fixed-rate Italian government securities	378,003	785,471	-51.88
Foreign government securities	426,815	304,715	40.07
Bank bonds	370,567	639,045	-42.01
Other bonds	163,927	123,909	32.30
Variable-yield securities	141,134	87,452	61.38
Total	**2,563,932**	**2,591,229**	**-1.05**

Financial assets measured at amortised cost

Securities measured at amortised cost are included in financial assets measured at amortised cost (HTC) and total 6,944 million, compared with 6,517 million, +6.54%.

With regard to the composition of the portfolio, there was an increase in floating-rate Italian government securities, with use of part of the liquidity obtained through the T-LTRO operation in June, equal to 1,006 million, +24.53%, while fixed-rate government securities decreased to 3,453 million, -4.70%, following sales of securities close to maturity. Other bonds posted an increase of 323 million following the purchase of corporate financial securities; bank bonds also grew, +6.70%, as did foreign government bonds, +3.04%.

During the period, the percentage of corporate bonds compared with Italian and foreign government securities increased, going from 9.95% to 14.45%. The overall duration of the portfolio is about three and a half years.

(in thousands of euro)	30/09/2020	31/12/2019	Change %
LOANS AND RECEIVABLES WITH BANKS	**512,589**	**480,402**	**6.70**
Italian bank bonds	354,460	324,241	9.32
Foreign bank bonds	158,129	156,161	1.26
LOANS AND RECEIVABLES WITH CUSTOMERS	**6,430,920**	**6,036,671**	**6.53**
Floating-rate Italian government securities	1,006,268	808,060	24.53
Fixed-rate Italian government securities	3,453,454	3,623,653	-4.70
Foreign government securities	1,480,230	1,436,621	3.04
Other bonds	490,968	168,337	191.66
Total	**6,943,509**	**6,517,073**	**6.54**

Asset management

After a very positive 2019 for financial markets, the drama of the pandemic and the collapse of stock markets resulted in a significant contraction for the asset management sector in the first quarter of 2020. The subsequent vigorous recovery meant that in September total inflows came close to the all-time record posted in January. In the mutual fund sector, there has been a repositioning of portfolios towards less risky products such as monetary funds, at the expense of flexible funds. In spite of the climate of uncertainty, flows towards balanced and equity funds continued.

Our Group was also affected by this general situation, gradually benefiting from the improvement in sentiment, even if assets under management remained slightly lower than in December 2019, with total assets under management down by 0.90%, from 5,840 to 5,787 million. The Group's managed portfolios decreased to 1,594 million, -2.13%, while mutual funds and Sicavs, including Popso (Suisse) Investment Fund Sicav, stood at 4,193 million, -1.16%.

INFORMATION ON EXPOSURE TO SOVEREIGN DEBTORS

CONSOB with communication no. DEM/11070007 of 5 August 2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard we communicate that the overall exposure of the Banking Group at 30 September 2020 amounted to 9,532 million and was structured as follows:

a) Italian government securities: 5,989 million;

b) Securities of other issuers: 2,116 million;

c) Loans to government departments: 123 million;

d) Loans to state-owned or local government-owned enterprises: 1,062 million;

e) Loans to other public administrations and miscellaneous entities: 242 million.

EQUITY INVESTMENTS

Equity investments amounted to 296 million, a growth of 1 million. The increase derives from the difference between the valuation at equity of the subsidiaries and the decrease due to sales. During the period, 2.11% of the interest held in Arca Holding spa was sold for 7.279 million as part of agreements made to facilitate the company's growth, involving other banking entities in the shareholders' structure.

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets total 560 million, compared with 579 million at the end of 2019. The former totalled 531 million, -3.16%, the second category amounted to 29 million, -5.24%.

Intangible assets include 13 million of goodwill. Goodwill is subjected to annual impairment testing to check for any loss of value. The test was performed when preparing the consolidated financial statements at 31 December 2019. However, since the Covid-19 epidemic triggered off impairment indicators pursuant to IAS 36, impairment tests were carried out as of 30 June 2020. These tests were carried out in the manner described in the notes to the Interim financial report at 30 June 2020, to which reference should be made. They showed that there was no need for any write-downs. It was decided not to repeat the tests at 30 September 2020 as there were no significant changes in the reference framework.

PROVISIONS

These comprise employee severance indemnities of 42 million, -3.01%, and the provisions for risks and charges totalling 270 million, -0.13% compared with the figure at the end of 2019.

HUMAN RESOURCES

The Group had 3,305 employees at 30 September 2020, an increase of 6 persons, split as follows: 2,774 are employed by the Parent Company, 341 by Banca Popolare di Sondrio (SUISSE) SA, 167 by Factorit spa and 23 by BNT spa.

Also to be added to the number of Group employees are the 18 people who work for the subsidiary Pirovano Stelvio spa, 15 of whom are taken on as seasonal workers.

Employee safety and business continuity

The following are the main initiatives undertaken with regard to employee safety and to ensure operational continuity:

– introduction of measures to ensure that employees work in safe conditions: introduction of smart working, employee shifts also through the use of ad hoc permits, distribution of safety devices (masks, sanitising gels for people and hygienic products for surfaces) and installation of plexiglass protection screens for front office workstations or for those in direct contact with customers, as well as in back offices to separate colleagues' workstations. The daily cleaning of all rooms was intensified, with sanitisation where necessary. Organisational and operational instructions were issued to all staff, also in acknowledgement of government and regional provisions, aimed at protecting the health of employees and customers. Training activities were provided through virtual classrooms;
– measures were adopted to ensure safety when interacting with customers: during the most difficult phase of the epidemic, branches were closed in the afternoon (afternoon opening was reactivated from 8 July), giving customers access with notice or an appointment, which has been maintained. Customers were also invited through the campaign «*La Tua Banca pensa a Te #iorestoacasa - Lo faccio per me, per tutti*», to make use of payment cards and digital channels: SCRIGNOInternet Banking, SCRIGNOapp and SCRIGNOPago Facile. In the most critical period of the emergency, a dedicated assistance centre was activated, contactable by telephone and e-mail to provide information. These provisions were promptly communicated to users by means of information posted at branch entrances and on the company's website.

