Banca Popolare di Sondrio

ANNUAL REPORT 2017

Banca Popolare di Sondrio

2017 FINANCIAL STATEMENTS
147th YEAR

Banca Popolare di Sondrio

Founded in 1871

ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING 28 APRIL 2018

Società cooperativa per azioni
Head office and general management: I - 23100 Sondrio SO - Piazza Garibaldi 16
Tel, 0342 528,111 - Fax 0342 528,204
Website: http://www.popso.it - E-mail: info@popso.it

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Official List of Cooperative Banks no. A160536
Parent bank of the Banca Popolare di Sondrio Group,
Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331 – Reserves: € 1,034,954,284
(Figures approved at the shareholders' meeting of 28 April 2018)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio S.C.p.A on 20 June 2017:
  – Long-term: BBB-
  – Short-term: F3
  – Viability Rating: bbb-
  – Outlook: Stable

- Rating given by Dagong Europe Credit Rating to Banca Popolare di Sondrio S.C.p.A on 7 February 2018:
  – Long-term: BBB
  – Short-term: A-3
  – Individual Financial Strenght Assessment: bbb
  – Outlook: Stable

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

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

ADVISORY COMMITTEE

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

GENERAL MANAGEMENT

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

Financial Reporting Officer MAURIZIO BERTOLETTI

* Members of the Chairman's Committee

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

BRANCH NETWORK OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

Banca Popolare di Sondrio

BRANCHES by province:

- 51 SONDRIO and 15 Treasuries
- 3 ALESSANDRIA
- 15 BERGAMO and 13 Treasuries
- 2 BOLZANO and 1 Treasury
- 22 BRESCIA and 13 Treasuries
- 31 COMO and 29 Treasuries
- 5 CREMONA
- 2 CUNEO
- 7 GENOVA and 1 Treasury
- 30 LECCO and 29 Treasuries
- 7 LODI
- 5 MANTOVA and 3 Treasuries
- 53 MILANO and 12 Treasuries
- 17 MONZA E BRIANZA and 2 Treasuries
- 2 NOVARA
- 2 PARMA
- 7 PAVIA and 30 Treasuries
- 4 PIACENZA
- 47 ROMA and 3 Treasuries
- 2 SAVONA and 1 Treasury
- 3 TORINO and 1 Treasury
- 6 TRENTO and 1 Treasury
- 30 VARESE and 6 Treasuries
- 6 VERBANO CUSIO OSSOLA
- 6 VERONA
- 1 in BOLOGNA, IMPERIA, LA SPEZIA, PADOVA, TREVISO, VENEZIA, VERCELLI e VICENZA
- 1 in the Autonomous Region of Valle d'Aosta and 2 Treasuries

Representative offices and desks abroad:

• ARGENTINA (BUENOS AIRES AND MENDOZA) • AUSTRALIA (PERTH AND SYDNEY) • BELGIUM (BRUSSELS) • BRAZIL (BELO HORIZONTE AND SAO PAULO) • BULGARIA (SOFIA) • CANADA (TORONTO AND VANCOUVER) • CHILE (SANTIAGO) • CHINA (SHANGHAI) • CZECH REPUBLIC (PRAGUE) • DENMARK (AARHUS) • DOMINICAN REPUBLIC (SANTO DOMINGO) • EGYPT (CAIRO) • FINLAND (HELSINKI) • FRANCE (MARSEILLE) • GERMANY (FRANKFURT) • GREECE (ATHENS) • GUATEMALA (GUATEMALA CITY) • HUNGARY (BUDAPEST) • INDIA (MUMBAI) • ISRAEL (TEL AVIV) • LUXEMBOURG (LUXEMBOURG) • JAPAN (TOKYO) • MALTA (VALLETTA) • MEXICO (MEXICO CITY) • MONGOLIA (ULAANBAATAR) • PERU (LIMA) • PORTUGAL (LISBON) • REPUBLIC OF MOLDOVA (CHISINAU) • ROMANIA (BUCHAREST) • RUSSIA (MOSCOW) • SERBIA (BELGRADE) • SINGAPORE (SINGAPORE) • SPAIN (MADRID) • SOUTH AFRICA (JOHANNESBURG) • SOUTH KOREA (SEOUL) • SWEDEN (STOCKHOLM) • THAILAND (BANGKOK) • TUNISIA (TUNIS) • TURKEY (ISTANBUL) • UNITED ARAB EMIRATES (DUBAI) • UNITED KINGDOM (LONDON) • UNITED STATES OF AMERICA (CHICAGO, LOS ANGELES, NEW MIAMI) • UZBEKISTAN (TASHKENT) • VIETNAM (HANOI)

BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

Branches in:

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

Principality of Monaco:

- MONACO

Factorit

Factorit: a leading capital resource provider in the production and commercial sectors

Branch offices in: MILANO • TORINO • PADOVA • BOLOGNA • ROMA

Member of Factors Chain International with over 400 foreign correspondents in the most important international markets. Operating in Banca Popolare di Sondrio branches and at its partner banks' counters.

BNT

Banca della Nuova Terra
Banca Popolare di Sondrio
Registered Office: SONDRIO

PIROVANO


Number of branches in each province
Branches in each city
51
51
42
39

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO
Founded in 1871

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

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

VIRTUAL UNIT
corso Vittorio Veneto 7, Sondrio

BRANCHES AND TREASURIES

PROVINCE OF SONDRIO
ALBOSAGGIA via al Porto 11
APRICA corso Roma 140
ARDENNO via Libertà
BERBENNO DI VALTELLINA - fraz. San Pietro - via Nazionale Ovest 110
BIANZONE piazza Ezio Vanoni 11
BORMIO
Head Office, via Roma 131 - ang. via don Evaristo Peccedi
Branch no. 1, via Roma 64
BUGLIO IN MONTE piazza della Libertà 1
CAMPODOLCINO via Corti 67
CASPOGGIO piazza Milano 13
CEDRASCO via Vittorio Veneto 15
CEPINA VALDISOTTO via Roma 13/E
CHIAVENNA via Francesco e Giovanni Dolzino 67
CHIESA IN VALMALENCO via Roma 138
CHIURO via Stelvio 8
COLORINA via Roma 84
COSIO VALTELLINO - fraz. Regoledo - via Roma 7
COSIO VALTELLINO - fraz. Cosio Stazione - piazza San Martino 14
DELEBIO piazza San Carpoforo 7/9
DUBINO - Nuova Olonio - via Spluga 83
DUBINO via Valeriana 39
GORDONA via Scogli 9
GROSIO via Roma 67
GROSIO - fraz. Ravoledo - via Pizzo Dosdè
GROSOTTO via Statale 73
ISOLACCIA VALDIDENTRO via Nazionale 31
LANZADA via Palù 388
LIVIGNO
Head Office, via Sant'Antoni 135
Branch no. 1, via Saroch 728/730
LIVIGNO via Dala Gesa 557/A
MADESIMO via Giosuè Carducci 3
MADONNA DI TIRANO piazza Basilica 55
MAZZO DI VALTELLINA via Santo Stefano 20
MELLO piazza San Fedele 1
MONTAGNA IN VALTELLINA via Stelvio 336
MONTAGNA IN VALTELLINA via Cicci 36
MORBEGNO
Head Office, piazza Caduti per la Libertà 7
Branch no. 1, via V Alpini 172
NOVATE MEZZOLA via Roma 13
PASSO DELLO STELVIO località Passo dello Stelvio
PIANTEDO via Colico 43
PONTE IN VALTELLINA piazza della Vittoria 1
SAMOLACO - fraz. Era - via Trivulzia 28
SAN CASSIANO VALCHIAVENNA via Spluga 108
SAN NICOLÒ VALFURVA via San Nicolò 82
SEMOGO VALDIDENTRO via Cima Piazzi 28
SONDALO via Dr. Ausonio Zubiani 2
SONDRIO
Head Office, piazza Giuseppe Garibaldi 16
Branch no. 1, via Bernina 1
Branch no. 2, via Tomaso Nani 32
Branch no. 3, Ingresso Ospedale Civile - via Stelvio 25
Branch no. 4, piazzale Giovanni Bertacchi 57
Branch no. 5, Galleria Campello 2
Branch no. 6, via Giacinto Sertorelli 2
TALAMONA via Don Giuseppe Cusini 83/A
TEGLIO piazza Santa Eufemia 2
TEGLIO - fraz. San Giacomo - via Nazionale
TIRANO piazza Cavour 20
TORRE SANTA MARIA via Risorgimento 5
TRAONA via Valeriana 88/A
TRESENDA DI TEGLIO via Nazionale 57
TRESIVIO piazza San Pietro e Paolo 24
VALFURVA - fraz. Madonna Dei Monti piazza Madonna Del Carmine 6
VILLA DI CHIAVENNA via Roma 38
VILLA DI TIRANO traversa Foppa 25
VERCEIA via Nazionale 118/D

AUTONOMOUS REGION OF VALLE D'AOSTA
AOSTA corso Battaglione Aosta 79
PONT SAINT MARTIN via Emile Chanoux 45
SAINT-VINCENT via Duca D'Aosta 9

PROVINCE OF ALESSANDRIA
ALESSANDRIA corso Crimea 21
NOVI LIGURE corso Romualdo Marenco 59

PROVINCE OF BERGAMO
ALBANO SANT'ALESSANDRO via Vittorio Emanuele II 6
ALMÈ via Campofiori 36
BARIANO via Umberto I 1
BERGAMO
Head Office, via Broseta 64/B
Branch no. 1, via Vittore Ghislandi 4
Branch no. 2, via Guglielmo D'Alzano 3/E
BERGAMO - Ospedale Papa Giovanni XXIII - piazza Oms 1
BONATE SOTTO via Vittorio Veneto - ang. via Antonio Locatelli
BREMBATE via Vittore Tasca 8/10
CARVICO via Giuseppe Verdi 1
CISANO BERGAMASCO via Giuseppe Mazzini 25
COSTA VOLPINO via Nazionale 92
GAZZANIGA via IV Novembre 3
GHISALBA via Roma 41/43
GRUMELLO DEL MONTE via Roma 133
MAPELLO via Giuseppe Bravi 31
MOZZANICA piazza Antonio Locatelli
NEMBRO piazza Umberto I 1
OSIO SOTTO via Monte Grappa 12
ROMANO DI LOMBARDIA via Balilla 20
SARNICO via Giuseppe Garibaldi 1/C
SCANZOROSCIATE corso Europa 23
SERIATE piazza Caduti per la Libertà 7
TRESCORE BALNEARIO piazza Cavour 6
TREVIGLIO via Cesare Battisti 8/B
TREVIGLIO - Ospedale - piazzale Ospedale 1
VERDELLINO largo Luigi Einaudi 5
VILMINORE DI SCALVE piazza Vittorio Veneto 8

PROVINCE OF BOLOGNA • **BOLOGNA** via Riva di Reno 58/B

PROVINCE OF BOLZANO
BOLZANO viale Amedeo Duca d'Aosta 88 / Amedeo Duca D'Aosta Allee 88
MERANO corso della Libertà 16 / Freiheitsstrasse 16
MERANO - Comune di Merano - via Portici 192

PROVINCE OF BRESCIA
ANGOLO TERME piazza Caduti 3
BERZO DEMO via Nazionale 14
BIENNO via Giuseppe Fantoni 36
BORNO via Vittorio Veneto 25
BRENO piazza Generale Pietro Ronchi 4
BRESCIA
Head Office, via Benedetto Croce 22
Branch no. 1, via Crocifissa di Rosa 59
Branch no. 2, via Solferino 61
Branch no. 3, viale Piave 61/A
Branch no. 4, via Fratelli Ugoni 2
CAPO DI PONTE via Aldo Moro 26/A
CEVO via Roma 15
CHIARI via Consorzio Agrario 1 - ang. viale Teosa 23/B
COCCAGLIO via Adelchi Negri 12
COLLEBEATO via San Francesco d'Assisi 12
CORTE FRANCA piazza di Franciacorta 7/C
CORTENO GOLGI via Brescia 2
DARFO BOARIO TERME
Branch no. 1, corso Italia 10/12
Branch no. 2, piazza Patrioti 2
DESENZANO DEL GARDA via Guglielmo Marconi 1/A
EDOLO piazza Martiri della Libertà 16
ERBUSCO via Provinciale 29
ESINE via Chiosi 79
GARDONE VAL TROMPIA via Giacomo Matteotti 300
GIANICO piazza Roma 3
ISEO via Roma 12/E
LONATO DEL GARDA corso Giuseppe Garibaldi 59
LUMEZZANE - fraz. Sant'Apollonio - via Massimo D'Azeglio 108
MALONNO via Valle Camonica 6
MANERBA DEL GARDA via Valtenesi 43
MANERBIO via Dante Alighieri 8
MARONE via Zanardelli 5
MONTE ISOLA frazione Siviano 116
MONTICHIARI via Mantova - ang. via 3 Innocenti 74
ORZINUOVI piazza Giuseppe Garibaldi 19
OSPITALETTO via Brescia 107/109
PALAZZOLO SULL'OGLIO via Brescia 23
PIAN CAMUNO via Agostino Gemelli 21
PISOGNE via Trento 1
PONTE DI LEGNO piazzale Europa 8
PONTE DI LEGNO - loc. Passo Del Tonale - via Case Sparse 84
REZZATO via Broli 49
SALE MARASINO via Roma 33/35
SALÒ viale Alcide De Gasperi 13
SALÒ via Giuseppe Garibaldi 21
SAREZZO via della Repubblica 99
TOSCOLANO MADERNO piazza San Marco 51
TOSCOLANO MADERNO viale Guglielmo Marconi 9
VEZZA D'OGLIO via Nazionale 80
ZONE via Orti 1

PROVINCE OF COMO
ALBIOLO via Indipendenza 10
ALSERIO via Carcano 10
APPIANO GENTILE piazza della Libertà 9
ARGEGNO piazza Guglielmo Testi
AROSIO piazza Montello 1
BELLAGIO via Valassina 58
BINAGO via Roma 9
BIZZARONE via Roma 14
BREGNANO via Giuseppe Mazzini 22/A
BRUNATE via Alessandro Volta 28
BULGAROGRASSO via Pietro Ferloni 2
CAMPIONE D'ITALIA piazza Roma 1/G
CANTÙ via Milano 47
CANZO via Alessandro Verza 39
CAPIAGO INTIMIANO via Vittorio Emanuele II 7
CARATE URIO via Regina 58
CARIMATE - fraz. Montesolaro - piazza Lorenzo Spallino
CARLAZZO via V° Alpini 59/A
CARUGO via Luigi Cadorna 32
CASNATE CON BERNATE via Roma 7
CASTELMARTE largo Armando Diaz 1
CENTRO VALLE INTELVI via Provinciale 79
COMO
Head Office, viale Innocenzo XI 71
Branch no. 1, via Giorgio Giulini 12
Branch no. 2, via Statale per Lecco 70 - fraz. Lora
Branch no. 3, via Asiago 25 - fraz. Tavernola
Branch no. 4, ACSM - via Vittorio Emanuele II 93
DOMASO via Statale Regina 77
DONGO piazza Virgilio Matteri 14
ERBA via Alessandro Volta 3
FINO MORNASCO via Giuseppe Garibaldi - ang. piazza Odescalchi 5
GARZENO via Roma 32
GERA LARIO via Statale Regina 18
GRAVEDONA ED UNITI piazza Giuseppe Garibaldi 11
GUANZATE via Giuseppe Garibaldi 1
LAMBRUGO piazza Papa Giovanni II 4/7
LANZO INTELVI piazza Lanfranconi 22
LURAGO D'ERBA via Roma 58
MASLIANICO via XX Settembre 47
MENAGGIO via Annetta e Celestino Lusardi 62
MERONE via San Girolamo Emiliani 5/C
MONTORFANO via Brianza 6/B
MUSSO via Statale Regina 30
OSSUCCIO via Statale 72
PARÈ piazza della Chiesa 5/6
PIANELLO DEL LARIO via Statale Regina 32
PLESIO via Grona 85
PORLEZZA lungolago Giacomo Matteotti 15
PUSIANO via Giuseppe Mazzini - Complesso Pusiano 2000
SALA COMACINA via Statale 14/A
SAN NAZZARO VAL CAVARGNA via Don Luigi Gabbani 237
SAN SIRO loc. Santa Maria - via Statale Regina
SCHIGNANO via Roma 8
SORICO piazza Cesare Battisti 1/A
TREMEZZO via Regina 26
TURATE via Vittorio Emanuele 14
VALSOLDA - fraz. San Mamete - piazza Roma 7/9
VENIANO via Alessandro Manzoni 5
VERCANA via Vico 3
VILLA GUARDIA via Varesina - ang. via Monte Rosa

PROVINCE OF CREMONA
CREMA via Giuseppe Mazzini 109
CREMONA
Head Office, via Dante Alighieri 149/A
Branch no. 1, piazza Antonio Stradivari 9
PANDINO via Umberto I 1/3
RIVOLTA D'ADDA via Cesare Battisti 8

PROVINCE OF CUNEO
ALBA viale Torino 4
CUNEO piazza Tancredi Duccio Galimberti 13

PROVINCE OF GENOVA
BUSALLA via Vittorio Veneto 95
CAMOGLI via Cuneo 9
CHIAVARI piazza Nostra Signora dell'Orto 42/B - ang. via Doria
GENOVA
Head Office, via XXV Aprile 7
Branch no. 1, piazza Tommaseo 7 rosso
Branch no. 2, via Sabotino 32/34 rossi
RAPALLO via Gen. A. Lamarmora 4 - ang. via San Filippo Neri
SANTA MARGHERITA LIGURE piazza Giuseppe Mazzini 40

PROVINCE OF IMPERIA • **IMPERIA** viale Giacomo Matteotti 8

PROVINCE OF LA SPEZIA • **LA SPEZIA** via XX Settembre 17

PROVINCE OF LECCO
AIRUNO via San Giovanni 11
ABBADIA LARIANA via Nazionale 140/A
BALLABIO via Ambrogio Confalonieri 6
BARZAGO viale Rimembranze 20
BARZIO via Milano 21
BELLANO via Vittorio Veneto 9
BOSISIO PARINI via San Gaetano 4
CALOLZIOCORTE corso Europa 71/A
CASATENOVO via Roma 23
CASSAGO BRIANZA via Vittorio Emanuele II 2
CASTELLO DI BRIANZA via Roma 18
COLICO via Nazionale - ang. via Sacco
COLLE BRIANZA via Cantù 1
DERVIO via Don Ambrogio Invernizzi 2
ESINO LARIO piazza Gulfi 2
IMBERSAGO via Contessa Lina Castelbarco 5
LECCO
Head Office, corso Martiri della Liberazione 65
Branch no. 1, viale Filippo Turati 59
Branch no. 2, piazza XX Settembre 11
Branch no. 3, corso Emanuele Filiberto 104
Branch no. 4, viale Montegrappa 18
LECCO - Comune di Lecco - piazza Lega Lombarda 1
LECCO - Ospedale di Lecco - via dell'Eremo 9/11
LOMAGNA via Milano 24
MANDELLO DEL LARIO piazza Sacro Cuore 8
MALGRATE via Gaggio 14
MERATE via Don Cesare Cazzaniga 5
MERATE piazza Giulio Prinetti 6
MERATE - fraz. Pagnano - via Rimembranze 3
MERATE - Ospedale di Merate - largo Leopoldo Mandic 1
MONTE MARENZO via Colombara Vecchia 2
MONTICELLO BRIANZA via Provinciale 57
NIBIONNO - fraz. Cibrone - via Montello 1
OGGIONO via Lazzaretto 50
PESCATE via Roma 98/E
PRIMALUNA via Provinciale 66
SUELLO via Roma 10/12
VALGREGHENTINO piazza Roma 2
VALMADRERA via San Rocco 31/33
VARENNA via Corrado Venini 73

Banca Popolare di Sondrio

PROVINCE OF LODI
CODOGNO via Giuseppe Verdi 18/C
LODI via Giuseppe Garibaldi 23

PROVINCE OF MANTOVA
CASTIGLIONE DELLE STIVIERE piazza Ugo Dallò 25
GAZOLDO DEGLI IPPOLITI via Guglielmo Marconi 74/76 Ⓣ
MANTOVA
Head Office, corso Vittorio Emanuele II 154
Branch no. 1, piazza Broletto 7
MARMIROLO via Tito Speri 34 Ⓣ
SAN BENEDETTO PO via Enrico Ferri 15 Ⓣ
SUZZARA piazza Giuseppe Garibaldi 4
VIADANA piazza Giacomo Matteotti 4/A

PROVINCE OF MILANO
ABBIATEGRASSO piazza Giuseppe Garibaldi 2
BASIGLIO piazza Monsignor Rossi 1 Ⓣ
BUCCINASCO via Aldo Moro 9
CERNUSCO SUL NAVIGLIO viale Assunta 47/49
CINISELLO BALSAMO via Giuseppe Garibaldi 86
COLOGNO MONZESE viale Emilia 56
LEGNANO via Alcide De Gasperi 10
MELEGNANO piazza Giuseppe Garibaldi 1
MILANO
Head Office, via Santa Maria Fulcorina 1
Branch no. 1, *Porpora*, via Nicola Antonio Porpora 104
Branch no. 2, *Barona*, viale Faenza 22
Branch no. 3, *a2a*, corso di Porta Vittoria 4
Branch no. 4, *Regione Lombardia*, piazza Città di Lombardia 1
Branch no. 5, *Bovisa*, via degli Imbriani 54
Branch no. 6, *Corvetto*, via Marco d'Agrate 11
Branch no. 7, *Caneva*, via Monte Cenisio 50
Branch no. 8, *Quarto Oggiaro*, via M. Lessona - ang. via F. De Roberto
Branch no. 9, *A.L.E.R.*, viale Romagna 24
Branch no. 10, *Solari*, via Andrea Solari 15
Branch no. 11, *Università Bocconi*, via Ferdinando Bocconi 8
Branch no. 12, *Baggio*, via delle Forze Armate 260
Branch no. 13, *Repubblica*, viale Monte Santo 8
Branch no. 14, *Palazzo di Giustizia*, via Colonnetta 5 - ang. via C. Battisti
Branch no. 15, *Murat*, via Gioacchino Murat 76
Branch no. 16, *Ortomercato*, via Cesare Lombroso 54
Branch no. 17, *Monumentale*, piazzale Cimitero Monumentale 23
Branch no. 18, *Fiera*, viale Ezio Belisario 1
Branch no. 19, *Giambellino*, via Giambellino 39
Branch no. 20, *Sempione*, via Antonio Canova 39
Branch no. 21, *Politecnico*, via Edoardo Bonardi 4
Branch no. 22, *Sforza*, via F. Sforza 48 - ang. corso di Porta Romana
Branch no. 23, *Certosa*, viale Certosa 62
Branch no. 24, *Piave*, viale Piave 1
Branch no. 25, *Zara*, viale Zara 13
Branch no. 26, *Lodi*, corso Lodi - ang. via S. Gerolamo Emiliani 1
Branch no. 27, *Don Gnocchi*, via Alfonso Capecelatro 66
Branch no. 28, *Corsica*, via privata Sanremo - ang. viale Corsica 81
Branch no. 29, *Bicocca*, piazza della Trivulziana 6 - edificio 6
Branch no. 30, *De Angeli*, piazza Ernesto De Angeli 9
Branch no. 31, *Isola*, via Carlo Farini 47
Branch no. 32, *Venezia*, viale Luigi Majno 42 - viale Piave 43
Branch no. 33, *Porta Romana*, corso di Porta Romana 120
Branch no. 34, *San Babila*, via Cino del Duca 12
Branch no. 35, *Loreto*, piazzale Loreto 1 - ang. viale Brianza
Branch no. 36, *Monti*, via Vincenzo Monti 41
Branch no. 37, *Vercelli*, corso Vercelli 38
Branch no. 38, *Università Cattolica del Sacro Cuore*, largo A.Gemelli 1
MILANO - CCIAA di Milano - via Meravigli 9/B Ⓣ
MILANO - Istituto Nazionale Tumori - via Giacomo Venezian 1 Ⓣ
MILANO - ASP Golgi Redaelli - via Bartolomeo D'Alviano 78 Ⓣ
MILANO - Bicocca - piazza dell'Ateneo Nuovo 1 - Edificio U 6 Ⓣ
MILANO - Istituto Neurologico - via Giovanni Celoria 11 Ⓣ
MILANO - I.U.L.M. - via Carlo Bo 1 Ⓣ
MILANO - Pio Albergo Trivulzio - via Antonio Tolomeo Trivulzio 15 Ⓣ
MILANO - Pirelli - via Fabio Filzi 22 Ⓣ
PERO via Mario Greppi 13
SEGRATE via Rodolfo Morandi 25
SEGRATE via Fratelli Cervi 13 - Residenza Botteghe Ⓣ
SESTO SAN GIOVANNI
Branch no. 1, piazza Martiri di via Fani 93
Branch no. 2, piazza della Resistenza 52
TREZZO SULL'ADDA via Antonio Gramsci 10
TURBIGO via Allea Comunale 17 Ⓣ
VIZZOLO PREDABISSI - A.S.S.T. Melegnano e della Martesana via Pandina 1 Ⓣ

PROVINCE OF MONZA E BRIANZA
ALBIATE via Trento 35
BELLUSCO via Bergamo 5 Ⓣ
BERNAREGGIO via Michelangelo Buonarroti 6
BRIOSCO piazza della Chiesa 5 Ⓣ
BOVISIO MASCIAGO via Guglielmo Marconi 7/A
CARATE BRIANZA via Francesco Cusani 10
DESIO via Portichetto - ang. via Pio XI
GIUSSANO via Cavour 19
LISSONE via Trieste 33
MACHERIO via Roma 17 Ⓣ
MEDA via Yuri Gagarin - ang. corso della Resistenza
MONZA
Head Office, via Galileo Galilei 1
Branch no. 1, via Alessandro Manzoni 33/A
NOVA MILANESE via Antonio Locatelli
SEREGNO
Head Office, via Cavour 84
Branch no. 1, via Cesare Formenti 5
SEVESO via San Martino 20
VAREDO corso Vittorio Emanuele II 53
VILLASANTA - fraz. San Fiorano - via Amatore Antonio Sciesa 7/9
VIMERCATE piazza Papa Giovanni Paolo II 9

PROVINCE OF NOVARA
ARONA via Antonio Gramsci 19
NOVARA via Andrea Costa 7

PROVINCE OF PADOVA • PADOVA via Ponte Molino 4

PROVINCE OF PARMA
PARMA via Emilia Est 3/A
FIDENZA piazza Giuseppe Garibaldi 24

PROVINCE OF PAVIA
BELGIOIOSO piazza Vittorio Veneto 23 Ⓣ
BRONI via Giuseppe Mazzini 1
CANNETO PAVESE via Roma 15 Ⓣ
CASTEGGIO piazza Cavour 4
CILAVEGNA via Giuseppe Mazzini 2/8 Ⓣ
CORTEOLONA piazza Giuseppe Verdi 8 Ⓣ
MEDE corso Italia 2 Ⓣ
MORTARA via Roma 23
PAVIA
Head Office, piazzale Ponte Coperto Ticino 11
Branch no. 1, corso Strada Nuova 75
PAVIA - DEA - via Privata Campeggi 40 Ⓣ
PAVIA - Policlinico San Matteo - viale Camillo Golgi 19 Ⓣ
RIVANAZZANO TERME piazza Cornaggia 41 Ⓣ
ROBBIO piazza della Libertà 33 Ⓣ
STRADELLA via XXVI Aprile 56 Ⓣ
VIGEVANO piazza IV Novembre 8
VOGHERA via Emilia 70

PROVINCE OF PIACENZA
CASTEL SAN GIOVANNI corso Giacomo Matteotti 27
PIACENZA
Head Office, via Raimondo Palmerio 11
Branch no. 1, via Cristoforo Colombo 18
Branch no. 2, piazzale Torino 16

PROVINCE OF ROMA
CIAMPINO viale del Lavoro 56
FRASCATI via Benedetto Cairoli 1
GENZANO DI ROMA viale Giacomo Matteotti 14
GROTTAFERRATA via XXV Luglio
MONTE COMPATRI piazza Marco Mastrofini 11 Ⓣ
ROMA
Head Office, *Eur*, viale Cesare Pavese 336
Branch no. 1, *Monte Sacro*, via Val Santerno 27
Branch no. 2, *Ponte Marconi*, via Silvestro Gherardi 45
Branch no. 3, *Prati Trionfale*, via Trionfale 22
Branch no. 4, *Bravetta*, piazza Biagio Pace 1
Branch no. 5, *Portonaccio*, piazza S. Maria Consolatrice 16/B
Branch no. 6, *Appio Latino*, via Cesare Baronio 12
Branch no. 7, *Aurelio*, via Baldo degli Ubaldi 267
Branch no. 8, *Africano Vescovio*, viale Somalia 255
Branch no. 9, *Casal Palocco*, piazzale Filippo il Macedone 70/75
Branch no. 10, *Laurentina*, via Laurentina 617/619
Branch no. 11, *Esquilino*, via Carlo Alberto 6/A
Branch no. 12, *Boccea*, circonvallazione Cornelia 295
Branch no. 13, *Tuscolano*, via Foligno 51/A
Branch no. 14, *Garbatella*, largo delle Sette Chiese 6
Branch no. 15, *Farnesina*, via della Farnesina 154
Branch no. 16, *Monte Sacro Alto/Talenti*, via Nomentana 925/A
Branch no. 17, *San Lorenzo*, piazza dei Sanniti 10/11
Branch no. 18, *Infernetto*, via Ermanno Wolf Ferrari 348
Branch no. 19, *Nuovo Salario*, piazza Filattiera 24
Branch no. 20, *Tuscolano/Appio Claudio*, via Caio Canuleio 29
Branch no. 21, *Nomentano*, via Famiano Nardini 25
Branch no. 22, *WFP - Sportello Interno -*, via Cesare Giulio Viola 68/70
Branch no. 23, *Ostia*, via Carlo Del Greco 1
Branch no. 24, *San Clemente/Colosseo*, via di S. Giovanni in Laterano 51/A
Branch no. 25, *Parioli*, viale dei Parioli 39/B
Branch no. 26, *Tritone*, via del Tritone 207
Branch no. 27, *Prati*, piazza Cavour 7
Branch no. 28, *Prenestino/Torpignattara*, piazza della Marranella 9
Branch no. 29, *FAO - Sportello Interno -*, viale delle Terme di Caracalla 1
Branch no. 30, *IFAD - Sportello Interno -*, via Paolo Di Dono 44
Branch no. 31, *Campus Bio-Medico di Roma - Policlinico*, via A. del Portillo 200
Branch no. 32, *Monteverde Vecchio*, via Anton Giulio Barrili 50/H
Branch no. 33, *Trastevere*, piazza Sidney Sonnino 40
Branch no. 34, *Gregorio VII*, via Gregorio VII 348 - ang. piazza Pio XI 40
Branch no. 35, *Parione*, corso Vittorio Emanuele II 139
Branch no. 36, *CONSOB - Sportello Interno -*, via G. B. Martini 3
Branch no. 37, *Trieste/Salario*, via Tagliamento 37
ROMA - Biblioteca Nazionale Centrale - viale Castro Pretorio 105 Ⓣ
ROMA - Università Foro Italico - piazza Lauro De Bosis 15 Ⓣ

PROVINCE OF SAVONA
ALBISSOLA MARINA via dei Ceramisti 29 Ⓣ
SAVONA via Antonio Gramsci 54
VARAZZE via Goffredo Mameli 19

PROVINCE OF TORINO
CANDIOLO via Torino 3/A Ⓣ
TORINO
Head Office, via XX Settembre 37
Branch no. 1, via Luigi Cibrario 17/A bis

PROVINCE OF TRENTO
ARCO via delle Garberie 31 Ⓣ
CLES piazza Navarrino 5
RIVA DEL GARDA viale Dante Alighieri 11
ROVERETO corso Antonio Rosmini 68 - ang. via Fontana
TRENTO piazza di Centa 14

PROVINCE OF TREVISO
TREVISO corso del Popolo 50 - angolo via Giuseppe Toniolo

PROVINCE OF VARESE
AEROPORTO DI MALPENSA 2000 Terminal 1 - FERNO
BESNATE via Libertà 2 Ⓣ
BISUSCHIO via Giuseppe Mazzini 80
BRUSIMPIANO piazza Battaglia 1/A Ⓣ
BUSTO ARSIZIO piazza Trento e Trieste 10
CARNAGO via Guglielmo Marconi 2
CASTELLANZA corso Giacomo Matteotti 2
CUGLIATE FABIASCO via Pagliolico 25 Ⓣ
GALLARATE via Torino 15
GAVIRATE via Guglielmo Marconi 13/A
LAVENA PONTE TRESA via Luigi Colombo 19
LONATE POZZOLO via Vittorio Veneto 27
LUINO via XXV Aprile 31
MARCHIROLO via Cavalier Emilio Busetti 7/A
PORTO CERESIO via Giacomo Matteotti 12 Ⓣ
SARONNO via San Giuseppe 59
SESTO CALENDE piazza Giuseppe Mazzini 10
SOLBIATE OLONA via Vittorio Veneto 5
SOMMA LOMBARDO via Milano 13
VARESE
Head Office, viale Belforte 151
Branch no. 1, piazza Monte Grappa 6
Branch no. 2, via San Giusto - ang. via Malta
VEDANO OLONA via Giacomo Matteotti - ang. via Cavour 12 Ⓣ
VIGGIÙ via Saltrio 2 Ⓣ

PROVINCE OF VENEZIA
VENEZIA Sestiere Santa Croce, Fondamenta Santa Chiara 520/A

PROVINCE OF VERBANO-CUSIO-OSSOLA
CANNOBIO viale Vittorio Veneto 2/bis
DOMODOSSOLA piazza Repubblica dell'Ossola 4
GRAVELLONA TOCE corso Guglielmo Marconi 95
VERBANIA - Intra, piazza Daniele Ranzoni 27
VERBANIA - Pallanza, largo Vittorio Tonolli 34

PROVINCE OF VERCELLI • VERCELLI piazza B. Mazzucchelli 12

PROVINCE OF VERONA
BARDOLINO via Mirabello 15
PESCHIERA DEL GARDA via Venezia 40/A
VERONA corso Cavour 45
VILLAFRANCA DI VERONA corso Vittorio Emanuele II 194

PROVINCE OF VICENZA
VICENZA corso Santi Felice e Fortunato 88

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www.factorit.it - info@factorit.it

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Ⓣ Treasury - Updated to 17 April 2018

THE SILENCE OF THE LANDSCAPE

Luisa Bonesio
Geophilosopher
Director of the "Museo dei Sanatori di Sondalo"

Landscape painting seems to know a progressive silencing with the progress of modernity, which invented it at its début, in parallel with the perceptive and real transformation of its subjects, but also for what seems to be an exhaustion of its possibilities of meaning in a world whose acceleration provokes the disappearance of that picturesque or nostalgic "outside" that is found almost entirely in the proliferation of the means of technical reproduction and their potential for making perception more and more artificial. It is also a genre that – like still life – lent itself very much to amateurish practice and to photographic reproductions of postcards that ended up throwing on it the discredit of widespread dilettantism. On the other hand, the mystique of distance – whether spatial or temporal – that underlies all landscape painting, which is always an evocation and which produced the codification of colours and atmospheres specific of the Faustian West, gets eliminated by the very rapid approach of every nook and cranny of the world. It finds in photography and cinema two media that are synchronized with the rapidity and volatility of perception, as well as of the spatial experience able to override the forms of what remains of a human and historical experience, increasingly swallowed up by the technical means of observation, communication, reproduction and movement. With it comes the fading of that aura, in whose concept Walter Benjamin summarised for the last time the experience of repeatability in the contemplation of a landscape; but above all the ability to interpret the singular expressiveness of places, in the epochal obsolescence of their physiognomy and singularity, in the elaboration of an expressive language that avoids slipping easily into kitsch or into that glossy iconisation, in which a successful cinematographic vein excels, with the compensatory narration of harmonic landscapes, nostalgically human, aestheticised and recomposed.

So in the works proposed here – with the exception of the late impressionistic confidence of secluded village life in Bracchi – it is as though there has been a paradoxical synthesis and an inversion of the look that invented the visual device for this kind of pictorial representation. The living village (from which term derives the name of this painting) has disappeared, liquidated in the elsewhere of modern dislocations, and its forms – dwellings, cultivations, paths, traces of human custom – remain as relics after a cataclysm, ruins of Alpine Pompeii without any aura or transfiguration, like still lifes of abandonment. Even the genre itself of this painting, consummated in vernacular repetition, but above all by the excess of past glory, is as if practised in a subdued way, rarely exhibiting a living presence, but rather the repertoire of representative devices that allowed the landscape to become a pictorial image: windows that, instead of framing the world in perspective, are portrayed from the outside, enigmatic and blind on silent interiors; not distance, atmosphere and transfiguration, but dumb dereliction or citation that sinks into the materiality of colour, stone and soil; while the horizon, when it is evoked, is as if it were to delineate an abstract and metaphysical partition, something sublime brought back to its cosmogonic figure that is not yet – or no longer – human.

Traces

The evocative landscape in Valtellina art of the late twentieth century

In the second half of the twentieth century, the panorama of Valtellina art was profoundly enriched and renewed, thanks to a group of artists able to impose new themes and new forms of expression.

This renewal is particularly evident in landscape painting where the rhetoric of the mountain peak as a symbol of nature's strength and purity, embodied by artists like Paolo Punzo, gradually replaces the discovery of the human landscape of the valley floor and side valleys. Here the signs of human presence intertwine with those of nature in a dialogue aimed at enhancing the atmosphere of small rural settlements and old farmhouses that incipient modernity, relegating them to the margins of time, covers with an aura of poetic melancholy.

In this way, a new type of landscape is born, characterised not so much by what it represents, but by the allusive and evocative force of what it does not represent.

It is in fact a rural landscape where humans are completely (or almost completely) absent, but this absence makes even more intense the human presence that can be found in the traces and signs that life has disseminated.

In this kind of landscape, a chalet, a group of houses, a wall, a window, clothes hanging in the sun, a lonely boat on the lake, a bottle on a table or a simple horizon, just for their evocative capacity of an absence, are intertwined with strongly human moods and acquire an expressive intensity and a poetic delicacy able to tell, better than anything else, the nature, work, time and the atmosphere of a place.

Through sixteen small masterpieces, which form part of BPS's art collections, this exhibition intends to reconstruct the progressive formation and evolution of the evocative landscape in local Valtellina painting during the late twentieth century.

The roots of this type of landscape, where the accent falls on evocative suggestion, are in that pictorial genre improperly called "Natura morta" or "Dead nature" in Italy, but which in the seventeenth century the Dutch first called "Still-leven", the Germans "Still-leben" and the English "Still-life", i.e. "immobile life", in which the immobile condensation of the life lived in the object loads it with its extraordinary evocative force of the human that it carries in itself, which Giorgio Morandi will demonstrate more than anyone else in the twentieth century.

This is the meaning of the presence in the exhibition of the *Still life* by Giuseppe Bianca, the greatest exponent of Lombardy chiarism in Valtellina, which brings us back to the original evocative nucleus that, in the Valtellina area, transposes from still life to landscape painting.

This transition takes place gradually in Valtellina art and in very different forms, according to the stylistic trends of the individual artists.

In an old-generation artist like Luigi Bracchi, for example, linked to the ways of traditional landscape realism, the human landscape does not yet have the stigmata of time and decay, but it is already a still, silent landscape and the presence in the two works presented here of the human figure, little more than a stain, instead of reviving it, underlines its solitude, which makes houses, bridges and ditches, i.e. the signs of absent life, the absolute protagonists of the representation, full of allusions to the life lived.

Even in an artist like Benetti, which we could call neo-impressionist, the rural landscape is still vital, as in the beautiful *Houses in Gatti*, with that chromatic explosion of the peasant houses that extend their picturesque façades to the sun, reducing the few humans to invisible specks that get entirely absorbed. But already in the summer solitude of the *Rural landscape in Valmalenco*, there is a subtle sadness, an indefinite note of melancholy that emerges in the same tone of the colours with which the peasant-mountain life is evoked, as if to present, in that fragile harmony, the last gleams of a life that is irretrievably slipping into the past.

It is the same melancholy that in *Sunset at Piona* by Felice Cattaneo, is condensed in the small lonely boat on the lake, which in the glimmers of the twilight evokes lake life and rurality, charging the suggestion of landscape and time with a human sense.

It is instead the oldest of the painters presented here, Francesco Carini, born in 1883, Valtellina follower of Lombard realism of the late nineteenth century, who in the last years of his life found the strength to completely renew himself, painting in 1953 a work like *Contrada in Caspoggio*, where the spell of the mountain world in disarmament is rendered with a very modern expressive technique, almost informal in the brush stroke and in the spot-on chromatic mixture that perfectly reflects the winter atmosphere of the crumbling rural nucleus. No less surprising is the other work by Carini, *On the streets of Caspoggio*, with that delightful rural mend with patches of tattered colour on the walls, punctuated by the ascending geometry of the houses and roofs, in total silence, broken only by the sing-song flow of water from the fountain in the foreground.

Not surprising, however, is the refined modernity of Geremia Fumagalli, an artist who unfortunately abandoned graphic painting early on and who, in 1958, with his *Rural houses in Valtellina*, gives us a poetic and solitary rural nucleus of almost *Fauves* chromaticism, immersed in the sunset of an autumn evening.