The Parent Company has always ensured continuity of service, even physical, in full compliance with the regulations and the highest safety standards for workers and customers. During the lockdown, over 80% of the branches remained operational, albeit with appropriately modified methods. In other words, the Parent Company has chosen not to implement mass closures, but to ensure, where possible, to keep the branches accessible according to the provisions mentioned above. This is also to ensure access to essential banking services for sections of the population less used to using digital channels.

The Crisis Committee, set up immediately to manage the emergency and to coordinate intervention activities, periodically issued notices to inform the staff and the entire BPS Group on the measures to be taken to safeguard health and guarantee business operations. Internal communication also took place on the corporate intranet with the publication of a dedicated «bulletin». The measures taken helped to contain the risk during the most critical phase of the emergency.

EQUITY

Shareholders' equity at 30 September 2020, including the valuation reserves and profit for the period, amounts to 2,956.164 million. Compared with the total at 31 December 2019 of 2,841.780 million, this represents an increase of 114.384 million. The change essentially derives from the accounting of the result for the period, as well as from the improvement in the valuation reserves following the recovery in financial markets. The Shareholders' Meeting held on 12 June 2020, called to approve the 2019 financial statements and allocation of the profit, passed a resolution to transfer all of the profit to reserves, in accordance with the ECB's recommendation. With a recommendation dated 28 July 2020, the ECB extended the deadline for the suspension of dividend payments until 1 January 2021.

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 is also unchanged at 79.005 million.

Reserves increased to 1,416.833 million +9.20%, primarily due to the allocation of the profit for 2019.

The valuation reserves, representing the net unrealized capital gains and losses on financial assets measured at fair value through other comprehensive income (FVOCI) and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a positive balance of 61.095 million, while at the end of 2019 they were negative for 6.885 million, a gradual but clear improvement over the entire period, after the low levels reached in the first quarter when they were negative for 55.649 million. This is due to the recovery in financial markets, on top of there is the substantial revaluation of the investment in Nexi Payments spa, which was involved in an extraordinary transfer of a business unit. Treasury shares in portfolio remained essentially unchanged at 25.376 million.

With regard to capital adequacy, the harmonised legislation for banks (Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36 EU (CRD IV) and subsequent updates) and Circular no. 285/13 of the Bank of Italy define the general limits on capital ratios, which are equal to 7% for the CET1 Ratio, 8.50% for the Tier1 Capital Ratio and 10.50% for 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 Parent Company was informed in a communication dated 13 December 2019 of the Supervisory Board decision regarding the new minimum coefficients applicable from 1 January 2020.

The minimum capital levels now required of our Banking Group are:

– a minimum requirement of Common Equity Tier1 Ratio of 10%, calculated as the sum of the First Pillar regulatory minimum requirement (4.5%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (3%);

- Tier 1 Capital ratio of 11.5%, being the sum of the Pillar 1 regulatory minimum (6%), the Capital Conservation Buffer (2.5%) and an additional Pillar 2 requirement (3%);
- a minimum requirement of Total Capital Ratio of 13.5%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (3%).

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.

By subsequent communication on 8 April 2020, given the Covid-19 emergency, the ECB said that from 12 March 2020 the additional Pillar 2 requirement (P2R) had to be met for a minimum of 56.25% from CET1 and 75% from Tier 1. Following the revision of the distribution of this item, the minimum Common Equity Tier 1 Ratio requirement is now 8.69%, the minimum Tier 1 Capital Ratio requirement is 10.75%, while the minimum requirement of Total Capital Ratio remains unchanged at 13.50%.

At the same time, the possibility of operating temporarily under the Capital Conservation Buffer has been foreseen as an additional measure of flexibility.

Since 2017, the ECB has been providing the Parent Company with «Pillar 2 Guidance», which acts a guide to the future evolution of the Group's capital. This parameter is confidential, by contrast with the two minimum requirements, and – based on guidelines issued by the ECB – is not deemed relevant for the determination of distributable dividends.

The Parent Company uses the AIRB internal rating system to measure capital requirements for credit risk.

Consolidated own funds for supervisory purposes amount to 3,262 million Phased-in and 3,245 million Fully Phased and do not include the profit for the first 9 months of the year.

Consolidated risk-weighted assets totalled 17,406 million.

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 Tier 1 capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of IFRS 9, which came into force on 1 January 2018. With Regulation (EU) 2020/873 of 24 June 2020, changes were made to these transitional provisions, both with regard to the time frame and the computability percentages. The additional adjustments related to the entry into force of IFRS 9 will continue to be calculated on the basis of the percentages already provided, while for those related to the Covid-19 emergency, they will be applied to the value of CET1 assets taking into account a percentage of declining computability over time, from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023, 25% in 2024, until it reaches zero in 2025.

Group ratios at 30 September 2020 are reported below:

Group's capital ratios	Phased-in	Fully Phased
CET 1 Ratio	16.34%	16.25%
Tier 1 Capital Ratio	16.38%	16.29%
Total Capital Ratio	18.74%	18.66%

The leverage ratio is 6.23%, applying the Phased In transitional criteria in force for 2020, and 5.46% based on the Fully Phased criteria. The Texas Ratio, which is the ratio between total non-performing loans and tangible equity, decreased further from 56% at the end of December 2019 to 42.22%.

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2019:

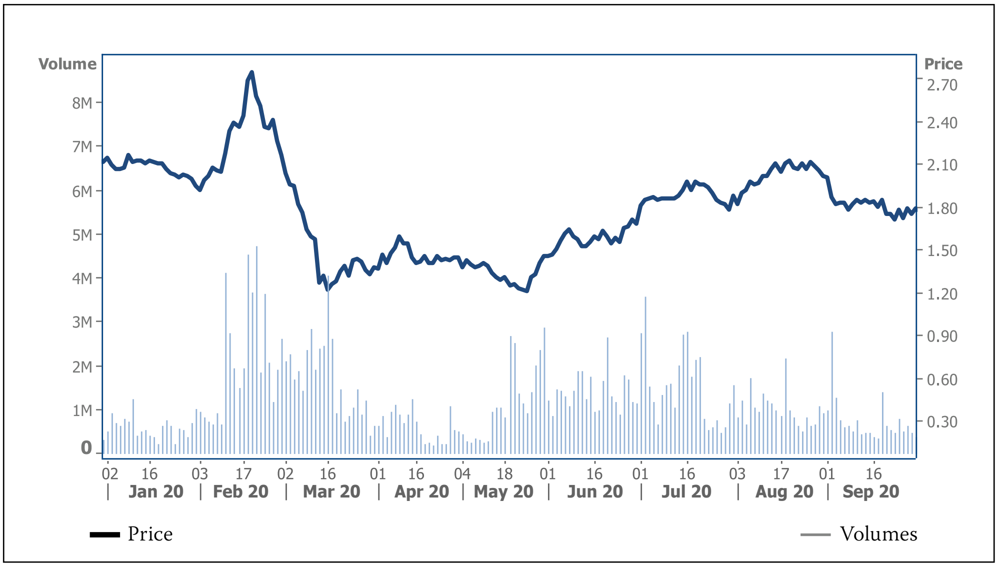
– *capital/direct funding from customers*
  8.91% v. 8.71%
– *capital/customer loans*
  10.25% v. 10.38%
– *capital/financial assets*
  28.88% v. 29.23%
– capital/total assets
  6.23% v. 6.91%
– *net bad loans/capital*
  14.74% v. 23.51%

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 nine months of 2020 with a performance of -15.13%, posting a reference price at 30 September 2020 of 1.789 euro, compared with 2.108 euro at the end of 2019. During the period, the stock recorded an intraday low of € 1.171 on 20 May and an intraday high of € 2.74 on 19 February. The general FTSE Italia All-Share index recorded a decrease in the period of 18.65% and the FTSE Italia All-Share Banks sector index declined by 31.40%.

The average daily volume of securities traded on the MTA market of Borsa Italiana in the first nine months of the year was 1.225 million, compared with 0.564 million in the same period of 2019.

BANCA POPOLARE DI SONDRIO stock – MTA segment of Borsa Italiana



Source: THOMSON REUTERS

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent Company holds 3,650,000 treasury shares, unchanged compared with the end of 2019. There are also 29,959 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies. Their carrying amount is 25.376 million, of which 25.322 million involves use of the reserve for purchase of treasury shares of the Parent Company of 30 million.

The shareholder base at 30 September 2020 consists of 163,558 members, a decrease of 2,424 members compared with the end of 2019.

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group, as shown is greater detail in the following tables, has been assessed by the rating agencies Fitch Ratings, DBRS Morningstar and Scope Ratings.

As regards Fitch Ratings, the ratings shown here have been updated to 25 September 2020, when the negative watch ratings (NWR) assigned on 24 March 2020 were removed by the agency and all ratings were confirmed (with negative outlook). The ratings assigned by DBRS Morningstar and Scope Rating have been updated to 2 April 2020 and 8 April 2020 respectively.

FITCH RATINGS – 25/09/2020

	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.	**BB+**
SHORT – TERM	
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).	**B**
VIABILITY RATING	
Aims to assess what the situation would be if the bank 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.	**bb+**
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 the long-term ratings. A further possible score, represented by the «No Floor» (NF), indicates that according to Fitch it is unlikely that aid could come from an external source (probability of support lower than 40%).	**No Floor**
LONG-TERM DEPOSIT RATING	
It is a coefficient that reflects the vulnerability of uninsured deposits to default. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB-**
SHORT-TERM DEPOSIT RATING	
This is a coefficient that reflects the vulnerability of uninsured short-term deposits to default. It is expressed on a scale similar to the one used for the short-term rating (F1, F2, F3, B, C, RD and D).	**F3**
LONG-TERM SENIOR PREFERRED DEBT	
It is a coefficient that reflects the probability of default of Senior Preferred bonds expressed using a scale from AAA to D.	**BB+**
LONG-TERM SUBORDINATED DEBT	
This is a coefficient that reflects the probability of default of subordinate bonds expressed on a scale from AAA to D.	**BB-**
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».	**Negative**