Nor is it surprising in Valter Vedrini and the exuberance of the colour with which he celebrates his pantheistic vision of nature, the modernish fairytale character of the two works presented here, March in Caspoggio, where the colour seems agitated by the spring wind around the houses and rocky boulders, and the almost Chagall-like *Alley in Valmalenco*, with the staggering earthy architecture of the group of rural houses gaggling among themselves.

But it is in Vaninetti that the shape of the evocative landscape reaches the peak in Valtellina painting. Everything in Vaninetti is the evocation of man in things, reduced to characters themselves, as Giacometti wisely pointed out at the time. The three works at the exhibition, *"Tea" in Livigno, Rustic houses in Valtellina* and the enigmatic *Window on a white wall*, a "microcosm of melancholy" as Wolfgang Hildesheimer called it, are among the highest examples of his vibrant mountain expressionism, rough and delicate, with which he caresses the wrinkles of time on the face of things.

At the end of the Eighties, with Ferruccio Gini, the evocative landscape detaches itself in Valtellina art from the world and from rural architecture; it becomes intimate and cosmic, so to speak, transforming itself into a romantic thirst for infinity expressed with a geometric, metaphysical and almost abstract lyricism, in which there is no more evocation of things but only very human, indefinite nostalgia, pure, without borders, mobile and unattainable like the horizon.

Franco Monteforte

BANCA POPOLARE DI SONDRIO

Società cooperativa per azioni – Founded in 1871 - Official List of Banks no. 842. Official List of Cooperative Banks no. A160536, Official List of Banking Groups no. 5696.0. Sondrio Companies Register no. 00053810149 - Share capital € 1,360,157,331, made up of 453,385,777 ordinary shares with a par value of € 3 each - Reserves € 947,325,264

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the ordinary and extraordinary annual general meeting (AGM) at the head office in Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Friday, 27 April 2018 and, if necessary, on second calling in Bormio (SO) at the Centro Polifunzionale Pentagono, via Alessandro Manzoni 22, at 10.30 a.m. on Saturday, 28 April 2018 to discuss the following

AGENDA

Ordinary part

1) Presentation of the financial statements as of 31 December 2017: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions; Presentation of the consolidated financial statements as of 31 December 2017;
2) Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;
3) Approval of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Consolidated Finance Act);
4) Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;
5) Determination of directors' emoluments;
6) Appointment of five Directors for the three-year period 2018-2020;
7) Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2018-2020; determination of their annual emoluments.

Extraordinary part

1) Proposal to amend articles 6 and 39 of the Articles of Association. Related and consequent resolutions.
2) Proposal to give the Board of Directors a mandate pursuant to art. 2443 of the Italian Civil Code to increase the share capital for payment, on one or more occasions, with exclusion of option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, for a total maximum amount of Euro 40 million, including any share premium, through the issue of ordinary shares to be paid up by means of a contribution in kind. Furthermore, in exercising the mandate within twelve months of the date of the shareholders' resolution and in accordance with the limits indicated above, from time to time, the Board of Directors shall have the fullest right to establish methods, terms and conditions of the increase in capital, including the issue price, any share premium on the shares to be issued and their dividend and voting rights.
   Consequent amendments to Article 6 of the Articles of Association. Related and consequent resolutions.

Share capital

The share capital, fully subscribed and paid up, amounts to € 1,360,157,331 and is made up of 453,385,777 ordinary shares with a par value of € 3 each. There are 173,782 shareholders with voting rights.

Attendance at the Meeting

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

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

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

Shareholders may be represented at the meeting by another shareholder, by means of a proxy ballot issued in compliance with Italian law. No shareholder can be a proxy for more than ten other shareholders. Proxy forms are available at all branches of the Bank and on its website www.

popso.it/assemblea2018. The proxy will have to be handed over when entering the meeting.

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

Addition of items to the agenda for the Meeting

In accordance with article 26 of the Articles of Association, one or more Shareholders, registered in the shareholders' register for at least ninety days, holders of a total shareholding not lower than 2.5% of the share capital can ask for additional topics to be added to the agenda, or present proposals for resolutions on matters already on the agenda, according to the terms and procedures established by art. 126 bis of Legislative Decree 58/98, Consolidated Law on Finance. The request, to be submitted to the head office at Piazza Garibaldi 16, Sondrio, should contain an indication of the new topics being proposed or of the motions proposed on matters already on the agenda. The applications have to be presented in writing. The shareholders must indicate the total number of shares held and certify the ownership of said shareholding.

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

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

Documentation

The explanatory reports of the Board of Directors containing the proposed resolutions and documents that will be submitted to the Shareholders' Meeting will be made available at head office, on the «eMarket STORAGE» authorised storage mechanism «www.emarketstorage.com» and on the Company's website at www.popso.it/assemblea2018 by the current legal deadline. Shareholders have a right to look at this documentation and to obtain a copy of it at their own expense.

Appointment of five Directors for the three-year period 2018-2020

With reference to point 6) on the agenda for the Ordinary Shareholders' Meeting - Appointment of five Directors for the three-year period 2018-2020 - the text of art. 35 of the Articles of Association is presented below.

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Art. 35

Presentation of lists of candidates

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

The lists must be filed at the Company's registered offices within the terms laid down in current regulations.

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

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

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

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

The signature of each presenting member has to be authenticated according to the law or by employees of the bank nominated for that purpose by the Board of Directors.

By the deadline set for the submission of lists, the curriculum of each candidate must be submitted, together with a declaration of acceptance of the candidature and an attestation under the candidate's own responsibility confirming the absence of any reasons for their non-election and absence of incompatibility and confirmation of having the necessary requirements to hold the office of the director as set out by the law and by the articles of association. Candidates should also declare if they have the requisites of independence as per art. 33.2 and, if they do, this is mentioned in the lists.

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

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

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

It should also be remembered that art. 32, paragraph 3, of the articles of association states that:

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

Furthermore, art. 33, paragraphs 1 and 2, envisages that:

«Members of the Board of Directors must satisfy the personal requirements set by the law as well as those set by the oversight regulations for the banks.

At least one fourth of the Directors must also meet the Independence Requirements specified by article 147 ter, fourth paragraph of the Legislative Decree no. 58 of 24 February 1998».

For the presentation of lists, the shareholders are required to take into account the document «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio» published on the Company's website at www.popso.it/assemblea2018.

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

Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2018-2020

With reference to the first part of paragraph 7) on the agenda for the Ordinary Shareholders' Meeting - Appointment of Statutory Auditors and of the Chairman of the Board of Statutory Auditors for the three-year period from 2018 to 2020 - the following is the text of art. 49 of the articles of association

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Art. 49

Presentation of the lists of candidates

The election of the members of the Board of Statutory Auditors is made on the basis of the lists presented by the shareholders where candidates are listed with progressive numberings. Each list has two sections: one for candidates for the position of auditor, the other for candidates for the position of alternate auditor. Each list must indicate three candidates as auditors and two candidates as alternate auditors.

The lists must be filed at the Company's registered offices within the terms laid down in current regulations.

The lists must ensure gender balance in accordance with current regulations and these articles of association. For this purpose one of the candidates for serving statutory auditor must belong to the less represented gender.

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

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

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

The signature of each presenting member has to be authenticated according to the law or by employees of the bank delegated to that function by the Board of Directors.

By the deadline set for the submission of lists, the curriculum of each candidate must be submitted, together with a declaration of acceptance of the candidature and an attestation under the candidate's own responsibility confirming the absence of any reasons for their non-election and absence of incompatibility and confirmation of having the necessary requirements to hold the office of Statutory Auditor as set out by the law and by the articles of association.

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

""""

Note that current legislation, to which art. 49 of the Articles refers, states that the lists of candidates for the office of statutory auditor have to be deposited at head office by the 25th day prior to the date of the Meeting.

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

The requirements for statutory auditors are governed by art. 48, para. 4, of the Articles of Association, which state:

«In addition to the reasons for ineligibility and forfeiture envisaged by the law, the provisions of article 17 above also apply.

In any case the Statutory Auditors cannot take up offices in corporate bodies other than those of control in other companies of the Group as well as in companies where the bank holds a strategic investment, even if held indirectly.

Further, the office of Statutory Auditor cannot be held by persons who exceed the limit of cumulative holding of offices of administration and control as fixed by the law and by the relative implementation regulations or by those who are members of administrative or control bodies of other banks with the exception of the associations which represent trade institutes and the subsidiaries.

The Statutory Auditors must also meet the standards of integrity, professionalism and independence set by current regulations».

Sondrio, 25 March 2018

FOR THE BOARD OF DIRECTORS
Chairman
(Francesco Venosta)

The notice of calling was published, as required by law, on the Company's website at www.popso.it/assemblea2018 and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 28 March 2018.

Note. The figures in this report are in euro; comparisons in percentage terms refer to the equivalent figures at the end of 2016; exceptions are explained.
Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of amounts expressed in different units.

DIRECTORS' REPORT ON OPERATIONS

SUMMARY OF RESULTS

Shareholders,

the wind of optimism has returned to inflate the sails of the world recovery. The economic cycle has progressively consolidated, both in the main advanced countries and among emerging countries. This is also demonstrated by the renewed dynamics of world trade, which in the last few years showed up the difficulties of globalization with its slow progress. Concerns remain, particularly related to geopolitical factors, but for once operators and markets have preferred to favour positive news.

The Eurozone economy, proving resistant to the negative effects of Brexit, seems immune even to tensions between the countries that make it up. Thanks also to a highly expansive monetary policy, GDP has returned to a situation of sustained growth. For its part, the single currency has proved to be strong and credible. It would be good if it was not the only symbol of unity in a common construction that is still ongoing and which sometimes appears to be a bit hesitant.

The economic recovery has also come to Italy. Domestic demand, sustained by a climate of confidence on the part of companies and families, has given an injection of dynamism to growth in the Gross Domestic Product. The increase in people in employment, by now returned to pre-crisis levels, has to act as a stimulus to deal even more effectively with the problem of unemployment. Signs of improvement have also been seen with regard to Italy's public debt burden. Too obvious to say that the road remains long and uphill.

The better economic situation has helped to reduce the loan loss provisions of banks, which have had to continue dealing with all-time low interest rates and lower net interest income as a result. It is worth adding that the cost of saving certain banks has weighed heavily on the overall profitability of the banking system in Italy.

This burden, which is certainly extraordinary and, we hope, non-recurring, has weighed not a little on our financial statements. Despite this, the bottom line rewards our operations, confirming that they are healthy and profitable. A result that we report with satisfaction: the profit for the year came to 118 million, an increase of 47.91%.

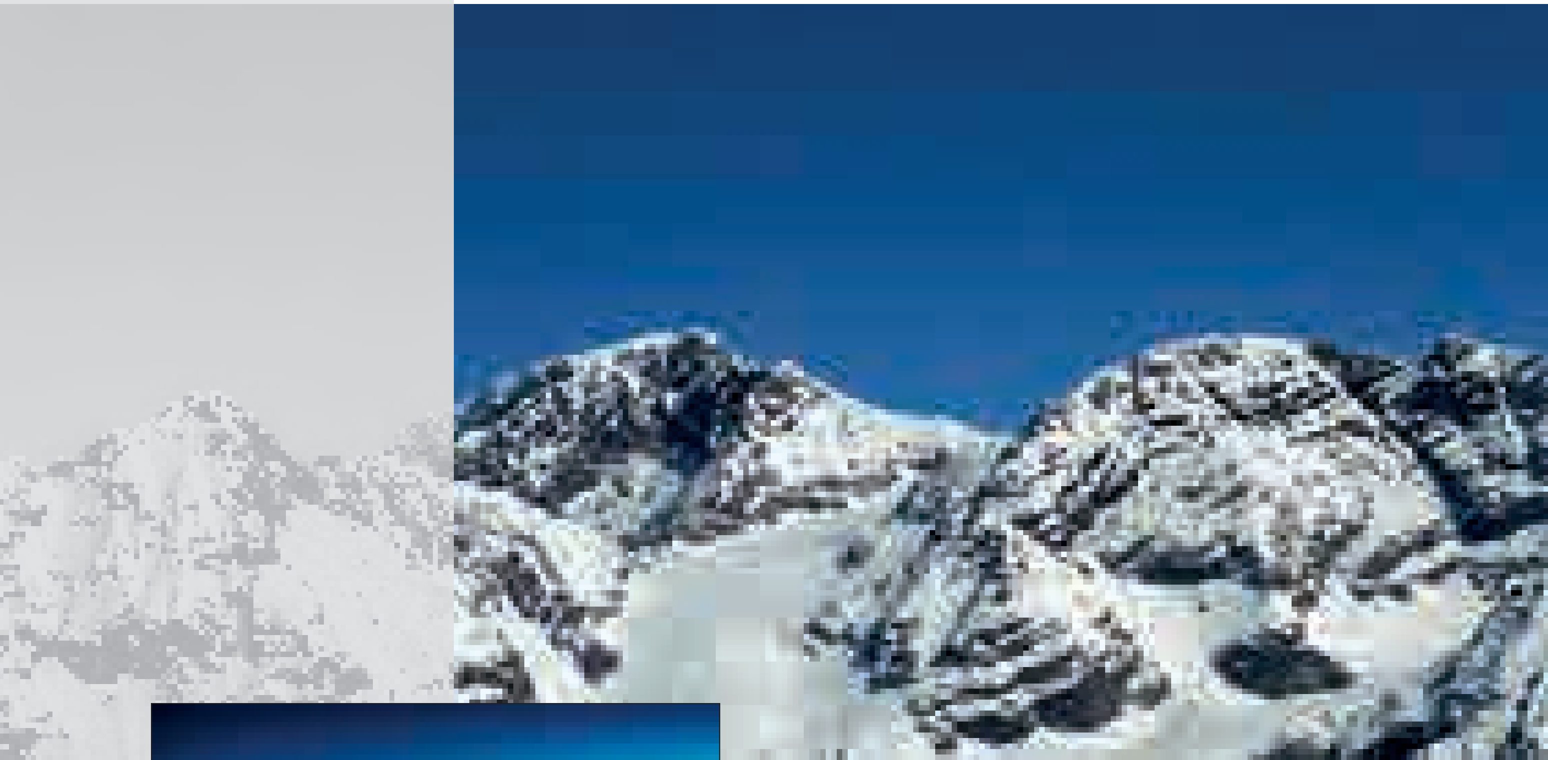
The key statistics summarised below are the result of the intense efforts made by our staff, comprising 2,702 persons.

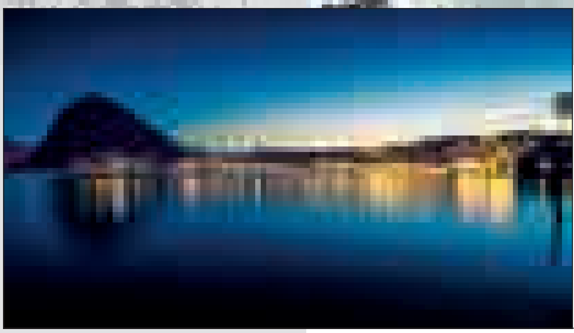
Total assets came in at 38,022 million, +13.20%. Capital and reserves, including valuation reserves and net profit of the period, amounted to 2,427 million, +3.95%.

Direct deposits grew by 3.67% to 29,029 million, whereas loans came to 21,819 million (+2.28%), proof of the support that we have given the economy.

Net interest income was 426 million, +2.52%; net fee and commission

THE BANKING GROUP IN THE HEART OF THE ALPS





Night scene of the city of Lugano

in a highly competitive
banking environment,
the Swiss subsidiary has reaffirmed
the validity of its strategic plan

BPS (SUISSE)

General Management: CH - 6900 Lugano | Via Giacomo Luvini 2a | Tel. +41 58 8553000 | Fax +41 58 8553015
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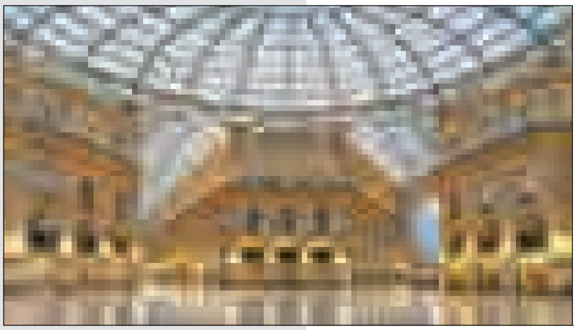

Galleria Vittorio Emanuele II

Factorit concentrates its activity on increasing
the volume of assigned receivables and
lending, without losing sight of the quality and
profitability of the portfolio under management

Factorit
GRUPPO **Banca Popolare di Sondrio**

I - 20122 Milan | Via Cino del Duca 12 | Tel. +39 02 58150.1 | Fax +39 02 58150.205
www.factorit.it | info@factorit.it

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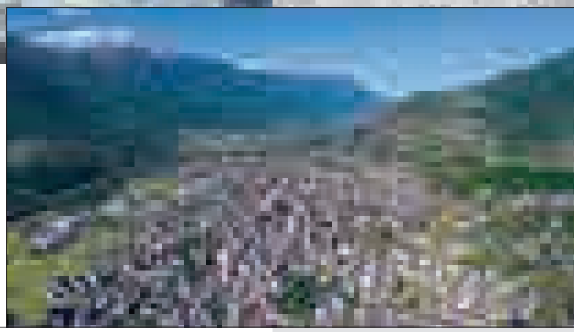
Banca Popolare di Sondrio • BPS (SUISSE) • Factorit • Banca della Nuova Terra • Sinergia Seconda • Popso Covered Bond • Pirovano Stelvio

The Ortles (3,905 m), Monte Zebrù (3,740 m) and the Gran Zebrù (3,851 m), in the upper Valtellina



The city of Sondrio

the organisational model adopted by BNT is extremely streamlined and in full synergy with the Parent Company's structures

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BNT
BANCA DELLA NUOVA TERRA
GRUPPO Banca Popolare di Sondrio

the company manages hotel facilities in the Stelvio Pass and has always played a role of primary importance in supporting the Stelvio area

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www.pirovano.it | info@pirovano.it

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

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RESULTS IN BRIEF

(in millions of euro)	2017	2016	% Change
Balance sheet			
Loans and receivables with customers	21,819	21,332	2.28
Loans and receivables with banks	2,815	2,760	2.01
Financial assets	11,879	7,938	49.65
Equity investments	507	487	3.98
Total assets	38,022	33,588	13.20
Direct funding from customers	29,029	28,002	3.67
Indirect funding from customers	28,550	26,888	6.18
Direct funding from insurance premiums	1,336	1,266	5.50
Customer assets under administration	58,915	56,156	4.91
Other direct and indirect funding	9,595	5,873	63.37
Equity (excluding profit for the year)	2,427	2,335	3.95
Income statement			
Net interest income	426	415	2.52
Total income	844	776	8.85
Profit from continuing operations	175	106	65.75
Profit for the year	118	80	47.91
Key ratios (%)			
Cost/income ratio	46.66	52.57	
Net interest income/Total assets	1.12	1.24	
Net financial income/Total assets	1.50	1.53	
Net interest income/Total income	50.41	53.52	
Administrative expenses/Total income	51.94	57.21	
Profit/Total assets	0.31	0.24	
Non-performing loans/Loans and receivables with customers	3.57	3.58	
Loans and receivables with customers/Direct funding from customers	75.16	76.18	
Capital ratios (%)			
CET 1 capital ratio	11.92%	11.15%	
Total Capital ratio	14.22%	13.91%	
Free capital	1,227	1,206	
Other information			
Number of employees	2,702	2,676	
Number of branches	343	337	

income reached 263 million, +5.30%. Income from banking activities totalled 844 million, +8.85%.

Loan adjustments decreased slightly, which benefited both from the recovery of the economic cycle and from investments made in terms of human resources and procedures for better management of credit lines. The measures taken to hold down expenses have continued, always subject to careful evaluation and an indispensable premise to create room for important investments.

The BPS stock, which is listed in the MTA, the screen-based market of the Italian Stock Exchange, closed the year with a fall of 2.69%. There are now 175,547 shareholders.

The companies included in our Banking Group, in primis Banca Popolare di Sondrio (Suisse) SA and Factorit spa, helped us to expand and requalify our commercial offer.

TERRITORIAL EXPANSION

Bank growing, bank expanding; also thanks to the expansion of the commercial network. How could it be otherwise? The opening of new units is one of the ways to show that we want to extend working relationships, putting ourselves at the service of local communities to support their economic development. This allows us to give substance to our very nature as a local area bank.

These are the underlying motivations for the measured geographical growth that is currently under way, which allows us to improve our market shares and sustain profitability. In this regard, our results in recent years have been comforting, achieved with the help of the acceleration that the branches were asked to make. The peripheral units are in fact reviewing in depth their role in the contexts to which they belong. Freed from numerous mass transactions and supported by more effective procedures, they have been able to give preference to the role of customer manager, a role that they will have to play more and more in the future.

Personalisation of the relationship, the traditional strong point of our way of doing banking, is enhanced and supported by our ability to support customers professionally in their most important decisions.

This is the real added value of the peripheral network: the ability to relate directly with customers, building their loyalty thanks to the quality of the Bank's products and services and the competence of the branch staff and their willingness to help.

It is the heart of the relationship that the branch is called upon to manage on a person-to-person basis. Each customer will then choose the channel that best suits him for ordinary operations: from traditional to automatic tellers, from online banking to the increasingly advanced payment applications. As they say, everything now is just a click away and everyone must be free to choose.

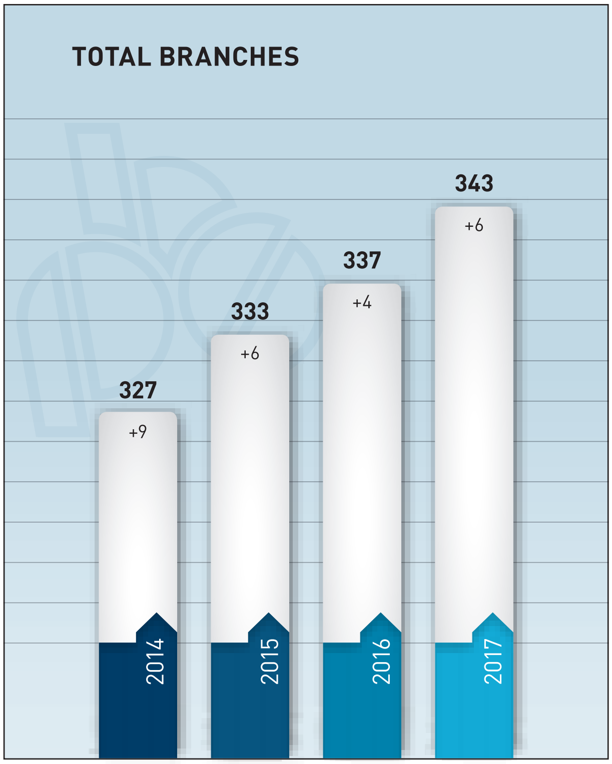
In the year under examination, our sales network has expanded by six new branches - two in Emilia Romagna and Liguria, one in Lombardia and another one in Veneto - for a total of 343 branches, present in eight Regions.

The first to open was branch no. 2 in Piacenza, a city of about 100,000 inhabitants and the capital of the province named after it, characterised by a structured and solid economic fabric with industrial companies that have achieved considerable international success. The new unit joins the two already active in this marketplace and goes to cover an identifiable area of two city districts, Infrangibile and Belvedere, the first ones with a residential nature built outside the historic centre and now featuring a strong concentration of offices and businesses. From Piazzale Torino - where our branch is based - an interesting commercial/industrial district spreads out towards Pavia. The chosen location therefore looks favourable for attracting retail customers and professionals, as well as companies that are only a few kilometres away and connected by an efficient road network.

It was then the turn of Fidenza, which with its 26,000 inhabitants is the second municipality in the province of Parma, after the capital. Strategically positioned on the Via Emilia and Via Francigena, Fidenza is a major road, railway and commercial hub. Its geographical position meant that it was able to benefit first from the development of agriculture, and then of industry. Nowadays, there are several companies of a certain importance, which embrace various production sectors, as well as numerous small businesses. The possible catchment area of the new branch also includes Alseno and Fiorenzuola d'Arda in the direction of Piacenza, Busseto, Soragna and Fontanellato to the north-east and the renowned spas of Salsomaggiore and Tabiano, located in the hills of the Parma Apennines.

Two years after opening in Corso Vercelli and at the Università Cattolica del Sacro Cuore, the expansion of our commercial network in Milan has resumed and we now have a total of 39 branches there. The new city branch overlooks the square in front of the Monumental Cemetery, located in a historic building dating back to the second half of the 19th century, designed by the architect Carlo Maciachini, at the crossroads between Via Niccolini and Via Procaccini. The latter is an important link between the Sempione and Porta Volta areas of Milan, as well as being adjacent to Porta Nuova, a recently redeveloped district characterized by a mosaic of new futuristic buildings. The branch oversees an area full of residential buildings and various commercial activities such as shops, restaurants and professional offices. The presence of the industrious Chinese community is important.

In Liguria it was the turn of Imperia and La Spezia, so that the number of branches in that region rose to eleven. Imperia, the capital of the homonymous province, has almost 43,000 residents; if we consider also the vast hinterland we go up to about 70,000 persons. The urban economy and that of its territory have undergone an important process of reconversion in recent decades, which has increasingly exalted the role of tourism and related activities. The city is divided into two distinct areas, separated by the River Impero: Oneglia and Porto Maurizio. Oneglia, to the east, is the largest part of the city, extending over an alluvial plain and gathering around Piazza Dante, from which some of the main modern roads open up. It is the industrial centre of the city, historically linked to the production of olive oil and pasta. Featuring numerous shops, offices, technical and administrative services, Oneglia's architecture has a Piedmontese look, a heritage of the period when it was part of the territories of the House of Savoy and the Kingdom of Sardinia. Porto Maurizio, to the west, is on a promontory reaching out over the sea with the structure of a typical Ligurian coastal village. It has good tourist and commercial facilities, including a dynamic port. The new branch serves this district in particular, where there is separate department of the Genoa University, for which we act as treasurer.



La Spezia, a city of about 94,000 residents, is the capital of a province that is characterised by its industrial activities and, of course, by tourism. In fact, there are numerous centres of great appeal here, including the Cinque Terre, known and appreciated all over the world, which stand out for their natural beauty and landscape. There are also some delightful towns, such as Lerici and Portovenere, also on the Gulf of La Spezia. Until not many decades ago, La Spezia based its economy on the Naval Military Arsenal. As it became less and less important, industry and, above all, the mercantile port became more and more so and they now have efficient structures and good motorway and railway links. In addition to some large manufacturing companies, the merchant and pleasure craft sector has developed, with a number of brands that are well-known worldwide. The contribution made by tourism and the service sector is significant and worthy of note. Among the public structures, we would mention the Guglielmo Marconi university campus, which is linked to Genoa University.

The year ended with us opening a branch in Venice, the capital of a region in which we are also present in Padua, Treviso, Vicenza and Verona and, in this last province, in Bardolino, Peschiera del Garda and Villafranca. The positive results that we have achieved lead us to increase our commitment, in the belief that there are good business opportunities in those territories for a bank such as ours, which enjoys a solid reputation on the market. As for Venice, which has over 260,000 inhabitants, of whom around 55,000 in the historical centre, there is very little to add to what everyone knows already. In fact, it is not only one of the best known and most appreciated cities of art internationally, but for the singularity of its urban structure built on more than one hundred islands in the lagoon and for the peculiarity of a millennial history and its artistic riches, it represents a true unicum, which cannot be found in any other city in the world. Our branch is strategically located in the

Territorial expansion

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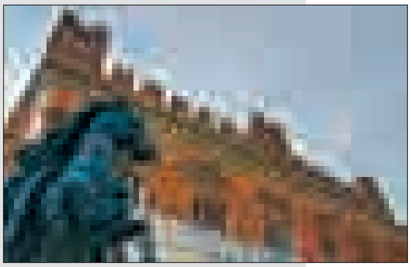
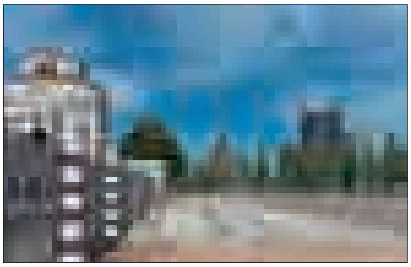
bank growing, bank expanding:
the expansion of the commercial network allows us to give substance to our fundamental nature as a local area bank

PIACENZA

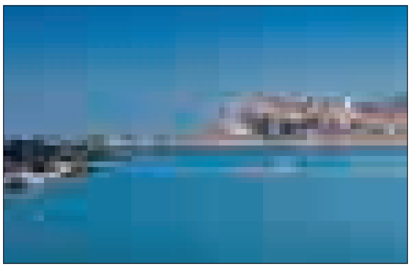


FIDENZA

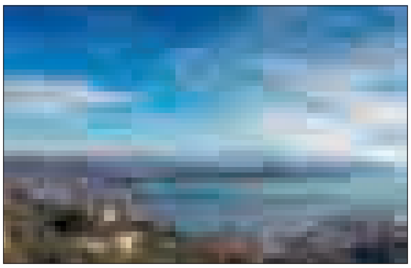
MILANO AGENZIA 17



IMPERIA



LA SPEZIA



VENEZIA

immediate vicinity of the Santa Lucia train station and the Liberty Bridge that connects Venice to the mainland. This is an ideal place to develop our business.

The territorial presence of our bank also includes 139 treasury branches and 535 ATMs, with an increase of 2 during the year.

FUNDING

There was still the problem of how to invest savings at a time when interest rates were close to zero. With the aggravating circumstance that «close to zero» in some cases meant «below zero».

The persistently expansionary monetary policy - aimed at consolidating an economic recovery, which has in fact gradually strengthened, on the one hand, and at the same time stimulating an adequate level of inflation, which has not yet come about - has maintained liquidity at very high levels, with the impact on interest rates that we just mentioned.

This has also generated significant effects on the size of bank deposits, penalized among other things by competition from asset management, and on its composition, increasingly characterized by a preponderance of short-term positions, with a particularly sharp reduction in bonds. The distinct preference for liquidity on the part of many customers was favoured by a flattening of the rate curve. In addition, many preferred to park their funds temporarily, waiting for a possible change of scenario.

On the whole, a situation in which uncertainty prevailed, even if the solution to the crisis that hit some banks - large and small - has at long last helped to clear up a situation that could have turned out to be far worse.

In this context, our Bank recorded a more than appreciable increase in direct deposits, consisting of balance sheet liability items 20 «due to customers» and 30 «securities issued», which came in at 29,029 million (+3.67%).

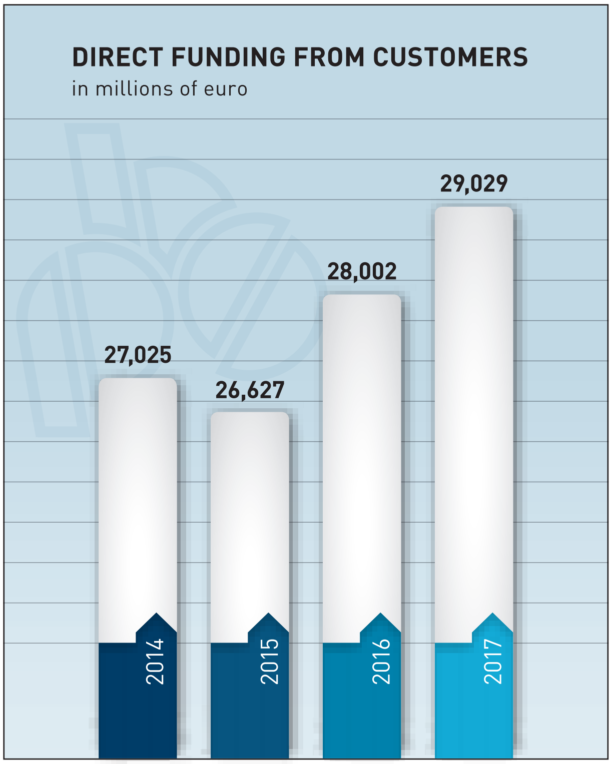
A result that is significant in itself and which represents the point of balance between the inevitable need to contain the cost of funding and the equally vital one of responding to customers' expectations. The market has also shown that it takes our Bank's solidity into consideration, correctly pricing the relationship between risk and return.

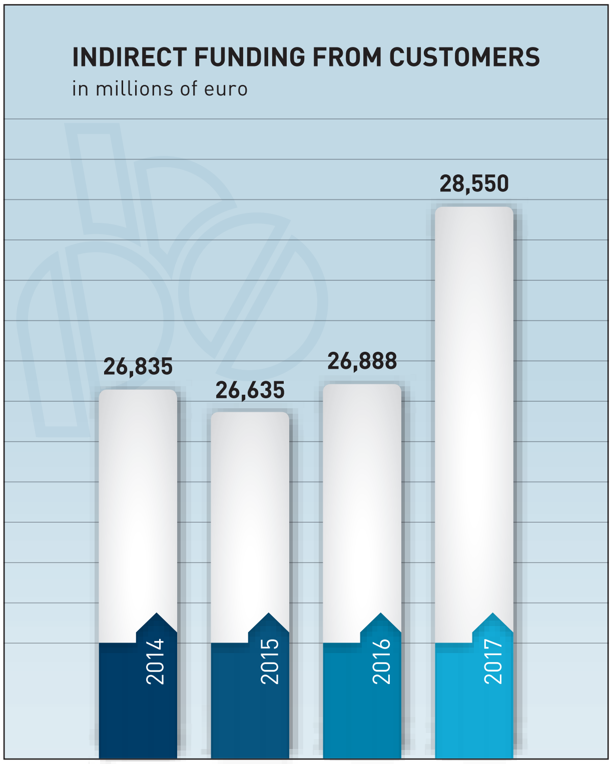
Indirect funding from customers amounts to 28,550 million, +6.18%, at market values. Direct funding from insurance premiums increased to 1,336 million, +5.50%.

Total funding from customers therefore amounts to 58,915 million, +4.91%.

Deposits received from banks amounted to 5,636 million on 2,250 million. This increase is also linked to long-term refinancing operations with the European Central Bank for a total of 4,600 million, as explained in the chapter on «Treasury and trading operations».

Securities under administration for banks have increased from 3,623 to 3,960 million, +9.29%.





DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	2017	%	2016	%	Change %
Savings deposits	409,493	1.41	413,676	1.48	-1.01
Certificates of deposit	2,101	0.01	3,264	0.01	-35.63
Bonds	2,675,469	9.22	3,007,763	10.74	-11.05
Repo transactions	356,725	1.23	610,237	2.18	-41.54
Bank draft and similar	107,238	0.36	78,108	0.28	37.29
Current accounts	23,768,000	81.88	22,878,197	81.70	3.89
Time deposit accounts	1,122,442	3.87	355,475	1.27	215.76
Foreign currency accounts	587,818	2.02	655,666	2.34	-10.35
Total	**29,029,286**	**100.00**	**28,002,386**	**100.00**	**3.67**

TOTAL FUNDING

(in thousands of euro)	2017	%	2016	%	Change %
Total direct funding from customers	29,029,286	42.37	28,002,386	45.14	3.67
Total indirect funding from customers	28,550,165	41.67	26,887,999	43.35	6,18
Total direct funding from insurance premiums	1,335,569	1.95	1,265,888	2.04	5.50
Total	**58,915,020**	**85.99**	**56,156,273**	**90.53**	**4.91**
Due to banks	5,635,658	8.23	2,249,796	3.63	150.50
Indirect funding from banks	3,959,663	5.78	3,622,959	5.84	9,29
Grand total	**68,510,341**	**100.00**	**62,029,028**	**100.00**	**10.45**

Total deposits from customers and banks therefore amounted to 68,510 million, +10.45%.

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

Considering the individual components, current accounts in euro and foreign currency rose to 24,356 million, +3.49%, and make up 83.90% of all direct funding. Bonds have declined by 11.05%, to 2,675 million. Time deposit accounts have strongly increased: 1,122 million, +215.76%.

Repo transactions fell sharply to 357 million, -41.54%; savings deposits decreased at a slower pace to 410 million, -1.01%. Certificates of deposit dropped to 2 million, -35.63%, and remain entirely marginal. Bank drafts amount to 107 million, +37.29%.

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

LENDING

The consolidation of the international crisis also involved Italy. In fact, the production system has progressively accelerated its trends, in the end posting an increase in GDP that was significantly higher than the «zero point something» which our country seemed condemned to achieve.

Positive reflections began to be seen on the employment front, with an appreciable increase in the total workforce. Even the situation of Italian families has been improving, helped by the increase in purchasing power.

All this has been gradually reflected in the climate of confidence of consumers and businesses. Both the demand for first home purchase mortgages and for new capital investment loans began to benefit from this, again helped by the fact that interest rates are still at all-time lows.

However, not all production sectors have been involved in the recovery to the same extent, with the construction industry in particular still looking penalized.

As for the banking system, more robust growth in the economy has led to a decline in new impaired loans, with a correlated increase in the quality of the credit given. Precisely in order to take advantage of this primary objective, the competition for high-standing customers has become increasingly intense.

Our Bank has continued to take action in the credit field, preferring to have a relationship with the real economy, i.e. that of the territories. Constant improvements in the procedures for loan disbursement and credit management and stronger specialist controls went hand in hand with the steps taken to correctly price the risk involved in each transaction.

Impaired loans, which fell by 12.32%, were managed in such a way not only to increase their coverage - already high also at system level - but also to extract value from this important item. This last task was carried out by specialist corporate structures that we have reinforced.

Loans totalled 21,819 million, +2.28% on the previous year. The ratio of loans to direct deposits is 75.16% compared with 76.18% last year.

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

The change in other unsecured loans was significant: +7.48% to 6,955 million, being 31.86% of the amount due from customers. By contrast, mortgage loans increased by 2.51% to 6,532 million or 29.94% of total lending. This line item includes loans assigned but not derecognised of 1,470 million in relation to the issue of covered bonds. These loans have not been derecognised because the chosen structure does not meet the requirements of IAS 39.

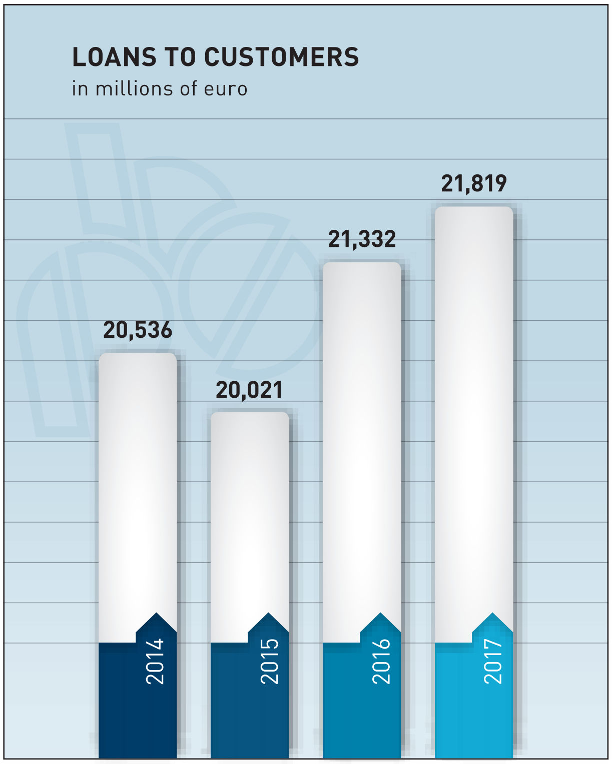
Current account overdrafts have decreased from 4,902 to 4,414 million, -9.97%. Advances have gone up to 380 million, +7.37%, and advances subject to collection, to 211 million, +6.82%. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, reported a strong recovery passing from 699 to 1,222 million, +74.78 %. Personal loans rose to 238 million, +8.31%.

Debt securities amounted to 351 million and decreased by -2.60% at the end of 2017; they derive from the securitisation of loans to customers made by Banca della Nuova Terra spa and Alba Leasing spa. Foreign currency loans declined to 652 million, -29.23%.

Total impaired loans amount to 2,006 million, -12.32%, representing 9.19% of loans and receivables with customers, compared with 10.73% at the end of 2016. This decrease is significant because it was achieved while

LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	2017	%	2016	%	change %
Current accounts	4,413,746	20.23	4,902,282	22.98	-9.97
Foreign currency loans	651,559	2.99	920,686	4.32	-29.23
Advances	379,820	1.74	353,736	1.66	7.37
Advances subject to collection	210,754	0.97	197,294	0.92	6.82
Discounted portfolio	17,354	0.08	4,537	0.02	282.50
Artisan loans	47,473	0.22	40,513	0.19	17.18
Agricultural loans	22,362	0.10	26,950	0.13	-17.02
Personal loans	238,174	1.09	219,897	1.03	8.31
Other unsecured loans	6,954,515	31.86	6,470,526	30.33	7.48
Mortgage loans	6,532,232	29.94	6,372,591	29.87	2.51
Non-performing loans	778,653	3.57	763,817	3.58	1.94
Repo transactions	1,221,602	5.60	698,937	3.28	74.78
Fixed-yield securities	350,784	1.61	360,145	1.69	-2.60
Total	**21,819,028**	**100.00**	**21,331,911**	**100.00**	**2.28**



applying our unchanged highly prudent policies for the classification of lending and the related provisions.