DBRS Morningstar – 02/04/2020

	RATING
LONG – TERM It is a measure of the probability of default and reflects the bank's ability to repay medium/long-term loans. Expressed on a scale from AAA to D.	**BBB (low)**
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 (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (middle)**
INTRINSIC ASSESSMENT Reflects the opinion of DBRS on the intrinsic fundamentals of the bank, considering both quantitative and qualitative elements. Expressed on a scale from AAA to CCC.	**BBB (low)**
SUPPORT ASSESSMENT Reflects the opinion of DBRS on the probability and likelihood of timely external support for the bank, in case of need. The scale has four levels from 1 (best) to 4 (worst).	**SA3**
TREND Prospective assessment of possible changes in the long-term rating over a period of 1-2 years.	**Negative**
LONG-TERM DEPOSIT RATING Coefficient that reflects the vulnerability of uninsured medium/long-term deposits to default. Expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB**
SHORT-TERM DEPOSIT RATING Coefficient that reflects the vulnerability of uninsured short-term deposits to default. Expressed on a scale similar to that used for the short-term rating (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (high)**
LONG-TERM SENIOR DEBT It is a coefficient that reflects the probability of default of Senior Preferred bonds expressed using a scale from AAA to D.	**BBB (low)**
SHORT-TERM DEBT It is a coefficient that reflects the probability of default of a short term bonds expressed on a scale from R-1 to D.	**R-2 (middle)**

Scope Ratings – 8/04/2020

	RATING
ISSUER RATING Represents a rating of the ability of a bank to meet its contractual financial commitments on a timely and complete basis. Expressed on a scale from AAA to D.	**BBB-**
OUTLOOK Prospective assessment of possible changes in the rating assigned to the issuer over a period of 12-18 months.	**Stable**

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

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

(in thousands of euro)	Equity	of which: Profit for the period
Equity of the Parent Company as of 30.09.2020	2,609,009	42,035
Consolidation adjustments	-22,453	-22,453
Difference with respect to the carrying amounts of equity investments in:		
- companies consolidated on a line-by-line basis	297,391	26,052
- companies valued using the equity method	72,217	18,816
Balance as of 30.09.2020, as reported in the Group consolidated financial statements	**2,956,164**	**64,450**

INCOME STATEMENT

After six months characterised by a profoundly negative trend due to the Covid-19 pandemic, the third quarter saw a strengthening of the economic situation, even if the recovery was only partial: stronger in industry, with greater uncertainty in services. In any case, things are moving again, no doubt helped by the monetary and budget measures to stimulate demand. However, the resurgence of the pandemic in recent weeks, which has forced the authorities to introduce new measures to contain its spread, is of considerable concern. The risk is that it could all have a negative impact on the behaviour of households and businesses, making global demand remain weak. Financial markets, which had seen high volatility in the first quarter, partially recovered in the second, then showed a further improvement, favoured by the interventions adopted by Governments and the various public authorities to support the economy.

This general context was difficult and it affected the activities of our Banking Group. However, it still managed to achieve a result for the period which, even if down, is to be considered moderately satisfactory: 64.450 million, down 47.70% on 123.243 million in the first nine months of 2019. The comparative period posted significant results relating to securities transactions, impossible to repeat in the current year, which was also affected by the loss deriving from the transfer of NPLs as part of «Operation Diana».

The macroeconomic context persuaded Central Banks to continue their expansionary measures to ensure abundant liquidity. Targeted longer-term refinancing operations and bond purchases have helped to keep interest rates at low levels, while government bond yields have remained heavily penalised; the cost of credit to businesses decreased slightly despite a considerable demand for funds, a trend that also is benefiting from the effects of the liquidity support measures adopted, not to mention the persistence of high competitive pressure between banks.

In the third quarter, net interest income consolidated the trend already seen in the previous quarter, registering a slight trend inversion compared with the first few months of the year. More specifically, net interest income grew by 6.36% to 362.212 million, compared with 340.565 million in the comparative period, after having recorded -6.68% in March and +1.30% in June. While interest rates are still very low, with a further penalisation of the spread, the trend in volumes, characterised by a strong increase in total loans versus a lower growth in deposits, together with the booking of negative interest on the ECB's refinancing operations, all led to this improvement in net interest income. It was decided to book the interest generated by the negative rates on the funds received from the ECB as part of the refinancing operations (T-LTRO) under interest income for the period, as the trend in loan disbursements at 30 September 2020 suggests that the thresholds to which the payment of negative interest is linked will be comfortably exceeded.

Net fee and commission income held up reasonably well, coming in at 229.626 million, -0.18%. The good performance in the first two months of the year was followed by a slowdown resulting from the contraction in economic activities. In particular, commissions on collections and payments were affected. There was an improvement starting in May, with the gradual resumption of business activities after the lockdown.

Dividends totalling 4.108 million were collected, compared with 3.339 million.

The net result from trading in securities, foreign exchange and derivatives (the sum of income statement line items 80, 90, 100 and 110, reclassified as indicated in table «Key figures of the income statement») was a profit of 4.023 million, compared with 101.844 million.

Net trading income, line item 80, was a loss of 11.128 million compared with a profit of 53.869 million. The net balance between revaluations and write-downs of securities was negative, whereas it was positive in the same period last year; the result of trading in derivatives on securities was also negative, while the net proceeds of trading in exchange rates and currencies were positive and rising.

Reclassified profits on sale or repurchase were positive for 22.675 million compared with 27.967 million. They include profits of: 11.125 million deriving from financial assets measured at amortised cost; 11.509 million deriving from assets measured at fair value through other comprehensive income and 41 thousand deriving from financial liabilities. Compared with what is shown under line item 100 in the income statement, 45.105 million deriving from the sale of loans to customers closed in June as part of «Operation Diana» has been included in adjustments to loans and financial assets. The net loss on other financial assets measured at fair value through profit or loss, line item 110, amounted to 7.616 million compared with a gain of 19.965 million.

Net hedging income amounted to 92 thousand.

Total income therefore fell to 599.969 million, compared with 675.782

million, -11.22%. Within this aggregate, the weighting of net interest income was 60.37% compared with 50.40%.

The trend in the economic situation has, on the one hand, seen a further slowdown in non-performing loans, but particularly adverse macroeconomic scenarios are looming in the future, which do not leave us very optimistic. Our Group has continued to evaluate exposures to customers based on the current rigorous policies, while trying to meet the needs of businesses and households in this difficult period. The various activities and processes introduced to monitor and control loans to customers during the various stages of disbursement and credit management and completion of a sale have all helped to reduce the volume of non-performing loans.

Net adjustments to loans and financial assets amounted to 128.097 million, compared with 127.260 million, +0.66%. Following the above reclassification, this figure includes an amount of 45.105 million of losses for the sale of mezzanine and junior notes issued by the SPV Diana, acquired entirely and then sold 95% by the Parent Company as part of the sale of loans to customers (Operation Diana) closed last June, which was explained in detail in the Consolidated interim financial report at 30 June 2020, as well as 2.651 million of charges, again linked to the same sale. A second sale is currently being put together; the loans expected to be sold are assessed in this light, recording the related adjustments in the income statement. For positions falling within this scope, we then used models to estimate the potential recovery value of these loans and hence formulate a selling price, also taking into account the conditions of the market where these assets would probably be sold.

As regards this aggregate, line item 130 of the income statement, which relates to the exposure to customers and banks in the form of loans and securities, amounted to 80.341 million compared with 127.260 million (which also included provisions for the planned sale); it consists of 79.326 million of adjustments relating to financial assets measured at amortised cost, while the net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income led to provisions of 1.015 million on debt securities, compared with writebacks for 1.498 million in the comparative period.

The ratio of net adjustments to loans to customers to total loans to customers, also known as the cost of credit, has improved to 0.59% (including the losses on sale of NPLs for consistency of comparison) from 0.78% at 31 December 2019.

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, was negative for 5.779 million in the reporting period, compared with 2.219 million.

This leads to net financial income of 466.093 million, compared with 546.303 million (-14.68%).

A great deal of attention was paid to holding down operating costs, even though they rose slightly from 385.827 to 391.060 million, +1.36%. They were also affected by the strong – and by now habitual – regulatory pressures that have significant impacts in terms of maintaining adequate operating structures, skills and personnel.

The ratio of operating costs to total income, otherwise known as the cost/income ratio, has risen to 65.18%, from 57.09%, while the annualised ratio of operating costs to total assets came to 1.10% from 1.25%.

Looking at costs in more detail, administrative expenses – normalised after excluding the deferral of the proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense – amounted to 394.834 million, +1.80%, of which personnel costs amounted to 184.338 million compared with 182.199 million, +1.17%, while other administrative expenses rose from 205.668 to 210.496 million, +2.35%. Administrative expenses again posted a high proportion of contributions incurred or expected to be incurred for the Interbank Deposit Guarantee and Single Resolution Funds, which went from 27.813 million to 28.676 million, +3.10%. There were considerable increases in consultancy costs, mainly related to Operation Diana and to strengthen lending structures, while IT costs also remained high. Net accruals to provisions for risks and charges included a provision of 3.682 million, compared with one of 6.034 million, given by the sum of provisions for credit risk relating to commitments and guarantees issued and provisions for other charges.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 40.012 million, -2.99%. Other income, stated after the reclassifications shown in a specific table and net of other operating expenses, amounted to 47.468 million, -3.75%.

The aggregate profits/losses on equity and other investments shows a positive balance of 18.414 million, compared with 21.393 million, -13.93%. Profit before income taxes therefore totalled 93.447 million, compared with 181.869 million, -48.62%. After deducting income taxes of 25.881 million, versus 57.178 million, and the profit attributable to non-controlling interests of 3.116 million, the profit for the period amounted to 64.450 million compared with 123.243 million, -47.70%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, comes to 27.70% compared with 31.44% the previous year.

KEY FIGURES OF THE CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	30/09/2020	30/09/2019	(+/-)	Change %
Net interest income	362,212	340,565	21,647	6.36
Dividends	4,108	3,339	769	23.03
Net fee and commission income	229,626	230,034	-408	-0.18
Result of financial activities	4,023	101,844	-97,821	-96.05
Total income	**599,969**	**675,782**	**-75,813**	**-11.22**
Net adjustments to loans and financial assets	-128,097	-127,260	-837	0.66
Gains/losses on contractual amendments not resulting in derecognition	-5,779	-2,219	-3,560	160.43
Net financial income	**466,093**	**546,303**	**-80,210**	**-14.68**
Personnel costs	-184,338	-182,199	-2,139	1.17
Other administrative expenses	-210,496	-205,668	-4,828	2.35
Other operating income/expense	47,468	49,318	-1,850	-3.75
Net accruals to provisions for risks and charges	-3,682	-6,034	2,352	-38.98
Adjustments to property, equipment and investment property and intangible assets	-40,012	-41,244	1,232	-2.99
Operating costs	**-391,060**	**-385,827**	**-5,233**	**1.36**
Operating profit (loss)	**75,033**	**160,476**	**-85,443**	**-53.24**
Net gains (losses) on equity investments and other investments	18,414	21,393	-2,979	-13.93
Profit (loss) before tax	**93,447**	**181,869**	**-88,422**	**-48.62**
Income taxes	-25,881	-57,178	31,297	-54.74
Profit (loss)	**67,566**	**124,691**	**-57,125**	**-45.81**
Profit (loss) attributable to non-controlling interests	-3,116	-1,448	-1,668	115.19
Profit (loss) attributable to the Parent Company	**64,450**	**123,243**	**-58,793**	**-47.70**

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 at 30 September 2019 have been reclassified, netting them off against the proceeds of the post-employment benefits fund of 6.614 million. In addition, losses on disposal were reclassified for 45.105 million included in the income statement under line item 100 a), profits/losses on financial assets measured at amortised cost, as well as 2.651 million of charges again connected to Operation Diana included in other operating income/expense, showing them under net adjustments to loans and financial assets.