Writedowns of impaired loans totalled 2,103 million, representing 51.18% of the gross amount, compared with 46.20% at the end of 2016 and 44% at the end of 2015. The table gives a overview of impaired and performing loans.

Net non-performing loans amount to 779 million, +1.94%, corresponding to 3.57% of total loans and receivables with customers, compared with 3.58% at 31 December 2016. Although higher, the rate of increase was slower than in the prior year, when the rise was 4.59% (20.02% in 2015), and the total remains significantly lower in percentage terms with respect to the banking system as a whole. Their amount reflects the substantial adjustments made in application of the extremely prudent criteria recommended in the past by the Supervisory Authorities, especially with regard to those positions that are secured against property. The adjustments to cover estimated losses on non-performing loans have risen to 1,489 million, +15.66%, representing 65.67% of the gross amount compared with 62.77% last year. This coverage is among the highest in the banking system. Considering the amounts written off in prior years against non-performing loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 74.99%.

Unlikely-to-pay loans relate to exposures, excluding non-performing loans, that the debtor is deemed unlikely to settle in full, without recourse by the bank to the collection of guarantees or similar forms of protection. These have decreased to 1,145 million, -12.16%, corresponding to 5.25% of total loans and receivables with customers, compared with 6.11% in the previous year. The related adjustments totalled 597 million, -7.06%, with coverage of 34.27% compared with 33.01% at the end of 2016. The reduction in total provisions is linked to the transfer to non-performing loans of positions with a high level of coverage.

Past due and/or impaired overdrawn exposures, other than non-performing or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 83 million, -62.61%, and represent 0.38% of total loans and receivables with customers compared with 1.03% in the previous year. The related adjustments amounted to 17 million, -52.70%.

In addition to the adjustment of impaired loans, provisions against

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/12/2017	31/12/2016	(+/-)	% change
Impaired loans	Gross exposure	4,108,807	4,252,881	-144,074	-3.39
	Adjustments	2,102,731	1,964,985	137,746	7.01
	Net exposure	2,006,076	2,287,896	-281,820	-12.32
– Non-performing loans	Gross exposure	2,267,984	2,051,538	216,446	10.55
	Adjustments	1,489,331	1,287,721	201,610	15.66
	Net exposure	778,653	763,817	14,836	1.94
– Unlikely to pay	Gross exposure	1,741,693	1,945,538	-203,845	-10.48
	Adjustments	596,792	642,153	-45,361	-7.06
	Net exposure	1,144,901	1,303,385	-158,484	-12.16
– Past due and/or impaired overdrawn	Gross exposure	99,130	255,805	-156,675	-61.25
	Adjustments	16,608	35,111	-18,503	-52.70
	Net exposure	82,522	220,694	-138,172	-62.61
Performing loans	Gross exposure	19,923,096	19,169,723	753,373	3.93
	Adjustments	110,144	125,708	-15,564	-12.38
	Net exposure	19,812,952	19,044,015	768,937	4.04
Total loans and receivables with customers	Gross exposure	24,031,903	23,422,604	609,299	2.60
	Adjustments	2,212,875	2,090,693	122,182	5.84
	Net exposure	21,819,028	21,331,911	487,117	2.28

performing loans totalled 110 million, -12.38%, representing coverage of 0.55% compared with 0.66% in the previous year. This reduction in coverage mainly correlates with the improvement in asset quality.

Adjustments totalled 2,213 million overall, +5.84%.

As required by Consob Communication no. DEM/RM11070007 of 5 August 2011, we note that loans to customers include loans to central and local government for 68 million, local or state-owned enterprises for 572 million and various other entities for 107 million.

TREASURY AND TRADING OPERATIONS

Stock markets

In 2017, the financial market scenario was characterized by relative stability, in a climate of increasing optimism among investors which lent support to international stock exchanges. This was the case despite various potentially critical issues, such as the increase in political risk in Europe (Brexit, elections in the Netherlands, France and Germany, the independence vote in Catalonia), accompanied on several occasions by an intensification of international political tensions (Middle East and North Korea). On the more strictly financial side, the scenario was dominated by expectations of a less expansive orientation on the part of the main central banks, the

Federal Reserve in particular, which then duly came about.

In the United States, equity markets continued to strengthen and reached new historical records in a context of extremely compressed volatility, thanks to the consolidation of economic growth and cautiousness in the monetary normalization process indicated by the Federal Reserve.

In Europe, the gradual attenuation of the risk linked to the electoral cycle, thanks to the prevalence of system forces, has been coupled with the increasingly consolidated and widespread economic recovery.

The annual performances of the main world stock markets reflect a situation that is marked by widespread growth: Euro Stoxx 50 index, +6.49%; MSCI World Index, +20.11%; Standard & Poor's 500 Index, +19.42%; Nikkei 225 index, +19.10%; FTSE Mib Index, +13.61%.

In 2017, the trend of international bond markets was punctuated by expectations of a less accommodating approach by the US and Eurozone central banks, in a context where the flow of macroeconomic data confirmed solid and synchronized global growth, without significant inflationary pressure.

The Federal Reserve proceeded with caution in its gradual tightening of monetary supply, making three official rate hikes of a quarter of a point each, interventions that have brought the rates on Fed Funds up to a range between 1.25% and 1.50%. On Treasuries, this resulted in a sharp rise in 2-year yields, which rose from 1.20% to 1.90% during the year. The impact on the medium-long term yields was lower: having fluctuated between 2% and 2.60%, 10-year rates closed December down with respect to the beginning of the year at 2.40%. Hence the marked trend for the curve to flatten, which is symptomatic of rather weak expectations regarding the strength of economic growth and long-term inflation.

In Europe, monetary policy was directed on an expansive path, with official rates stable at an all-time low of 0%, with those on overnight deposits at -0.40%; in addition, the bond purchasing plan (Quantitative Easing) continued for 60 billion per month until December 2017. At the October meeting, the ECB changed its policy to be less accommodating. In fact, it reduced the bond purchases to 30 billion a month («tapering») and at the same time extended the plan until September 2018. In this scenario, yields on the Eurozone markets showed modest upward pressure, confirming the anomaly represented by negative values on short and medium maturities.

In Germany, the 2-year rates have risen by around 20 cents (to -0.64%) and, similarly, on the 10-year maturity they have risen to 0.42% from 0.20%, after reaching a high for the year of around 0.60%.

As for Italy, after an initial phase of weakness linked to fears about the stability of the European Union, in the second part of the year BTPs tended to appreciate, benefiting from the continuous stimulation by the ECB and reflecting the improvement in the macro-economic scenario. At the end of October, Standard & Poor's decided to raise the rating on sovereign debt was taken from «BBB-» to «BBB», with a «stable» outlook. During this phase, 10-year yields fell to a low for 2017 in the 1.60% area and reduced the spread against the Bund to 130 points, the lowest point for over a year. The short-term segment of the curve has marked new historical records: enough to note that the 2-year rate has contracted to a minimum of -0.40%.

The last part of 2017 saw greater uncertainty taking shape, in view of a possible increase in political risk associated with the General Election in the spring. As a result, market pressures caused a sudden and marked rise in the interest rate curve, especially on the long term, which pushed the 10-year towards 2% and the spread to 160 cents.

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

Treasury operations, which drew on the abundant liquidity of the bank and the system (the latter helped by expansionary interventions of the ECB), were as intensive as ever. Lending transactions prevailed, with the same characteristics already highlighted in recent years, namely the use of very short deadlines (overnight, tomorrow-next and spot-next). During the year, the bank maintained an active position in the e-MID market, even if less than in 2016, with a massive preference for lending transactions. The volume of repurchase agreements on the MMF market was also high, benefiting from the guarantee of the Cassa di Compensazione e Garanzia, where, instead, it was funding operations that prevailed.

The net interbank position was 2,820 million negative at the end of 2017, compared with 510 million positive at 31 December 2016. The change is essentially due to the decision to take advantage of TLTRO II loans for 3,500 million, despite the fact that the liquidity situation was good. At the end of the year, there were two TLTRO II transactions outstanding with ECB, totalling 4,600 million, the first one was stipulated for 1,100 million on 23 June 2016 and maturing on 24 June 2020, with an early redemption option from 27 June 2018. The second one was stipulated in March 2017, for 3,500 million in order to take part in the last operation aimed at refinancing the TLTRO II programme by the ECB with maturity on 24 March 2021, with the target of stimulating the real economy, guaranteeing further liquidity to the banking system. These operations have accrued negative interest in favour of the Bank as the loans that we disbursed exceeded the threshold assigned by the ECB. Net of these TLTRO II operations, the balance would have been positive for 1,780 million.

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 acceptable to the ECB was substantial at all times.

The Bank's portfolios of financial assets at 31 December 2017 total 11,879 million, +49.65%. The hefty increase is mainly due to purchases of government securities (Italy, Spain and France) carried out throughout the year, especially in the second and fourth quarters of the year, also thanks to the abundant liquidity deriving from access to the TLTRO II refinancing facility. The following table summarises the various amounts involved and the percentage changes:

FINANCIAL ASSETS

(thousands of euro)	2017	2016	% change
Financial assets held for trading (HFT)	607,920	1,014,377	-40.07%
of which, derivatives	52,851	90,547	-41.63%
Financial assets carried at fair value (CFV - Carried at Fair Value)	351,054	163,116	115.22%
Available-for-sale financial assets (AFS - Available For Sale)	6,787,508	6,643,535	2.17%
Held-to-maturity investments (HTM - Held to Maturity)	4,132,572	117,023	–
Total	**11,879,054**	**7,938,051**	**49.65%**

As in the past, the portfolio mostly comprises domestic government securities, despite the sales especially of securities near to maturity. The year was characterized by intense purchases and sales, in line with the comparison period, with movements mainly involving the HFT and AFS portfolios and which, given the good performance of the markets, especially in the first part of the year, gave us a chance to sell securities, mainly Government bonds, with substantial gains on disposal/trading. At the same time, similar new securities with a limited duration were purchased. The ECB's expansionary monetary policy caused yields on public debt securities to fall to all-time lows, with negative or zero short-term yields, which suggested continuing the action taken the previous year to achieve higher yields. The duration of the portfolio has remained unchanged at around four years.

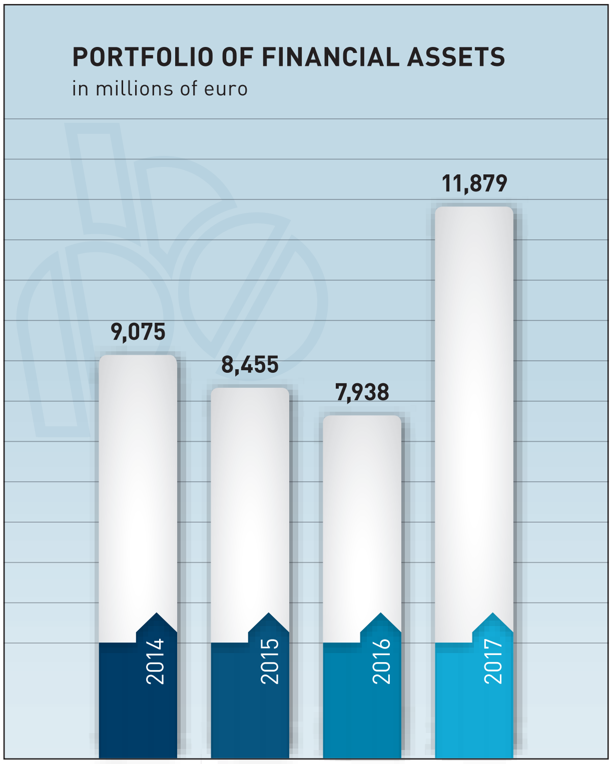
As required by Consob communication no. DEM/RM11070007 of 5 August 2011, we note that on 31 December 2017 these portfolios contained so-called «sovereign debt» bonds, issued by central governments, local governments and other government entities, totalling 10,564 million.

Financial assets held for trading

The disposal of financial assets held for trading (HFT) continued during the year. They amount to 608 million, down by 40.07%, and are shown in the following table.

(thousands of euro)	2017	2016	% change
Floating-rate Italian government securities	116,287	398,469	-70.82%
Fixed-rate Italian government securities	–	54,438	-100.00%
Bank bonds	118,390	197,623	-40,.09%
Bonds of other issuers	21,688	23,196	-6.50%
Bonds of other issuers in foreign currency (USD)	83,231	14	–
Securitisations	24,098	27,507	-12.39%
Variable-yield securities and mutual funds	191,375	222,583	-14.02%
Net book value of derivative contracts	52,851	90,547	-41.63%
Total	**607,920**	**1,014,377**	**-40.07%**

The composition of the HFT portfolio is simple and transparent. The sale of financial assets continued, especially of Italian government securities, within which the floating-rate component decreases to 116 million compared with a total of 453 million of fixed- and floating-rate securities in the comparison year (-74.32%), representing 19.13% of the portfolio, versus 44.65%.



Net trading income has increased significantly, while the more relaxed climate on financial markets limited the imbalance between gains and losses, even if the weakness of the dollar had a negative impact on securities in that currency.

The overall profit from managing the HFT portfolio was 37.930 million, compared with 12.589 million in 2016. The good performance of financial markets made it possible to realise substantial gains on disposal and foreign exchange. Analysing «net trading income», which totalled 4.715 million, fixed-yield securities made net trading profits of 3.806 million, capital gains of 1.571 million and losses of capital 0.118 million. In addition, we reached profits of 15.130 million and net losses of 15.674 million on variable-yield securities and mutual funds. In 2016, the following results were generated by the securities element of the portfolio: net profits of 3.556 million; unrealised gains of 5.190 million; unrealised losses of 27.234 million.

The result of the activity in foreign exchange and currencies rose sharply, reaching 25.021 from 21.740 million, as well as the result in derivatives, which rose from 8.553 to 15.252 million. The negative performance of the US dollar shows exchange differences of 7.058 million.

In detail, the HFT portfolio largely comprises variable-yield securities and mutual funds, which at 31.48% represent the largest portion, even though it is down by 14.02% to 192 million. As mentioned previously, there was a sharp reduction in Italian government securities, exclusively floating-rate, to 116 million, representing 19.13% of the portfolio. Corporate bonds in euro amount to 140 million, down by 81 million, of which 118 million relate to bank issues, mostly covered bonds. Then there are 83 million in US dollar bonds. Securities that are part of securitisations are all senior and have decreased to 24 million. Derivatives have fallen by 41.63% to 53 million and comprise: derivatives on debt securities and interest rates, 37 million; derivatives on variable-yield securities, stock indices, currency, gold and precious metals, 16 million.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (CFV) have more than doubled and come to 351 million on 163 million. The portfolio almost entirely relate to various types of funds and sicavs. The increase is essentially due to the fact that the new purchases of negotiable mutual funds have been included in this portfolio, rather than in the portfolio of available-for-sale assets, with the objective of a better allocation with a view to a new composition of the securities portfolios in anticipation of the entry into force of the new IFRS 9 in 2018.

Available-for-sale financial assets

Available-for-sale financial assets (AFS) total 6,788 million, +2.17%, with hefty fluctuations during the period due to sales and purchases which made it possible to achieve even better results than the previous year.

Among these, Italian government securities have increased by 0.33% to 5,458 million and represent the principal component, accompanied by fixed-income Spanish and French government securities, with a view to diversification. In accordance with the usual operational guidelines, this portfolio holds part of the liquidity invested, partly to replace similar securities within the HFT portfolio that are sold or redeemed. The objective is to contain, at least in part, the effect on the income statement of the volatility present in the financial markets. The bond component has been significantly increased with the purchase of fixed-income corporate and financial securities issued by banks.

Impairment tests were performed on those equity investments and mutual funds with negative valuation reserves resulting in the recognition in the income statement of writedowns based on the criteria used to identify permanent losses.

The changes included: purchases of debt securities of 8,994 million, relating to government securities and bonds; units in UCITS of 14 million and shares of 6 million; in addition, positive changes in fair value came to 39 million. Other increases of 153 million mainly relate to the recognition of trading profits, coupons, discounts and the period element of the amortised cost adjustment. Decreases included the disposal of fixed-yield securities of 8,748 million, equities of 1 million and mutual funds of 177 million. There were also negative fair value changes of 3 million and impairment adjustments of 35.811 million. Of these, 26.022 million related to the quotas held in Fondo Atlante, to which the bank is committed for up to 50 million. This fund was established to help stabilise the banking system and has intervened in the crises faced by Banca Popolare di Vicenza and Veneto Banca. A further 5.502 million reflects the writedown of the investment in Release spa, as well as the charge of 3.089 million related to the voluntary action by the IDPF in favour of CR Cesena, while the remainder related to other listed and unlisted shares and units in UCITS. Other decreases of 97 million related to coupons, the elimination of capital gains already recognised in equity, trading losses and the negative components of the amortised cost adjustment.

(in thousands of euro)	2017	2016	% change
Floating-rate Italian government securities	787,878	1,421,013	-44.56
Fixed-rate Italian government securities	4,669,642	4,018,660	16.20
Foreign government securities	784,532	815,246	-3.77
Bank bonds	347,549	23,283	–
Other bonds	57,798	32,039	80.40
Variable-yield securities	100,647	101,366	-0.71
Mutual funds in euro	39,462	231,928	-82.99
Total	**6,787,508**	**6,643,535**	**2.17**

Held-to-maturity investments

The portfolio of held-to-maturity investments (HTM) have increase considerably in the last part of the year reaching 4,133 million on 117 million. This was done as part of the re-composition of portfolios, particularly in the last quarter of the year, as mentioned previously. These are government securities with a duration of just over 4 years.

With regard to the contents of this portfolio, readers are reminded that the anomalous performance of the equity and bond markets in 2008 persuaded the Bank to take advantage of the amendment to IAS 39, issued by the International Accounting Standards Board (IASB) on 13 October 2008 and endorsed by the European Commission with Regulation (EC) 1004/2008 of 15 October 2008, which amended Regulation (EC) 1725/2003. In exceptional circumstances, this measure allows companies to disregard the ban on transferring financial assets (apart from derivatives) from the category of those designated at fair value through profit and loss to another category where securities are booked at amortised cost. As a result, we transferred from the HFT portfolio to the HTM portfolio unlisted bonds that were illiquid and not expected to be sold. These had a par value of 243 million and were carried at 233 million, whereas their fair value at 31 December 2008 was 193 million, generating a theoretical loss, prior to the tax effect, of 40 million.

At 31 December 2017, the above securities were almost entirely redeemed. The residual value comes to 3.817 million, with a fair value of 3.884 million.

Asset management

The extremely positive state of international markets has rewarded the asset management sector, with an increase in funding which has led to an expansion of total volumes of more than 2,000 billion for the whole country. The continuation of rates at all-time lows and the growing need of customers for an active and structured approach to financial investments contributed to this.

Our bank has confirmed its ability to compete actively in the specific market, with double-digit growth in assets under management, proving to be particularly active in the placement of PIR (Individual Savings Plans), which offer the subscriber the opportunity to enjoy significant tax advantages. The assets managed in various forms totalled 5,012 million at the end of 2017, up by 14.39% since 31 December 2016.

EQUITY INVESTMENTS

The portfolio of equity investments was essentially unchanged during the year. In addition to the other members of the Banking group, these investments principally relate to the suppliers of products and services that functionally support the commercial activities of the Bank. The following comments essentially relate to our subsidiaries.

Equity investments totalled 507 million at 31 December 2017, up by 19 million, +3.98%, due to the acquisition of the whole share capital of Banca della Nuova Terra spa and of Servizi Internazionali e Strutture Integrate 2000 S.r.l, as well as to the coverage of the losses incurred in 2016 by Pirovano Stelvio spa and the writedown of the interest in Bormio Golf spa.

Banca Popolare di Sondrio (SUISSE) SA (100%). This Swiss bank, based in Lugano, was founded in 1995.

In a highly competitive banking environment like Switzerland, our subsidiary has reaffirmed the validity of its strategic plan and the ability to respond effectively to requests coming from a rapidly changing market.

Profit has increased by 17.75% to CHF 14.209 million and is evidence of the ability of Banca Popolare di Sondrio (SUISSE) SA to operate in a profitable manner in favour of the economies of the various territories into which it has gradually expanded.

Total deposits showed a slight increase, +2.13%, to CHF 4,882 million, while direct deposits recorded CHF 3,009 million, -3.34%. Loans to customers totalled CHF 3,909 million (+4.98%), of which CHF 3,473 million (+6%) relate almost entirely to home mortgages.

The peripheral network, which has been subject to careful evaluation and reorganization to make our presence in the territory and our sales promotions more effective, saw the opening of the Martigny branch in the Canton of Valais.

Factorit spa (60.5%). The company operates in the factoring sector and finances and manages commercial, domestic and international loans and receivables, also with guarantees.

Consistent with the objectives for the year under review and the development of the approved five-year plan for the period 2017/2021, this subsidiary has focused on increasing volume and lending, without losing sight of the quality of the loans administered and the profitability of the portfolio managed.

In particular, commercial action involved focusing more on corporates and larger customers; expanding penetration in the area of trade receivables and tax credits due from the public administration; taking effective steps to develop the market for the production and distribution of energy; taking account of the territorial presence of the reference banking networks of the Parent Company, and concentrating commercial efforts on the economically more significant areas (Lombardy and Northern Italy in general).

Factorit ranks among the leading companies in the sector, being the 4th Italian operator (1st among its direct competitors, being the factors that belong to medium-sized banking groups), with a 5.98% share of turnover.

The year closed with a net profit of 15.1 million euro. The increase with respect to 2016 is due to the growth in volumes and lending activities.

Banca della Nuova Terra spa - BNT spa (100%). This bank is wholly owned from 8 September 2017, the date on which our Bank acquired the entire share capital and became the sole shareholder. The strategic and industrial objective of BNT within the Group is spread over two lines of parallel business: 1) exploit the experience already gained in years of activity in the agricultural world through the advances granted to farmers based on the contributions provided for by the Community Agricultural Policy (known as «CAP advances»); 2) become over time a «product factory» for the consumer credit sector, with particular reference to the assignment of a fifth of pension, assignment of a fifth of salary and payment delegation.

The organizational model adopted by BNT is extremely slim and in full synergy with the Parent Company's structures.

The year closed with a loss due to structural costs and the expenses involved in starting up the new business.

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

The 2017 season started positively, but then had to deal with extremely adverse weather conditions. The African anticyclone brought very high temperatures, which drastically reduced the snowpack, forcing the ski-lift company, SIFAS spa, to suspend operations from 6 to 25 August.

In this particular period, initiatives were proposed with a view to making the Stelvio National Park better known and appreciated, but this did not stem the heavy repercussions caused by closure of the glacier.

Although the situation returned to normal at the beginning of September, thanks to a providential snowfall of about forty centimetres, the negative trend for our investee company has continued, mainly due to misleading meteorological information, with financial statements that again closed in the red.

Now we look hopefully for the redemption of the Stelvio, which depends on the development of a plan to develop tourism in the area, led by the Lombardy Region and the Autonomous Province of Bolzano. ANAS is also working hard to lengthen the period when the road is open, which in 2017 lasted until the middle of December.

Pirovano Stelvio has always played a strategic role of primary importance in supporting the Stelvio area and now even more so, in light of the events that took place during the 2017 season.

Sinergia Seconda S.r.l (100%). Real estate company.

This subsidiary mostly provides operational support linked to the property requirements of the Bank and the Banking group. During the year under review, we would point out the expansion of operations aimed at enhancing the real estate assets that the company came into possession of as part of the management of the Parent Company's non-performing loans.

The properties held are mostly rented on market terms and conditions to members of the Banking group. Based on contractual agreements, Sinergia Seconda S.r.l also manages and maintains the rented units.

The company's results are positive.

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

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

As part of the programme of issuing covered bonds implemented by the bank in accordance with current regulations, to the extent of its responsibilities and consistently with its needs, this company manages the assets concerned as a safeguard for subscribers of the securities issued.

Its results reflect an essentially break-even situation.

Rajna Immobiliare S.r.l (50%). This property company is owned jointly with Credito Valtellinese.

It owns part of a condominium in central Sondrio, with a large area of ground floor space. The company leases most of this space, together with office equipment, to Equitalia Nord spa, a tax collection subsidiary of Equitalia spa.

The company's results are positive.

Related-party transactions

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

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

Related-party transactions, as identified in accordance with IAS 24 and the Consob Regulation, form part of the Bank's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred. These transactions amount to 10.10% of total loans to customers and banks and financial assets and 1.97% of direct deposits from customers and banks and financial liabilities.

In compliance with disclosure obligations prescribed in article 5 of the

Consob Regulation, during the period 1 January to 31 December 2017, the Bank's corporate bodies decided the following transactions of greatest significance:

– Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 10,000,000 repayable on demand; resolution of 16/02/2017;
– Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 5,000,000 repayable on demand; resolution of 17/03/2017;
– Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 80,000,000 repayable on demand; granting of a revolving facility for guarantees in favour of residents of € 5,000,000 repayable on demand; resolutions of 21/03/2017;
– Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 50,000,000 repayable on demand; resolution of 27/04/2017;
– Alba Leasing spa, associated company; granting of commercial guarantees given on behalf of residents of € 600,000 repayable on demand; renewal of lines of credit totalling € 447,878,702 repayable on demand; resolutions of 29/06/2017;
– Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 470,000,000 repayable on demand; renewal of lines of credit totalling € 2,850,100,000 repayable on demand; resolutions of 19/12/2017.

In addition, as part of the programme for the issue of covered bonds authorised by the Board of Directors in 2014 and updated in 2017, on 1 October 2017, the bank assigned to Popso Covered Bond S.r.l a portfolio of performing mortgages granted directly by the bank amounting to € 307 million.

No transactions with related parties in the period under review, whether of greater or lesser significance, have had a significant impact on the financial position or results of the Bank. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Bank's 2017 balance sheet or results with regard to the related-party transactions carried out during 2016; in any case none were atypical, unusual or not on market terms.

In relation to the Consob communication DEM/6064293 of 28 July 2006, we note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Bank's economic results and cash flows. The notes to the financial statements (Part H, «Transactions with related parties») a summary table also shows the credit facilities granted to and guarantees given on behalf of Directors, Statutory Auditors and the General Management, as required by article 136 of Legislative Decree 385 of 1 September 1993.

During 2017 and in the current year, no positions or transactions deriving from atypical or unusual operations have arisen. According to Consob Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those - not arising in the ordinary course of business - that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.

With regard to the remuneration paid by the bank and its subsidiaries and associates to Directors, Statutory Auditors, the General Manager and Managers with strategic responsibilities, and to their investments in the bank and its subsidiaries, reference is made to the compensation report prepared pursuant to art. 84 quater of the Consob Regulation issued in Decision 11971 dated 14 May 1999 and subsequent amendments.

REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE

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

INTERNATIONAL SERVICE

Our International Service has been working for years, indeed for decades, to help companies open up to foreign markets. It started to work in this sense when, for many operators - especially SMEs, but not only - the national borders constituted an insurmountable limit, a sort of Pillars of Hercules beyond which it was unthinkable to go.

Our action has been aimed at making the opportunities that exist in the international arena better known and understood, while giving a clear vision of the risks involved, so as to offer each client a realistic and effective representation of the key risks and opportunities.

It is worth noting that Italy is the world's tenth largest country in terms of imports and ninth largest in terms of exports, but there is plenty room for overseas sales to expand, both in historically important markets and in more recent and, in some respects, more promising ones. Exports are one of the main growth levers of the Italian economy, so it is necessary to exert the right pressure in order to exploit to the full the primacy that Italy has in terms of production flexibility, creativity, technical skills and human capital, without forgetting the various excellences produced by its important agri-food sector.

In order to facilitate and support the entrepreneurial decision to open up to foreign markets, we offer a range of qualified and effective products and services, a network of increasingly prestigious partners, a wealth of experience that is gradually being extended to new and more sophisticated areas, so that we can accompany companies, big or small, in their development. In this way, borders are no longer experienced as a limit, but as an opportunity for growth. An opportunity that in some cases has become a real necessity, especially since the globalised dimension of the economy and the higher level of competitive challenge require the ability to serve ever wider and more differentiated markets.

Our One-Stop Shop for Internationalization operates for these purposes and customers can refer to us to acquire knowledge and skills aimed at approaching foreign markets in a targeted and effective manner, as well as accessing personalized and professional banking and financial assistance services.

Numerous initiatives took place last year. Through a series of specialist conferences, we focused on the business opportunities for Italian companies in the various areas, also providing skills and knowledge to improve the presence in the e-commerce world, which has long become an indispensable solution to be added to the direct sale of goods and services. The MyBank system that we offer makes it possible to buy and sell online throughout the SEPA Area quickly and safely.

Training sessions have been organised by specialized professionals to encourage the formation of specific skills in the companies concerned. The topics covered were undoubtedly of interest: from company self-analysis for planning action in foreign markets in line with their real capabilities, to the protection of intellectual property, that is to say those «intangible assets» that represent the distinctive value of those who develop and produce goods and services with high added value.

Meetings with new qualified foreign counterparties have always been one of the most important and targeted development activities. Meetings in Italy with buyers from the food-and-wine sector have been joined by missions abroad dedicated to the most promising markets.

Taking advantage of the European Economic Interest Group «Coopération Bancaire pour l'Europe», for which we are reference associates, we have been able to offer all interested parties personalized information and assistance services on EU funding programmes; advice and support in reporting and presenting European projects; targeted analysis and reporting of national and international tenders. CBE-Geie's activities also include publishing, most recently dedicated to publications that facilitate access to European funding.

The offer of correspondent banking services has expanded, launching relationships with new banks that have contributed to the increase in intermediated payment flows and trade finance activities. At the end of 2017, we had agency relationships with over 1,800 banks and more than 120 reciprocal account relationships with institutions in 161 countries.

Renewal of the quality certification by the Certification Entity DNV for

Still Life, 1957
Oil on board, cm. 33 x 40

In still life nests the evocative germ that reality can assume in art.
Things become a trace of man. An evocative charge of the human, which gives them a sentimental temperature expressed by the artist through colour, is generated in their solitary and naked appearance. The chromatic relationships between things are transformed in this way into a modulation of feelings.
In Bianca's paintings, colour has a lightness and transparency that tends to dematerialise objects, that is, to look inside them and beyond them, as in this Still Life, where even when the tone of colour is strengthened, like in the big blue bottle, it does not lose its transparency. Transparent and uncertain, the colour remains in precarious and changing visual balance. It transcends, so to speak, and finally gives things a character of mere appearance, as if they were always about to disappear. In this way, Bianca's still life becomes an image of the precariousness of life and the world in general.

GIUSEPPE BIANCA
(Syracuse 1915 - Sondrio 1996)

Born in Syracuse in 1915, Bianca graduated in painting in 1938 at the Istituto Superiore d'Arte of Monza, where he was a pupil of Raffaele De Grada, Marino Marini and Pio Semeghini, who he would later consider his real maestro; he would always remain faithful to his teaching.
After the war, he settled in Sondrio where he taught at technical colleges, without ever abandoning his artistic activity, which he dedicated himself to, following his own stylistic itinerary, always close to chiarista poetics and an expressive delicacy that fully adhered to his human nature. A close collaborator, on the graphic side, of the publications of Mario Gianasso, the major cultural and editorial operator in the Valtellina of the Fifties and Sixties, Bianca was one of the protagonists of the renewal of Valtellina artistic life after World War II.
His research was mainly focused on the theme of "still life", of which he investigated, like Morandi, the infinite expressive variations on canvas and board with a poignant and extremely elegant sense of colour.
He died in Sondrio in 1966.

Sunset at Piona, 1977
Oil on canvas, cm. 38.5 x 48.5
Signed and dated on the lower right "FeliCattaneo '77"

FELICE CATTANEO

(Milan 1912 - Merate 1982)

Felice Cattaneo was born in Milan on 7 April 1912 in a family of industrialists. A lawyer, after World War II, he moved to Delebio in Valtellina, continuing to run the family business and at the same time devoting himself to his multifaceted passion as an artist. Already as a young man in Milan, he had shown excellent skills as a caricaturist, poet and satirical cartoonist. And it is, in fact, with six caricatures that, in 1951, he was to take part in the VIII Caricature Exhibition as part of the Antibiennale in Trieste, organised by the satirical newspaper Il Travaso. He began painting in the Forties, dedicating himself first to portraits and, after moving to Valtellina, almost exclusively to landscape painting.
After a first exhibition in Sondrio in 1950, he exhibited several times in Monza, Milan (1961), Pejo (1968) and Bergamo (1970). In 1975 he received the Grand Prize of the press at the "International Competition-Exhibition of Painting" in Milan and, in the same year, won the "Città di Vigevano" International Prize for painting.
Felice Cattaneo's painting is distinguished by the warm and melancholy tone of colour, by the soft lights that rain from cloudy skies at sunset, for the wide and expansive views of the natural landscape in which the lesson of French Impressionism re-elaborates in a poetically intimate key, opening more and more, in his last works, to the influences of European post-impressionism and a more free and imaginative use of colour.
He died in Merate on 15 April 1982.

In the spontaneous impressionistic vein of the best landscapes of Felice Cattaneo there are a moment of recollection, an atmosphere of suspension, a melancholy and contemplative gaze that translate the colours of nature into the spiritual chromatism of the eye and the soul. Here, the suggestive purple-pearly atmosphere of the whole has its centre in the luminous irradiation of the faint glow of the sky that stretches over the wide expanse of the lake, decomposing, with divisionistic brushstrokes, in the thousand, iridescent reflections on the water, up to the shore in the foreground.
Hit by evening light, the dark shadow of the boat emphasizes the solitude of nature and enhances the melancholy sentimental tone with its appeal to the man who, an almost invisible presence, has just gained the shore on the small boat docked, right, on the narrow tongue of earth.

the services that have had this recognition for years and extension of certification to new business areas represent the achievement of an important objective in terms of formal confirmation of the correct supervision of business activities. The analyses on customer satisfaction contribute to these very positive results.

Global Compact

By virtue of our «active» membership in the United Nations Global Compact project, we have communicated to the New York office the progress made in the field of protection of the ten universally recognized principles on human rights, labour, environment and the fight against corruption. The Bank's actions also include «Communication on Progress», i.e. the activities carried out to support our territory, to promote social and cultural initiatives, transparency in relations with customers, adoption and compliance with the corporate Code of Ethics.

COMMERCIAL SERVICES AND PROJECTS

On the facade of the building that houses the Bank's head office in Sondrio since 1882, there is a marble plaque that, with the synthesis typical of mountain people, lists the services offered to customers: «savings deposits, current accounts, loans and discounts, all banking operations ...». These are the basic products from which the commercial offer of our bank has developed for its customers to assist them in managing their businesses and savings.

Nowadays, as it is easy to understand, the effort that has to be made to meet the needs of the modern economy is much more complex, touching on themes and opportunities that are in continuous evolution. Our offices, with the precious help of specialized companies, including subsidiaries and affiliates, are constantly engaged in analysing the needs of the various counterparties, proposing new quality products, but without neglecting to update services that are already known and appreciated by users.

We would now like to tell you about our main initiatives during the year.

SCRIGNOInternet Banking

The use of SCRIGNOInternet Banking, our digital banking service, has shown a trend of constant growth. Our customers can access it from computers, tablets, smartphones (via a dedicated app) and the Apple Watch, whenever and wherever they want. SCRIGNO has various features for accessing information and issuing instructions, which allow customers to check their bank balances regularly and carry out a wide range of operations: from a SEPA bank transfer to an F24 payment; from pagoPA to CBILL; from topping up debit and phone cards and much more.

Comforted by our customers' satisfaction and to meet the changing needs of users, we began a review of SCRIGNO with a particular focus on the so-called «user experience». To do this, we listened to those who were willing to test new features before they were launched. We would like to thank them for their suggestions, as they allowed us to release a digital banking service not just modelled on our customers, but also by them.

SCRIGNOjiffy

At the same time, the SCRIGNOjiffy app was made available to digital customers. It allows them to send and receive money in real time, selecting the recipient from the address book of their smartphone. A service that moves with the times, to transfer small amounts without using cash!

A balanced commercial proposal allows us to offer the right answer to the different needs of savers. In an economy that is still somewhat fragile, a number of products were made available to customers during the year, combining the security of investments with adequate returns.

Arca Fondi SGR

Arca Fondi Sgr has distinguished itself by being one of the first asset management companies in Italy to introduce the new «PIR» funds (individual savings plans), which immediately attracted considerable interest among savers, also thanks to the tax advantages offered to subscribers. It has professionally updated and extended its range with the following new funds: «Arca Cedola Attiva 2022», «Arca Cedola Attiva II, III and IV», «Arca 2022 Reddito Multivalore XII», «Arca 2022 Reddito Multivalore Plus, Plus II and Plus III». Customers' interest was confirmed in 2017 also for Arca Previdenza, which represents the complementary pension solution of Arca Fondi Sgr.

Arca Vita

On the insurance front, the placement of policies written by Arca Vita and Arca Vita International has successfully continued. The range of products was extended in 2017 with Cromìa, a multi-line insurance solution that provides for the simultaneous presence of the Arca Vita Separate Management Oscars 100% and a basket of mutual funds put together by JP Morgan Funds and JP Morgan Investment Funds. The product combines the peculiarities of the revaluable solutions linked to separate management - such as the guarantee of capital and the consolidation of results - to the growth potential of financial markets that JP Morgan funds can express.

MULTIplus

In order to provide an «all-inclusive service» to customers, enabling them to understand immediately the cost of their current account and related services, we continued to offer the «MULTIplus» product successfully. This is a current account dedicated to individuals and families, with a completely flexible monthly charge determined dynamically, based on the products chosen by the customer and how they are used.

Our institutional website «popso.it» opens an attractive window onto our products and services, enabling users to browse in a modern environment that is easy to use, even by those with reduced capabilities and disabilities of various kinds.

Paying attention to the customer and satisfying their specific financial needs has been translated into new kinds of loans that we are now offering. Towards the end of 2017, the product catalogue was enriched by a new service called «Advance on End-of-Service Benefits». This is a credit line, reserved exclusively for retired public sector employees, which allows pensioners to obtain an advance on their accrued end-of-service benefits, pending deferred settlement by the pension institution.

RISK MANAGEMENT

The vicissitudes that often involve the financial services industry confirm the importance of correct risk assessment.

The action guidelines of our Bank continue to be aimed at optimizing the structure, methods and tools for monitoring risks, seeking constant advancement towards best practices. This is also in compliance with the recommendations of the Supervisory Authorities, who consider strong risk management as a stability factor for individual intermediaries and therefore for the system as a whole.

Risk control and management policies are integrated into the more general strategic guidelines; the planning of the entire business complies with them, aiming for prudent and balanced conduct of the various activities carried on. Thanks to an effective control system, the detection, measurement and management of all types of risk that the Bank deems relevant are ensured, with a view to pursuing a conscious form of governance.

The focal point of the system is the determination of the risk appetite (Risk Appetite Framework, RAF), a reference framework within which the risk objectives must be consistent with the company's strategies and pace of operations. In the event of deviations from the optimal risk profile caused by internal and context changes, the RAF provides the compass to redirect the route; in any case, the parameters for defining «risk appetite» are recalibrated annually, so as to adapt them, if necessary, in a dynamic way.

Internal processes for assessing the adequacy of the balance sheet (ICAAP, Internal Capital Adequacy Assessment Process) and liquidity conditions (ILAAP, Internal Liquidity Adequacy Assessment Process) allow us to perform a regular check-up of the financial health of our Bank and of the other companies that make up the Banking Group. The annual review of the «Recovery Plan» required by the European provisions on crisis resolution provides the means to pre-establish the necessary countermeasures if, in particularly bad situations, the Bank should find itself in difficulty.

The evolution of analysis techniques and measurement models makes it easier to identify hotbeds of risk, helping the dedicated structures to deal with them as quickly as possible. Significant advances in simulation and stress testing tools increase the Bank's ability to predict the consequences of adverse or unlikely events. Assiduous operational compliance checks, carried out «in the field» by the appropriate offices, ensure the functionality of operational processes and ascertain that organisational conduct is in line with the corporate values and respectful of the regulations, reminding the entire company of the culture of duty and of fairness in daily behaviour and decisions.

The past year has seen the consolidation of the organisational structures dedicated to risk management, with further reinforcement in second and third level control units and with the strengthening of intermediate managerial committees, occasions of collegial synthesis in which decision-making processes are carefully meditated on the basis of the presumable repercussions on risk profiles.

Timely and fluid circulation of information is also essential to keep the internal control functions up-to-date and, through them, to keep the corporate governance bodies informed about changes in risk exposure. In this regard, the initiatives aimed at rationalizing and strengthening periodic reporting on the risks assumed and the results of checks, especially the reports that go to top and middle management, are highly significant.

The evolution of the system of rules and controls on banking activity is still an ongoing process; this forces the banks being supervised to face an uncertain, complex and fragmented regulatory framework, whose concrete application does not comply with the principle of proportionality. Greater harmonisation of the regulatory scenario and a stabilisation at Community level are desirable.

Despite the uncertainties about how the regulations are likely to evolve, the internal risk management body, which is constantly kept up-to-date, is determined to keep pace with developments, incorporating the many innovations in methodologies, processes and regulations.