DISTRIBUTION BY GEOGRAPHICAL AREA

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

The contribution made to the Group by this subsidiary is summarised by the following statistics: the «Suisse» holds 9.11% of direct funding from customers and 12.68% of loans and receivables with customers, generating 6.85% of net fee and commission income and 12.56% of net interest income.

SIGNIFICANT ACCOUNTING POLICIES AND UNCERTAINTIES ABOUT THE USE OF ESTIMATES WHEN PREPARING THE CONSOLIDATED FINANCIAL

STATEMENTS (PURSUANT TO IAS 1 AND THE RECOMMENDATIONS CONTAINED IN BANK OF ITALY/CONSOB/ISVAP DOCUMENTS 2 DATED 6 FEBRUARY 2009 AND 4 DATED 3 MARCH 2010)

The adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the interim report and in the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Group considers all information available at the time of preparing this consolidated interim financial report, as well as any reasonable assumptions based on external evidence and the Parent Company's past experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the Group. The results reported in the future may in fact differ significantly from the estimates made when preparing the interim financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities may be necessary, even though they are currently unforeseeable and cannot be estimated. The principal uncertainties at this time, with a potential impact on the future operating scenarios that unfold for the Group, include the direct and indirect adverse consequences for the Italian and global economies of the Covid-19 pandemic.

Impacts of Covid 19

Based on the indications of the European Securities and Markets Authority (ESMA) in its public statements containing recommendations about the implications of the Covid-19 pandemic on the financial reports of listed issuers, and on the basis of IFRS, the following is the information regarding the impacts of the Covid-19 epidemic on the recoverability of key assets, on material uncertainties and risks, and on the results for the period. To date, budget targets have not been updated as there are still too many uncertainties. Once the epidemic and the economy have been stabilised, which is the main priority, we will be able to proceed in this direction.

ECL – Expected credit losses

During the first nine months of 2020, to calculate expected losses on performing loans and to update the historical series of risk parameters and macroeconomic factors based on the latest available forecasts, including the effects of the Covid-19 pandemic, we continued to make improvements to our models with a view to making better estimates of expected losses, in line with the requirements of IFRS 9. Furthermore, with regard to the so-called Significant Increase of Credit Risk (SICR) threshold levels in the light of the macroeconomic context seen currently and prospectively from a prudential perspective, the Bank has set up a working group dedicated to the analysis of the loans that have benefited from the moratoria applied as a result of the Covid-19 crisis; this purpose of this analysis was aimed to identify any signs of increased credit risk by segmenting the portfolio on the basis of certain risk drivers, such as the sector to which it belongs and the debtor's rating.

Together with the usual updating of the valuation parameters, these activities led to an increase in collective write-downs of receivables, going from 124 million at 31 December 2019 to 159 million at 30 September 2020. In any case, it cannot be excluded that the introduction of different methodologies, parameters and assumptions in determining the recoverable value of the Group's performing credit exposures could lead to valuations that are different from those carried out for the purpose of these interim accounts at 30 September 2020. All the more so because the same assumptions are influenced by the evolution of the economic-financial and regulatory context. And in light of the new wave of infections in the autumn of 2020 and the contrasting measures that have been or will be introduced, expectations are that the scenarios will get worse.

Moratoria and other support measures

In order to evaluate the effects on the interim report on operations at 30 September 2020, in consideration of the economic support measures implemented by the Italian government and by trade associations, which require a significant intervention by the banking system, three macro-classes of measures can be identified:

– moratoria/suspensions on mortgages and loans in favour of individuals and businesses;
– State-guaranteed loans in favour of small, medium and large enterprises;
– cash advances to workers, depending on the particular type of loan to be granted.

The accounting classification of loans are the same as those used in the financial statements at 31 December 2019, to which reference should be made for more details, with the exception of the following. Given the exceptional nature of the situation caused by the Covid-19 pandemic and the guidelines of the Supervisory Authorities, aimed at using the margins of flexibility existing in the accounting and prudential regulations, during the first nine months of 2020 it was decided to make some changes to the accounting classification, such as:

– loan suspensions and concessions (e.g. restructuring/rescheduling) according to a specific law or allowed by the banking system for the purpose of providing lines of credit to cope with Covid-19 are not to be identified as forborne exposures;
– suspensions and concessions other than those in previous point are subject to specific assessment and considered forborne, with consequent transfer to stage 2, in all cases in which the financial difficulty and/or type of support granted is not exclusively attributable to the Covid-19 pandemic and/or are not sufficient to cope with its effects;
– the triggers for automatic classification to default in the presence of forbearance measures already active on performing customers deriving from a previous non-performing status, have been deactivated in order to avoid, in the case of an amount overdue by thirty days, the customer's automatic transfer to non-performing loans and downgraded to non-

binding parameters of high relevance to monitor the riskiness of these positions in any case. Similarly, adherence to a second moratorium, not being a forborne exposure, is not considered a binding parameter of unlikely-to-pay;

– in the presence of an investigation for a concession for Covid-19 purposes, continuous and material overruns for 90 days do not result in automatic classification among non-performing past due exposures. The calculation of overdue days is in fact suspended for the entire period of the suspension.

SUBSEQUENT EVENTS AND OUTLOOK FOR OPERATIONS

As regards the transformation of Banca Popolare di Sondrio into a company with liability limited by shares (SpA) based on Law 33 of 24 March 2015, it should be noted that article 27, paragraph 3 bis, of Law 120 of 11 September 2020 (conversion with amendments of Decree Law 76 of 16 July 2020, containing urgent measures for simplification and digital innovation) has extended by one year, i.e. until 31 December 2021, the deadline for the transformation of cooperative banks that exceed the threshold of Euro 8 billion in assets into an SpA.

The Council of State, with an order published on 2 October 2020, decided to revoke its precautionary orders no. 5383 of 2 December 2016, supplemented with clarifications by order no. 111 of 13 January 2017, no. 3645 of 1 August 2018 and no. 6086 of 26 October 2018 concerning, among other things, suspension of the deadline for the transformation of Banca Popolare di Sondrio into an SpA, based on the regulatory framework in force at the time.

Banca Popolare di Sondrio, while awaiting the conclusion of the procedure before the Council of State and on the basis of a consequent clear and defined legal framework, will fully evaluate the initiatives to be taken and will implement the necessary formalities, always in compliance with the provisions of law and within the terms established by it.

With reference to the foreseeable outlook, it must be considered that the recent resurgence of the Covid-19 pandemic has suddenly overturned the forecasts of a stronger recovery in the last few months of the year. We are therefore in a scenario where the elements of uncertainty are increasingly serious and prevalent. As far as our Group is concerned, we will continue our business, while consolidating the ability to react to unforeseen events that we have demonstrated so far. Given the capital solidity and excellent liquidity position, we will do everything possible to meet the needs of households and businesses, while safeguarding asset quality. It is therefore reasonable to expect a further positive increase in our core banking activity. So, although it is not possible to predict the performance of financial markets and in the absence of particularly negative signals regarding the quality of credit, we are reasonably confident that we will be able to achieve positive results.

Sondrio, 9 November 2020

THE BOARD OF DIRECTORS

Certification of the Financial Reporting Officer

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 30 September 2020 agrees with the underlying documents, registers and accounting entries.

The Manager responsible for preparing
the company's accounting documents
Maurizio Bertoletti

CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT AT 30 SEPTEMBER 2020

CONSOLIDATED BALANCE SHEET
(in thousands of euro)

ASSET ITEMS			30/09/2020		31/12/2019
10.	Cash and cash equivalents		**4,346,768**		**1,826,427**
20.	Financial assets measured at fair value through profit or loss		**1,101,313**		**905,705**
	a) financial assets held for trading	216,060		214,466	
	c) other financial assets mandatorily measured at fair value	885,253		691,239	
30.	Financial assets measured at fair value through other comprehensive income		**2,563,932**		**2,591,229**
40.	Financial assets measured at amortised cost		**37,791,861**		**34,200,066**
	a) loans and receivables with banks	2,894,289		1,067,458	
	b) loans and receivables with customers	34,897,572		33,132,608	
70.	Equity investments		**295,617**		**294,609**
90.	Property, equipment and investment property		**530,859**		**548,172**
100.	Intangible assets		**29,552**		**31,186**
	of which:				
	- goodwill	12,632		12,632	
110.	Tax assets		**412,147**		**419,295**
	a) current	18,855		4,971	
	b) deferred	393,292		414,324	
130.	Other assets		**384,538**		**329,500**
	TOTAL ASSETS		**47,456,587**		**41,146,189**

THE CHAIRMAN
Francesco Venosta

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

EQUITY AND LIABILITY ITEMS			30/09/2020		31/12/2019
10.	Financial liabilities measured at amortised cost		**42,838,866**		**36,949,458**
	a) due to banks	9,646,364		4,327,709	
	b) customer deposits	30,384,206		29,816,997	
	c) debt securities in issue	2,808,296		2,804,752	
20.	Financial liabilities held for trading		**40,302**		**67,019**
40.	Hedging derivatives		**7,805**		**11,320**
60.	Tax liabilities		**37,060**		**46,050**
	a) current	3,827		16,843	
	b) deferred	33,233		29,207	
80.	Other liabilities		**1,165,799**		**821,434**
90.	Reserve for termination indemnities		**42,472**		**43,789**
100.	Provisions for risks and charges		**269,956**		**270,298**
	a) commitments and guarantees given	50,120		43,411	
	b) pension and similar obligations	179,751		179,965	
	c) other provisions for risks and charges	40,085		46,922	
120.	Valuation reserves		**61,095**		**(6,885)**
150.	Reserves		**1,416,833**		**1,297,442**
160.	Share premium reserve		**79,005**		**79,005**
170.	Share capital		**1,360,157**		**1,360,157**
180.	Treasury shares (-)		**(25,376)**		**(25,374)**
190.	Non-controlling interests (+/-)		**98,163**		**95,041**
200.	Profit (loss) for the period (+/-)		**64,450**		**137,435**
	TOTAL LIABILITIES AND EQUITY		**47,456,587**		**41,146,189**