Credit and counterparty risks

The disposal of impaired loans - a particularly thorny issue especially for Italian banks - continues to represent one of the highest priorities for macro and micro-prudential supervision. Our attention, therefore, remains high on the issue of the management of «problem» loans, a legacy of the many years of recession. In this regard, a medium-term strategic plan was drawn up to handle past stocks of non-performing loans and limiting new inflows of loans from situations of impairment. We are now beginning to gather the first fruits of the huge amount of work that we have done in this area.

In the wake of the reinforcement measures already undertaken in previous years and in line with the strategic guidelines that we identified, the project initiatives aimed at improving the internal management of non-performing balances continued during the year by upgrading organisational and procedural structures, at the same time giving a boost to a series of actions designed to regularise positions considered «curable» and to maximise the recovery of those that have defaulted. Also in compliance with the guidelines set by the Supervisory Bodies, additional levers were identified to optimise supervision in terms of rules, processes and control instruments.

Multiple interventions were underway during the year and their timely completion made it possible to achieve - and even exceed - the targets set for the end of the year; various initiatives are still underway, in the pursuit of even more challenging objectives. The efforts made by both the line structures and by those with control duties has been extraordinary for quality and intensity.

A more evolved «operating machine» for the management of anomalous loans was launched and gradually brought up to speed. It is based on a greater specialisation of the monitoring processes by customer segments and types of interventions («Retail», «Corporate», «Large Corporate» and companies subject to debt restructuring) and is supported on a procedural level by a specially developed IT platform and an innovative set of criteria, methodologies and indicators for intercepting any signs of deterioration in advance and classifying problematic positions correctly from a risk point of view.

In this new management model, the involvement of the internal functions is combined with the intervention of selected external parties that we systematically use, under the supervision of the company personnel appointed for this purpose, to send out reminders and attempt to recover non-performing exposures. With a view to streamlining such duties, we have created a specific team to handle non-performing loans subject to derecognition from an accounting point of view. Still on the subject of non-performing loans, the release of new IT applications together with the digitisation of paper archives has raised efficiency in this area, also facilitating a more detailed knowledge of the portfolio.

In addition, the solutions adopted to guarantee an accurate revaluation of real estate appraisals linked to non-performing loans and those to safeguard a high degree of objectivity and adequacy of asset valuations by third-party operators have become even stricter, fostering independence also by alternating assignments.

The revision of the large body of policies and manuals governing these areas has gone hand-in-hand with the review of the technical and organisational structure of this sector.

Equally important is the progress on internal rating systems to make them methodologically more robust and better integrated into management processes, also with a view to using them in the context of so-called «advanced approaches» (AIRB, the Advanced Internal Rating-Based Approach) required by prudential regulations for the measurement of regulatory capital absorption for credit risk.

In addition to maintenance work on processing systems and the normal recalibration of risk parameters, internal models of PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) have been revised to comply with the change regulatory context, as well as to implement the recommendations received from the Supervisory Bodies as part of a constant, constructive dialogue with them.

The commitment to the project is choral and involves a lot of specialized team of methodologists and IT technicians, as well as personnel responsible for managing credit, whose experience contributes to the continuous running-in of models. Training and updating on the characteristics of rating systems, their evolution and their use in the field of lending processes is intensive as always, helped by the employees' high sensitivity to the issue. The infrastructures supporting the rating assignment cycle and the systems for data quality audits have been improved considerably; with a view to greater efficiency, the processes involved in risk assessments and a substantial part of the documentation has also been upgraded.

Lastly, a great deal of work has gone into the transition to IFRS 9. Various in-depth simulations have been carried out to analyse the effects of the new rules on the financial statement aggregates; we then proceeded to develop models and parameters for the new rules on measurement, classification and impairment introduced by the standard; we have worked hard to adapt internal processes and regulations, as well as procedural implementations, supported by an integrated IT platform.

Market risks

We can confirm our cautious approach to the assumption of risk linked to the portfolio of financial instruments consisting mainly of Italian public debt securities, integrated with a view to diversification by holdings of European government securities (Spanish and French, in particular); investments in fixed-yield securities of primary corporate and financial issuers make up the small balance.

Market risks are carefully monitored as usual with the support of a daily estimate of Value at Risk (VaR), which measures the extent to which the financial assets held in portfolio are exposed to risk, calculated also under extreme conditions. To this is correlated an articulated structure of internal limits and thresholds, which is split between instruments of the «trading portfolio» and those of the «banking portfolio», to ensure an organic and integrated control of the risk factors to which the Bank can expose itself through financial investments. This system went through a process of substantial renewal in 2017, having commenced the previous year and ended, with extensive changes, at the beginning of the current one, also to take into account the reformulated accounting portfolios resulting from the adoption of IFRS 9.

The maximum loss deemed tolerable on positions in financial instruments and foreign currency transactions, defined at board meetings, is compared daily with the potential exposure to risk in terms of VaR, as well as with the economic results - realised and realisable - on the securities held in portfolio. More specific thresholds have also been established, using the risk limits set at an aggregate level to create a hierarchy designed to flag the situation promptly in the event of significant deterioration in individual risk factors, such as exchange rate risk, price risk, etc., associated with the portfolios.

Separate treatment continues to be reserved for «sovereign risk», which, in the mapping of business risks, represents a separate category and, therefore, subject to dedicated monitoring, also considering the high proportion of Italian government securities to total assets.

Further improvements to the methodological structure were made to the stress test framework, which now has a wide range of scenarios for analysing portfolio sensitivity to certain variations (or «shocks») in risk factors, replicating particularly adverse market conditions, together with a strengthening of the checks made on the predictive capacity of the VaR model.

Interest-rate risk

Also with regard to interest rate risk, significant progress has been made in the monitoring systems in use, aimed at keeping under control the consequences that an unexpected change in market rates can potentially produce both on the economic value of the company and on the dynamics of the interest margin.

A new methodological approach was adopted to improve the way of handling the possibility of negative rate scenarios, which previously were not adequately dealt with in the models. The related IT developments have been implemented on the processing platforms, making it possible to integrate this approach also during the execution of systematic stress tests, carried out on a monthly basis.

The overall measurement system for interest rate risk is accompanied by a peculiar model of «sight items» - another particularly significant aggregate for our Bank - the financial characteristics of which were re-analysed during the year with the help of more refined statistical tools, which are better at assessing the persistence of deposits and loans, as well as the degree of reactivity of interest rates applied in response to fluctuations in market conditions.

The use of the quantitative framework - called «pre-payment» - is still valid with targeted innovations; through dedicated analyses, it helps to appreciate the risk exposure resulting from the possibility for customers to exercise the early repayment option on the loans granted to them.

Lastly, we perfected management of the explicit optional component in the maturing of floating rates to which a maximum (cap) or minimum (floor) contractual limit is imposed. This improvement now makes it possible to take options into consideration also for floating-rate transactions for which indexation is more complex.

The trend of appropriate exposure indicators to the interest rate risk of the Banking Group and its principal members is monitored on a monthly basis, preparing specific reports, recently enriched with new types of analysis.

During 2017, the entire monitoring system was subject to a thorough («deep-dive») investigation by the Joint Supervisory Team, which ended with substantial appreciation on the part of the Authority’s representatives.

Liquidity risk

Despite the abundant liquidity that is currently available, we need to prepare ourselves to face the risks that could arise in the event of changes in monetary policy, especially if there is a «crackdown» by the European Central Bank, ending the liquidity injections guaranteed by Quantitative Easing.

With regard to the controls over exposure to liquidity risk, carried out from both an operational and a supervisory standpoint, targeted improvements were again made this year in the techniques, methods and procedures adopted. The systems for carrying out periodic stress testing have also evolved, with the aim of further increasing its incisiveness and accuracy, in line with the best national and international standards.

Note that first and second level monitoring covers both the so-called «operational» liquidity position - based on the daily detection of cash flows typical of treasury operations and the so-called «structural» liquidity position, similar to the previous one, of potential flows obtainable from disinvestment of financial assets or their use in refinancing operations, with a view to maintaining a balance over time between funding and loans, with particular reference to longer-term ones.

In addition, in 2017 a complex system was set up to monitor intraday liquidity, aimed, on the one hand, to identify in real time the sources and applications of the company's liquidity and, on the other, to calculate the set of indicators prescribed by the Basel Committee on a monthly basis, the results of which should form the subject of new supervisory reports that are due to become fully operational during the current year.

Information is provided systematically to meetings of the ALM and Investments Committee, both for liquidity risk and, in an integrated perspective, for the previous financial risks (interest rate and market risks), by carrying out a preliminary analysis of the impact on the three risk profiles of changes in funding decisions and investment strategies.

Operational and IT risks

The operational risk management system is now well-established and provides for the identification and registration of the economic damage suffered as a result of loss events («Loss Data Collection»); it also provides for an understanding of the risk scenarios that the Bank could encounter in the normal course of business («Risk Self Assessment»), and is supported by the compilation of specific self-assessment questionnaires by experts. Both of these processes, carried out at Group level and accompanied by periodic quantitative measurement of the assumed and assumable risk, are useful in monitoring exposure to operational risk from both an historical and future perspective, as well as the identification of corrective actions and the preparation of safeguards to mitigate critical issues.

During the year, the approach to overseeing operational risk summarised here was subject to further improvements, in order to consolidate the existing methodological structure and strengthen, in terms of functionality, the IT equipment used in the census, estimation and analysis of risk phenomena. With regard to the measurement aspects, during the year the techniques for calculating risk exposure were perfected, by implementing a statistical model (known as «Operational VaR») based on the joint use of historical and prospective data, derived from the processes mentioned above.

On the basis of the annual analyses carried out by the dedicated functions at the SOSI and Security Department, initiatives have been launched and carried out to strengthen the safeguards for IT applications and the technological park, with the aim of preserving a situation of substantial adequacy of the «protection networks» against the multiple sources of IT risk. The investigation concerned governance of our IT systems, extending the focus to the outsourcing of IT activities, the related infrastructure and processing resources, the availability of know-how, skills and human resources, and the management of «IT accidents», i.e. events that could diminish the quality of the services provided, or even shut them down.

Regarding the evolution of threats related to the use of ICT services,

In the contrada, 1964
Oil on canvas, cm. 70 x 84
Signed on the lower right "BRACCHI"

The theme of the bridge crossed by a solitary figure is quite frequent in Bracchi. However, the figure is not anecdotal but enigmatic in character: in other words, it increases the subtly fearful and mysterious sense of the scene, interrupting its immobility. Bracchi does not tell a story, but he describes very precisely. The enlarged view of the street in the foreground, with the little drain on the left that accentuates the rustic tone of the scene, prepares our eye to curve onto the bridge along with the woman in pink. The closed and lowered perspective of the scene, in turn, focuses attention on the pink smear of her dress, adding a touch of suggestive elegance to the fresh clarity of the whole. The pink of the woman's dress rings like a smile in the grey and green tone of the scene and the colour here has more than ever that silky softness that, at the time, struck the great critic Somaré.

LUIGI BRACCHI
(Tirano 1892 - Milan 1978)

Having been born in Tirano, in the province of Sondrio, on 17 May 1892, Bracchi moved at the age of twenty to Milan, where he attended the Brera Academy and the atelier of the Brescian Giuseppe Ronchi, always remaining essentially a self-taught painter.

In the lively Milanese artistic environment of the 1930s, he became a friend of leading figures such as Aldo Carpi, Carlo Carrà, Achille Funi, Pietro Annigoni, Alberto Savinio and Edoardo Persico.

But Bracchi did not feel that anxiety for novelty and the need for new languages that was common to many artists of his generation. Although discontinuous in the results, his alpine landscapes, but above all his marinas and his portraits, are always kept within a measured realism that grants little to contemporary artistic trends, while still managing to express their own sober modernity. "His paintings – wrote Somaré in 1952 – are like freshly washed laundry, drawn cleanly, dressed in silky tempera, dripping with colours, they just smile at you."
He died in Milan in 1978.

The bridge of Combo
Oil on canvas, cm. 69.7 x 84
Signed on the lower right "BRACCHI"

This is one of the Valtellina painter's best landscapes. The bridge of Combo in Bormio is caught here at an unusual angle that serves as a pretext for a clear play of light and shadow. The dazzling spread of the bridge in the foreground seems to overturn the entire composition, but the powerful lines of the walls, which culminate in the two pretty pink niches that face the top of the bridge, lead your sight deep into the rough horizontal rhythm of the shady houses beyond the bridge, whose geometric outline of the roofs is repeated on top by that of the mountains in the background. The insertion of the small figure in black (a priest? an old peasant woman?) at the top of the bridge, breaks off, with a delicate note of humanity, the brusque clarity of the contrasts, but without attenuating the sunlit loneliness of the scene and the profound silence in which things are immersed, which give them a stillness and an almost metaphysical atmosphere.

we find the affirmation of the so-called «cyber risk», linked to the continuous refinement of fraud and attack techniques against the company's information systems. The Bank has continued to focus on such crimes in order to enhance prevention and the defensive measures taken. It should not be forgotten that data are the «fuel» of many banking processes and that hackers are rapidly refining their ability to perform acts of computer piracy, managing to violate even the most sophisticated and protected systems.

The usual annual comprehensive test of the Business Continuity plan was completed successfully at the end of November for the eleventh time.

The test covered the performance of critical processes at alternative locations, simulating such risk scenarios as the destruction of or inability to access facilities housing the operational units or critical equipment, as well as the non-availability of infrastructure and significant documentation. The checks also covered the virtualization of the user PC workstation and back-up power systems.

Similar checks covered the IT components involved in the «disaster recovery plan», to mitigate the risk of unavailability of critical IT systems. Tests were carried out successfully during the year, with periodic testing of data recovery and the verification of operations relating to the different components of the information system. These tests were also carried out together for the principal IT platforms used, involving the network equipment and dedicating particular attention to the performance of applications tests, as well as the traditional systems checks.

Reputation and money laundering risk

The bank is constantly engaged in the protection of its more important asset, namely its reputation; to this end, it adopts suitable measures to deal with the emergence or worsening of potentially damaging events that could undermine the corporate image and, in the event of their occurrence, it puts in place initiatives aimed at curbing possible negative repercussions.

The reputational risk management model is based on a preliminary activity involving the identification and collection of internal information sources (such as complaints from customers) and external news about potential risk scenarios and their subsequent evaluation in prospective terms, according to experience («Reputational Risk Assessment»).

This approach combines in a structured form the processing of information related to the corporate reputation with the examination of possible risk scenarios, allowing us to investigate the perception of the «company experts» involved in the assessment of the effectiveness and adequacy of existing safeguards, and hence to gather useful indications on possible precautionary measures to mitigate the risk.

Particular attention continues to be paid to the incisiveness of measures to combat money laundering, terrorist financing and, more generally, the «black economy», through a model of prevention in continuous adaptation, qualitatively articulated and calibrated according to risk, as also foreseen at European level.

With regard to the reinforcement initiatives taken, the controls over adequate verification, risk profiling, monitoring of the transactions carried out by customers and the abnormal use of cash were even more intensified in 2017. Special attention continues to be paid to the most problematic economic sectors and to transactions with counterparties resident in «countries at risk», being those subject to embargo or deemed not equivalent to EU countries in terms of their anti-money laundering regimes.

Staff awareness of the risks of money laundering and terrorism financing is constantly increasing at all levels thanks to regular training programmes.

Regulatory non-compliance risk

The continuous evolution of the mass of rules applicable to banks and the imperfect alignment that still characterises different regulations and practices make the work of intermediaries very difficult. In fact, they are required to constantly monitor regulatory updates and careful assess the impact of new instructions on the Company's organisation and operations.

Monitoring the risk related to non-compliance with the regulatory framework at our Company is ensured by the Compliance Unit, belonging - like the Risk Control office - to the second level of the internal control system. It features an operating model defined as «widespread compliance», a model designed in accordance with the supervisory instructions that assign to this function the oversight of the entire regulatory framework pertaining to the Bank's operations, with the exception of those areas that are the responsibility of other specialist control structures.

This operating model - introduced in 2016, then, after set-up and testing, used in practice the following year - highlighted functionality, effectiveness and operating efficiency, also because it is able to give the function a well-defined identity and role in both the central operating units and the control system.

This also helps the rational and orderly assignment of duties among functions responsible for internal controls, in a context of open dialogue and with a constant exchange of information.

In the year under review, the effectiveness of the compliance model was reflected in the significant increase in compliance checks carried out and in their depth of execution. For the first time, important segments were considered, such as the distribution of insurance products, outsourcing, health and safety in the workplace, and treasury services, which, together with those examined annually (especially concerning the «core» subjects of direct supervision by the Compliance Unit, such as the protection of consumers and the management of conflicts of interest) have allowed us to make an almost complete assessment of the regulatory areas subject to supervision. The increased operational intensity of the Unit also manifested itself in the development of the consulting activity, with particular reference to the opinions and compliance validations required by other structures of the Bank.

Adequacy of the system of internal controls

To evaluate the robustness of the controls over the risks and functionality of company processes; this is the mission entrusted to the Internal Audit function, directly reporting to the Board of Directors in order to preserve its autonomy and independence of action.

In 2017, continuing to support the qualitative and quantitative strengthening of skills, as well as the refinement of the methodologies used, the scope of the audit intervention was extended, affecting the other players in the control system and the operating segments deemed to be of particular relevance. In the Banking Group, the Internal Audit Department carried out investigations, also with the support of the equivalent functions operating at the subsidiaries, in order to ascertain whether corporate conduct was in line with the Parent Company's guidelines.

This audit activity was combined with the traditional inspection work carried out by this unit, through a dedicated team at the branch network and at head office; these are reconnaissance visits, either remote or on-site, aimed at testing the adequacy of the organisational structures, so that they are in constant harmony with the current regulatory framework and with company directives.

In addition, the Department also assisted and participated directly in the work of the Control and Risks Committee (part of the Board of Directors) and the Supervisory Body established pursuant to Decree 231/2001; frequent, constructive discussions were also held with exponents of the Supervisory Authority and the Statutory Auditors, often helped by the internal audit in carrying out their checks.

In addition to the overall risk management system, submitted to in-depth audit tests, specific attention was paid to the international payments sector and the credit sector, also because of the current economic situation; with respect to the latter, the processes of monitoring and administrative classification of positions and those of management of the so-called «transactions of greater relevance» were the object of interest.

Nor has the surveillance of corporate information systems decreased. This involves a specialist Internal Auditing unit (EDP Auditor) called to monitor aspects of increasing importance in the Information Technology area, with regard to so-called «cyber crimes», business continuity, outsourced activities and processes, security of ICT systems and, more generally, management of IT risks.

This overview of activities is completed by the valuation of administrative and accounting processes and regulatory compliance, particularly regulations designed to tackle money laundering and the financing of terrorism, investment services and those governing safety in the workplace.

Last but not least, the role of the Internal Audit Service with reference to the process aimed at obtaining regulatory validation for the use of rating systems is worthy of mention: in this context, the audit is responsible for checking - through the performance of qualitative and quantitative checks

- the consistency between the activities carried out and the regulatory provisions, independently assessing the main project areas and the regular progress of the various lines of intervention.

HUMAN RESOURCES

The bank and its staff, an inseparable combination that unites the Company at the service of its members and customers. It may seem a cliché, but it explains our identity in a nutshell and our role in the national banking scenario. A Bank made up of people, men and women who create value and guarantee cost-effective products and services.

The premise takes on a particular meaning in a constantly evolving world, where the search for innovative sales channels overshadows the value of the human component.

From our point of view, technology has to ensure execution of various tasks quickly and effectively, freeing up time and resources to develop deep and personalised relationships, in which the advisory element is intertwined with careful examination of the customer's needs. It is a vision that characterises us and finds daily feedback and appreciation.

Our Staff Service Department has the delicate task of selecting and enhancing employees, to ensure a harmonious development of the skills required in the various areas of operation. It is a complex commitment and we report below the most significant elements occurred in 2017.

At year end, the Bank employed 2,702 persons - up by 26, +0.97% - of whom 77% work in the branch network and the other 23% at the central offices.

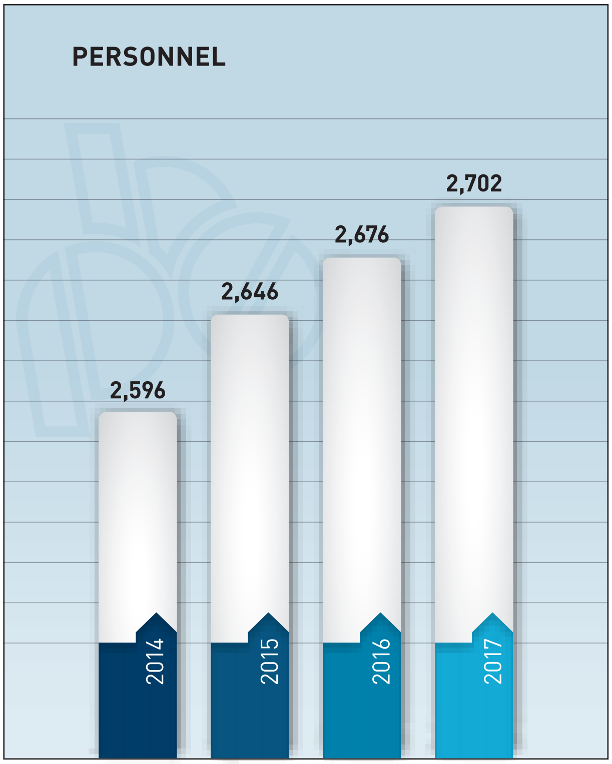
The average age of our employees, 40 years and 9 months, and their average length of service, 16 years and 7 months, have increased by 6 and 4 months respectively.

The demanding selection activity is carried out according to consolidated processes, constantly updated, which aim to identify resources that meet the needs of the company, particularly those for qualified specialist roles.

On the other hand, the evolution in progress in the credit sector, the new distribution channels, the diversified and innovative needs of the clientele impose on those on the other side of the counter to consider that the counter itself is destined to evolve and change deeply. Hence the need for training and a constant updating of professional skills, taking into account the new environmental, competitive and regulatory contexts, and designed, among other things, to enhance the ability to manage customers in a commercial perspective.

Training is carried out through classroom courses and multimedia channels. In 2017, the first one involved 1,799 co-workers, for a total of 42,749 man hours, while the second one involved 2,097 employees, for a total of 51,505 man hours.

The issues to which particular attention has been paid are courses on



sector regulations, such as anti-money laundering, MiFID II, insurance intermediation and mortgage loans to consumers.

Training in this last area was also directed towards obtaining the related sales licence pursuant to Isvap (now Ivass) Regulation 5 dated 16 October 2006.

Classroom training was preferred for lending operations (the initial investigation, guarantees, the management and control of credit granted, the analysis of businesses in difficulty) and NPL (non-performing loans); the provision of treasury services; the management of after-sales activity in the area of investment advice.

The multimedia courses tend to focus on such subjects as privacy, transparency, compliance, the culture and governance of risks and anti-money laundering. During the year, 192 new recruits received basic training. Again via a combination of classroom and multimedia courses, they completed sessions on various topics, such as governance of the employment relationship, branch activities, safety at work, banking regulations and techniques, bank products and services, introduction to lending, the securities markets and international business.

The important collaboration with technical schools and universities active in the territories served by the bank enabled 226 students to complete internships at our branches and central offices.

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

PROMOTIONAL AND CULTURAL ACTIVITIES

By its very nature as a cooperative credit institution, our Bank has always given special attention to the areas where it operates and to the people living there, without ever isolating ourselves from the local context. We want to know in depth the environment in which we work so that we can fully evaluate it and actively participate in its development and the well-being of the families that live there.

For this purpose, «BPS» interacts on a daily basis with local communities and usually carries out initiatives, at central and peripheral level, aimed at making ourselves known, informing the public about our products and services, and about the methods and purposes of what we do. We acted in this way in 2017 as well and it is a habit that we intend to continue. To do this, we made use of informative material, publications, brochures, calendars, etc., where often the writings are accompanied by illustrations and/or photographs that immortalise landscapes, mostly mountainous, very familiar to us for business functions, and so on. We have promoted meetings and seminars at various levels. Our premises have been made available free of charge to those who ask for them (independently of the way of thinking of the persons concerned and the topics to be discussed), to allow reunions, meetings, debates in suitable spaces.

The cultural initiatives that we have organised out in 2017 form part of the dialogue with the territory and listening to its needs, trying in our small way to make up for quantity by quality.

Il Notiziario, our newsletter, the first issue of which dates back to 1973, is an elegant four-monthly issue, also known overseas, where articles are published on the most disparate topics, with authoritative signatures of economists, journalists, jurists, prelates, doctors, writers... The magazine has enjoyed the usual success with its many readers and is continuing on this path, which encourages us to continue publishing it.

The tradition of enriching our financial statements with cultural tips has been maintained. It is an unusual feature for credit institutions. The 2016 Annual Report of the subsidiary BPS (SUISSE) SA included a substantial monograph on the internationally renowned artist of the seventeenth century Francesco Borromini, Swiss from Bissone near Lugano, whose monumental work - particularly in Rome, where he is buried - remains an effective example of solemnity, good taste and creativity. Paolo Punzo, a painter from Bergamo of the twentieth century, is the artist that featured in the Parent Company's 2016 financial statements with the inclusion of interesting writings and illustrations among the arid numbers. This singular master of the brush, who was very fond of the mountain environment, above all that of the province of Sondrio where he stayed for long periods, painted landscapes of great value. His vast work also includes marine and urban landscapes, floral subjects, etc. His important paintings are part of our art collection, which can be viewed online on our website.

On the occasion of the annual meeting held on 29 April 2017, the members in attendance were presented with a book entitled «Food, History and Recipes», a publication that recalls food in times gone by in the province of Sondrio: essential, frugal food, with its intense flavour and ancient aromas, bear witness to the simplicity and frugality of people back then. Types of food that were gradually abandoned, wholly or in part, during the economic boom of the 1960s and replaced with foods normally consumed in other regions and with innovations proposed by the food industry through incessant advertising. The ancient recipes have remained for years buried under the ashes and today they are being dusted off, rediscovered and rightly appreciated. This is revenge indeed!

As for our conferences, the one by Carlo Cottarelli, executive director of the International Monetary Fund, on the subject of the enormous, anomalous Italian sovereign debt, which was held at the beginning of February 2017 at the corporate headquarters, was followed by a large and competent audience. The conference held on 13 October by Professor Franco Anelli, rector of the Università Cattolica del Sacro Cuore of Milan, on the current, delicate, important topic of the university's future, achieved similar success. «Invitation to the Palace» is an ABI initiative planned and carried out years ago and intended to grant access to the public on the first Saturday of October to see the many works of art that are owned by the banks. The XVI edition of the initiative took place on 7 October, and our bank, which has always taken part in this initiative, achieved the hoped-for success. The rooms opened for the occasion were visited with interest and admiration, that is those of the central office (piazza Garibaldi - Sondrio), the Carlo Donegani museum, next to our Stelvio Pass branch, and the Luigi Credaro library owned by us. They are spaces adorned with works of art, historical artifacts, important books and correspondence of various kinds. During the course of 2017, the Luigi Credaro library was enriched with valuable books acquired or offered by various people in a spirit of commendable generosity. In this regard, it is worth mentioning the donation by ABI of 19 thousand volumes, which collect a large number of national and international publications. Also worthy of mention is the donation of significant documentation, which belonged to the late Sandro Sozzani, a prominent political figure in Valtellina, a capable administrator of public affairs and several times mayor of Sondalo.

The 93rd World Savings Day was held at the Policampus of the capital of Valtellina, in the presence of several hundred final year students from schools in the province of Sondrio and their teachers, in solemn memory of motorcycle champion Marco Simoncelli, who died tragically on 23 October 2011 during the Malaysian Grand Prix. It is well-known that saving money, like practising sport, even if on different levels and in different measures, involves commitment and sacrifice. In return, it gives satisfaction and peace of mind to the saver, and is indispensable for the development of companies and for the real economy, which in turn create work and employment, with positive results.

The «Sixth meeting with Nobel Laureates for Literature», a prestigious cultural event, was held in Bormio at the Thermal Baths near the year-end. It was promoted by our Bank together with the local Cultural Commission of the Municipality of the Upper Valley. The meeting was dedicated to the well-known worldwide novel «Dr. Zhivago» written by Boris Pasternak, Russian writer and poet of great fame.

«Ski and Mountain University» identifies itself in the very comfortable and equipped hotel complex of our subsidiary Pirovano at the Stelvio Pass, frequented in summer by holidaymakers sporting or otherwise, eager to spend long relaxing and enjoyable days, away from noise and tensions, also with skis on their feet. It is also a hotel where sporting events are held every summer.

Up there in June, the first edition of the «Stelvio Marathon» took place, with seven hundred athletes competing. It was successfully organised by the «ASV Stelvio Marathon» of Prato allo Stelvio. In July it was the turn of the XIII edition of «Mapei Day», an event involving about 2,500 participants, promoted and planned by Mapei in collaboration with

Pirovano. Numerous athletes from various disciplines (ski-roll athletes, cyclists and runners, both amateur and non-amateur) have reached the Pass. Two other events worthy of mention are: the «Pirovano Interbank Meeting» and the related ski race on 20 October, which took place in the name of healthy and fair competition, in which «competitive friends», representatives of 13 banks, including Popolare di Sondrio participated; the «XVI Pirovano Interbank Trophy» of 21 October, open to all members of FISI, young, senior, male and female master classes. Fifteen banks and thirty-eight ski clubs signed up. Not only sports events, but also conferences, meetings and various cultural initiatives.

Among the many charitable interventions, the Bank, as usual, has not forgotten those who suffer and has given contributions to subsidise cases of serious human distress. Furthermore, as a result of the Solidarity Current Account, it has allocated sums to AISLA, UNICEF, AVIS, AIRC and ADMO.

Many congratulations to the Bank Club that is active in the organisation of cultural, touristic and sporting activities.

EQUITY

Inclusive of the valuation reserves and profit for the year, shareholders' equity at 31 December 2017 amounts to 2,426.949 million, with an increase of 92.163 million, +3.95% because of the profit for the year, net of the distribution of the 2016 dividends, the valuation reserves have slightly increased.

The share capital, which consists of 453,385,777 ordinary shares with a par value of 3 euro, amounts to 1,360.157 million, unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million.

The line item reserves rose to 856.065 million, +6.54%, due to the allocation of a significant portion of the 2016 profit for the year. In this regard, note that the Parent Company's Shareholders' Meeting of 29 April 2017 approved the result for 2016 and the proposed distribution of a dividend of 0.06 euro for each of the 453,385,777 shares outstanding at 31 December 2016.

The valuation reserves, representing the net unrealised gains and losses recorded on AFS financial assets and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a net positive balance of 38.643 million, up 3.44% from the positive balance of 37.357 million reported at the end of 2016. Even if the amount has not changed a lot, it should be noted that there were substantial negative changes deriving from reversals to the income statement following the sale of securities in the AFS portfolio. As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force pursuant to Regulation (EU) no. 575/2013 (CRR) and EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios that, when fully implemented (January 2019), will be 7% for the CET1 Ratio,

***Rural landscape in Valmalenco*, 1962**
Oil on canvas, cm. 60 x 50
Dated and signed at the bottom right "'62 Benetti"

«To find synthesis in a blotch of colour, to discover the essence of form». This is what Benetti wrote in 1982 in an autobiographical note. And this idea seems to inspire the landscape of this painting. In the rural landscape of Valmalenco, certainly one of the most popular valleys frequented by the Trentino artist, Benetti cuts out this detail, transforming it into a pictorial pattern through subtle variations of tone ranging from green to brown.

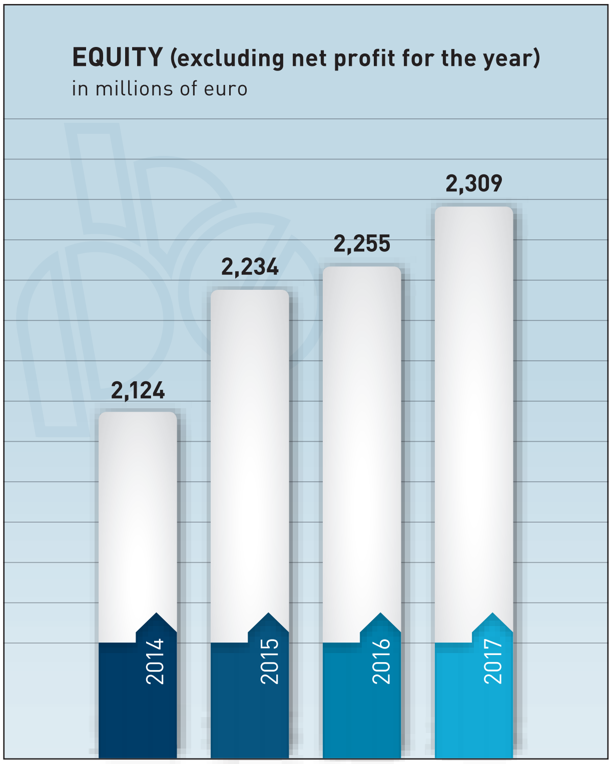
The roofs of the peasant houses rise with ascending geometric rhythm within the yellow-green gradations of the meadows and the green smudge of the forest. The frontal light of the sun draws the mosaic of shadow and light in the vegetation and on the houses, in a precise counterpoint of nature and signs of man. In the summer silence and in the warm tones of the whole, this harmonious fusion of man and nature takes place, not without a note of melancholy, often inherent in the representation of traditional Alpine rural landscape and that of Valtellina in particular.

Houses in Gatti (Triangia), 1975
Oil on canvas, cm. 60 x 120

LIVIO BENETTI
(Trento 1915 - Sondrio 1987)

Livio Benetti was born in Trento in 1915, but his artistic training took place largely in Florence, where he graduated in 1933 at the Liceo Artistico and attended courses in sculpture that continued at the Academy of Venice. It was here that the awareness of the importance of colour matured and he was passionate about Impressionism and French artistic culture. In 1937 he took the chair of drawing and began teaching at the Istituto Magistrale in Sondrio where he moved permanently in 1940, becoming one of the points of reference for the artistic and cultural life of the city.
To the activity of sculptor in Sondrio he also added that of painter, especially of portraits and landscapes, with which he soon gained wide popularity, also because Benetti, a Catholic artist who assigned an eminently civil function to art, succeeded in adapting his own language, naturally brought to the forefront, to the more traditional taste of the provincial public, giving life to a style of pleasant and measured modernity.
His portraits, his flowers, his landscapes of rural Valtellina where he lived, the idea of the close relationship between man and nature, his urban landscapes that capture the first signs of the social modernity of the province, contribute to shaping the provincial artistic imaginary. In the same way, his mosaics and his great sculptures on the themes of Valtellina's history and work, together with the numerous monuments to the Fallen and the Resistance, become part of the urban design of Valtellina's main towns.
He died on 10 January 1987 in Sondrio, at his home in Masegra.

In the landscape production of Benetti of the Sixties and Seventies, worth noting is this beautiful view of Triangia, a small hamlet on the Rhaetian side of the vineyards, just above Sondrio.
The houses of this contrada, arranged in a semicircle along the entire horizontal development of the composition, seem to extend and offer their chest to the sun with their colourful façades on which the windows traced with white lime seem to be eyes wide open in the light of a summer day.
It is a corner of rural Valtellina that has something Mediterranean in the same vegetation in the foreground, if the architecture of the roofs and the short ridge between the Rolla and Monte Canale, outlined behind the village, did not remind us of the alpine nature of the place.
The magnificent group of houses has such a descriptive and evocative force that the small human presences that punctuate the painting – the shepherd with the cows on the right, the two "regiüre" on the left – are lost in the whole, where they are, in the end, superfluous caricaturist additions.



8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio; these coefficients are lower in 2017 and 2018, during the transition phase.

In December 2016, as part of its powers, the ECB informed the bank about the decision of the Supervisory Board on the new minimum ratios for 2017 applicable from 1 January. The minimum capital ratios to be met by our group are indicated below:

– a minimum requirement of Common Equity Tier 1 ratio of 7.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.5%), the Capital Conservation Buffer (1.25%), and an additional Second Pillar requirement (1.5%);

– Total Capital ratio of 10.75%, being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (1.25%) and an additional Pillar 2 requirement (1.5%).

While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank. A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, was added to the two ratios in 2017. 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.

On 28 November 2017, at the end of the annual Supervisory Review and Evaluation Process (SREP) carried out in 2017, the European Central Bank notified to the Bank the new decision prudential minimum requirements to be complied with at consolidated level. The minimum capital ratios to be met by our Banking group for 2018 relate to:

– a minimum requirement of Common Equity Tier 1 ratio of 8.375%, calculated as the sum of the First Pillar regulatory minimum requirement (4.5%), the Capital Conservation Buffer (1.875%), and an additional Second Pillar requirement (2%);

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

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,106.272 million at 31 December 2017.

Set out below are the Group's adequacy requirements at 31 December 2017 and the minimum requirements:

	Capital ratios (%)	Group: Minimum capital ratio requirement
CET 1 Ratio	11.60%	7.25%
Tier 1 Capital Ratio	11.63%	7.25%*
Total Capital Ratio	**13.66%**	**10.75%***

* minimum requirements.

In accordance with the provisions of the ESMA document no. 725/2012 (European Securities and Markets Authority), which originated from the observation that the market value of various listed companies was lower than their book value, the Bank carried out an impairment test on the entire structure. The results of this test showed that the Group was worth 3,972 million, 1,293 million more than its consolidated equity, which amounted to 2,679 million. Further details are provided in Part F «Information on equity» of the notes.

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2016:

– *capital/direct funding from customers*
  8.36% v. 8.34%

– *capital/customer loans*
  11,12% v. 10,95%

– *capital/financial assets*
  20,43% v. 29,41%

– *capital/total assets*
  6,38% v. 6,95%

– *Net non-performing loans/capital*
  32,08% v. 32,71%

IFRS 9: impacts of the new standard

With reference to the entry into force of IFRS 9 on financial instruments, the Bank will have to apply the new requirements from 1 January 2018, restating the prior year figures and recording the effect of the transition in equity. We report them below; instead, reference should be made to Part A «Accounting Policies» of the notes for the methodological details of IFRS 9 and an explanation of how it was implemented.

Classification and Measurement

Following the decisions taken, which also involved Top Management, the Company did not make any significant reclassifications of financial instruments according to their accounting category. In detail, the bulk of the portfolio recorded at amortised cost will continue to be accounted for in this way, whereas, a marginal portion of financial instruments (held to maturity and loans and receivables) will be subject to a change in the accounting treatment, passing from the amortised cost to the fair value through profit and loss method.

More specifically, the mutual fund units, closed-end funds and open-end funds, if not «held for trading», are reclassified as financial assets that have to be measured at fair value through profit or loss, also as a result of in-depth analyses and accounting interpretations made at national and international level.

Within the securities portfolio, the debt instruments previously classified as «held to maturity» have been traced back to the portfolio of financial assets valued at amortised cost, with the exception of those securities which, not passing the SPPI test, have been traced back to the portfolio of financial assets that have to be measured at fair value through profit or loss.

Debt securities previously classified as «available for sale» have been included in the «held to collect and sell» business model, and therefore put in the portfolio of financial assets valued at fair value through profit or loss with an impact on comprehensive income, except for certain bonds that are included in the portfolio valued at amortised cost.

The portfolio of financial assets valued at fair value through profit or loss with an impact on comprehensive income also includes the majority of debt securities previously classified in the «held-for-trading» portfolio, always subject to passing the SPPI test. For most of the variable-yield securities already classified in the AFS portfolio, the «Fair Value OCI Option» was chosen.

Held-for-trading financial assets include debt securities denominated in foreign currencies, as well as variable-yield securities and mutual funds units held for trading.

The portfolio of assets measured at fair value according to IAS 39 was entirely reclassified, given that the new standard limits the cases and possibilities for exercising the «Fair Value Option», it was decided not to exercise it for now.

The portfolio of financial assets that have to be measured at fair value through profit or loss includes some securitisations, in addition to the financial assets already mentioned previously and the debt instruments that have not passed the SPPI test.

Given this new composition of the securities portfolio, on first-time adoption, there are no material quantitative effects as a result of this change in accounting measurement that might have significant impacts on book equity and on the indicators of capital adequacy.

The financial instruments belonging to the loan portfolio are almost entirely classified in the «Held to collect» business model and, therefore, valued at amortised cost; an exception is a non-significant portion of financial instruments which, following failure to pass the SPPI test, have been reclassified in financial assets measured at fair value through profit or loss.

The percentage of financial instruments on the entire loan portfolio that did not pass the SPPI test was not significant, standing at around 1%. The cases of failure to pass the test concern:

- products with standard contractual features, but which do not provide for an adequate remuneration of credit risk;
- financial instruments that present an imperfect relationship between the rate applied and the frequency with which it is set, or other financial characteristics that show significant differences in the cash flows produced by the instrument in portfolio compared with a hypothetical one of reference («benchmark test»);
- financial instruments linked to restructuring operations or loans with contractual clauses limiting credit rights or options that introduce elements of remuneration other than credit risk.

In consistency with IAS 39, financial liabilities have not been reclassified. Cash payables and direct deposits in the form of securities have been reclassified to financial liabilities valued at amortised cost. Financial liabilities measured at fair value are not accounted for, as they were not valued under the IAS 39 regime. In turn, derivative contracts have not undergone reclassification effects, nor effects linked to the different measurement.

Impairment

On the other hand, as regards the effects deriving from the new impairment model envisaged by IFRS 9, there has been an increase in adjustments to total performing exposures with respect to the equivalent IAS 39 figures.

This is attributable to the substantial elements of novelty introduced by the accounting standard, related to the following areas:

- the time horizon considered for the calculation of impairment;
- the introduction of forward-looking elements in the estimate of adjustments;
- stage segmentation of the financial assets in portfolio;
- change in the perimeter subject to impairment with respect to IAS 39.

With reference to non-performing financial assets (classified in stage 3), the increase in adjustments is mainly due to the inclusion in the valuation process of forward-looking factors introduced by IFRS 9, in this case essentially related to hypothetical transfer scenarios based on objectives and forecasts assumed as part of the NPL Strategy, which is currently being reformulated.

The implementation of these new requirements and the reclassification of financial instruments have implied an overall rise in adjustments to the total portfolio and will entail the recognition of a negative equity reserve initially estimated at approximately 48 million, net of the tax effect and a negative impact on the fully phased CET1 ratio estimated at around 20 basis points, but which still remains around 11.7%.

In any case, the Bank decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their class 1 primary capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of the new standard. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 95% in 2018 to 25% in 2022, until it is completely eliminated in 2023. The expected impact on capital ratios calculated under the transitional (or «phase in») rules is therefore more limited.

Financial reporting will include the application of IFRS 9 from the first quarter of 2018. On this occasion, more detailed information will be provided on changes in the balance sheet figures and economic results, specifying those involved in the transition to the new standard, in accordance with the IAS-IFRS rules on disclosure.

BPS STOCK

BPS stock is listed on the Mercato Telematico Azionario (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed 2017 with a negative performance of 2.69%, marking a reference price at 29 December of 3.044 euro, compared with 3.128 euro at the end of 2016. The general FTSE Italia All-Share index recorded an increase of 15.55% on the year, whereas the FTSE Italia All-Share Banks sector index progressed by 14.90%.

The average daily volume of securities traded on the MTA market of Borsa Italiana in the year was 652 thousand, down from 829 thousand in 2016.

As regards the treasury shares held in own securities, the balance at 31 December 2017 was equal to 3,650,000 shares, for a book value of 25.322 million, unchanged on the end of 2016, as no purchases or sales were made.

The shareholder base consists of 175,547 shareholders at 31 December 2017 and has decreased by 7,250 with respect to the prior year.

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

BANCA POPOLARE DI SONDRIO stock – MTA segment of Borsa Italiana

Source: THOMSON REUTERS

RATINGS

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

These ratings refer to the date of update of the assessments by Dagong Europe Credit Rating on 16 February 2017 and to the periodic review by Fitch Ratings on 20 June 2017. Fitch's assessment differs from its previous one due to a downward revision of the long term outlook (previously BBB), which reflected the downgrade assigned to Italy and the improvement of the outlook from negative to stable.

FITCH RATINGS – issued on 20 June 2017

	RATING
LONG – TERM	
It is a measure of the probability of default and reflects the bank's ability to repay medium/long-term loans. It is expressed on a scale from AAA to D, for a total of 11 levels.	**BBB-**
SHORT – TERM	
It measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within the next 13 months. The scale includes seven levels (F1, F2, F3, B, C, RD and D).	**F3**
VIABILITY RATING	
It aims to assess what the bank's situation would be if it were completely independent and could not rely on external support. It is expressed on a scale from aaa to d for a total of 11 levels.	**bbb-**

Letter to the **Shareholders**

Our **Shareholders**

On the streets of Caspoggio
Oil on board, cm. 40 x 29.5
Signed on the lower right "Francesco Carini"

A rustic glimpse of the town of Caspoggio dominated by the mighty cusp of the Scalino in the background. Here, Carini obtains the magnificent effect of the local tone by juxtaposing the white spatula of the walls with the dark alternation of the roofs in a geometric and very modern interlocking of indefinite chromaticisms in the vertical rhythm, in ascending blocks, of the houses.
Human presence soon disappears in Carini's landscapes. To speak are above all things, nature and signs of human life, within which the artist seeks the pictorial motif able to make the essence more intimate.
A small detail is enough, after all, to emotionally ignite the whole. Here, for example, it is the water of the fountain in the foreground, which resounds in silence better than any human presence.
And it is precisely this silence that removes any patina of sentimental rhetoric from the representation.
The charm of the rough rusticity and the silent poetry of the scene emerge almost exclusively from the constructive strength and impassibility of colour, which, for Carini, must first of all be artistically true, to be naturally true.

FRANCESCO CARINI
(Castelnuovo Bocca d'Adda 1883-1959)

Born in Castelnuovo Bocca d'Adda, then in the province of Milan, in 1883, Francesco Carini was a student in the Lombardy capital of the painter Giuseppe Palanti, teacher at the Reale Accademia di Belle Arti and from 1923 at the School of Decoration in Brera.
A regular visitor to Valmalenco (Sondrio), he finally settled in Caspoggio, re-adapting an old house, whose furniture and the fountain in the garden were designed and made by him personally.
Rural Valmalenco, and the Caspoggio area in particular, therefore became his main landscape subject.
During the Forties, he held several personal exhibitions in Milan, at the Galleria Balzani in 1943, at the Galleria Internazionale in 1949 and at the Galleria Gavioli, again in 1949.
The work of Carini – still rarely studied – constitutes from the beginning an attempt to develop the tradition of Lombard naturalist realism of the second half of the nineteenth century. But during the Fifties, it opens up to surprising developments in a modern key, thanks above all to a chromaticism that aims to capture the natural scene with a brushstroke that is more and more shaky and ragged and with dense, material paint mixtures, particularly effective and expressive in the rural settings, which show constant attention to the developments of avant-garde trends in art.

Contrada in Caspoggio, 1953 ca.
Oil on board, cm. 48 x 38

This rural glimpse of Caspoggio would appear to be an informal picture, if it were not for the emergence from the tangle of colour of walls, doors, the profile of roofs, the snow-covered stairs, the clouds high up in the sky and the mountains partially hidden by them.
The primitive and unadorned rusticity of the scene is rendered by a whirling, material chromatic mix that already carries within itself the rustic roughness of the granite, the slates on the roofs, the moss on the walls, the wooden beams that hold up the architrave of doors and windows and the old "baltresca" (bay window) in the upper right-hand corner, beyond the stairway, where the houses are lost in the glimmering of the mountains under the cloudy clusters of the sky.
The colour runs thick and torrential in the composition, just as the clouds and the snow of the mountains seem to fall and channel like a torrent between the houses and down the flight of steps.

SUPPORT It reflects Fitch's assessment of the probability that an external body would provide support to the bank, if it needed it. The scale has five levels from 1 (best) to 5 (worst).	**5**
SUPPORT RATING FLOOR It reflects Fitch's assessment of the minimum level below which it will not lower the long-term rating of the issuer in the event that it found itself in financial difficulty, given the propensity of potential supporters (government or institutional owner) to help the bank in such circumstances. The scale of values associated with this assessment reflects that of a long-term rating. A further possible score, represented by the «No Floor» (NF), indicates that according to Fitch it is unlikely that aid could comefrom an external source (probability of support lower than 40%).	**No Floor**
OUTLOOK It is a prospective evaluation regarding possible changes in the long-term rating over a period of 1-2 years. It can be «positive», «stable» or «negative».	**Stabile**

DAGONG EUROPE CREDIT RATING – issued on 16 February 2017

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

INCOME STATEMENT

2017 closed with a net profit of 118.400 million, up by 47.91% on 80.048 million of the previous year.

The result benefited both from the improved general economic picture and from the positive performance by financial markets. The increased solidity of the economic outlook and a certain relaxation of geopolitical tensions have driven the rise in share price indices, while spreads on corporate bonds have fallen. The results from securities and foreign exchange trading, far higher than in the previous year, and the good performance of net fees and commissions more than offset the downward trend in net interest income.

Continuation of the expansionary monetary policy has negatively affected the trend in the interest margin, also because it left less room for manoeuvre in borrowing and lending rates at a time of increasingly fierce competition on prices.

Net interest income

Net interest income increased by 2.52%, coming in at 425.676 million. The increase is due to recognition of the negative interest accrued on the funds received from the ECB as part of the TLTRO II operations, following achievement of the lending targets in favour of the real economy set by the Central Bank. After deducting this element, the interest margin shows a decline in percentage terms, which gradually decreased during the year, also due to the actions taken to improve the profitability of loans and to limit the cost of funding. The reduction in the cost of funding, albeit high in percentage terms, was not sufficient to offset the reduction in interest income, which was particularly marked for the securities portfolios. For its part, competitive pressure contributed to a further reduction in the margins applied to the average loan. All of this translated into a reduction in interest rate differentials.

Interest income fell by 5.50% to 547.390 million, whereas interest expense came to 121.714 million, down by 25.80%.

Net fee and commission income performed well, coming in at 262.734 million, +5.30%, mainly thanks to the placement of financial products, especially for asset management and insurance products, but also on current accounts and collection and payment services. Fees and commissions from loans and foreign exchange trading have decreased.

Dividends received amounted to 18.624 million, +2.38%.

The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 137.421 million +47.91%, especially for the good results in trading and selling activities.

The portfolio of HFT assets showed a net result of 37.930 million, practically tripled compared with the previous year. There was a sharp increase in profits from trading in securities, from 3,556 million to 18.936 million, and gains from foreign exchange, which rose from 21.740 million to 25.021 million, +15.09%. The net effect of gains and losses also contributed to this - even if it remained negative, it decreased from 22.044 million to 14.221 million - as did the increase in the result of derivative activity, which came to 15.252 million compared with 8.553 million, while he exchange losses amounted to 7.058 million.

Gains on the sale of AFS assets and other financial transactions amounted to 95.244 million, +25.30%, as the recomposition of the various portfolios continued during the year, realising the accrued capital gains. The results from assets measured at fair value amounted to 4.247 million, -1.39%.

Income from banking activities

Income from banking activities amounted to 844.455 million, +8.85%.

Within this aggregate, the weighting of net interest income was 50.41% compared with 53.52%.

Net adjustments to loans, available-for-sale financial assets, held-to-maturity investments and other financial transactions came to 274.949 million, with an increase of 5.42% essentially due to the extraordinary writedown of the units in the Fondo Atlante.

The consolidation of economic growth was reflected in an improvement in credit quality, with a reduction in the flow of new impaired loans (NPLs). However, loans and receivables with customers remained at much the same level as the previous year at 231.984 million, -0.08%, because of very prudent provisioning policies.

It should however be stressed that the various activities and processes activated by the bank for the monitoring and control of loans and receivables with customers in the various phases of disbursement and management provides positive feedback. The ratio of net adjustments to customer loans/ total customer loans, which is defined as the cost of credit, has decreased from 1.09% to 1.06%. The impairment adjustments to available-for-sale financial assets increased, reaching 35.801 million, +42.13%, mainly attributable to the 26.022 million writedown of the quotas held in the Atlante Fund as a result of the liquidation of the Banca Popolare di Vicenza and Veneto Banca, of which the fund held almost all of the shares. It also includes 3,089 million of charges to help stabilise the Italian banking system, which remain after the intervention of the FITD. Voluntary scheme in favour of Cassa di Risparmio di Cesena. The remainder refers to certain shares and other closed-end mutual funds. Adjustments to other financial transactions amounted to 7.164 million, compared with 3.442 million in the prior year.

SUMMARY INCOME STATEMENT

(in thousands of euro)	2017	2016	(+/-)	% change
Net interest income	425,676	415,200	10,476	2.52%
Dividends	18,624	18,191	433	2.38%
Net fee and commission income	262,734	249,511	13,223	5.30%
Results of financial activities	137,421	92,908	44,513	47.91%
Total income	**844,455**	**775,810**	**68,645**	**8.85%**
Net adjustments to loans and financial assets	-274,949	-260,808	-14,141	5.42%
Net financial income	**569,506**	**515,002**	**54,504**	**10.58%**
Personnel expenses	-180,423	-177,362	-3,061	1.73%
Other administrative expenses	-249,236	-261,786	12,550	-4.79%
Other operating income/expense	59,197	60,239	-1,042	-1.73%
Net accruals to provisions for risks and charges	4,946	-1,280	6,226	-486.41%
Adjustments to property, equipment and investment property and intangible assets	-28,481	-27,624	-857	3.10%
Operating costs	**-393,997**	**-407,813**	**13,816**	**-3.39%**
Operating profit (loss)	**175,509**	**107,189**	**68,320**	**63.74%**
Net gains (losses) on equity investments and other investments (+/-)	-610	-1,670	1,060	-63.47%
Profit (loss) before tax	174,899	105,519	69,380	65.75%
Income taxes	-56,499	-25,471	-31,028	121.82%
Profit (loss)	**118,400**	**80,048**	**38,352**	**47.91%**

Notes: the result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Personnel expenses and other operating income have been reclassified, netting them off against the proceeds of the post-employment benefits fund of € 8.956 milion.

They related to adjustments to endorsement loans granted. Financial income therefore comes to 569.506 million, +10.58%.

The efforts to improve efficiency are reflected in the trend of operating costs, which amounted to 393.997 million, -3.39%. The ratio of operating costs to income from banking activities, otherwise known as the cost-income ratio, has declined to 46.66%, from 52.57% in the prior year, while the ratio of operating costs to total assets has came to 1.04% from 1.21%.

Looking at costs in more detail, administrative expenses - normalised after excluding the provision for proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense - amounted to 429.659 million, -2.16%; of these, personnel costs passed from 177.362 to 180.423 million, +1.73%, while other administrative expenses declined from 261.786 to 249.236 million, –4.79%, showing a strong decline in the contributions to the Deposit and Resolution Guarantee Fund, which went from 43.911 million to 26.892 million, -38.76%. The increases in consultancy fees, the use of interbank networks and IT costs are significant.

We released part of the provisions for risks and charges which were in excess of 4.946 million with respect to a provision of 1.280 million.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 28.481 million, +3.10%.

Other income, stated after the above mentioned reclassification and net of other operating expenses, amounted to 59.197 million, -1.73%.

The aggregate of gains/losses from equity and other investments showed a loss of 0.610 million, reflecting writedowns of equity investments of 0.622 million and gains from the disposal of other investments totalling Euro 12,000; in the comparative year, this resulted in a loss of 1.670 million.

Profit for the year

Profit before income taxes therefore totalled 174.899 million, +65.75%. After deducting income taxes of 56.499 million, compared with 25.471 million in the previous year, the profit for the year amounted to 118.400 million +47.91%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 32.30% compared with 24.14% in the previous year.

CRITERIA FOR MUTUALISTIC ACTIVITIES

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

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

As always, our commitment over the past year was to satisfy the demand for banking products and services - especially loans - from our customers and, above all, from our shareholders. This is our mission as a cooperative bank and we have acted accordingly, giving attention not only to the needs of individuals, but also to the more general requirements of the communities to which they belong. This means working with a vision that seeks to make best use of the resources and specific characteristics of each territory, thereby reflecting their nature and desires, as well as enhancing our mutual interests. We take the opportunities for work offered by the various counterparties, while they benefit from operating in a healthy and profitable environment. These guiding principles of identity, solidarity and support are also written into the Statute for the Valtellina Community.

Loans to customers amounted to 21,819 million, +2.28% on the previous year. This statistic highlights the scale of the financial support provided to households and businesses.

Among other things, we have supported numerous eco-compatible economic initiatives by making loans intended to spread further the use of renewable energy and implement rural development plans. The same is true for the support provided for property renovations, which seek to save energy and, of course, upgrade.

In terms of funding, customers were given all necessary support, including expert advice, when choosing between the various investments. This reflects our absolute transparency and respect for the propensity to accept risk of each person.

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

Direct deposits came in at 29,029 million, +3.67%. This confirms the validity of our commercial proposals and, above all, the trust placed in the bank as a result of the concrete efforts made to safeguard savings.

Entities and institutions are among the principal recipients of our specialist services. Our offer - delivered through dedicated desks, traditional branches and, more and more frequently, electronic tools - is designed for both local entities and the numerous other institutions, with which we have cooperated for some time.

Without focusing on any particular segment, we provide services to small municipalities and to regional and national entities, as well as to local associations and to major non-profit organisations with an international outlook.

There are 175,547 shareholders at the end of the year. The wide membership confirms our ability to involve new members in our work. A simultaneous increase in the number of member-customers is a concrete reflection of the way we implement the founding principles of the cooperative banking movement, which identifies the members as the most important and stable core of customers.

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

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

The Bank and the membership also come together at the annual general meeting. This key moment in the life of our business in which the most relevant decisions are taken. Direct participation is facilitated by the transport services provided and represents an opportunity to take lunch together.

Indirect participation is of course possible by the wider possibility to use proxy voting. This participation by members in the life of the bank also extends to the various meetings organised directly by the Bank and in collaboration with local entities and institutions.

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

– running the library in Sondrio named after Luigi Credaro, illustrious compatriot and former Education Minister from 1910 to 1914. In addition to making available to the general public our significant heritage of books and documents, we have also established profitable contacts with the world of education;
– support for Pirovano Stelvio spa and through it for the tourist complex of the Stelvio and the Upper Valtellina;
– the cultural events we organize on an ongoing basis such as conferences and seminars, as well as the publications we edit and publish, and the sporting events that involve a large number of participants;

- the traditional celebration of World Savings Day;
- the support provided, in collaboration with other parties, for the improvement of economic and social conditions in the various geographical areas of activity;
- the contributions made in favour of public and private entities, universities, hospitals and institutions to which we provide treasury services;
- donations – from the amount allocated for this purpose at the shareholders' meeting – to support entities and associations that carry out cultural, sporting or voluntary work.

SIGNIFICANT SUBSEQUENT EVENTS

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

On 15 January, the Bank signed its first Euro Medium Term Notes – Emtn - programme in London. The initiative will concern the issue of senior unsecured and subordinated financial instruments intended for institutional investors, for a maximum amount of 5 billion euro. With this new initiative alongside the covered bond programme, the Bank will have access to a wide range of funding sources, ensuring adequate coverage of its financial needs.

On 8 February 2018, Dagong Europe Credit Rating, part of the Chinese «Dagong Global Credit Rating» group confirmed the following ratings for Banca Popolare di Sondrio:

- long term = BBB;
- short term = A-3;
- individual financial strenght assessment = bbb;
- outlook = stable

On 20 March the Constitutional Court passed sentence declaring the constitutional legitimacy of the so-called «Reform of the Cooperative Banks», introduced by Decree Law 3 of 2015, converted with amendments into the Law 33 of 24 March 2015. As soon as the regulatory framework is fully clarified, Management will, as always, take steps to ensure full compliance with its legal obligations.

The Bank's Board of Directors, following the letter of intent signed in October with Fondazione Cassa di Risparmio di Cento to assess the possible acquisition of the share capital of Cassa di Risparmio di Cento (Fe), resolved to propose to the Extraordinary Shareholders' Meeting of 28 April, the assignment of the proxy pursuant to art. 2443 of the Italian Civil Code, to increase the share capital, excluding option rights, for a maximum of Euro 40 million. This, with a view to completing the agreements between the Bank and the Foundation, which is the controlling shareholder of Cassa di Risparmio di Cento.

OUTLOOK FOR OPERATIONS

Most forecasters agree on a progressive consolidation for the Italian economy, driven above all by domestic demand. All of this, in the context of a more general process of growth in the Eurozone and the global economy.

However, there is no shortage, both nationally and internationally, of concerns and risks, which could generate tensions on financial markets.

As for our Bank, both the interest margin and commission income are expected to improve, despite the high competition on the market. In light of the current economic recovery, it is legitimate to expect positive effects on credit quality and on the size of adjustments to the income statement. The performance of international and European financial markets will naturally be able to influence considerably the result of securities trading, while the steps taken to hold down costs will continue by rendering the structure more efficient.

In view of the above, without forgetting the uncertainties linked to the national and international scenario, it is reasonable to assume that this upward trend in corporate profitability should continue.

* * *

Shareholders,

The 2017 financial statements, comprising the balance sheet, the income statement and the attachments forming an integral part of these documents, are presented for your examination and approval. These financial statements, which show a profit for the year of € 118,400,102, have been audited by EY S.p.A.

BALANCE SHEET

Total assets			€	38,022,299,186
Liabilities	€	35,595,350,567		
Valuation reserves	€	38,642,710		
Share capital	€	1,360,157,331		
Share premium reserve	€	79,005,128		
Treasury Shares	€	-25,321,549		
Reserves	€	856,064,897		
Total liabilities and equity (excluding profit for the year)			€	37,903,899,084
Net profit for the year			€	118,400,102

March in Caspoggio
Oil on canvas, cm. 40 x 50
Signed at the bottom left "vedrini"

A thin tree trunk with a hint of flowering at the top, a cluster of rocks close to a group of houses, all tied up and recast in a natural continuity of thick and mellow colour that runs like the March wind, with happy creative freedom, throughout the composition. It is nature when it awakens, still numb from the winter, that Vedrini wants to represent, an awakening deliciously hinted at by the tree in the foreground, with its movements almost dancing on the earth and its two flower buds at the top, which, as always in Vedrini, give the composition a musical and fairytale tone.

VALTER VEDRINI
(Sondrio 1910-2004)

Valter Vedrini was born in Sondrio on 22 September 1910.
He was self-taught and for many ears, from 1928 to 1950, he dedicated himself to poetry with gratifying recognition from Filippo Tommaso Marinetti and, later, Ugo Betti, Diego Valeri and Leonardo Borgese, especially for his collection *Ascolto il mio silenzio*, published in 1950 with a cover specially designed by Migneco.
After the war, however, his passion for painting took the upper hand and under the guidance and encouragement of Carlo Carrà, starting in 1955, he began exhibiting in Sondrio and Milan, where he also opened a studio in via Brera, alternating artistic work with long stays in Rome.
All of his artistic output is dominated by a joyous and pantheistic identification with nature, which is expressed in a very baroque sense of colour, always warm, exuberant, of fleshy sensuality, whether it is spread over vast backgrounds, or intertwined in a sort of intricate and fibrous chromatic forest.
The yellows, the reds, the greens, the blacks, burst into his paintings with a primordial force which is that of nature, always represented as being huge and immense compared with the signs of human presence.
Valter Vedrini died in Sondrio on 3 September 2004, at the age of 94.

Alley in Valmalenco
Oil on canvas, cm. 40 x 50
Signed on the lower right "vedrini"

The expressive power of this glimpse of rural Valmalenco is entrusted entirely to colour. The big blocks of the houses seem to emerged from the earth, they tend towards the naturalness of the boulders and the rock, having the same primitive roughness. When Vedrini does not envelop his houses in a forest of vegetation, they take on the very appearance of nature, they are absorbed by it. What fascinates and impresses him in Valmalenco – where he settled with his family on his return to Valtellina in 1947 – is precisely this proximity of the human environment to the natural one, this adherence of life to nature which for Vedrini is the human character of life itself. This group of rural houses appears very human and almost fable-like in the material fleshiness of colour, in the uneven architecture of the houses, in that priceless and almost chagallian bending of the chimney that accentuates the animated and mobile character and excited agitation of the whole.

ALLOCATION OF PROFIT FOR THE YEAR

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

– to the legal reserve 10%	€	11,840,010.20
– to the statutory reserve 30%	€	35,520,030.60
– dividend to shareholders of € 0.07 per share	€	31,737,004.39
– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	39,203,056.81
Total	€	**118,400,102.00**

EQUITY

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

– Valuation reserves	€	38,642,710
– Share capital – 453,385,777 shares, par value € 3 each	€	1,360,157,331
– Share premium reserve	€	79,005,128
– Treasury Shares	€	-25,321,549
– Reserves	€	942,627,995
Total	€	**2,395,111,615**

Shareholders,

we described and commented on the accounting information for 2017, which showed good results and we want to thank all those who contributed to the achievement of our positive business results. We feel obliged to address a thought of special gratitude to those that we have been particularly close to.

Firstly, we are very grateful to our shareholders and customers for their confidence in the bank, for the suggestions and advice received, as well as for the profitable work passed our way, which has clearly benefited the income statement.

We express gratitude to the members of the Board of Statutory Auditors for the professionalism and commitment with which they have performed their delicate duties.

The same is true for the members of the Advisory Committee, who have been high profile, accessible and attentive.

We are grateful to the boards and employees of our group companies, with particular reference to those at Banca Popolare di Sondrio (Suisse) SA and Factorit spa, which gave a good contribution to our Group with their profitable work. In September 2017, we completed the acquisition of up to 100% of the Banca della Nuova Terra spa. To the Management of this new entry to the Group we express our heartfelt gratitude, together with our appreciation, for the enthusiasm and commitment with which, from the very start, they set to work, with the desire to do a good job and to contribute as much as possible to the consolidated results.

We extend our thanks to the corporate bodies and staff at the Italian Banking Association (ABI), the National Association of Cooperative Banks, our correspondent banks in Italy and abroad.

Special esteem and gratitude are sent to the Members of the Governing Council of the European Central Bank, above all to the President Mario Draghi, who has proved to be a secure mentor, a far-sighted banker and a wise economist.

Special thanks also to the management of the Bank of Italy, from the Governor, Ignazio Visco, to the Members of the Directorate, to the Chief of Supervision and his staff, to the general officers and the managers of the main branches and of offices located in the provinces where we are present. With reference to the latter, we would particularly like to express our heartfelt thanks to the managers of the Bank of Italy at the Milan and Rome offices, respectively, Giuseppe Sopranzetti and Luigi Mariani, both capable and attentive bankers.

Many thanks too for the constant collaboration of the directors, managers and staff of Consob, the Italian Exchange Office and Borsa Italiana, which also manages the MTA, the screen-based market where our shares are traded: their collaboration was useful and appreciated.

Special thanks to FINMA – the Supervisory Authority for the Swiss financial markets based in Berne –, which with professionalism and a spirit of cooperation has carefully supervised the work of BPS (SUISSE) SA. Similar regards to Banque de France, the French supervisory authority, which supervises the branch of our Swiss subsidiary in the Principality of Monaco.

Appreciation and gratitude go to our collaborators, each of whom has worked hard, to the extent of their own competence and sometimes even beyond, with unity of purpose, contributing, day after day, to the progress of the company and its development.
It is our duty, but also a pleasure, to thank those who retired in 2017. They are part of the history of Banca Popolare di Sondrio and are Lucia Bradanini, Mauro Antonioli, Piero Bertone, Adriano Bonomi, Angelo Domenico Bormolini, Gianstefano Caspani, Gianpaolo Cristini, Gabriele Curti, Arturo Della Maddalena, Mario Antonio Della Marta, Piero Luigi Della Vedova, Luciano Gitti, Giovanni Gusmeroli, Gabriele Luzzi, Corrado Mattarel, Paolo Mazzini, Ilario Moretti, Donato Negrini, Bruno Luigi Parravicini, Luciano Pastorello, Valerio Luigi Pozzoni, Roberto Raineri, Diego Riva, Claudio Rodondi, Giancarlo Sabatti, Enzo Protasio Sassella and Silvio Bruno Vuono.

In renewing our thanks to each and every one of them, we would like to express our very best wishes for a long and serene retirement, full of affection and satisfaction.

Sincere apologies to anyone we have forgotten to thank due to an oversight. We do so here.

Shareholders,

In presenting the 2017 financial statements for your approval, the directors invite the Shareholders' Meeting – having read the reports of the

Statutory and Independent Auditors – to adopt the following resolution: «The ordinary meeting of the shareholders of Banca Popolare di Sondrio, meeting today, having heard the directors' report on operations during 2017 and the proposed allocation of profit for the year, which includes the payment of a dividend to the shareholders of € 0.07 per share; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet, the income statement, the explanatory notes and, in addition, the financial statements of the subsidiary and associated companies,

approves:

– the directors' report on operations;
– the financial statements at 31 December 2017, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 118,400,102. The Shareholders' Meeting therefore specifically approves the allocation of profit for the year of € 118,400,102 as proposed by the Board of Directors in accordance with current legislation and the articles of association and, in particular, resolves:

a) to allocate:	
– 10% to the legal reserve	€ 11,840,010.20
– 30% to the statutory reserve	€ 35,520,030.60
b) to pay a dividend of € 0.07 to each of the 453,385,777 shares in circulation at 31/12/2017 with dividend rights as from 1/1/2017, transferring to the statutory reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of	€ 31,737,004.39
c) to allocate the residual profit:	
– to the reserve for donations	€ 100,000.00
– to the legal reserve, a further	€ 39,203,056.81

In accordance with the Stock Exchange calendar, the dividend will be paid from 23 May 2018, going ex-coupon (no. 40) on 21 May 2018.

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

Shareholders,

In implementation of the Supervisory instructions for banks on compensation and incentive policies – 7th revision dated 18 November 2014, pursuant to Directive 2013/36/EU (CRD IV) dated 29 June 2013, the Shareholders' Meeting held on 29 April 2017 approved the «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

At the board meeting held on 23 March, the directors of the Bank resolved to make a number of changes to the «Policies» proposed by the

Remuneration Committee. Compared with last year, we added a number of simple updates and to integrate the list of the key personnel, following to the entry in our Group of Banca della Nuova Terra spa. The document also defined the remuneration policies for any financial consultants involved in the promotion and signing of loan contracts.

In implementing the Bank of Italy's instructions and art. 29 of our current articles of association, we submit for your approval the document containing the «Compensation policies of the Banca Popolare di Sondrio Banking Group», which has been made available as required by law, in particular through publication on the Bank's website www.popso.it/assemblea2018 and distributed to all shareholders present.

The Compliance Unit was involved in validating the compensation policy and the system of remuneration and determined that they comply with current regulations, the Articles of Association, the code of ethics and the standards of conduct applicable to the bank, not least with regard to the management and coordination of the Banking group.

Shareholders,

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

It is therefore necessary to make available to the Shareholders' Meeting, by distributing to the shareholders in attendance, the Document on Remuneration Policies according to the supervisory regulations, which has been approved by the Board of Directors. It contains the information and figures required by the current Supervisory Regulations for Banks, Title IV, Chapter 2, Section VI.

This document has also been published on the company website www.popso.it in the corporate information section.

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

For its part, the Remuneration Committee has fulfilled the tasks entrusted to it by legislation and the specific Regulations approved by the Board of Directors. In carrying out its work the Committee met 3 times in 2017 and has, in particular, served in an advisory role, making proposals to the Board of Directors. It has monitored correct application of the rules relating to the remuneration of those in charge of internal control functions. The main activities carried out are summarised below.

The Remuneration Committee recommended the adoption of the Compensation Policies for the BPS Banking group that, following approval by the Board of Directors on 17 March 2017, were then authorised at the Shareholders' Meeting held on 29 April.

The Remuneration Committee recommended adoption by the Board of Directors of the Remuneration Report required by art. 123-ter of the Consolidated Finance Law, which was then approved at the Shareholders' Meeting, as the public disclosure on remuneration and incentive policies and practices required by the supervisory regulations and as Information Document on the 2017 Compensation Plan based on financial instruments.

The Remuneration Committee also assisted the Board of Directors in preparing the shareholders' resolution on the annual remuneration of the Board of Directors. Additionally, the Remuneration Committee made proposals regarding the remuneration of those persons whose compensation and incentive systems are decided by the Board of Directors. For this purpose, it checked that the established quantitative, qualitative and functional objectives have been met.

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

The Remuneration Committee proposed criteria and parameters to the Board of Directors for the recognition to key employees of variable remuneration linked to the economic-financial, qualitative and functional objectives specified in the Remuneration Policies.

Lastly, the Remuneration Committee proposed thresholds to the Board of Directors, in terms of amount and percentage of fixed remuneration, below which key personnel would not be subject to the deferral criteria or stock-based payment.

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

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

Shareholders,

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

Under art. 123-ter, paragraph 1, of the CFA, the «Compensation Report» is distributed and made available to the public in the manner and terms established by current legislation, in particular via publication on the Bank's website www.popso.it/assemblea2018. It is also distributed to the shareholders present at the meeting.

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

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

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

Shareholders,

Art. 21 of the Articles of Association provides that: «The Board of Directors may acquire the Bank's shares in accordance with art. 2529 of the Italian Civil Code, to the extent of the specific reserve established out of distributable profits allocated for this purpose at the shareholders' meeting. The shares thus acquired may be re-sold or cancelled».
The matter is governed by the Italian Civil Code, i.e. articles 2529 and 2357 e seq, and by article 132 of Legislative Decree 58/98 CFA and by CONSOB Regulation 11971 of 14 May 1999 and subsequent amendments. In particular, articles 73 and 144 bis of this Regulation establish how information should be communicated to the General Meeting and the procedures for carrying out purchases and sales. In accordance with para. 33 of IAS 32 «Financial Instruments: Presentation in the financial statements and supplementary information», any treasury shares purchased must be deducted from equity. In implementation of this regulation, the Board would like to invite the Meeting to pass the following resolution: «The Ordinary Meeting of the Shareholders of Banca Popolare di Sondrio, met today, having heard the proposal made by the Board of Directors:

hereby resolves:

to set at Euro 30,000,000 – shown in the financial statements under «Reserves» – as the amount made available to the Board of Directors to make purchases of the Bank's own shares in accordance with art. 21 of the Articles of Association, within the limit of this amount and whatever part of it is made available by subsequent sales of the shares purchased; all as part of an activity that is compliant with current regulations and designed in particular to facilitate circulation of the shares.

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

Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2018 financial statements. Purchases will have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned «Reserve» of Euro 30,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 2% of the shares making up the share capital. Sales will have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned «Reserve» of Euro 30,000,000.

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

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

Shareholders,

The Bank has updated the Compensation Policies for 2018, which are submitted to the Shareholders' Meeting for approval.

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

– an up-front amount representing 60% of the total variable remuneration is paid in the following year, by the end of June;
– three equal annual tranches, equalling 40% of the total variable remuneration, are deferred over a three-year period commencing from the year after that in which the up-front amount is paid;

– 50% of the up-front part and 50% of the deferred part is paid via the allotment of shares in Banca Popolare di Sondrio S.C.p.A. These shares are subject to a retention period of 2 years in the case of the up-front amount and 1 year in relation to the deferred amount.

Based on the theoretical requirement estimated for the 2018 Compensation Plan based on financial instruments, covering the variable remuneration of key personnel and totalling a maximum of Euro 454,000, the Shareholders' Meeting is requested to approve a mandate for the Board of Directors to use the ordinary shares of Banca Popolare di Sondrio already held at the date of this resolution, up to a total amount of Euro 454,000, in order to service the 2018 Compensation Plan based on financial instruments. The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

The characteristics of the 2018 Compensation Plan based on financial instruments are described in the specific Prospectus prepared, which is available at the head office of the Bank and in the corporate information section of the website www.popso.it.

In this regard, we note that at 31 December 2017 and at today's date, the Bank holds 3,650,000 treasury shares with a carrying amount of Euro 25.322 million.

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

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

hereby resolves:

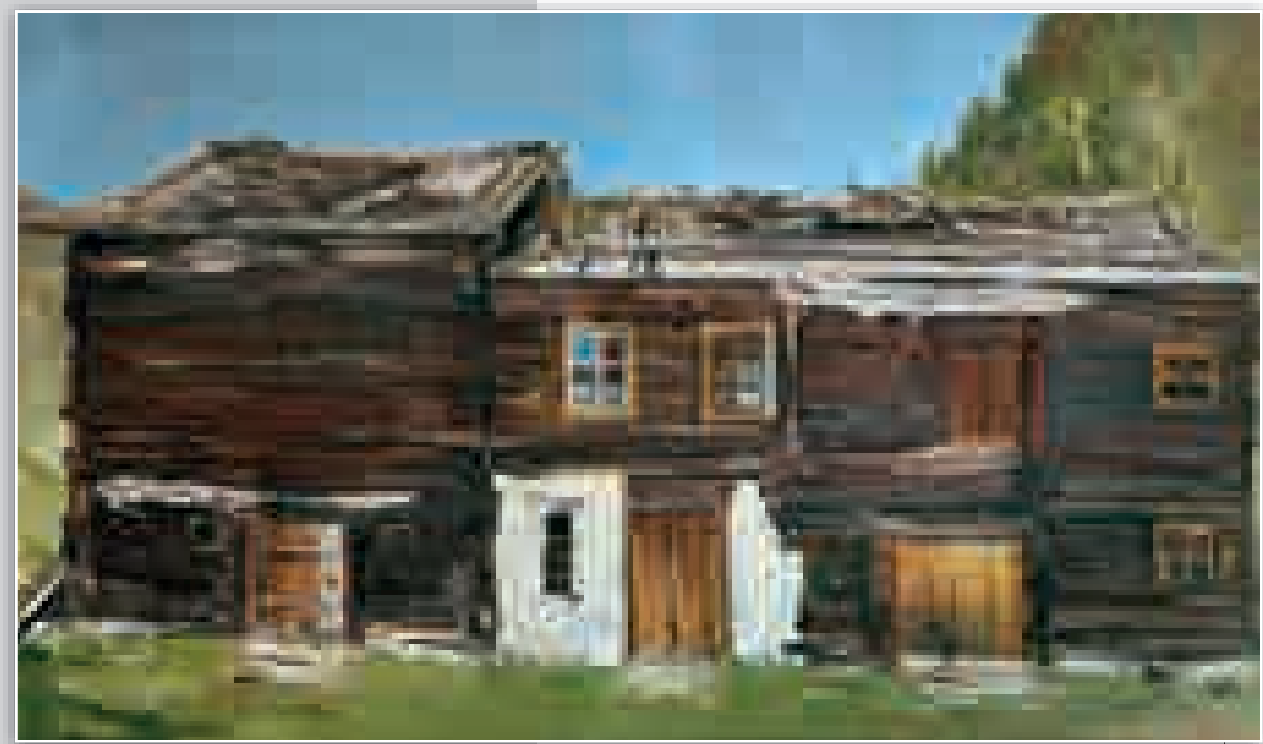
to authorise the Board of Directors to use, up to a maximum total amount of Euro 454,000, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2018 Compensation Plan based on financial instruments during the life of that plan. The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

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

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

Shareholders,

Pursuant to art. 41 of the Articles of Association, it is up to the Shareholders' Meeting to determine the annual remuneration of the Board



Mountain chalet ("Tea" in Livigno), 1971
Oil on plywood, cm. 60 x 100
Signed and dated on the lower right "Vaninetti 71"

Where the past sends the last spasm of life, there Vaninetti dips his brush. Few artists have been able to render, like him, the charm of the shabby walls of old farmhouses, the tactile suggestion of the blackened and weathered wood in the façades of old chalets or the life that still breathes in the dilapidated disorder of peasant architecture. Between the painter and his subject there is an intimate and very deep bond of knowledge, a total interpenetration and fusion of souls, one might say. It is this interpenetration which Vaninetti strives above all to render in his painting. He does not aim just to reproduce his subject, he wants us to know and love it, as he loves it. Hence the thin veil of pietas that surrounds all the things that he represents by enclosing them in an atmosphere of empathetic identification.
This is the case of this large "tea", as they call chalets in Livigno, abandoned by mankind, but not for this lacking its own life in its doors, in its lime patches, in its barred windows, in its own disjointed roof. Enclosed between the green of the lawn in the foreground and the evening blue of the sky at the top, this large chalet of Walser architecture, with overlapping trunks jointed at the corners, winds in front of our eyes horizontally throughout the composition with a chromatism that manages to render all the grain of the wood and all the wounds of time, narrating its singular and centuries-old biography.

ANGELO VANINETTI
(Regoledo di Cosio, 1924-1997)

Angelo Vaninetti was born in 1924 at Regoledo di Cosio (Sondrio). A whimsical and rebellious character, he was imprisoned during World War II as a draft evader and deported to a concentration camp in Germany.
In 1946 he married Armida Righini, a teacher of literature and a woman of refined culture, who understood the temperament of an artist and encouraged him to refine it so that he gained his high school diploma at the Brera Art School in Milan.
Starting from his first landscapes in the Forties, his painting becomes more precise within the poetics of the humble and that stylistic dimension of a vigorous and mountainous expressionist primitivism that will characterise his entire career and which will attract the attention and friendship of important artists and intellectuals, including Alberto Giacometti, Wolfgang Hildesheimer, Leonardo Borgese, Luigi Santucci, Mario Negri and Raffaele De Grada.
Starting in the Sixties, he held numerous, important exhibitions in Italy and abroad, culminating in 1989 in the major review of his works curated by Raffaele De Grada at the Milan Museum.
Vaninetti feels the poetry of the simple and the antique, as did Morandi. His bowls, his chandeliers, his stubbornly closed doors, his windows, his walls condense in a most extraordinary way the human essence of life and the world of which they are silent witnesses. There is no nostalgia in this painting, because Vaninetti still feels that world to be alive. There are no people in his paintings, because things are themselves profoundly human, they are "characters", as Alberto Giacometti already noted, "antique people who still live".
He died in 1997 at Regoledo di Cosio.

Window on a white wall, 1979
Oil on board, cm. 80 x 90
Signed and dated at the top left "Vaninetti '79"

The window is one of the leitmotifs of Vaninetti's painting. But of all the ones he painted, this is certainly the most suggestive. The small window stands out with delicate force in the centre of the great white wall. It is a masterful example of that "magical solitude" and that "mysterious silence", in which, for Hildesheimer, Vaninetti knows how to make things shine and stand out. Here, moreover, the artist achieves the maximum poetic effect with the minimum of pictorial means, concentrating on a portion of dilated wall so as to make it a «microcosm of melancholy» (Hildesheimer).
On the white wall worn by time and life, the window is a blind eye, open on the deep darkness of the future, a question mark about life that would be agonizing without that thin strip of blue sky that opens on the wall, on the right, like a loophole of hope.