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		30/09/2020		30/09/2019
10.	Interest and similar income		438,913		434,288
	of which: interest income calculated using the effective interest method	432,930		429,170	
20.	Interest and similar expense		(76,701)		(93,723)
30.	**Net interest income**		**362,212**		**340,565**
40.	Fee and commission income		241,976		246,114
50.	Fee and commission expense		(12,350)		(16,080)
60.	**Net fee and commission income**		**229,626**		**230,034**
70.	Dividends and similar income		4,108		3,339
80.	Net trading income		(11,128)		53,869
90.	Net hedging gains (losses)		92		43
100.	Gains/losses from sales or repurchases of:		(22,430)		27,967
	a) financial assets measured at amortised cost	(33,980)		19,575	
	b) financial assets measured at fair value through profit or loss with an impact on comprehensive income	11,509		8,015	
	c) financial liabilities	41		377	
110.	Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss		(7,616)		19,965
	b) other financial assets mandatorily measured at fair value	(7,616)		19,965	
120.	**Total income**		**554,864**		**675,782**
130.	Net adjustments for credit risk relating to:		(80,341)		(127,260)
	a) financial assets measured at amortised cost	(79,326)		(128,758)	
	b) financial assets measured at fair value through other comprehensive income	(1,015)		1,498	
140.	Gains/losses on contractual amendments not resulting in derecognition		(5,779)		(2,219)
150.	**Net financial income**		**468,744**		**546,303**
180.	**Balance of financial and insurance management**		**468,744**		**546,303**
190.	Administrative expenses:		(394,834)		(394,481)
	a) personnel expenses	(184,338)		(188,813)	
	b) other administrative expenses	(210,496)		(205,668)	
200.	Net accruals to provisions for risks and charges		(3,682)		(6,034)
	a) commitments for guarantees given	(6,681)		1,147	
	b) other net provisions	2,999		(7,181)	
210.	Depreciation and net impairment losses on property, equipment and investment property		(28,371)		(28,819)
220.	Amortisation and net impairment losses on intangible assets		(11,641)		(12,425)
230.	Other operating income/expense		44,817		55,932
240.	**Operating costs**		**(393,711)**		**(385,827)**
250.	Net gains (losses) on equity investments		18,923		21,245
260.	Net result of fair value measurement of property, equipment and investment property and intangible assets		(518)		133
280.	Net gains on sales of investments		9		15
290.	**Pre-tax profit from continuing operations**		**93,447**		**181,869**
300.	Income taxes		(25,881)		(57,178)
310.	**Post-tax profit from continuing operations**		**67,566**		**124,691**
330.	**Profit (loss) for the period**		**67,566**		**124,691**
340.	Profit (loss) for the period of non-controlling interests		(3,116)		(1,448)
350.	**Profit (loss) for the period of the parent company**		**64,450**		**123,243**
	BASIC EPS		**0.142**		**0.272**
	DILUTED EPS		**0.142**		**0.272**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

(in thousands of euro)

ITEMS		30-09-2020	30-09-2019
10.	**Profit (loss) for the period**	**67,566**	**124,691**
	Other income items net of income taxes that will not be reclassified to profit or loss		
20.	Variable-yield securities measured at fair value through other comprehensive income	67,258	(21,565)
70.	Defined-benefit plans	(1,666)	(12,454)
90.	Share of valuation reserves of equity investments valued at net equity	(32)	(11)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
110.	Cash-flow hedges	(581)	-
140.	Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	4,706	65,566
160.	Share of valuation reserves of equity investments valued at net equity	(1,699)	4,335
170.	**Total other income items net of income taxes**	**67,986**	**35,871**
180.	**Comprehensive income (Items 10+170)**	**135,552**	**160,562**
190.	Consolidated comprehensive income attributable to non-controlling interests	(3,122)	(1,419)
200.	**Consolidated comprehensive income attributable to the Parent Company**	**132,430**	**159,142**

STATEMENT OF CHANGES IN EQUITY

(in thousands of euro)	Opening balance at 31.12.2019	Change in opening balances	Opening balance at 1.1.2020	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,736		1,393,736				
b) other shares							
Share premium reserve	**83,363**		**83,363**				
Reserves							
a) from earnings	1,314,827		1,314,827	139,474		(18,044)	
b) other	37,851		37,851				
Valuation reserves	**(7,056)**		**(7,056)**				
Equity instruments							
Treasury shares	**(25,374)**		**(25,374)**				
Profit for the period	**139,474**		**139,474**	**(139,474)**			
Equity attributable to the group	**2,841,780**		**2,841,780**			**(18,044)**	
Equity attributable to non-controlling interests	**95,041**		**95,041**				

STATEMENT OF CHANGES IN EQUITY

(in thousands of euro)	Opening balance at 31.12.2018	Change in opening balances	Opening balance at 1.1.2019	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,746		1,393,746				
b) other shares							
Share premium reserve	**83,363**		**83,363**				
Reserves							
a) from earnings	1,207,575		1,207,575	91,375		16,980	
b) other	5,186		5,186			32,665	
Valuation reserves	**(34,586)**		**(34,586)**				
Equity instruments							
Treasury shares	**(25,375)**		**(25,375)**				
Profit for the period	**113,962**		**113,962**	**(91,375)**	**(22,587)**		
Equity attributable to the group	**2,650,822**		**2,650,822**		**(22,587)**	**49,645**	
Equity attributable to non-controlling interests	**93,049**		**93,049**				

Changes during the period								
Equity transactions						Comprehensive income at 30.09.2020	**Equity attributable to the group at 30.09.2020**	**Equity attributable to non-controlling interest at 30.09.2020**
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held			
							1,360,157	**33,579**
							79,005	**4,358**
							1,380,939	**55,318**
							35,894	**1,957**
						67,986	**61,095**	**(165)**
(2)							**(25,376)**	
						67,566	**64,450**	**3,116**
(2)						**132,430**	**2,956,164**	
						3,122		**98,163**

Changes during the period								
Equity transactions						Comprehensive income at 30.09.2019	**Equity attributable to the group at 30.09.2019**	**Equity attributable to non-controlling interest at 30.09.2019**
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held			
(10)							**1,360,157**	**33,579**
							79,005	**4,358**
							1,262,651	**53,279**
							35,894	**1,957**
						35,871	**1,447**	**(162)**
11							**(25,364)**	
						124,691	**123,243**	**1,448**
11						**159,142**	**2,837,033**	
(10)						**1,419**		**94,458**