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

At its meeting of 23 March, the Board of Directors approved the proposal made by the Remuneration Committee for the annual remuneration of the directors. It is now submitted to the General Meeting.

Given the economic and financial position of the Bank and having regard for the commitment required of the directors in order to fulfil their important and delicate functions, we deem to submit to the Shareholders' Meeting for approval the following proposal, which is unchanged over last year:

– directors' emoluments: € 40,000 for each director, giving a total of € 600,000;
– individual attendance fees:
  € 300 for attending meetings of the Board of Directors;
  € 150 for attending meetings of the Chairman's Committee and other Board committees;
– personal flat-rate reimbursements for the travel expenses incurred in order to attend meetings of the Board of Directors, the Chairman's Committee, the other Board committees:
  for residents in the province of Sondrio: € 80;
  for residents outside the province of Sondrio: € 160.

Point 6) on the agenda: appointment of five Directors for the three-year period 2018-2020.

Shareholders,

In accordance with the articles of association, the Shareholders' Meeting is called upon to renew the appointment of directors. The mandates of the following directors have expired: Loretta Credaro, Attilio Piero Ferrari, Giuseppe Fontana, Adriano Propersi and Renato Sozzani.

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

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

The requirements of the directors and the causes of ineligibility are governed by Article 33 of the Articles of Association, as follows:

““““““

Art. 33
Requisites – Reasons for ineligibility

Members of the Board of Directors must satisfy the personal requirements set by the law as well as those set by the oversight regulations for the banks.

At least a quarter of the Directors needs to also meet the Independence Requirements specified by article 147 ter, fourth paragraph of the Legislative Decree no. 58 of 24 February 1998.

With specific regulations approved by the Board of Directors, limits are set with reference to offices held by the directors in other companies.

””””””

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

““““““

Art. 35
Presentation of lists of candidates

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

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

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

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

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

One or more shareholders with the requisites laid down in art. 13.2 and who have a total interest of not less than 0.50% in the share capital can also present lists. The members must indicate the number of shares held in total and certify that share holding.

The signature of each presenting member has to be authenticated according to the law or by employees of the bank nominated for that purpose by the Board of Directors.

By the deadline for depositing these voting lists, there also has to be filed at head office the curriculum vitae of each candidate and the declarations by which the candidates accept their candidature and attest, under their own responsibility, that there are no reasons why they should not be elected or why they might be incompatible, also confirming that they have the requisites prescribed by law and by the Articles of Association for holding office as a director. Candidates should also declare if they have the requisites of independence as per art. 33.2 and, if they do, this is mentioned in the lists. Any lists which are deposited without complying with procedure and deadlines set out above will be considered as if they were not presented.

""""""

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

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

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

The results of this analysis are reported in the document entitled «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio», published on the Bank's website www.popso.it/assemblea2018.

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

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

""""""

Art. 36
Election of the directors

Each shareholder can only vote for one list of candidates. Directors are elected as follows:

a) from the list that obtained the highest number of votes are taken, in the progressive order in which they are listed in the list, all of the Directors to be elected, except the last one;

b) from the list that obtained the second highest number of votes, the first listed candidate is selected.

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

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

If the shareholders have not submitted a single valid, the Board of Directors can present at the Meeting a pre-filled ballot paper containing a non-binding list of candidates. In this case, each shareholder may alter all or part of the voting form, deleting the candidates they do not intend to vote for and, if they want, adding one or more new candidates in place of those deleted.

Once the votes have been counted, the candidates who received the highest number are elected. If no valid list is presented and the Board of Directors does not make a proposal pursuant to this article, the Meeting shall elect the Directors by a relative majority among the individual candidates.

If the composition of the Board of Directors resulting from the votes does not respect the gender balance principle and the minimum number of independent directors, the director who does not comply with that principle and the requirement placed at the highest position in the winning list is replaced by the next candidate from the same list who complies with them.

If even after applying this criteria suitable replacements are not identified then the replacement criteria is applied to the director elected in the list obtaining the second highest number of votes. If even then suitable replacements are not identified or in case it is impossible to apply this mechanism then the Shareholders' Meeting decides by simple majority from amongst the individual candidates, thereby putting in replacements in the order indicated above.

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

"""

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

Point 7) on the agenda: Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2018-2020; determination of their annual emoluments.

Shareholders,

In accordance with the law and the Articles of Association, the Shareholders' Meeting is called upon to elect the entire Board of Statutory Auditors for the three-year period 2018-2020.

The mandates of the following statutory auditors have expired: Piergiuseppe Forni, Donatella Depperu, Mario Vitali, auditors; and of Bruno Garbellini and Daniele Morelli, alternate auditors.

The requirements for statutory auditors are governed by art. 48, para. 4, of the Articles of Association, which state:

«In addition to the reasons for ineligibility and forfeiture envisaged by the law, the provisions of article 17 above also apply. In any case the Statutory Auditors cannot take up offices in corporate bodies other than those of control in other companies of the Group as well as in companies where the bank holds a strategic investment, even if held indirectly. Further, the office of Statutory Auditor cannot be held by persons who exceed the limit of cumulative holding of offices of administration and control as fixed by the law and by the relative implementation regulations or by those who are members of administrative or control bodies of other banks with the exception of the associations which represent trade institutes and the subsidiaries. The Statutory Auditors must also meet the standards of integrity, professionalism and independence set by current regulations.»

Para. 5 of art. 48 also applies. This states that:

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

The presentation of the lists of candidates is governed by article 49 of the Articles of Association, as follows:

““““

Art. 49
Presentation of lists of candidates

The election of the members of the Board of Statutory Auditors is made on the basis of the lists presented by the shareholders where candidates are listed with progressive numberings. Each list has two sections: one for candidates for the position of auditor, the other for candidates for the position of alternate auditor. Each list must indicate three candidates for serving statutory auditors and two candidates for alternate statutory auditors.

The lists must be filed at the Company's registered offices within the terms laid down in current regulations.

The lists must ensure gender balance in accordance with current regulations and these articles of association. For this purpose one of the candidates for serving statutory auditor must belong to the less represented gender.

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

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

One or more shareholders with the requisites laid down in art. 13.2 and who have a total interest of not less than 0.50% in the share capital can also present lists. The members must indicate the number of shares held in total and certify that share holding.

The signature of each presenting member has to be authenticated according to the law or by employees of the bank delegated to that function by the Board of Directors.

By the deadline set for the submission of lists, the curriculum of each candidate must be submitted, together with a declaration of acceptance of the candidature and an attestation under the candidate's own responsibility confirming the absence of any reasons for their non-election and absence of incompatibility and confirmation of having the necessary requirements to hold the office of Statutory Auditor as set out by the law and by the articles of association.

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

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Note that current legislation, to which art. 49 of the Articles refers, states that the lists of candidates for the office of statutory auditor have to be deposited at head office by the 25th day prior to the date of the Meeting.

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

The election of statutory auditors is governed by art. 50 of the Articles of Association, as follows:

““““““

Art. 50
Each member may vote for only one list of candidates.

The procedure for the election of the Board of Statutory Auditors is described below:

a) two Serving Statutory Auditors and one Alternate Statutory Auditor are taken from the list that obtained the highest number of votes, in the order that they are listed in each section.

b) one Serving Statutory Auditors and one Alternate Statutory Auditor are taken from the list that obtained the second highest number of votes, in the order that they are listed in each section. The serving Statutory Auditor chosen from this list is nominated the Chairman of the Board of Statutory Auditors.

If two or more lists receive the same number of votes, the list whose first listed candidate for alternate Statutory Auditor is the oldest by age shall be considered the winner.

If only one list is presented, then all the serving and alternate Statutory Auditors shall be chosen from that list. In that case the Chairmanship of the Board of Statutory Auditors goes to the first listed candidate in the list.

If the shareholders have not submitted a single valid, the Board of Directors can present at the Meeting a pre-filled ballot paper containing a non-binding list of candidates. In this case, each shareholder may alter all or part of the voting form, deleting the candidates they do not intend to vote for and, if they want, adding one or more new candidates in place of those deleted.

Once the votes have been counted, the candidates who received the highest number are elected. If no valid list is presented and the Board of

Directors does not make a proposal pursuant to this article, the Meeting shall elect the Directors by a relative majority among the individual candidates.

If the composition of the Board of Statutory Auditors resulting from the votes does not respect the gender balance principle the Statutory Auditor who does not comply with that principle and placed at the highest position in the winning list is replaced by the candidate from the same list who complies with that principle.

If even after applying this criteria suitable replacements are not identified then the replacement criteria is applied to the Statutory Auditor elected in the list obtaining the second highest number of votes. If even then suitable replacements are not identified or in case it is impossible to apply this mechanism then the Shareholders' Meeting decides by simple majority from amongst the individual candidates, thereby putting in replacements in the order indicated above.

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The Board of Directors therefore invites you use the list voting process in order to appoint the Board of Statutory Auditors and its Chairman.

With regard to the emoluments of the Board of Statutory Auditors, art. 53 of the Articles of Association requires the Shareholders' Meeting to determine the annual amount, which is fixed for the entire duration of the mandate. The Shareholders' Meeting also determines the attendance fees payable for participation by the statutory auditors at meetings of the Board of Directors and the Chairman's Committee, as well as the reimbursements payable - even on a flat-rate basis - for the expenses incurred in the performance of their duties.

The compensation policies of the Banca Popolare di Sondrio Banking Group do not envisage the payment of emoluments in the form of financial instruments or of bonuses linked to economic results.

At the meeting held on 23 March, the Board of Directors defined, on a proposal of the Remuneration Committee, the emoluments of the Board of Statutory Auditors, unchanged with respect to three years ago, for submission to the Shareholders' Meeting:

– Chairman of the Board of Statutory Auditors, annual emoluments of € 75,000;
– each serving Statutory Auditor, annual emoluments of € 55,000;
– individual attendance fees:
  € 300 for attending meetings of the Board of Directors;
  € 150 for attending meetings of the Chairman's Committee;
– flat-rate individual reimbursements for travel expenses incurred in order to attend the meetings of the Board of Directors and of the Chairman's

Committee, on the following basis:
for residents in the province of Sondrio € 80;
for residents outside the province of Sondrio € 160;

– flat-rate individual indemnities for the performance of inspections, on the following basis:
€ 150 if performed in the province of residence of the auditor;
€ 250 if performed outside the province of residence of the auditor.

Sondrio, 23 March 2018

THE BOARD OF DIRECTORS

Rustic houses in Valtellina, 1961
Oil on canvas, cm. 49.5 x 79.5
Signed and dated at the top left "Vaninetti '61"

These houses have eyes. Eyes wide open with which they look at us from the depths of time. In his vigorous mountain expressionism, Vaninetti has found here an excellent, warm chromatic mixture to show us the impure colour of time on the peeling walls of these old abandoned peasant houses. It is a realistic mixture that reveals a certain vein of melancholy, but not of nostalgia.
In the Valtellina of the Sixties, where the rapid spread of the modern industrial economy and services risks erasing the signs of the traditional peasant mountain world, Vaninetti did not resign himself to its disappearance and tried to remove it forever from the consumption of time, fixing it on canvas, giving it a new lease of life in his painting.
As noted by Walter Birnbaum, "Vaninetti's characteristic has always been to paint things at the time they are perishing, but he has always added something alive to them: hope always springs from the dying." Often, as in this case, this hope is expressed in Vaninetti's work precisely in that strip of sky that appears high on the right side of the picture and that seems to announce a future of redemption rather than a destiny of decay and death, as would have occurred in the case of a completely closed frontal perspective.

Group of rural houses in Valtellina, 1958
Oil on canvas, cm. 40 x 49.5
Signed and dated on the lower right "G Fumagalli '58"

GEREMIA FUMAGALLI

(Delebio 1923-1986)

Geremia Fumagalli was born in Delebio in 1923. His father Eliseo, one of the most representative Valtellinese artists of the early twentieth century, encouraged him to start painting.
After high school, he attended the Academy of Painting in Brera where he graduated in 1943. The death of his father that same year forced him to abandon the Milanese artistic environment and the studies he had just commenced at the Faculty of Architecture to return to Valtellina, where he took an active part in the Resistance and where, at the end of the war, he settled as a high school teacher of Design and the History of Art. Following his father's example, he began to paint frescoes in the churches of the lower Valtellina, at the same time starting a personal stylistic research of which the result is the paintings presented in his first exhibitions in Sondrio and Milan, where a strong tendency towards avant-garde painting transpires; he later abandoned this to devote himself to etching and graphics with artistically surprising results in this field as well. In fact, his sophisticated engravings of vegetable motifs, his trees, his woods, his suggestive and poetic snowfalls remain unforgettable.
In the last few years of his life, Fumagalli therefore dedicated himself to a great cycle of engravings on the rural architecture of the lower Valtellina, at the same time taking up the brush to paint his favourite plant motifs.
He died suddenly in Delebio at the age of 63.

This painting comes from the peak period of Geremia Fumagalli's first period of work, the one between the immediate post-war period and the early Sixties, when the artist pursued a solitary and refined pictorial research that was sensitive to the teaching of the European avant-garde movements of the 20th century, with which he investigated Valtellina's rural landscape.
In this nocturnal glimpse of a rural peasant nucleus, the geometric design of the houses, almost a cubist composition, is resolved in the elegant and dissonant chromatic rhythm of the walls and roofs, squeezed between the autumn rust red of the hedge in the foreground and the lunar blue of the evening sky in which the outline of a distant mountain, gilded by the last ray of sunshine, peeps out on the right.
In the nestling of the houses, their irregular overlapping, the peeling plaster of the walls and the mottled chromaticism of the almost Fauves colours of the façades, the sense and character of peasant life and way of living emerge with sophisticated modernity.

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

Shareholders,

During 2017, the Board of Statutory Auditors of Banca Popolare di Sondrio, carried out its institutional duties in compliance with the Italian Civil Code, Legislative Decree nos. 385/1993 (TUB), 58/1998 (TUF), the articles of association and the instructions issued by the national and European authorities responsible for supervision and control. It also complied with the code of conduct recommended by the Italian Accounting Profession.

The 2017 financial statements were approved by the Board of Directors on 23 March 2018 and given to the Board of Statutory Auditors in good time for the preparation of this report, in which - as required by law - we refer to the supervisory work performed, any censurable assumptions and facts identified and any observations and proposals regarding the financial statements, their approval and the matters included in our tasks.

We included in our report information required by CONSOB Communication 1025564/2001 and subsequent amendments and additions.

Supervisory activities of the Board of Statutory Auditors

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

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

In terms of further details about the performance of our supervisory activities, we confirm that during 2017 we:

- attended the Ordinary Shareholders' Meeting, as well as all the meetings of the Board of Directors (12) and the Presidential Committee (55); in addition, the Chairman of the Board and/or at least one of the Statutory Auditors also attended 18 meetings of the Control and Risks Committee. This enabled us, as envisaged in art. 150 of Legislative Decree no. 58/98, to obtain information about the principal economic, financial and equity transactions carried out during the year by the Bank and its subsidiaries;
- we carried out an inspection plan (39), based on the scheduled and periodic meetings with the second and third-level control functions and with other offices and functions, with regard to specific aspects or operational matters;

– with support from the Internal Audit Department - Central and Branch Inspection Office, this Board considered it useful as part of its supervisory activities to carry out 16 inspections at branches (mostly area lead branches) in order to check the proper conduct of operations. In this way, we obtained concrete evidence that processes and procedures are properly implemented.

This Board also collaborated with the Supervisory Body established pursuant to Decree 231/2001, exchanging information and holding joint meetings on specific topics of common interest.

Principal economic and financial transactions during the year

On the basis of the main results obtained in carrying out our activities and the evidence presented in the Directors' Report on Operations, we would like to point out the following transactions and events that took place in 2017 as being more significant:

– in November 2017, on the basis of the evidence gathered as part of the supervisory review and evaluation process (SREP), the European Central Bank (SCB) set the minimum levels of capital required by the Group for 2018. In particular: minimum Common Equity Tier 1 ratio of 8.375%, being the sum of the First Pillar regulatory minimum (4.5%), the Capital Conservation Buffer (1.875%) and an additional Second Pillar requirement (2%); a minimum requirement of total capital ratio of 11.875%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.875%) and an additional Second Pillar requirement (2%);
– the management of non-performing loans (NPLs) was the subject of particular attention by the Board, also in consideration of the importance attributed to it by the ECB, which, through the Joint Supervisory Team (JST), exercised and systematically monitored the decisions made by the Bank in this area. So far, no NPLs have been sold, as the Bank decided to manage them on its own. Even though we think that there were good reasons for preferring this option, we noted that the Bank has updated its NPL strategy, subject to periodic assessment by the Board of Directors and discussion with the European Supervisor, including the possibility of selling NPLs in order to achieve the strategic objective of reducing them considerably;
– work continued on the preparation of the application for validation of the Bank's internal rating system (AIRB), as part of a process that will involve us in 2018 as well;
– since 1 January 2018, the Bank has been working on preparations for the application of IFRS 9. Compared with IAS 39, adopting IFRS 9 is likely to produce an increase in adjustments to performing and non-performing exposures and on the portfolio of financial instruments, with an effect on the consolidated CET1 ratio of approximately 16 basis points. However, since the Bank took advantage of EU Regulation 2017/2395, which allows

the effects deriving from immediate application of IFRS 9 to be mitigated, the overall impact on primary capital is not significant for 2018; the effect on consolidated equity according to preliminary calculations amounts to Euro 43 million, net of tax, including the effects of the sales envisaged in the NPL Strategy;

- the Bank has been involved in the activities necessary for the adjustment - from 1 January 2018 - to the MiFID II regulations, which brought about significant innovations in the field of investment services;
- at 31 December 2017, two TLTRO-II operations were in place with the European Central Bank for a total of 4,600 million. The first one of 1,100 million was activated in June 2016 and will expire on 24 June 2020; the second one of 3,500 million was activated in March 2017 and will expire on 24 March 2021. The operations, originally at a zero interest rate, accrued negative interest in favour of the Bank, as it granted loans above the assigned benchmark.
- the Bank accounted for contributions to the Resolution and Guarantee Funds of Euro 26.892 million; to this amount we have to add the 26.022 million writedown of the quota held in the Atlante Fund, set up to rescue troubled banks, and the 3.089 million contribution for charges related to the FITD voluntary scheme's intervention in the CR Cesena crisis;
- the performance of a second level impairment test of the entire business, in compliance with ESMA (European Securities and Markets Authority) Document no. 725/2012, identified a Group economic value of 3,972 million euro, which is 1,293 million euro higher than consolidated equity;
- on 8 September 2017, the Bank acquired full control of Banca della Nuova Terra S.p.A (BNT), which the Bank already held 9.61%; with this transaction, which did not have any impact on the share capital, the Group is already operating through its subsidiary in the assignment of a fifth of salary or pension.

The main activities in 2017 are described in detail in the report on operations. We can confirm that, to the best of our knowledge, the underlying decisions have been taken in compliance with the law, the articles of association and the provisions issued by the Italian supervisory authorities (Bank of Italy and Consob) and the European authorities (ECB and ESMA).

Significant subsequent events

Two events worthy of mention took place after the end of 2017:

- On 20 March 2018 the Constitutional Court declared that the Reform of Cooperative Banks introduced by Law 33 of 24 March 2015 was legitimate. We will verify that the Bank adapts in full compliance with the law;
- in October 2017, the Bank signed a letter of intent with Fondazione Cassa di Risparmio di Cento to look into the possibility of acquiring a controlling interest in the share capital of Cassa di Risparmio di Cento. The Board of Directors decided to propose, during the extraordinary part of this

Shareholders' Meeting, the attribution of a mandate pursuant to art. 2443 of the Italian Civil Code to increase the share capital, with the exclusion of option rights, to service the potential acquisition of a majority stake in the share capital of Cassa di Risparmio di Cento, in accordance with the notice of calling.

Compliance with the principles of proper administration

During the year, we acquired information from the Directors, the General Management and the heads of the various company departments. To the best of our knowledge, we can exclude that the Bank carried out transactions that are manifestly imprudent or risky, in potential conflict of interests not properly managed, in contrast with the principles of correct administration or with Bank resolutions or such as to compromise the integrity of its assets.

We also believe that the Bank did not arrange and is not party to atypical or unusual transactions with third parties, companies of the Banking Group or other related parties.

With regard to related-party transactions, pursuant to art. 2391-bis of the Italian Civil Code, we confirm that the Board of Directors has complied with the Regulation issued by Consob Decision 17221/2010 and subsequent amendments, the Bank of Italy's instructions on "Risk-taking activities and conflicts of interest with related parties" and the related internal regulations. Such transactions were settled on market terms or, in the absence of suitable comparative parameters, at cost and, in all cases, based on an assessment of the objective mutual benefit and propriety. We hereby certify that the transactions referred to in art. 136 of the Consolidated Banking Act were unanimously approved by the Board of Directors and with the favourable vote of all members of the Board of Statutory Auditors and, in any case, in compliance with the regulatory provisions.

Adequacy of the organisational structure

The dynamics of the market, the intense regulatory evolution and the requests of the European Supervisor are the basis for the Bank's determination to continue the process of strengthening its organisational structure.

More specifically, a quantitative and qualitative strengthening of the control functions and of the offices involved in running the credit and loans area has been achieved, both as regards implementation of the Bank's credit policies in general, and as regards the management of non-performing positions.

Also in view of the future implementation of the Bank's strategies, during the course of 2017 various working groups were set up to complete its organisational structure.

To achieve this objective it was felt necessary to have recourse, albeit temporarily, to the support of external consultants.

In general, we are able to say that constant efforts have been made to strengthen and refine the procedures to allow the Bank to adapt the organisational structure to the new requirements and indications formulated by the Supervisory Authority.

Taking into account the information acquired during the course of our audits, by taking part in meetings of the Board of Directors, the Chairman's Committee and the Control and Risk Committee, and also based on the results of the activities performed by the Internal Audit Department and the second level control functions, we found the organisational structure to be substantially adequate with respect to the activities carried out so far. However, we agree that there is still a need to continue the process of strengthening and adapting the organisational system, from both a qualitative and quantitative point of view, to allow the Bank to complete the various projects that are already planned and be ready to face the challenges involved in the technological, institutional and regulatory developments over the coming years.

Adequacy of the system of internal control

We have monitored the overall functionality of the internal control system, with particular reference to the effectiveness and coordination of the structures and functions assigned to this task. This monitoring involved constant interaction with the second and third-level control functions (Internal Audit, Risk Management, Compliance and Anti-Money Laundering) in order to check compliance with corporate rules and procedures, as well as the adequacy and effectiveness of the overall system of internal control, with particular reference to the management and control of risks.

Specifically, we interacted with:

– the Internal Audit Department, which is responsible for checking the adequacy and effectiveness of the system of internal controls and the related processes; in collaboration with this Department, which has performed its controls using a risk-based approach, we have also carried out checks at the branches, with the purpose of ascertaining compliance with the operating procedures, as well as finding any weaknesses in the peripheral structure. In addition, at the planning stage, we agreed the audit work to be performed with the Internal Audit Manager and periodically during the year assessed the outcome of their checks and the steps taken by the Bank in areas that could be improved. In addition to what had been planned, this Department carried out specific checks and provided operational support with a view to satisfying particular requests by the JST and the Bank of Italy, with us always being promptly informed about the outcome;

– with the Risk Management Function we monitored the effectiveness of the safeguards put in place for the prevention, measurement and mitigation of the various types of risk, also to comply with the recommendations of the European Supervisory Authority. The Directors' Report provides full information about the actions taken to manage risk, focusing on their evolution as a result of the more intense and coordinated banking supervision exercised at a European level. The increased request for skill specialisation was met by the reorganization of the Office, as well as by greater efficiency and professionalism on the part of the staff. Specific interventions have been reserved for the process of defining the Risk Appetite Framework (RAF), which is periodically subject to revision, with a view to increasing its degree of sophistication, specificity and harmony with other key business processes. The processes of determining capital adequacy (ICAAP - Internal Capital Adequacy Assessment Process) and liquidity (ILAAP - Internal Liquidity Adequacy Assessment Process) also employ increasingly complex elaborations and assessments that are based on the use of increasingly coherent risk simulation and modelling techniques. We can confirm that, as far as our sphere of competence is concerned, we did not find any significant critical issues in regard to these processes;

– with the Compliance Unit, establishing constant dialogue regarding the examination and assessment of certain topics within the regulatory framework applicable to the Bank and arising from domestic and international supervisory authorities. Again in 2017, this function continued to be strengthened, both in terms of staff and with regard to the methods and topics covered by its scope, with the aim of further increasing the efficiency of the operating model adopted in 2016, which is defined as achieving "widespread compliance". Particularly active was the control exercised by the Compliance Unit on consumer protection (investment services, transparency, usury, privacy, handling complaints, etc.) and settlement of conflicts of interest (related parties, associated persons, remuneration policies, etc.). In any case we can confirm that we have been able to ascertain that there is effective supervision of the risks for which it is responsible, also through periodic discussions with the Unit;
– the Anti-Money Laundering Function, which has made available detailed information about the current situation, the related improvements in progress and those to be implemented, as well as about the assessment of compliance with current regulations. This information was obtained from the reports prepared about the work performed, which have been made more incisive by the strengthening of the system of controls, as well as from specific checks and meetings. As can be seen in the AML Function's annual report, it continued to make adjustments to comply with the provisions of the IV Anti-Money Laundering Directive, helping to carry out the action plan approved by the Bank to eliminate certain weaknesses and accept the recommendations expressed during the inspections performed by the Supervisory Authority in this area;
– with the Validation Function, which in 2017 was asked to carry out the important second level control activities as part of the processes involved in internal model validation for the Advanced Internal Ratings-Based (AIRB) approach, systematically interacting with the Supervisory Authority.

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

Adequacy of the administrative-accounting system. Financial Reporting Officer.

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

We can confirm that the Financial Reporting Officer, with whom the Board has maintained close coordination, has issued his attestation within the terms of the law regarding:

- the adequacy and effective application of the administration and accounting procedures for the preparation of the financial statements at 31 December 2017;
- their agreement with the underlying accounting records and entries;
- the ability of the financial statements to present a true and fair view of the economic and financial position of the bank.

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

During 2017, particular attention was paid by the Board to the project to adapt to the new accounting standards (IFRS 9 and IFRS 15); above all in relation to IFRS 9, meetings were held with the manager of the specifically established working group, and with the Independent Auditors. It should also be noted that the issue was also the subject of analysis and interventions by the Supervisory Authority which made requests for in-depth analysis and made observations on the implementation plan of the new standard.

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

We confirm that the Bank has drawn up the "Report on corporate governance and ownership structures" pursuant to art. 123-bis of the TUF and that the Board of Directors, in the meeting held on 23 March 2017, approved the text that was published on the Bank's website. In this regard, we would remind you that, as in previous years, the Bank has decided not to formally adhere to the "Code of Conduct of Listed Companies" published by Borsa Italiana S.p.A, also in consideration of its particular nature as a

***Immense and stormy**, 1986/'87*
Oil on board, cm. 160.5 x 160.5
Signed on the lower right "Gini"

The expanse of the sea in the foreground, the sky in the background that weighs immense and storm-threatening over the entire composition and the thin line of the horizon in the centre, in which a range of mountains emerges very far away. An example of painting pure feeling.
With the minimum of means Gini succeeds in maximising the effect of immensity combined with that of threat, and with the simple juxtaposition of flat linear surfaces, without representing anything, he builds the here and there of things perfectly, their spatial relationships and the prospective depth of the horizon.
Everywhere in the painting you feel this sense of immensity, in the short close-up underlined by the spheres, in the very thin – and therefore very distant – profile of the mountains on the horizon and in the stormy sky that, with its immensity, occupies three quarters of the composition.
Gini here perfectly captures the moment of cosmic suspension and the thrill of waiting immobile that is generated when the storm is about to unleash, making the loneliness of the expanse of sea even more immense and fascinating.
It is the same romantic feeling of nature that in the nineteenth century animated the painting of Friedrich, translated here with very modern and almost abstract expressiveness.

FERRUCCIO GINI
(Villa di Chiavenna 1943)

Ferruccio Gini was born in Villa di Chiavenna on 6 March 1943. He began painting in 1962, when he worked in the Canavese area where he exhibited his first paintings.
He made his début in Valtellina with a major exhibition in March 1970 at the Palazzo Pretorio in Sondrio, where his innate tendency to a world of pure forms appears fully deployed in landscapes, in female figures and, later, also in interiors and still lifes, immersed in a rarefied atmosphere of metaphysical and almost abstract geometric clarity, veined with enigmatic and subtle lyricism, which constitutes the most authentic stylistic cypher.
What Gini proposes is not to resolve a natural object in its pure form, but to fix in its absolute purity his continuous questioning of things, to feel their mysterious fascination, their making reference to something that goes beyond reality.
His activity as a nautical instructor and man of the sea is not extraneous to this. In fact, it is from the sea that Gini draws that feeling of infinity that surfaces in his landscapes where he always represents the same thing, in continuous variations, a horizon.
It is no coincidence that the exhibition in the cloister of St Eufemia in Como was entitled "Memories of the land, memories of the sea". With this exhibition in 1991 he took his leave from artistic activity, to return in 2001, after a ten-year silence, with those that he called "pictographs", images obtained by elaborating on the computer particulars of objects dilated by the photographic eye.

Landscape, horizons, 1986/’87
Oil on canvas, cm. 80 x 100
Signed at the bottom left “Gini”

The horizon as a mobile visual border of the infinite is the theme of almost all of Gini’s landscapes, tending towards an essential geometric purity.
On the horizon the sky detaches itself from things and projects them in an infinite immensity that the difference in level between the flat subtlety of the foreground and the vastness of the celestial space renders with extraordinary visual effectiveness.
In the immobile and metaphysical silence that envelops the composition, the sphere, an indication of the vital presence of the Ego, measures the entire spatial depth of the horizon, on whose line the wavy profile of the mountains is drawn, almost a coast, which also reveals the nature of the foreground. Not the flat horizontality of a plain, as one might think, but the vast expanse of the sea (or a lake) from which Ferruccio Gini, an expert navigator, always looks at the land.

cooperative bank. Nevertheless, the model approved by the Board of Directors expresses principles and provides a framework of rules and procedures that assure substantial consistency with the objectives of the Code.

We have carried out a self-assessment on the work performed in 2017 and can confirm our positive opinion as regards the functioning of the Board, the overall adequacy of its activities, the role played by the Chairman and the complementarity of its members' skills. The Board also verified that the requisites of independence, integrity and professionalism envisaged for Statutory Auditors remain valid, as well as compliance with the provisions regarding the aggregation of offices and the absence of impediments or forfeiture.

Instructions given to Group companies

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

– with regard to Banca Popolare di Sondrio (SUISSE) SA (100%), control activities are carried out by the Internal Audit Department of the Parent Company, which works with the subsidiary's internal auditors, given that there is no provision in Swiss law for a Board of Statutory Auditors as a control body. This company operates in accordance with the instructions issued by FINMA, the authority that supervises financial activities in Switzerland. Based on the results of the checks carried out by the Parent Company's Internal Audit Department and the information obtained from the management of BPS Suisse, the Board has not identified any critical matters or information to report about compliance by the subsidiary with the regulations. Based on EY SA's audit report and considering the information obtained from discussions with the directors and managers of BPS Suisse, we can confirm that no matters worthy of mention have come to light;

– with regard to Factorit spa (60.5%), we principally worked via our interactions with the Internal Audit Department of the Parent Company, which provides the subsidiary with internal audit services on an outsourcing basis; coordination with Factorit's Statutory Auditors is guaranteed by the fact that one of them is also a Statutory Auditor of the Parent Company;

– with regard to Popso Covered Bond S.r.l (60%), a company formed to issue covered bonds, we have taken into consideration the report issued by BDO Italia Spa, which currently acts as asset monitor, and the work performed by the Internal Audit Department, which issues an annual report on the covered bond issue programme, as required by Bank of Italy Circular 285;

– for Banca della Nuova Terra (100%), we have planned to carry out checks in 2018, given that it began operating as part of the Group in January 2018;

– in relation to Sinergia Seconda S.r.l (100%), which essentially provides the bank with supporting services, and Pirovano Stelvio S.p.A (100%), in carrying out our activities, we benefited from the fact that certain members of this Board are also members of their Boards of Statutory Auditors. We also maintained relations with EY S.p.A, the auditors of both companies, and obtained all necessary information about the economic and financial aspects of the related financial statements.

Lastly, we can confirm that, with the support of the interventions carried out by the Bank's Control Functions that periodically meet with the equivalent functions of the subsidiaries, we have monitored Group companies' implementation of the directives and regulations issued by the Parent Company.

Relations with the Supervisory Authorities

Since November 2014, the Bank is subject to the ECB's Single Supervisory Mechanism (SSM) pursuant to Regulation (EU) 1024/2013 dated 15 October 2013.

The most significant facts relating to the ECB supervision in 2017 include, with reference to JST:

– the close collaboration for the definition of the strategic plan concerning the management of NPLs;
– periodic, in-depth discussions on the subject of AIRB to arrive at the formal start-up of the authorisation process for the validation of the Bank's internal rating models.

The Bank has constant links and discussions with the JST, via the functions and central offices involved, in order to define, assess and update the activities already completed, and those scheduled, together with those in charge of the Team.

The dialogue with the JST was always constructive and, in 2017, it also involved the Board of Statutory Auditors.

With reference to the work performed by the Bank on the improvements suggested by the JST, the Board has always noted attention, awareness and a spirit of collaboration, and has checked that the Bank has implemented methodological and organisational action designed to improve efficiency and effectiveness, as well as to contain risk. Specifically, we can confirm that the Bank has commenced and partly completed a complex process of alignment with the ECB's instructions on the monitoring, mitigation, assessment and control of the various types of risk.

During the year, availing ourselves of the work performed by the Internal Audit Department, we continued to periodically monitor the progress and punctuality of the initiatives taken by the Bank to provide adequate answers to the findings and suggestions made by the Supervisory Authorities, following inspections or investigations into specific topics. In particular, we refer to:

– an inspection by the Bank of Italy to verify compliance with anti-money laundering legislation in the identification of politically exposed persons (PEPs) and related procedures for adequate "enhanced due diligence". The related inspection report, to which the Bank replied on 6 October 2017, was notified on 9 August 2017;

- checks carried out in December 2017 and January 2018 by the Bank of Italy on the transparency of transactions and banking services at fifteen branches of the Bank. No notice has yet been given with regard to the results;
- ECB inspection in the period December 2016 to March 2017 on the accuracy of the capital calculation. The particular focus of the inspection was on the increases in capital and issues of subordinated bonds over the last 6 years and, therefore, the possible existence of mechanisms by which subscriptions might have been financially supported, directly or indirectly, by the Bank. Following these investigations, which in substance did not reveal any significant irregularities, the Bank has taken steps to adopt operating policies and instruments to further improve the effectiveness of monitoring the risk associated with direct or indirect financing to support the purchase of financial instruments;
- "deep dive" analysis of rate and market risk, initiated by the JST in the first half of 2017 and continued with requests for data, teleconferences and direct meetings with representatives of the Risk Function;
- "deep dive" analysis between September 2016 and April 2017 of the corporate culture and involved the executive management, the members of the Board of Directors, the head office staff and the branch network, allowing the Bank a fruitful and frank discussion with the ECB on the issues under review;
- supervisory dialogue with the ECB on the subject of IFRS 9 aimed at assessing both the degree of preparation of the Bank to the new accounting rules, and the impact of the adoption of these principles on processes, infrastructure and capital.

Appointment of new auditors

As KPMG S.p.A's nine years as auditors came to an end in 2017, the Bank, as a Public Interest Entity (PIE), together with the Board of Statutory Auditors, carried out the procedure for choosing a new firm of auditors for the period 2017-2025, in compliance with art. 16, paragraph 3 of the delegated Regulation no. 537/2014.

On the basis of this procedure, the Board of Statutory Auditors, pursuant to article 16, paragraph 2 of the Regulations, prepared a motivated recommendation proposing two names and an indication of which of the two was preferred.

This recommendation was sent to the Board of Directors on 17 March 2017 and presented to the Ordinary Shareholders' Meeting, held on 29 April 2017, which appointed EY S.p.A as Independent Auditors for the nine-year period 2017-2015.

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

In compliance with the provisions of article 17, paragraph 9, lett. a) of Legislative Decree 39/2010 and article 149-duodecies of Consob Regulation

11971, as well as articles 4 and 5 of EU Directive 537/2014, we would point out the fees for services rendered to the Group by the Independent Auditors during 2017.

With regard to the assignments given to KPMG S.p.A, which carried out the audit during the period January-March 2017, we hereby certify that we carried out the activities to verify the independence of the auditing firm, which completed its assignment with a report dated 31 March 2017 certifying the profit for inclusion in capital for supervisory purposes.

With reference to EY S.p.A, the fees for audit services are divided as follows among the various companies in the Group (amounts in thousands of euro, excluding reimbursements of out-of-pocket expenses and VAT):

– Banca Popolare di Sondrio	224
– Sinergia Seconda S.r.l	5
– Factorit S.p.A	48
– Popso Covered Bond S.r.l	5

The fee for Factorit S.p.A also includes 16 thousand euro for the limited examination of the accounting schedules prepared to determine the results at 31 December 2017 for their inclusion in the calculation of capital for supervisory purposes.

For services other than auditing ("other services"), the Bank agreed to pay EY S.p.A Euro 20 thousand for preliminary and preparatory activities for the limited audit of the non-financial statement of the Banca Popolare di Sondrio Group, with reference to Decree 254/2016.

In addition, there were fees for EY FBA S.p.A, a company linked to EY S.p.A, of 40 thousand euro for assistance relating to the assessment of the financial risk control framework.

With regard to the activities and fees for the items mentioned above as "other services", which were requested from EY S.p.A and EY FBA S.p.A, we can certify that we authorised them pursuant to arts. 4 and 5 of EU Regulation no. 537/2014.

In addition to the above, EY SA was paid 285,000 thousand euro for Audit Services performed on the annual report of Banca Popolare di Sondrio (SUISSE) SA.

We hereby certify that we obtained the report on the independence of the audit firm EY S.p.A on 5 April 2018 and confirm that we do not consider there to be any critical aspects regarding independence or causes of incompatibility pursuant to Articles 10, 10-bis and 17 of the Consolidated Law on Legal Audits and related implementing provisions.

Other information required by CONSOB Communication 1025564 of 6 April 2001 and subsequent updates

In accordance with the above requirements, we confirm that:

– the Bank received 7 complaints (14 in 2016) about investment services, of which 1 was accepted, leading to the Bank repurchasing the senior corporate bonds for a nominal value of 100 thousand euro, and 6 were rejected without further claims by the customers. Considering also the small number of complaints regarding the transparency of transactions and banking and financial services, as well as their type, it can be deemed that the Bank's operations are carried out with substantial fairness and in compliance with the rules;

– we received a complaint pursuant to art. 2048 of the Italian Civil Code by a member regarding the request for a copy of the shareholders' register on digital media. Having carried out a specific investigation on the applications presented and having taken note of the answers provided by the Bank's Chairman in two subsequent letters, we have come to the conclusion, also communicated to the member, that there have been no acts contrary to the law attributable to the Bank;
– opinions were given in the cases where this is required by law and or by the Supervisory Authorities.

Non-financial statement

We have verified that the Bank fulfilled its obligations under Legislative Decree 254/2016 and drafted the Consolidated Non-Financial Statement in 2017 in compliance with the provisions of Articles 3 and 4 of the said decree. The Bank made use of the exemption from the obligation to draw up a separate non-financial statement pursuant to art. 6, paragraph 1 of the decree, opting for a consolidated non-financial statement pursuant to art. 4.

The analysis of the statement shows that the topics selected by top management as most strategic for the Bank are: economic support to the community, financial and patrimonial solidity, attention to the customer, autonomy and integrity in corporate conduct, enhancement of the personnel.

Lastly, we would like to acknowledge that EY S.p.A has provided the required attestations of conformity of the information provided pursuant to the said legislative decree with reference to the principles, methodologies and methods established for their preparation, also in accordance with the Consob Regulation adopted with resolution no. 20267 on 18 January 2018.

Financial Statements and Report on Operations

We have examined the financial statements at 31 December 2017, which are presented today for your examination and approval. In this regard, we confirm that they were approved by the Board of Directors of Banca Popolare di Sondrio on 23 March 2018 and, on that date, they were provided to us together with the Directors' report on operations and the other obligatory documentation.

You are reminded that the financial statements have been audited by EY S.p.A, the appointed legal auditor of the accounts and the separate and consolidated financial statements. We hereby certify that, on 5 April 2018, the Independent Auditors issued their audit report pursuant to art. 14 of

Legislative Decree 39/2010 and art. 10 of the Regulation (EU) 537/2014, the content of which respects the innovations recently introduced, in the form, certifications and information provided, following implementation of the new regulation envisaged by Legislative Decree no. 135/2016.

The audit report, published together with the separate and consolidated financial statements, does not contain any qualifications or emphases of matters. In addition, in accordance with the instructions, the auditing standards applied are explained and the report mentions as "key aspects" that emerged during the audit the classification and valuation of loans to customers in the separate and consolidated financial statements.

On 5 April 2018, the audit firm submitted to us the additional report envisaged by art. 1 of the Regulation (EU) no. 537/2010. This report does not highlight the presence of significant weaknesses in the internal control system for the preparation of financial information, which are worth bringing to the attention of the Board of Directors. The report also attests that during the audit no situations of non-compliance with laws and regulations or with rules contained in the articles of association were found.

Finally, as regards the Report on Operations to the financial statements approved by the Board of Directors, we hereby certify that it is drafted in compliance with art. 81-ter of Consob Resolution no. 11971 of 14 May 1999 ("Issuers' Regulation"). The financial statements are also accompanied by the certification referred to in paragraph 5 of article 154-bis of Legislative Decree 58/1998, drawn up and signed by the Managing Director and by the Manager responsible for preparing the corporate accounting documents.

Although the auditing firm is responsible for performing the accounting checks, the duty of the Statutory Auditors is to monitor the preparation of the financial statements in both formal and substantive terms.

We have therefore checked that the directors complied with the Civil Code and the instructions issued by the Supervisory Authorities in matters concerning the preparation of the financial statements as regards the adoption of correct accounting principles, agreement between the contents of the financial statements and the company's affairs during the year and the completeness of the directors' report on operations.

In performing work on the financial statements, we maintained contact with the auditors of EY Spa. In this regard, we can confirm that:

– the financial statements for 2017 reflect the balances on the books of account and have been prepared in accordance with the IAS/IFRS adopted by the European Commission and applied according to the principles and methods explained in the Notes;
– the report on operations can be considered exhaustive and is consistent with the figures and other information provided in the financial statements and explanatory notes; this report describes the operations and events arising during the year, both with regard to the related economic and

financial information, and with reference to the “other information”, such as management of the risks relating to the activities of the bank, human resources, the criteria underlying the bank’s mutual activities, promotional and cultural activities;

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

Consolidated Financial Statements

With regard to the consolidated financial statements, which report a profit of 159.210 million euro compared with 98.599 million in 2016, we note that they were correctly prepared in accordance with the relevant accounting standards, in terms of the definition of the scope of consolidation and with regard to compliance with the relevant regulations.

In doing so, we were able to evaluate the functioning of the underlying systems for feeding in data and checking it.

Closing remarks

Shareholders,

given all of the above and having taken note of EY S.p.A’s audit reports, the attestations issued by the Managing Director and Financial Reporting Manager, to the extent of our sphere of competence, we have no objections to the proposals made by the Board of Directors to the Shareholders’ Meeting, including the allocation of the profit for the year.

With the approval of the financial statements for the year ended 31 December 2017, the mandate that you gave us comes to an end.

In thanking you for your trust in us, we would invite you to appoint the Board of Statutory Auditors for the three-year period 2018-2020 and to decide on their remuneration.

Sondrio, 5 April 2018

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

Equity investments

QUOTED ON PAGE 44

the portfolio of equity investments
was essentially unchanged during the year

Subsidiaries

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FACTORIT SPA

BANCA DELLA NUOVA TERRA SPA

PIROVANO STELVIO SPA

SINERGIA SECONDA SRL

POPSO COVERED BOND SRL

RAJNA IMMOBILIARE SRL

SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL

Main associated companies

UNIONE FIDUCIARIA SPA

ARCA HOLDING SPA

ALBA LEASING SPA

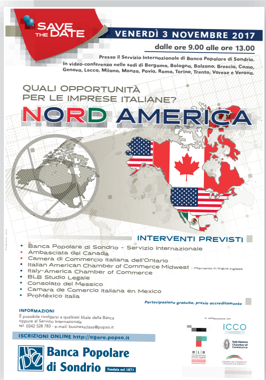
ARCA VITA SPA

POLIS FONDI SGR PA

International unit

a range of effective services and products,
a network of prestigious partners and a wealth
of experience are available to businesses to facilitate their
entrepreneurial decision to open up to the markets

QUOTED ON PAGE 48



Online Bank

QUOTED ON PAGE 52

all digital banking services meet the needs
of users and are accessible easily and securely,
at your fingertips, at any time and in any place

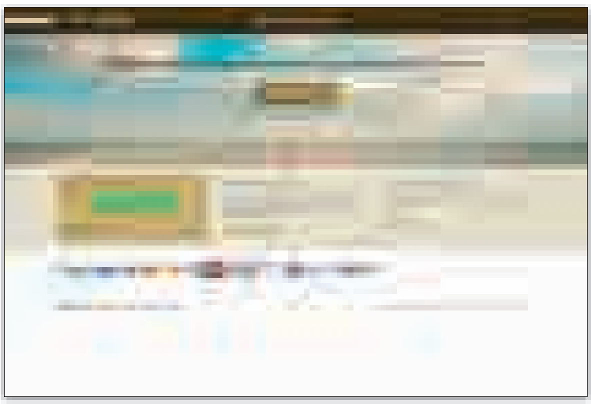
SCRIGNO *Internet Banking*

completely renewed **THE NEW DIGITAL STYLE**

- more **EASY**... **intuitive** user experience
- more **IMMEDIATE**... all **under control**, with a glance
- more **FUNCTIONAL**... everything in its **place**
- more **FAST**... all operations in **a few clicks**

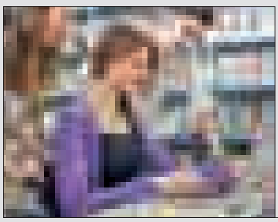
SCRIGNO *Pago Facile*

it is the Internet portal that allows you to pay taxes and utilities easily, quickly and safely



The Bank and young people

special attention to the younger generations
with tailor-made products for all ages



MULTIplus account

a current account dedicated to individuals and families, offering a varied combination of services

QUOTED ON PAGE 53

Make it... according to your needs!

Complete and flexible!

BONUS under 27

Are you under 27? **MULTIplus** awards you a special discount on the monthly fee

BONUS credit your salary or pension

Do you have your salary or pension credited to your current account?

With **MULTIplus** you can get a **reduction** on the monthly fee

BONUS FOR BPS SHAREHOLDERS

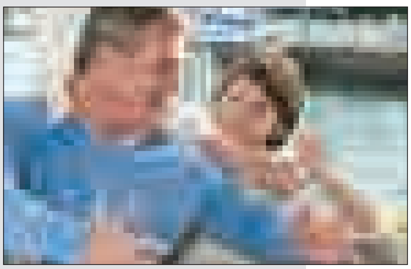
Are you a shareholder with at least 100 shares of Banca Popolare di Sondrio?

MULTIplus offers you an **exclusive benefit** on the monthly fee

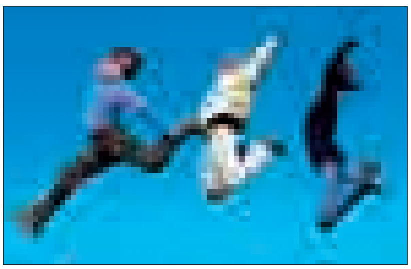
Carta +ma

the prepaid rechargeable card with IBAN that has multiple features in a single payment instrument.
Starting from the age of 14

+young



+free



+complete

Amico Quinto

the assignment of a fifth of salary or pension:
the ideal loan for employees and retirees

QUOTED ON PAGE 45

The worry-free loan

SIMPLE
because there is no need for guarantees or expense vouchers

SAFE
because it offers complete insurance protection (life and job loss) at the expense of the bank

SUSTAINABLE
because repayments are in line with the income received

BNT BANCA DELLA NUOVA TERRA
GRUPPO Banca Popolare di Sondrio

Advance on accrued end-of-service benefits

QUOTED ON PAGE 53

reserved exclusively for retired public sector employees, it allows pensioners to obtain an advance on their accrued end-of-service benefits

Anticipazione tfs

Getting the accrued end-of-service benefits in advance today is possible!

Asset management

a balanced commercial proposal allows us to offer
the right answer to the different needs of savers

QUOTED ON PAGE 53

GPM
ASSET MANAGEMENT

GPF Multimarca
ASSET MANAGEMENT
IN INTERNATIONAL FUNDS AND SICAVS

ARCA VITA

SIDERA FUNDS
SICAV

Popso (SUISSE)
Investment
Fund SICAV

MUTUAL
FUNDS

ETHICAL
MUTUAL
FUNDS

Etica SGR

Bancassurance and supplementary pension schemes

QUOTED ON PAGE 53

a constantly expanding range of proposals,
to offer complete and innovative solutions

ARCA ASSICURAZIONI

ARCA VITA

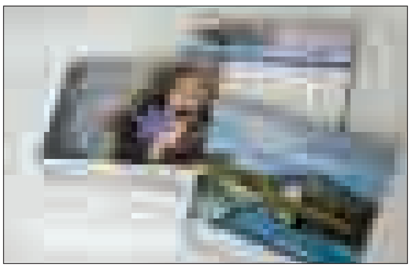
Arca Previdenza

Publishing

for many decades, dissemination and sharing of cultural values with contents aimed at the peculiarities of the natural and human environment of the territory served

QUOTED ON PAGE 66




Cultural appointments

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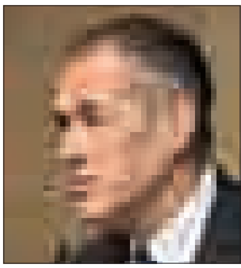
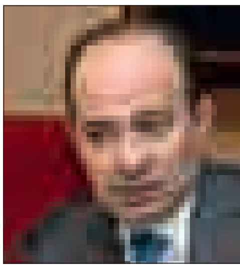
in line with tradition,
an uninterrupted dialogue with the community



Dott.
CARLO COTTARELLI
3 February 2017
Sondrio, "Fabio Besta" Hall



Prof. avv.
FRANCO ANELLI
13 October 2017
Sondrio, "Fabio Besta" Hall

SIXTH MEETING WITH THE
NOBEL PRIZE FOR LITERATURE
29 December 2017
Congress Hall in Bormio Terme

93rd World Savings Day

always focused on the school world,
the Bank celebrated this Day in the presence of students
from the province of Sondrio, dedicating the meeting
to the memory of motorcyclist Marco Simoncelli

QUOTED ON PAGE 68

Gift to the Shareholders

lights and colours blend cleverly in the images gathered in the photo book "Painted Alps". It is the traditional gift reserved for Shareholders, for them to see and be moved by the delicacy of a nature that is still capable of amazing us

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

BALANCE SHEET
(in euro)

ASSET ITEMS			31-12-2017		31-12-2016
10.	CASH AND CASH EQUIVALENTS		**112,049,023**		**96,466,584**
20.	FINANCIAL ASSETS HELD FOR TRADING		**607,920,318**		**1,014,376,806**
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		**351,053,774**		**163,116,546**
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**6,787,508,046**		**6,643,534,743**
50.	HELD-TO-MATURITY INVESTMENTS		**4,132,571,684**		**117,022,971**
60.	LOANS AND RECEIVABLES WITH BANKS		**2,815,465,621**		**2,759,906,193**
70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**21,819,028,458**		**21,331,910,550**
100.	EQUITY INVESTMENTS		**506,727,965**		**487,346,548**
110.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**184,145,045**		**170,969,964**
120.	INTANGIBLE ASSETS		**14,396,056**		**14,313,189**
130.	TAX ASSETS		**385,613,399**		**437,950,534**
	a) current	41,717,531		64,074,927	
	b) deferred	343,895,868		373,875,607	
	b1) of which as per Law 214/2011	307,112,948		335,353,219	
150.	OTHER ASSETS		**305,819,797**		**350,831,386**
	TOTAL ASSETS		**38,022,299,186**		**33,587,746,014**

THE CHAIRMAN
Francesco Venosta

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

EQUITY AND LIABILITY ITEMS			31-12-2017		31-12-2016
10.	DUE TO BANKS		**5,635,658,170**		**2,249,796,181**
20.	DUE TO CUSTOMERS		**26,244,477,812**		**24,913,251,427**
30.	SECURITIES ISSUED		**2,784,807,929**		**3,089,135,232**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**51,079,682**		**87,615,749**
80.	TAX LIABILITIES		**27,779,910**		**30,470,573**
	b) deferred	27,779,910		30,470,573	
100.	OTHER LIABILITIES		**629,221,765**		**666,090,044**
110.	POST-EMPLOYMENT BENEFITS		**42,848,291**		**42,271,279**
120.	PROVISIONS FOR RISKS AND CHARGES:		**179,477,008**		**174,329,787**
	a) pension and similar obligations	141,658,773		130,873,531	
	b) other provisions	37,818,235		43,456,256	
130.	VALUATION RESERVES		**38,642,710**		**37,356,524**
160.	RESERVES		**856,064,897**		**803,540,688**
170.	SHARE PREMIUM RESERVE		**79,005,128**		**79,005,128**
180.	SHARE CAPITAL		**1,360,157,331**		**1,360,157,331**
190.	TREASURY SHARES (-)		**(25,321,549)**		**(25,321,549)**
200.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**118,400,102**		**80,047,620**
	TOTAL LIABILITIES AND EQUITY		**38,022,299,186**		**33,587,746,014**

MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

INCOME STATEMENT

(in euro)

	ITEMS		2017		2016
10.	INTEREST AND SIMILAR INCOME		547,390,208		579,229,241
20.	INTEREST AND SIMILAR EXPENSE		(121,713,804)		(164,028,900)
30.	**NET INTEREST INCOME**		**425,676,404**		**415,200,341**
40.	FEE AND COMMISSION INCOME		277,187,608		263,785,646
50.	FEE AND COMMISSION EXPENSE		(14,453,872)		(14,274,152)
60.	**NET FEE AND COMMISSION INCOME**		**262,733,736**		**249,511,494**
70.	DIVIDENDS AND SIMILAR INCOME		18,623,815		18,191,127
80.	NET TRADING INCOME		37,930,083		12,589,330
100.	**GAINS/LOSSES FROM SALES OR REPURCHASES OF:**		95,243,843		76,011,011
	a) loans and receivables	(102)		(79)	
	b) available-for-sale financial assets	94,795,083		76,330,683	
	d) financial liabilities	448,862		(319,593)	
110.	NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		4,247,438		4,307,436
120.	**TOTAL INCOME**		**844,455,319**		**775,810,739**
130.	NET IMPAIRMENT LOSSES ON:		(274,949,214)		(260,808,124)
	a) loans and receivables	(231,983,535)		(232,177,373)	
	b) available-for-sale financial assets	(35,801,445)		(25,188,829)	
	d) other financial transactions	(7,164,234)		(3,441,922)	
140.	**NET FINANCIAL INCOME**		**569,506,105**		**515,002,615**
150.	ADMINISTRATIVE EXPENSES:		(438,614,938)		(443,810,412)
	a) personnel expenses	(189,379,026)		(182,024,478)	
	b) other administrative expenses	(249,235,912)		(261,785,934)	
160.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		4,946,309		(1,279,781)
170.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(14,362,189)		(14,190,987)
180.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(14,118,928)		(13,433,218)
190.	OTHER OPERATING INCOME/EXPENSE		68,152,303		64,901,082
200.	**OPERATING COSTS**		**(393,997,443)**		**(407,813,316)**
210.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		(622,325)		(1,680,491)
240.	NET GAINS ON SALES OF INVESTMENTS		12,354		10,374
250.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**174,898,691**		**105,519,182**
260.	INCOME TAXES		(56,498,589)		(25,471,562)
270.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**118,400,102**		**80,047,620**
290.	**PROFIT FOR THE YEAR**		**118,400,102**		**80,047,620**

STATEMENT OF COMPREHENSIVE INCOME

Items/Amounts		2017	2016
10.	**Profit for the year**	**118,400,102**	**80,047,620**
	Other income items net of income taxes that will not be reclassified to profit or loss		
40.	Defined-benefit plans	(4,334,121)	(8,298,832)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
100.	Available-for-sale financial assets	5,620,307	(39,456,228)
130.	**Total other income items net of income taxes**	**1,286,186**	**(47,755,060)**
140.	**Comprehensive income (Item 10+130)**	**119,686,288**	**32,292,560**

STATEMENT OF CHANGES IN EQUITY

	Opening balance 31.12.2016	Change in opening balances	Opening balance at 1.1.2017	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations
Share capital:					
a) ordinary shares	1,360,157,331	–	1,360,157,331	–	–
b) other shares	–	–	–	–	–
Share premium reserve	**79,005,128**	**–**	**79,005,128**	**–**	**–**
Reserves:					
a) from earnings	803,540,688	–	803,540,688	52,963,473	–
b) other	–	–	–	–	–
Valuation reserves	**37,356,524**	**–**	**37,356,524**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**
Profit for the year	**80,047,620**	**–**	**80,047,620**	**(52,963,473)**	**(27,084,147)**
Equity	**2,334,785,742**	**–**	**2,334,785,742**	**–**	**(27,084,147)**

A dividend from the results for 2016 of € 0.06 per share, totalling € 27.203 million, was paid from 24 May 2017. The directors have proposed a dividend of € 0.07 from the results for 2017. This dividend is subject to approval by the shareholders and, accordingly, has not been reported as a liability in these financial statements.

The proposed dividend is payable from 23 May. The payout envisaged totals € 31.737 million.

STATEMENT OF CHANGES IN EQUITY

	Opening balance 31.12.2015	Change in opening balances	Opening balance at 1.1.2016	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations
Share capital:					
a) ordinary shares	1,360,157,331	–	1,360,157,331	–	–
b) other shares	–	–	–	–	–
Share premium reserve	**79,005,128**	**–**	**79,005,128**	**–**	**–**
Reserves:					
a) from earnings	735,497,376	–	735,497,376	68,482,578	–
b) other	–	–	–	–	–
Valuation reserves	**85,111,584**	**–**	**85,111,584**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**
Profit for the year	**100,064,082**	**–**	**100,064,082**	**(68,482,578)**	**(31,581,504)**
Equity	**2,334,513,952**	**–**	**2,334,513,952**	**–**	**(31,581,504)**

Changes during the year									
	Equity transactions								
Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income	**Equity at 31.12.2017**
–	–	–	–	–	–	–	**–**	**1,360,157,331**
–	–	–	–	–	–	–	**–**	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
(439,264)	–	–	–	–	–	–	**–**	**856,064,897**
–	–	–	–	–	–	–	–	-
–	**–**	**–**	**–**	**–**	**–**	**–**	**1,286,186**	**38,642,710**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**118,400,102**	**118,400,102**
(439,264)	**–**	**–**	**–**	**–**	**–**	**–**	**119,686,288**	**2,426,948,619**

Changes during the year								
	Equity transactions							
Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income	**Equity at 31.12.2016**
–	–	–	–	–	–	–	**–**	**1,360,157,331**
–	–	–	–	–	–	–	**–**	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
(439,266)	–	–	–	–	–	–	**–**	**803,540,688**
–	–	–	–	–	–	–	**–**	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**(47,755,060)**	**37,356,524**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**80,047,620**	**80,047,620**
(439,266)	**–**	**–**	**–**	**–**	**–**	**–**	**32,292,560**	**2,334,785,742**

CASH FLOW STATEMENT (Indirect method)

	31/12/2017	31/12/2016
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**506,945,649**	**465,646,527**
- profit for the year (+/-)	118,400,102	80,047,620
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	23,817,424	19,389,829
- net hedging gains (losses) (-/+)	–	–
- net impairment losses (+/-)	293,860,201	276,160,998
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	28,481,117	27,624,205
- provisions for risks and charges and other costs/revenues (+/-)	22,289,108	54,984,917
- unpaid taxes and duties (+)	56,498,589	25,471,562
- net impairment losses on assets held for sale, net of tax effect (+/-)	–	–
- other adjustments (+/-)	(36,400,892)	(18,032,604)
2. **Cash generated/absorbed by financing activities**	**(714,239,693)**	**(1,932,686,317)**
- financial assets held for trading	404,412,307	829,243,626
- financial assets at fair value through profit or loss	(189,936,224)	92,043
- available-for-sale financial assets	(172,952,059)	(410,226,174)
- loans and receivables with banks: sight	(26,889,185)	136,187,438
- loans and receivables with banks: other receivables	(27,526,043)	(893,587,838)
- loans and receivables with customers	(741,275,846)	(1,562,762,230)
- other assets	39,927,357	(31,633,182)
3. **Cash generated/absorbed by financial liabilities**	**4,303,618,964**	**1,507,295,191**
- due to banks: sight	41,700,457	148,467,485
- due to banks: other payables	3,361,554,144	26,619,549
- customer deposits	1,331,676,070	1,301,558,474
- securities issued	(300,203,741)	77,409,914
- financial liabilities held for trading	(57,501,407)	(26,290,629)
- financial liabilities carried at fair value	–	–
- other liabilities	(73,606,559)	(20,469,602)
Net cash generated/absorbed by operating activities	**4,096,324,920**	**40,255,401**

	31/12/2017	31/12/2016
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**59,825,369**	**38,481,709**
- sales of equity investments	–	–
- dividends collected from equity investments	13,128,167	11,013,976
- sales and reimbursements of held-to-maturity investments	46,685,633	27,453,390
- sales of property, equipment and investment property	11,569	14,343
- sale of intangible assets	–	–
- sale of business divisions	–	–
2. **Cash absorbed by**	**(4,112,923,678)**	**(47,719,411)**
- purchases of equity investments	(20,003,742)	(431,783)
- purchases of held-to-maturity investments	(4,051,180,871)	(18,289,799)
- purchases of property, equipment and investment property	(27,537,270)	(14,210,997)
- purchases of intangible assets	(14,201,795)	(14,786,832)
- purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**(4,053,098,309)**	**(9,237,702)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	–	–
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(26,984,147)	(31,481,504)
Net cash generated/absorbed by financing activities	**(26,984,147)**	**(31,481,504)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**16,242,464**	**(463,805)**

Key:
(+) generated (-) absorbed

RECONCILIATION

Line items	**31/12/2017**	**31/12/2016**
Cash and cash equivalents at beginning of year	96,466,584	96,965,094
Total net cash generated/absorbed in the year	16,242,464	(463,805)
Cash and cash equivalents: effect of change in exchange rates	(660,025)	(34,705)
Cash and cash equivalents at end of year	**112,049,023**	**96,466,584**

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

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

Banca Popolare di Sondrio S.C.p.A declares that these financial statements have been prepared in accordance with the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2017 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

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

The format of the financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by Legislative Decree 38/2005 and subsequent updates.

Section 2 *Basis of preparation*

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

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations. Considering the structure of deposits based essentially on customer current accounts, repurchase agreements and loans, mainly to retail customers and SMEs which the Bank monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the difficulties encountered by sovereign debt securities in the recent past, management is of the opinion that there are no critical areas that could negatively influence the Bank's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent updates.

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

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

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

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

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

Section 3 ***Subsequent events***

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 23/03/2018 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 4 ***Other aspects***

The accounting policies applied during the year under review are substantially consistent with those of 2016. The changes resulting from certain EU Regulations that came into force during the year did not have any significant impact on the financial statements.

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

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

The Bank defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the financial statements at 31 December 2017, as required by prevailing accounting standards and relevant regulation.

These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale.

The outcome of this work supports the carrying amount of these items at 31 December 2017. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a reduced growth and high levels of uncertainty about the prospects for recovery, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment which could, as in the previous year, experience rapid changes that are currently unforeseeable, with effects – even significant effects – on the amounts reported in the financial statements at 31 December 2017.

Standards already in force whose application became mandatory from the 2017 financial year or later:

- Commission Regulation (EU) 2017/1986 of 31 October 2017, which adopts IFRS 16 Leases, designed to improve the accounting treatment and reporting of lease contracts. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2019.

- Commission Regulation (EU) 2017/1987 of 31 October 2017, which adopts Clarifications of IFRS 15 «Revenues from contracts with customers». The amendments aim to clarify certain requirements and provide a further transitional facilitation for companies applying the standard. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2018.

- Commission Regulation (EU) 2017/1988 of 3 November 2017 adopting the amendments to IFRS 4 «Joint application of IFRS 9 Financial instruments and IFRS 4 Insurance contracts». The amendments to IFRS 4 aim to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 and the effective date of the new accounting standard on insurance contracts that replaces IFRS 4 (IFRS 17).
  The financial conglomerates referred to in the definition in Article 2, no. 14 of Directive 2002/87/EC can decide that none of its entities operating in the insurance sector within the meaning of Article 2, no. 8, letter b) of the same directive need to apply IFRS 9 to the consolidated financial statements for the financial years commencing before 1 January 2021, if all of the following conditions are met:
  a) after 29 November 2017, between the insurance sector and the other sectors of the financial conglomerate, no financial instruments other than financial instruments measured at fair value are transferred, for which the changes in fair value are recognised through profit or loss for the year from both the sectors involved in the transfers;
  b) the financial conglomerate indicates in the consolidated financial statements the group insurance entities applying IAS 39;
  c) the additional information required by IFRS 7 is provided separately for the insurance sector that applies IAS 39 and for the rest of the group that applies IFRS 9. Companies have to apply the Amendments to IFRS 4 from the date of commencement of their first financial year beginning on or after 1 January 2018.

  However, subject to the above conditions, financial conglomerates can choose to apply the Amendments to IFRS 4 from the start date of their first financial year beginning on or after 1 January 2018.

- Commission Regulation (EU) 2017/1989 of 6 November 2017 adopting Amendments to IAS 12 Income taxes – Recognition of deferred tax assets for unrealised losses. The amendments are intended to clarify how to account for deferred tax assets related to debt instruments measured at fair value. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2017.

- Commission Regulation (EU) 2017/1990 of 6 November 2017 adopting Amendments to IAS 7 Cash Flow Statement -Disclosure Initiative aimed at clarifying IAS 7 to improve information on the financing activities of an entity provided to users of the financial statements. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2017.
- Regulation (EU) no. 1905/2016 dated 22 September 2016 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IFRS 15. It applies from 1 January 2018.
- Regulation (EU) 2067/2016 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 9. It applies from 1 January 2018.

IFRS 9: the new accounting standard on financial instruments

The new IFRS 9, issued by the IASB (International Accounting Standard Board) on 24 July 2014 and approved by the European Commission with Regulation 2067/2016, replaces IAS 39, which regulates the classification and measurement of financial instruments, starting from 1 January 2018.

As is generally known, the global financial crisis had among its various effects the growing conviction that the accounting rules in force at the time were unable to intercept the progressive deterioration of the macroeconomic context, delaying the recognition of bad debts and losses on other financial assets. Against these critical elements, the IASB launched a complex project in 2008 aimed at updating IAS 39, a programme that proceeded gradually in stages, ending with final approval in 2016.

IFRS 9 introduces significant changes in the areas of «classification and measurement», «impairment» and «hedge accounting» of financial instruments.

With regard to the first area, new rules for the classification and measurement of financial instruments are provided through:

- the introduction of the concepts of «Business Model» and «SPPI Test» (Solely Payments of Principal and Interest Test), an assessment aimed at analysing the contractual characteristics of the instruments' cash flows; combining these elements provides guidance on how to classify the assets correctly;
- the identification of three new accounting categories: assets measured at amortised cost, assets measured at fair value and recognised through profit or loss, assets measured at fair value and recognised in equity.

With reference to the impairment model for the quantification of value adjustments on loans valued at amortised cost, the approach to the calculation of write-downs has changed, going from the criterion of «incurred losses» (as required by the previous IAS 39) to «expected losses» (so based on reasonably available prospective information).

Another important change concerns the time horizon for determining the Expected Credit Loss, also linked to identification of the so-called «significant increase in credit risk": specifically, if the credit quality of an instrument has not undergone a «significant» deterioration with respect to its initial measurement, the new standard requires an estimate of expected losses over a time horizon of only 12 months; if there is «significant» deterioration, or if there is objective evidence of impairment, the calculation has to refer to the entire residual life of the instrument.

This distinction introduces a new model of segmentation of the portfolio of financial instruments into different «stages», based on the credit quality observed from time to time. The instruments are now classifiable in:

– *Stage* 1: this includes the assets that did not show a significant increase in credit risk from the time of their initial recognition or that present a low credit risk at the reference date;
– *Stage* 2: this includes the instruments that showed a significant increase in credit risk since their initial recognition, but that do not present objective evidence of impairment at the reference date;
– *Stage* 3: this includes the assets that show objective evidence of impairment at the reference date.

As regards hedge accounting, the regulatory changes concern the so-called «General Hedge» and are linked to the possibility of adopting the new IFRS 9 or, alternatively, continuing to follow the rules laid down in IAS 39.

In view of the important innovation profiles introduced by IFRS 9, the Bank deemed it necessary to activate a specific project for the conversion of the current infrastructures, applications and internal regulations to the new accounting provision. These activities were commenced in 2015, when a «gap analysis» was carried out to identify the possible impacts deriving from the application of the new accounting standard, with regard to both the classification and measurement of financial instruments and the new model of impairment.

In 2016, the Bank extended the project with the aim of continuing the impact analyses and launching the configuration phase of the target operating model, completing implementation in line with the entry into force of the new standard. The last steps in the transition to IFRS 9 also led to the updating of the document framework in order to give appropriate formalisation and definition to the new processes and responsibilities and to map the changes that have taken place, including changes to applications.

The project was coordinated jointly by the Administration & General Accounting, Risk Control and Information Systems departments. Project governance also saw the involvement of top management in specific Steering Committees, that laid down the guidelines for implementation, as well as that of the Control Functions, above all the Validation and Internal Audit Functions.

During 2017 the project was involved by various checks by the European Supervisory Authority. The Bank kept the Regulator up-to-date with progress reports on implementation and with feedback on methodological aspects and quantitative impacts.

As a consequence of the various areas of intervention, the Bank chose to revise and integrate its information structure, taking advantage of the opportunity created by this change in accounting standard to improve and standardise its application tools, reinforcing IT processes and optimising storage and data processing.

In order to perform timely quality checks of the data, implementations and impact assessments, starting from the second half of 2017 the Bank carried out both process and quantitative simulations, constantly monitoring the results, continuously informing Top Management and promoting specific initiatives to train up the employees involved in the new operating procedures.

The formalisation and adjustment of internal regulations for the changes introduced by IFRS 9 was completed in September 2017. Towards the end of last year, several training sessions were held for the personnel concerned.

As regards the classification and measurement of financial instruments, the Bank has carried out specific activities related to interpretation of the new accounting standard, identification of the business processes affected and the possible areas of impact. This has made it possible to identify a new structure for the accounting processes and to start designing the target operating model.

As regards impairment techniques, the methods for determining the significant increase in credit risk have been defined for the purpose of correctly allocating the financial instruments within the three stages covered by the new Standard, through the use of synthetic indicators that allow correct measurement of the creditworthiness of the counterparties and an assessment of any deterioration over time. These elements were identified through consolidated internal measurement metrics, and – where necessary – through the use of external parameters, acquiring data from various information sources and adopting risk-based methodologies.

The models for the quantification of the Expected Credit Loss have also been adapted for the purpose of measuring the «lifetime» of loss forecasts (where necessary), as well as for the integration of forward-looking information in the calculation methods, in line with the estimates of the evolution of the macroeconomic context adopted in other key business processes (ICAAP, strategic planning, etc.) and with the forward-looking elements linked to the introduction of the transfer scenarios included in the NPL strategy. The various adjustment activities relied on the current availability of models and historical information held by the Bank, making use of these elements if they were deemed compliant with the requirements of the new standard, thereby maintaining alignment with existing practices and processes.

Implementation of the new requirements and the reclassification of financial instruments has implied an increase in adjustments to the total portfolio, with a negative impact on Common Equity Tier 1 (CET1); it also involved recognition of a negative equity reserve estimated at around € 48 million, net of tax.

IFRS 15 «Revenues from contracts with customers»

IFRS 15, published on 28 May 2014, introduces a new model for the recognition of revenues deriving from contracts with customers, and replaces the current standards on the subject, being IAS 18, IAS 11 and the related interpretations. Entities are required to recognise revenues based on the remuneration expected from the products or services provided, which is calculated in five steps: identification of the contract, identification of the individual obligations arising under the contract, determination of the price of the transaction, allocation of the price to each of the individual obligations and recognition of the revenue when control over the product or service is transferred to the customer. This standard will apply from 1 January 2018.

In 2015 the Bank launched a project that continued during 2016, with a view to analysing the main contracts according to the new rules. A series of studies was carried out in 2017 in order to define the approach to the new standard and how to upgrade processes and systems. Responsibility for coordinating the various project activities was given to the Administration & General Accounting department, which has been supported by other offices and services, including in particular the Sales and Marketing department and the Management Accounting department.

Starting from the second half of 2017, the areas and methods of intervention on the different topics introduced by the new standard were first defined, those of an organisational and operational nature as well as those concerning regulatory compliance. The main elements concern:

- the allocation of prices for certain transactions or products, including variable components, on one or more performance obligations;
- contracts with performance obligations that are fulfilled «over time» or at a «point in time»;
- revenues on a gross or net basis depending on the role of «principal» or «agent» performed by the entity in the transaction.

The target operating model was therefore defined, with timelines, phases and activities consistent with the scope of regulatory developments.

In the last few months of 2017, the formalisation and regulatory compliance activity for the changes introduced by the new standard was also carried out.

The First Time Adoption (FTA) phase is currently being finalised during the first few months of 2018, in order to record the effects of the accounting transition to the new IFRS 15. The impacts of FTA of the new standard are not significant in terms of the effects on book equity; they refer mainly to the recognition of liabilities (approximately € 0.3 million) to represent the effects that certain contractual clauses may have on revenues.

The financial statements are audited by EY Spa in accordance with the shareholders' resolution of 29 April 2017 which appointed them as auditors for the nine year period from 2017 to 2025.

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

1. Financial assets held for trading

Classification

This caption comprises fixed-yield and variable-yield securities and units in mutual funds held for trading. It also includes derivative contracts with a positive fair value, excluding hedges but including those recorded separately from the underlying structured financial instrument, when the requirements for making this distinction are met.

A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index; it is settled on maturity and requires a limited initial net investment. A derivative is separated from a complex financial instrument when its economic characteristics and risks are not strictly related to the characteristics of the underlying contract. when the embedded instruments comply with the definition of a derivative even after separation, and the hybrid instruments to which they belong are not measured at fair value through the income statement.

Recognition

Assets held for trading are recorded at the settlement date with reference to their fair value, usually represented by the consideration paid, while the transaction costs and revenues are reflected directly in the income statement.

Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

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

If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

If the fair value of equity instruments cannot be determined on a reliable basis, they are stated at cost.

Recognition of components affecting the income statement

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

Interest income and dividends are reported in the income statement under «Interest and similar income» and «Dividends and similar income» respectively.

Derecognition

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

2. Available-for-sale financial assets

Classification

This caption comprises financial assets that are not derivatives and which are not classified as Receivables, Financial assets held for trading or Held-to-maturity assets. In particular, this caption includes securities not held for trading and equity interests, also not held for trading, that do not represent investments in subsidiary companies, associated companies or companies under joint control.

Recognition

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

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

Accounting policies

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

Variable-yield securities whose fair value cannot be determined reliably are stated at cost. These comprise equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Bank operates. These instruments show that equities represent the majority in this portfolio. The fair value of these investments cannot be reliably determined, given that the valuation techniques applied to them would have to make significant use of discretional, non-market factors.

An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

The rules adopted by the Bank prescribe that an impairment test has to be carried out on variable-yield securities in one of the following cases:

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

Recognition of components affecting the income statement

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

Income and charges deriving from changes in fair value, net of the related deferred tax effect, are recorded in specific equity reserves, known as «Valuation reserves», until the asset is derecognised or its value is impaired; the accumulated gains or losses are released to the income statement at the time of derecognition or the recognition of impairment. Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within equity.

Derecognition

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

3. Held-to-maturity investments

Classification

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

Recognition

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

Any assets booked under the terms of the amendment to IAS 39 regarding the application of fair value, as adopted by the European Union with EC Regulation 1004/2008 of 15/10/2008 are measured at their fair value as of 1 July 2008, providing they were on the books as of 31 October 2008; those booked subsequently are shown at their fair value at the date of reclassification.

Accounting policies

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

Recognition of components affecting the income statement

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

Derecognition

Held-to-maturity investments are derecognised on expiry of the contractual rights over the related financial flows.

4. Receivables

4.1 Cash loans and deposits

Classification

Receivables comprise deposits with banks and loans to customers, made directly or acquired from third parties, which have fixed or determinable payments, not listed on an active market. Receivables also include trade receivables, repo transactions, loans originating from finance leases and securities not listed on an active market that were acquired as a result of subscriptions or private placements, with payment amounts that are known or determinable.

Recognition

Receivables and loans are classified in the receivables portfolio when they are paid out or acquired and cannot be transferred to other portfolios subsequently.

Loans include the advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables assigned to the company and booked in the name of the assigned debtor for which the related risks and benefits have all been substantially transferred to the assignee.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method. Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them.

The initially recorded value includes any transaction costs and revenues directly associated with each loan.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans without a specific repayment date and loans repayable on demand are booked at their historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this value. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount the expected cash flows, even if the loan is later restructured and changes are made to the contractual rate.

Loans are subjected to impairment testing at each reporting date to check for any loss in value due to deterioration in the solvency of borrowers.

For measurement purposes, loans are classified into two macro categories: impaired loans and performing loans. In accordance with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts».

Non-performing loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.

Exposures classified as unlikely-to-pay loans are credit exposures, other than non-performing, for which the bank deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.

Impaired past due and/or overdrawn exposures are exposures, other than non-performing or likely default, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 continuous days and which exceed a set materiality threshold. Impaired past due and/or overdrawn exposures may be determined with reference to the position of the individual debtor or, alternatively, solely for exposures to retail customers, with reference to a single transaction.

Loans may be measured on a detailed or an overall basis. Losses in the value of individual loans are represented by the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

a) value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan;
b) expected timing of recoveries, considering the progress made by recovery procedures;
c) internal rate of return.

Non-performing loans are assessed on either a detailed or an overall basis. Detailed analysis of non-performing loans takes the following parameters into account:

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

Overall assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

a) recoveries forecast by the offices concerned;
b) expected timing of recoveries based on historical-statistical data;
c) original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of non-performing loans for which no specific estimate has been made of the loss attributable to each individual relationship. These loans are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Past due/overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters identified by the Supervisory Authorities. They are subject to a detailed assessment attributed to each risk position. In the absence of specific forecasts of the losses attributable to each individual relationship, the assessment takes into account the losses recorded historically in the category of exposures, as well as their technical form, existing guarantees and the ageing of the past due position. The responsible offices prepare appropriate statistical analyses to determine adjusting factors suitable for the loan category concerned.

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

Recognition of components affecting the income statement

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

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

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

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

4.2 Endorsement loans

Classification

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

Recognition and measurement

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

Recognition of components affecting the income statement

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

5. Financial assets at fair value through profit or loss

The portfolio of «Financial assets at fair value through profit or loss» comprises the securities for which the «fair value option» has been applied. The recognition, measurement and derecognition criteria applied are the same as those adopted in relation to financial assets held for trading.

The income elements relating to instruments classified as financial assets at fair value through profit or loss booked to the income statement in the period when they arise to «net gains on financial assets and liabilities at fair value through profit or loss».

6. Hedging transactions

Classification and recognition

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

The hedging of market risks can take two different forms:

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

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

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

Hedging instruments are recorded using the «contract date» method.

Measurement and recognition of components affecting the income statement

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

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

2) hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement.

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

Cash flow hedges are measured and recorded on the following basis:

1) derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among

the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place;

2) the hedged item continues to be valued on the basis applicable to the category concerned.

Derecognition

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

7. Equity investments

Classification

The portfolio of equity investments comprises the holdings in subsidiary companies, associated companies and companies under joint control. Control is presumed to exist when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control is therefore deemed to exist in the following circumstances:

a) availability of actual and potential voting rights at a shareholders' meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;

b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;

c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

A company is an associated company if the Bank exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

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

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

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

d) there is an exchange of managers;

e) essential technical information is being provided.

Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control.

Recognition

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

Accounting policies

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

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

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

Impairment losses, as well as profit/losses on disposal, are booked to the income statement under «net gains (losses) on equity investments».

Derecognition

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

8. Property, equipment and investment property

Classification

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

As required by IAS 17, assets held under finance leases are also classified in this caption. In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation.

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

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

It is not permitted to book any subsequent recoveries in value.

With regard to buildings held for investment purposes, the net result of their measurement at fair value is recorded separately in the income statement.

Derecognition

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

9. Intangible assets

Classification

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

Intangible assets comprise software.

Recognition

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

Accounting policies

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

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

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

Recognition of components affecting the income statement

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

It is not permitted to book any subsequent recoveries in value.

Derecognition

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

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

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

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

11. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes.

Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply.

Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain.

Deferred tax assets determined on the basis of deductible temporary differences are recorded in the financial statements to the extent that they are likely to be recovered; this probability is assessed by carrying out a probability test, based on the ability to continue generating positive taxable income for the Bank or, as a result of exercising the Tax Consolidation option, to all member companies.

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

12. Provisions for risks and charges

This caption comprises the following provisions:

a) Provisions for other long-term employee benefits. These are included in «Provisions for risks and charges» based on the valuation of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of post-employment benefits; once again, the actuarial gains and losses deriving from actuarial estimates are treated in accordance with the provisions of the revised version of IAS 19 endorsed by EC Regulation 475 of 5 June 2012, i.e. booked to equity as shown in the statement of comprehensive income. These are:
   1) Pension and similar obligations. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Bank is responsible for any unfunded liabilities.
   2) Provision for long-service bonuses. This represents the liability for bonuses to employees who reached a period of service of 30 years. It is recorded under «other provisions».

b) Other provisions. This caption comprises the provision for long-service bonuses mentioned above and provisions recorded for liabilities whose timing and extent cannot be determined, which can be recognised in the financial statements when:
   1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
   2) it is likely that settlement of the obligation will involve the use of economic resources;
   3) a reliable estimate can be made of the amount necessary to settle the obligation.

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

13. Payables and securities issued

Classification

Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the bank's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions and the value of the consideration still to be paid to the assignor in factoring transactions that involve an assignment of receivables with the transfer of the related risks and benefits versus the assignee.

Recognition

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

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected. Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

Recognition of components affecting the income statement

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

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

Derecognition

Financial liabilities are derecognised when they expire or are settled. Funding liabilities that are subsequently repurchased are eliminated from the financial statements.

14. Financial liabilities held for trading

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

15. Financial liabilities at fair value

The financial statements do not include any financial liabilities at fair value.

16. Currency transactions

Classification

They include all assets and liabilities denominated in currencies other than Euro.

Recognition

Assets and liabilities denominated in currencies other than the euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period.

Exchange differences on non-monetary assets defined as available for sale are recorded under valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

17. Termination indemnities

Termination indemnities are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, in order to estimate the amount that will be paid upon termination of the employment relationship and determine the present value of this amount. The actuarial calculations are performed using the projected unit credit method, under which each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out every six months by an independent actuary.

As a result of the reform of supplementary pensions by Decree 252 of 5 December 2005, the termination indemnities accrued up to 31 December 2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee.

This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements.

Gains and losses arising from changes in actuarial assumptions are booked to equity as shown in the statement of comprehensive income.

18. Other information

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives.

Revenues are recorded as received or when collection becomes likely and a reasonable estimate can be made of the amount to be received. In particular, the default interest accrued on doubtful accounts is only credited to the income statement upon collection.

Dividends are recorded upon collection.

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

Covered bond

On 6 November 2013, the Board of Directors of the Parent Company authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015.

On 1 February 2016, a portfolio of performing loans totalling € 576 million was assigned without recourse to POPSO Covered Bond s.r.l., the vehicle company, in relation to the second series of covered bonds amounting to € 500 million issued on 4 April 2016.

On 31 October 2016, a fourth sale without recourse of a € 226 million portfolio of performing loans was carried out. On 1 October 2017, a fifth sale of a € 308 million portfolio of performing loans was carried out.

Given that the Parent Company maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet.

Interbank Deposit Protection Fund and Voluntary Scheme

In December 2015, the bank joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. In June 2016, the Voluntary Scheme approved an intervention in favour of Cassa di Risparmio di Cesena to be implemented through an increase in capital of 280 million which for BP Sondrio involved an outlay of € 4.096 million. In 2017 the voluntary scheme intervened again with regard to credit institutions in difficulty and on 29 September 2017 a Framework Agreement was signed between Crédit Agricole Cariparma, Voluntary Scheme, Caricesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di S. Miniato which involved the acquisition of the three savings banks by Crédit Agricole Cariparma. The closing of the transaction took place in December and the charge for the bank was € 7.768 million, plus the elimination, with a charge of € 3.089 million, of the previous intervention for Caricesena, which was posted in 2016 to the AFS portfolio.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

A.3.1 Reclassified financial assets: book value, fair value and the impact on comprehensive income

Type of financial instruments (1)	Portfolio of origin (2)	Portfolio of destination (3)	Net book value as of 31.12.2017 (4)	Fair value at 31.12.2017 (5)	Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
					Valuation (6)	Other (7)	Valuation (8)	Other (9)
A. Fixed-yield securities	HFT	HTM	3,817	3,884	23	13	48	13

Income items include securities service employees' pension and similar obligations.

The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those not transferred.

A.3.3 Transfer of financial assets held for trading

As in the previous year, the Bank did not carry out any reclassifications of financial assets.

A reclassification was made on the basis of the amendment to IAS 39 approved by EU Regulation 1004 of 15/10/2008. In very particular circumstances, this amendment makes it possible to reclassify certain financial instruments from one portfolio to another. Its purpose is to reduce the volatility in the income statement (or in equity) of financial institutions and companies that apply IAS/IFRS in situations of illiquid markets and/or characterised by prices that do not reflect the realisable value of financial instruments. Table A.3.1 shows the profits and losses that would have been made if the Bank had not taken advantage of this possibility.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

IFRS 13 Fair Value Measurement came into force on 1 January 2013. This standard collects in one document the rules governing the determination of fair value that were previously contained in several accounting standards. IFRS 13 essentially does not change the concept of fair value, but provides new application guidelines and envisages additional disclosures.

The information about fair value required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in a orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument.

With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the CVA (Credit value adjustment) and represents the potential loss associated with the counterparty credit risk, while the DVA (Debit value adjustment) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Level 2 inputs exclude the listed prices used in Level 1 and include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market.

This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Level 3 inputs consist of unobservable inputs for the asset or liability concerned and are used to determine fair value to the extent that significant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The inputs not observable in the marketplace derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

A.4.2 Processes and sensitivity of the measurements

The Bank determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, as envisaged in IAS 39, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options.

The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;

b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;

c) the rate applicable to risk-free monetary assets of similar duration;

d) the risk premium;

e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful.

With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities carried at cost, or through prices of previous transactions, or information from third parties without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact

For those Level 3 instruments whose fair value is determined using unobservable quantitative inputs, the economic results are not significantly affected by changes in one or more of the unobservable parameters, such as the credit spreads associated with the counterparties that were used for measurement purposes.

For changes of +/- 1 basis point in the credit spread or changes in other input parameters, the fair value of the financial instruments changes by about € 18 thousand.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets – according to the definition of IAS 39 – for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Bank.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used.

A.4.4 Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13. The disclosures envisaged in paras. 51, 93 (i) and 96 of that standard are not required.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

Assets/liabilities carried at fair value recurring basis	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	530,964	52,851	24,105	891,085	90,548	32,744
2. Financial assets at fair value through profit or loss	281,140	–	69,914	96,302	–	66,815
3. Available-for-sale financial assets	6,632,139	–	155,369	6,470,827	–	172,708
4. Hedging derivatives						
5. Property, equipment and investment property						
6. Intangible assets						
Total	**7,444,243**	**52,851**	**249,388**	**7,458,214**	**90,548**	**272,267**
1. Financial assets held for trading	–	51,080	–	–	87,616	
2. Financial liabilities carried at fair value						
3. Hedging derivatives						
Total	**–**	**51,080**	**–**	**–**	**87,616**	**–**

During the year there were no transfers of fair value from level 1 to level 3 or from level 2 to level 3.

The decrease in financial assets available for sale compared with the comparative period is mainly attributable to the write-down of the shares subscribed in the Atlante Fund, the receivable from the IDPF's Voluntary Scheme for its intervention in favour of Cassa di Risparmio di Cesena and the write-down of Release S.p.A.

The impact of the CVA (Credit value adjustment) and the DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because a large part of the exposures are covered by credit support annexes (CSA).

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (Level 3)

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Property, equipment and investment property	Intangible assets
A. **Opening balance**	**32,744**	**66,815**	**172,708**	**–**	**–**	**–**
2. **Increases**	**757**	**5,118**	**31,703**	**–**	**–**	**–**
2.1. Purchases	2	5,118	22,115	–	–	–
2.2. Income booked to:						
2.2.1. Income statement	566	–	1,329	–	–	–
Unrealized gains	428	–	–	–	–	–
2.2.2. Equity	–	–	7,543	–	–	–
2.3. Transfers from other levels	–	–	–	–	–	–
2.4. Other increases	189	–	716	–	–	–
3. **Decreases**	**9.396**	**2.019**	**49,042**	**–**	**–**	**–**
3.1. Sales	238	–	4,961	–	–	–
3.2. Reimbursements	3,918	–	251	–	–	–
3.3. Losses booked to:						
3.3.1. Income statement	4	2,019	36,506	–	–	–
of which: unrealized losses	4	2,019	35,801	–	–	–
3.3.2. Equity	–	–	231	–	–	–
3.4. Transfers to other levels	5,025	–	–	–	–	–
3.5. Other decreases	211	–	7,093	–	–	–
4. **Closing balance**	**24,105**	**69,914**	**155,369**	**–**	**–**	**–**

A.4.5.3 Annual changes in liabilities carried at fair value on a recurring basis (Level 3)

There are no financial liabilities carried at a level 3 fair value.

A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2017				31/12/2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity investments	4,132,572	4,107,793	-	12,769	117,023	120,742	-	12,286
2. Loans and receivables with banks	2,815,466	-	-	2,815,466	2,759,906	-	-	2,759,906
3. Loans to customers	21,819,028	-	-	22,351,570	21,331,911	-	-	21,919,719
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**28,767,066**	**4,107,793**	**-**	**25,179,805**	**24,208,840**	**120,742**	**-**	**24,691,911**
1. Due to banks	5,635,658	-	-	5,635,658	2,249,796	-	-	2,249,796
2. Due to customers	26,244,478	-	-	26,244,478	24,913,251	-	-	24,913,251
3. Securities issued	2,784,808	2,509,595	302,938	-	3,089,135	1,505,350	1,611,411	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**34,664,944**	**2,509,595**	**302,938**	**31,880,136**	**30,252,182**	**1,505,350**	**1,611,411**	**27,163,047**

Key:
BV: book value
L1: Level 1
L2: Level 2
L3: Level 3

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IAS 39 para. AG. 76 derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally to be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

PART B Information on the balance sheet

Assets

Section 1 Cash and cash equivalents - line item 10

1.1 Cash and cash equivalents: analysis

	31/12/2017	31/12/2016
a) Cash	112,049	96,467
b) Unrestricted deposits with central banks	–	–
Total	**112,049**	**96,467**

Section 2 Financial assets held for trading - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2017			31/12/2016		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	339,589	–	24,105	668,506	–	32,740
1.1 Structured securities	2,521	–	24,098	29,448	–	27,507
1.2 Other fixed-yield securities	337,068	–	7	639,058	–	5,233
2. Variable-yield securities	151,870	–	–	146,007	–	4
3. Mutual funds	39,505	–	–	76,572	–	–
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**530,964**	**–**	**24,105**	**891,085**	**–**	**32,744**
B. **Derivatives**						
1. Financial derivatives:	–	52,851	–	–	90,548	–
1.1 for trading	–	52,851	–	–	90,548	–
1.2 connected with the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives:	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total B	**–**	**52,851**	**–**	**–**	**90,548**	**–**
Total (A+B)	**530,964**	**52,851**	**24,105**	**891,085**	**90,548**	**32,744**

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items/Amounts	31/12/2017	31/12/2016
A. **Cash assets**		
1. Fixed-yield securities	363,694	701,246
a) Governments and central banks	199,518	452,980
b) Other public entities	7	11
c) Banks	118,390	197,624
d) Other issuers	45,779	50,631
2. Variable-yield securities	151,870	146,011
a) Banks	29,124	39,795
b) Other issuers:	122,746	106,216
- insurance companies	10,368	12,920
- financial companies	2,387	2,815
- non-financial companies	109,991	90,481
- other	–	–
3. Mutual funds	39,505	76,572
4. Loans	–	–
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**555,069**	**923,829**
B. **Derivatives**		
a) Banks	39,316	73,394
b) Customers	13,535	17,154
Total B	**52,851**	**90,548**
Total (A + B)	**607,920**	**1,014,377**

Mutual funds are made up of: equity funds and sicavs for € 33.005 million, bond funds and sicavs for € 6.147 million and real estate funds for € 0.353 million.

Section 3 *Financial assets at fair value through profit or loss - line item 30*

3.1 Financial assets at fair value through profit or loss: breakdown by sector

	31/12/2017			31/12/2016		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	–	–	–	–	–	–
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**281,140**	**–**	**69,914**	**96,302**	**–**	**66,815**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total	**281,140**	**–**	**69,914**	**96,302**	**–**	**66,815**
Cost	**280,355**	**–**	**71,933**	**93,993**	**–**	**64,202**

This portfolio includes all securities, other than those booked to the trading portfolio, which the bank has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.

3.2 Financial assets at fair value through profit or loss: breakdown by debtor/issuer

Items/Amounts	31/12/2017	31/12/2016
1. **Fixed-yield securities**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other issuers	–	–
2. **Variable-yield securities**	**–**	**–**
a) Banks	–	–
b) Other issuers:	–	–
- insurance companies	–	–
- financial companies	–	–
- non-financial companies	–	–
- other	–	–
3. **Mutual funds**	**351,054**	**163,117**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**351.054**	**163,117**

Mutual funds are made up of: bond funds and sicavs for € 220.206 million, funds and sicavs for € 24.710 million, real estate funds for € 70.798 million, flexible funds for € 13.890 million and balanced funds for € 21.450 million.

Section 4 *Available-for-sale financial assets - line item 40*

4.1 Available-for-sale financial assets: breakdown by sector

	31/12/2017			31/12/2016		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**6,632,139**	**–**	**15,259**	**6,294,939**	**–**	**15,302**
1.1 Structured securities	478,090	–	12,972	834,350	–	12,775
1.2 Other fixed-yield securities	6,154,049	–	2,287	5,460,589	–	2,527
2. **Variable-yield securities**	**–**	**–**	**100,648**	**–**	**–**	**101,366**
2.1 Carried at fair value	–	–	92,959	–	–	91,702
2.2 Carried at cost	–	–	7,689	–	–	9,664
3. **Mutual funds**	**–**	**–**	**39,462**	**175,888**	**–**	**56,040**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**6,632,139**	**–**	**155,369**	**6,470,827**	**–**	**172,708**

Given the difficulties in determining a precise fair value, unlisted variable-yield securities are usually retained at cost, as adjusted for possible losses where applicable. An exception was made to this approach with regard to the interests held in Nexi S.p.A, formerly Istituto Centrale delle Banche Popolari Italiane S.p.A and Nexi Payments S.p.A, formerly Cartasì S.p.A. In particular, following the sale in 2015 of the ICBPI Group to a consortium of investment funds by the controlling shareholders, these interests were revalued on the basis of the selling price, which is considered current given the purchase offers proposed during the year.

If a comparison between the cost and net equity of other unlisted equities based on the latest available financial statements identifies impairment losses, we make a write-down in accordance with company policies.

Variable-yield securities include € 0.820 million in profit-sharing transactions pursuant to art. 2549 of the Civil Code relating to the production and exploitation of cinematographic work.

Mutual funds consist of closed-end unlisted equity funds for € 10.714 million, bond funds for € 16.618 million, real estate funds for € 6.018 million and balanced funds for € 6.112 million. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV), adjusted for any subscriptions and redemptions that have taken place between the date of the NAV received and the reporting date.

4.2 Available-for-sale financial assets: breakdown by debtor/issuer

Items/Amounts	31/12/2017	31/12/2016
1. **Fixed-yield securities**	**6,647,398**	**6,310,241**
a) Governments and central banks	6,242,051	6,254,919
b) Other public entities	–	–
c) Banks	347,549	23,283
d) Other issuers	57,798	32,039
2. **Variable-yield securities**	**100,648**	**101,366**
a) Banks	51,967	50,623
b) Other issuers:	48,681	50,743
- insurance companies	–	–
- financial companies	41,330	42,252
- non-financial companies	7,351	8,491
- other	–	–
3. **Mutual funds**	**39,462**	**231,928**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**6,787,508**	**6,643,535**

This item passes from €6,643.535 million to € 6,787.508 million.

As stated in IAS/IFRS, assets held for sale are tested to check if there is any objective evidence of a reduction in value in conformity with the Bank's policies adopted. The rules adopted for handling impairment set quantitative and time thresholds beyond which any reduction in the fair value of variable-yield securities entails booking the loss immediately to the income statement.

Section 5 Held-to-maturity investments - line item 50

5.1 Held-to-maturity investments: breakdown by sector

	31/12/2017				31/12/2016			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**4,132,572**	**4,107,793**	**–**	**12,769**	**117,023**	**120,742**	**–**	**12,286**
- structured	824,833	813,916	–	11,266	12,140	4,194	–	7,948
- other	3,307,739	3,293,877	–	1,503	104,883	116,548	–	4,338
2. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

In 2008 we transferred securities held for trading to this portfolio for a total par value of € 242.686 million, taking advantage of the amendment issued by IASB on 13/10/2008 and adopted by the European Commission with Regulation 1004/2008 on 15/10/2008.

At present, following reimbursements, the securities still in portfolio amount to € 3.817 million, which if accounted for at fair value at the reporting date would have posted a loss of € 0.067 million.

5.2 Held-to-maturity investments: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2017	31/12/2016
1. **Fixed-yield securities**	**4,132,572**	**117,023**
a) Governments and central banks	4,073,400	25,071
b) Other public entities	–	–
c) Banks	6,856	20,296
d) Other issuers	52,316	71,656
2. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**4,132,572**	**117,023**
Total fair value	**4,120,562**	**133,028**

Section 6 *Loans and receivables with banks - line item 60*

6.1 Loans and receivables with banks: breakdown by sector

	31/12/2017				31/12/2016			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**1,107,575**	**–**	**–**	**1,107,575**	**952,038**	**–**	**–**	**952,038**
1. Time deposits	–	–	–	–	–	–	–	–
2. Compulsory reserve	1,107,575	–	–	–	952,038	–	–	–
3. Repurchase agreements	–	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–	–
B. **Loans and receivables with banks**	**1,707,891**	**–**	**–**	**1,707,891**	**1,807,868**	**–**	**–**	**1,807,868**
1. Loans	1,707,891	–	–	1,707,891	1,807,868	–	–	1,807,868
1.1 Current accounts and sight deposits	197,534	–	–	–	170,644	–	–	–
1.2 Time deposits	1,463,696	–	–	–	1,562,799			
1.3 Other loans:	46,661	–	–	–	74,425	–	–	–
- Repurchase agreements	–	–	–	–	–	–	–	–
- Financial leases	–	–	–	–	–	–	–	–
- Other	46,661	–	–	–	74,425	–	–	–
2. Fixed-yield securities	–	–	–	–	–	–	–	–
2.1 Structured securities	–	–	–	–	–	–	–	–
2.2 Other fixed-yield securities	–	–	–	–	–	–	–	–
Total	**2,815,466**	**–**	**–**	**2,815,466**	**2,759,906**	**–**	**–**	**2,759,906**

These receivables are not specifically hedged.
Their fair value is equal to their book value as they are short-term loans repayable on demand.

Section 7 *Loans and receivables with customers - line item 70*

7.1 Loans and receivables with customers: breakdown by sector

	31/12/2017						31/12/2016					
	Book value			Fair Value			Book value			Fair Value		
	Non	Impaired					Non	Impaired				
Type of transaction/Amounts	impaired	Purchased	Other	L1	L2	L3	impaired	Purchased	Other	L1	L2	L3
Loans	**19,462,168**	**2,004**	**2,004,072**	**-**	**-**	**21,999,270**	**18,683,870**	**-**	**2,287,896**	**-**	**-**	**21,558,650**
1. Current accounts	3,855,913	1,456	871,262	-	-	-	4,199,612	-	977,304	-	-	-
2. Repurchase agreements	1,221,602	-	-	-	-	-	698,937	-	-	-	-	-
3. Mortgage loans	9,217,487	-	988,421	-	-	-	8,562,940	-	1,132,620	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	231,397	-	11,286	-	-	-	212,506	-	12,444	-	-	-
5. Financial lease	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other loans	4,935,769	548	133,103	-	-	-	5,009,875	-	165,528	-	-	-
Fixed-yield securities	**350,784**	**-**	**-**	**-**	**-**	**352,301**	**360,145**	**-**	**-**	**-**	**-**	**361,069**
8.1 Structured securities	350,784	-	-	-	-	-	360,145	-	-	-	-	-
8.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**19,812,952**	**2,004**	**2,004,072**	**-**	**-**	**22,351,571**	**19,044,015**	**-**	**2,287,896**	**-**	**-**	**21,919,719**

These receivables are not specifically hedged.

Reference should be made to Part E «Information on risks and related hedging policies, Section 1, Credit risk» with regard to impaired assets.

Mortgage loans include € 1,470.459 million of residential mortgages, which were the subject of a covered bond transaction.

The covered bond transactions involved the sale to the SPV POPSO Covered Bond s.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers.

Given that the Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

7.2 Loans and receivables with customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2017 Non impaired	31/12/2017 Impaired Purchased	31/12/2017 Impaired Other	31/12/2016 Non impaired	31/12/2016 Impaired Purchased	31/12/2016 Impaired Other
1. **Fixed-yield securities**	**350,784**	**–**	**–**	**360,145**	–	–
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	350,784	–	–	360,145	–	–
- non-financial companies	–	–	–	–	–	–
- financial companies	350,784	–	–	360,145	–	–
- insurance companies	–	–	–	–	–	–
- other	–	–	–	–	–	–
2. **Loans to:**	**19,462,168**	**2,004**	**2,004,072**	**18,683,870**	**–**	**2,287,896**
a) Governments	4,027	–	–	1,716	–	–
b) Other public entities	171,193	–	2	70,876	–	–
c) Other issuers	19,286,948	2,004	2,004,070	18,611,278	–	2,287,896
- non-financial companies	10,635,106	1,949	1,617,337	10,738,658	–	1,818,610
- financial companies	4,746,438	–	21,698	4,165,341	–	36,183
- insurance companies	5,009	–	–	4,606	–	–
- other	3,900,395	55	365,035	3,702,673	–	433,103
Total	**19,812,952**	**2,004**	**2,004,072**	**19,044,015**	**–**	**2,287,896**

Section 10 Equity investments – line item 100

10.1 Equity investments: disclosure

Name	Registered offices of the company	Operational office	% holding	% of votes
A. **Investments in wholly-owned subsidiaries**				
1. BANCA POPOLARE DI SONDRIO (SUISSE) SA	Lugano	Lugano	100.000	100.000
2. BANCA DELLA NUOVA TERRA S.p.A	Milan	Milan	100.000	100.000
3. FACTORIT S.p.A	Milan	Milan	60.500	60.500
4. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.r.l	Milan	Milan	100.000	100.000
5. SINERGIA SECONDA S.r.l	Milan	Milan	100.000	100.000
6. PIROVANO STELVIO S.p.A	Sondrio	Sondrio	100.000	100.000
7. POPSO COVERED BOND S.r.l	Conegliano	Conegliano	60.000	60.000
B. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l	Sondrio	Sondrio	50.000	50.000
C. **Associated companies (subject to significant influence)**				
1. ALBA LEASING S.p.A	Milan	Milan	19.264	19.264
2. ARCA VITA S.p.A	Verona	Verona	14.837	14.837
3. UNIONE FIDUCIARIA S.p.A	Milan	Milan	24.000	24.000
4. POLIS FONDI SGR PA	Milan	Milan	19.600	19.600
5. ARCA HOLDING S.p.A	Milan	Milan	21.137	21.137
6. BORMIO GOLF S.p.A	Bormio	Bormio	25.237	25.237
7. LAGO DI COMO GAL S.c.r.l	Canzo	Canzo	28.953	28.953

With limited exceptions, the above equity investments are held to complement the activities of the bank, since they provide supplementary services or help to support the local territories served.

10.5 Equity investments: changes during the year

	31/12/2017	31/12/2016
A. **Opening balance**	**487,347**	**488,595**
B. **Increases**	**20,003**	**432**
B.1 Purchases	20,003	7
B.2 Write-backs	–	–
B.3 Revaluations	–	–
B.4 Other changes	–	425
C. **Decreases**	**622**	**1,680**
C.1 Disposals	–	–
C.2 Adjustments	622	1.680
C.3 Other changes	–	–
D. **Closing balance**	**506,728**	**487,347**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(35,652)**	**(35,030)**

This item passes from € 487.347 million to € 506.728 million.

The increase refers to:

- increase of € 19.514 million for the purchase of the entire share capital of Banca della Nuova Terra S.p.A and € 0.149 million for the purchase of the entire share capital of Servizi Internazionali e Strutture Integrate 2000 S.r.l;
- coverage of loss of Pirovano Stelvio S.p.A of € 0.340 million.

The decreases refer to:

- a write-down of € 0.168 million of Bormio Golf S.p.A;
- a write-down of € 0.454 million of Pirovano Stelvio S.p.A.

10.6 - 10.7 - 10.8 - 10.9 Commitments relating to investments in subsidiaries, companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing S.p.A granted when this company started up as part of the reorganisation of Banca Italease S.p.A, against which the Bank has made a specific risk provision .

Section 11 *Property, equipment and investment property – line item 110*

11.1 Property, equipment and investment property used for business purposes: analysis of assets valued at cost

Assets/Values	31/12/2017	31/12/2016
1. **owned**	**158,344**	**144,150**
a) land	44,801	44,801
b) buildings	96,716	81,012
c) furniture	4,887	5,306
d) IT equipment	989	1,097
e) other	10,951	11,934
2. **purchased under finance leases**	**25,801**	**26,820**
a) land	6,803	6,803
b) buildings	18,998	20,017
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
Total	**184,145**	**170,970**

Property, equipment and investment property are valued at cost. Buildings have a fair value of € 333.232 million, as determined by an internal appraisal. Buildings used for business purposes are worth € 161.407 million.

Property, equipment and investment property are free from restrictions and commitments guaranteeing liabilities.

Assets purchased under finance leases are represented by buildings used as bank branches.

11.5 Property, equipment and investment property used for business purposes: changes during the year

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	**Total**
A. **Opening gross amount**	**51,604**	**186,097**	**26,114**	**16,094**	**63,527**	**343,436**
A.1 Total net reductions in value	–	(85,068)	(20,808)	(14,997)	(51,593)	(172,466)
A.2 Opening net amount	51,604	101,029	5,306	1,097	11,934	170,970
B. **Increases**	**–**	**20,181**	**1,008**	**657**	**5,691**	**27,537**
B.1 Purchases	–	15,908	1,008	657	5,691	23,264
B.2 Capitalised improvement expenditure	–	4,273	–	–	–	4,273
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	–	–	–	–	–	–
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**5,496**	**1,427**	**765**	**6,674**	**14,362**
C.1 Disposals	–	–	–	–	–	–
C.2 Depreciation	–	5,496	1,427	765	6,674	14,362
C.3 Impairment charges booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Fair value decreases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) investment property	–	–	–	–	–	–
b) assets related to discontinued operations	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	–	–
D. **Closing net balance**	**51,604**	**115,714**	**4,887**	**989**	**10,951**	**184,145**
D.1 Total net reductions in value	–	(90,565)	(22,235)	(15,714)	(57,492)	(186,006)
D.2 Closing gross amount	51,604	206,279	27,122	16,703	68,443	370,151
E. **Valuation at cost**	**51,605**	**115,714**	**4,887**	**989**	**10,951**	**184,145**

This item totals € 184.145 million.

The principal changes relate to:

- owned buildings:
  purchases in Mantua – piazza Broletto, in Verona – Piazza delle Pasque Veronesi, 315, in Rome – via Del Tritone, in Milan – Viale Faenza, in Milan – via Procaccini and in Monza for buildings to be used as branches;
  and San Pietro Berbenno, Novate Mezzola, Dongo, Domaso, Lodi, Milan – via Sforza, Melegnano, Treviso and Ponte in Valtellina for restructuring work;
- furniture, installations and other:
  increases relate to head office and branch IT equipment, furniture and fittings and miscellaneous equipment for newly-opened branches:

Depreciation is provided over the estimated useful lives of the fixed assets concerned, as summarised below:

property, equipment and investment property		depreciation period (years)
buildings	–	33
furniture and fittings	–	7
IT equipment	–	3
miscellaneous machinery and equipment	–	5
vehicles	–	3
security counters	–	3
photovoltaic plant	–	12
safes	–	8

In accordance with article 10 of Law 72 of 19 March 1983, an appendix to this report provides information on the buildings still owned by the bank for which monetary revaluations were carried out in the past.

11.7 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 1.114 million, compared with € 4.258 million the previous year.

Section 12 Intangible assets – line item 120

12.1 Intangible assets: breakdown by type

	31/12/2017		31/12/2016	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**–**	**–**	**–**
A.2 **Other intangible assets:**	**14,396**	**–**	**14,313**	**–**
A.2.1 Carried at cost:	14,396	–	14,313	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	14,396	–	14,313	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**14,396**	**–**	**14,313**	**–**

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years.

These intangible assets are listed below by year of acquisition:

	31/12/2017	31/12/2016
recorded in 2014	–	1
recorded in 2015	1	4,454
recorded in 2016	4,930	9,858
recorded in 2017	9,465	-
Total	**14,396**	**14,313**

12.2 Intangible assets: change in the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total 31/12/2017
		Specified	Unspecified	Specified	Unspecified	
A. **Opening gross amount**	**–**	**–**	**–**	**124,564**	**–**	**124,564**
A.1 Total net reductions in value	–	–	–	(110,251)	–	(110,251)
A.2 Opening net amount	–	–	–	14,313	–	14,313
B. **Increases**	**–**	**–**	**–**	**14,202**	**–**	**14,202**
B.1 Purchases	–	–	–	14,202	–	14,202
B.2 Increases in internally generated intangible assets	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**14,119**	**–**	**14,119**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	14,119	–	14,119
- Amortisation	–	–	–	14,119	–	14,119
- Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
C.4 Transfers to discontinued operations due for disposal	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. **Closing net balance**	**–**	**–**	**–**	**14,396**	**–**	**14,396**
D.1 Total net reductions in value	–	–	–	(124,370)	–	(124,370)
E. **Closing gross amount**	**–**	**–**	**–**	**138,766**	**–**	**138,766**
F. **Valuation at cost**	**–**	**–**	**–**	**14,396**	**–**	**14,396**

Key:
Specified: specified duration
Unspecified: unspecified duration

12.3 Other information

Contractual commitments to purchase software user rights amount to € 4.168 million, compared with € 6.083 million in the prior year.

Section 13 *Tax assets and liabilities- asset line item 130 and liability line item 80*

13.1 Deferred tax assets: breakdown

	31/12/2017	31/12/2016
Loan write-downs	307,113	335,353
Provisions for risks and charges	18,741	18,474
Securities and equity investments	856	2,924
Administrative expenses, amortisation and depreciation	17,186	17,125
Total	**343,896**	**373,876**

The deferred tax assets recorded in relation to the provisions for risks and charges concern the provision for legal disputes, the provision for guarantees given and the provision for personnel charges. Deferred tax assets have been recognised in relation to all deductible timing differences.

13.2 Deferred tax liabilities: breakdown

	31/12/2017	31/12/2016
Owned buildings	9,224	9,409
Revaluation of securities and gains	18,556	19,984
Administrative expenses	–	1,078
Total	**27,780**	**30,471**

The amount relating to owned buildings comprises the deferred taxation arising on the adoption of IFRS, with the elimination of the accumulated depreciation of land, and that calculated in 2004 on the elimination of «fiscal interference».

13.3 Change in deferred tax assets (with contra-entry to the income statement)

	31/12/2017	31/12/2016
1. **Opening balance**	**358,094**	**374,256**
2. **Increases**	**6,398**	**7,436**
2.1 Deferred tax assets arising during the year	6,398	7,436
a) relating to prior years	–	244
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	6,398	7,192
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**35,514**	**23,598**
3.1 Deferred tax assets eliminated during the year	34,930	23,589
a) reversals	34,930	23,589
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	584	9
a) transformation into tax credits as per Law 214/2011	–	–
b) other	584	9
4. **Closing balance**	**328,978**	**358,094**

Deferred tax assets have not been converted into tax credits in accordance with art. 9 of Decree Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011 as the conditions for doing so do not exist.

13.3.1 Change in deferred tax assets as per Law 214/2011 (with contra-entry to the income statement)

	31/12/2017	31/12/2016
1. **Opening balance**	**335,353**	**353,003**
2. **Increases**	**–**	**–**
3. **Decreases**	**28,240**	**17,650**
3.1 Reversals	28,240	17,650
3.2 Transformation into tax credits	–	–
a) resulting from operating losses	–	–
b) arising from tax losses	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**307,113**	**335,353**

Deferred tax assets have not been converted into tax credits in accordance with art. 9 of Decree Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011 as the conditions for doing so do not exist.

13.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2017	31/12/2016
1. **Opening balance**	**10,490**	**9,681**
2. **Increases**	**–**	**1,354**
2.1 Deferred tax liabilities arising during the year	–	1,354
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	–	1,354
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**1,264**	**545**
3.1 Deferred tax liabilities eliminated during the year	1,036	498
a) reversals	1,036	498
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	228	47
4. **Closing balance**	**9,226**	**10,490**

13.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2017	31/12/2016
1. **Opening balance**	**15,782**	**11,237**
2. **Increases**	**2,490**	**5,395**
2.1 Deferred tax assets arising during the year	2,490	5,395
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	2,490	5,395
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
- of which: business combinations	–	–
3. **Decreases**	**3,354**	**851**
3.1 Deferred tax assets eliminated during the year	3,354	851
a) reversals	3,354	851
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**14,918**	**15,782**

This amount relates for € 0.856 million to losses on available-for-sale securities booked to equity, and for € 13.623 million to actuarial losses recognised in the measurement of long-term employee benefits, i.e. pension fund and termination indemnities booked to equity as provided by IAS 19 Revised, as well as for € 0.439 million to expenses related to the increase in capital carried out in 2014.

13.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2017	31/12/2016
1. **Opening balance**	**19,981**	**38,628**
2. **Increases**	**7,892**	**5,297**
2.1 Deferred tax assets arising during the year	7,892	5,297
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	7,892	5,297
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**9,319**	**23,944**
3.1 Deferred tax assets eliminated during the year	9,319	23,944
a) reversals	9,319	23,944
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**18,554**	**19.981**

This amount relates to the tax on the gains on securities available for sale booked to equity.

Section 15 *Other assets – line item 150*

15.1 Other assets: breakdown

	31/12/2017	31/12/2016
Advances paid to tax authorities	51,888	47,372
Withholdings on interest due to customers	134	256
Tax credits and related interest	14,653	24,881
Current account cheques drawn on third parties	25,796	26,548
Current account cheques drawn on Group banks	13,352	9,443
Transactions in customers' securities	2,330	50,822
Inventories	1,133	1,280
Costs pertaining to the subsequent year	3,682	2,845
Advances to suppliers	750	489
Advances to customers awaiting collections	21,526	21,088
Miscellaneous debits in transit	50,306	42,691
Liquidity of pension fund	13,162	18,976
Accrued expenses not allocated	38,240	37,039
Prepayments not allocated	4,587	4,668
Residual items	64,281	62,433
Total	**305,820**	**350,831**

Liabilities and equity

Section 1 *Due to banks – line item 10*

1.1 Deposits from banks: breakdown by type

Type of transaction/Amounts	31/12/2017	31/12/2016
1. **Due to central banks**	**4,631,240**	**1,226,758**
2. **Due to banks**	**1,004,418**	**1,023,038**
2.1 Current accounts and sight deposits	432,281	390,581
2.2 Time deposits	324,542	471,614
2.3 Loans	220,372	117,245
2.3.1 Repurchase agreements	99,959	–
2.3.2 Other	120,413	117,245
2.4 Payables for commitments to repurchase own equity instruments	–	–
2.5 Other payables	27,223	43,598
Total	**5,635,658**	**2,249,796**
Fair value - Level 1	**–**	**–**
Fair value - Level 2	**–**	**–**
Fair value - Level 3	**5,635,658**	**2,249,796**
Total fair value	**5,635,658**	**2,249,796**

These payables are not specifically hedged.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO II): one of € 1.100 million, obtained in June 2016, repayable in June 2020 and a second obtained in March 2017 of € 3.500 million, repayable on 24 March 2021. These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.5 Payables for finance leases

	31/12/2017	31/12/2016
Payables for finance leases	326	391
Total	**326**	**391**

Payables for finance leases at floating rates amount to € 0.326 million, relating to banks, against a total of € 2.470 million the previous year, -86.80%; they relate to buildings used as banking branches.

Total outstanding lease commitments, including interest, amount to € 0.330 million. These payables fall due as follows:

within 1 months	68	2.147
1 to 5 years	262	271
over 5 years	–	59

Section 2 *Due to customers – line item 20*

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2017	31/12/2016
1. **Current accounts and sight deposits**	**24,629,486**	**23,687,931**
2. **Time deposits**	**1,219,915**	**562,614**
3. **Loans**	**367,838**	**627,631**
3.1 Repurchase agreements	356,725	610,237
3.2 Other	11,113	17,394
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**
5. **Other payables**	**27,239**	**35,075**
Total	**26,244,478**	**24,913,251**
Fair value - Level 1	**–**	**–**
Fair value - Level 2	**–**	**–**
Fair value - Level 3	**26,244,478**	**24,913,251**
Fair value	**26,244,478**	**24,913,251**

These payables are not specifically hedged.

Their fair value corresponds to their book value as they are amounts due on demand or with short-term restrictions.

2.5 Payables for finance leases

	31/12/2017	31/12/2016
Payables for finance leases	–	2,079
Total	**–**	**2,079**

Section 3 *Securities issued – line item 30*

3.1 Securities issued: breakdown by sector

	31/12/2017				31/12/2016			
	Book	*Fair Value*			Book	*Fair Value*		
Type of security/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	2,675,469	2,509,595	193,599	–	3,007,763	1,505,350	1,530,039	–
1.1 structured	163,930	–	163,930	–	188,699	–	188,699	–
1.2 other	2,511,539	2,509,595	29,669	–	2,819,064	1,505,350	1,341,340	–
2. Other securities	109,339	–	109,339	–	81,372	–	81,372	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	109,339	–	109,339	–	81,372	–	81,372	–
Total	**2,784,808**	**2,509,595**	**302,938**	**–**	**3,089,135**	**1,505,350**	**1,611,411**	**–**

The substantial change in first level bonds compared with the comparative period is due to the fact that starting from 31 October 2017 all ordinary and subordinated bonds issued by the bank that provide for repurchase agreements are traded on the HI-MTF multilateral trading system (in the «order-driven» segment).

The fair value of the «other securities» is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

3.2 Details of line item 30 «Securities issued»: subordinated securities

Subordinated securities amount to € 613.210 million and are made up of the loans indicated below:

- loan of € 73.335 million from 23/12/2011 and maturity on 23/12/2018 with a forecast annual repayment of 20% from 23/12/2014. It has an interest rate of 4.50% which will gradually rise to 6%; the coupon current at year end is 6.00%.
- loan of € 14.877 million from 8/8/2014 and maturity on 8/8/2021 with a forecast annual repayment of 20% from 8/8/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2.50%.
- loan of € 22.525 million from 30/9/2014 and maturity on 30/9/2021 with a forecast annual repayment of 20% from 30/9/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2.50%.
- loan of € 23.967 million from 29/12/2014 and maturity on 29/12/2021 with a forecast annual repayment of 20% from 29/12/2017. The interest rate commenced at 2.25% and will gradually rise to 4%; the coupon current at year end is 2.50%.
- bond loan € 203.093 million from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%
- a bond of €€ 275.413 million from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%.

Section 4 *Financial liabilities held for trading – line item 40*

4.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/Amounts	31/12/2017					31/12/2016				
		Fair Value					Fair Value			
	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Other	–	–	–	–	–	–	–	–	–	–
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivatives**										
1. Financial derivatives	–	–	51,080	–	–	–	–	87,616	–	–
1.1 For trading	–	–	51,080	–	–	–	–	87,616	–	–
1.2 Connected with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 For trading	–	–	–	–	–	–	–	–	–	–
2.2 Connected with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–	–	–	–	–
Total B	**–**	**–**	**51,080**	**–**	**–**	**–**	**–**	**87,616**	**–**	**–**
Total A+B	**–**	**–**	**51,080**	**–**	**–**	**–**	**–**	**87,616**	**–**	**–**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
VN = Nominal or notional value

Section 8 *Tax Liabilities – line item 80*

The balance of € 27.780 million relates entirely to deferred taxation. There is no current taxation due to the considerable increase in advances paid, which resulted in the excess payments reported in asset line item 130.

As regards the composition and amount of deferred taxes, please read Assets Section 13 of these notes.

The tax years up to 2012 have been closed. For 2012, the Bank received a notice of assessment for not applying VAT on part of the commissions received as a custodian bank for the amount of € 0.220 million plus interest. This matter was raised in prior years and a solution was found in Tax Authority Resolution 97/E of 17 December 2013, which formalised a compromise that subjects part of these commissions to VAT at a flat rate, with no penalties in relation to the prior years covered by assessments. Since the assessment for 2012 took account of the above Resolution and did not require the payment of penalties, the Bank decided to terminate the dispute by paying the amount requested.

Decree Law 59/2016, converted by Law no. 119 of 30/06/2016, introduced the possibility of transforming D.T.A. (Deferred Tax Assets) into tax credits by paying a fee, subject to certain conditions. In 2016, the bank applied to retain this right if necessary in the future; no fee has been paid as the conditions for payment did not apply.

Section 10 *Other liabilities – line item 100*

10.1 Other liabilities: breakdown

	31/12/2017	31/12/2016
Amounts at the disposal of third parties	350,596	322,704
Taxes to be paid on behalf of third parties	47,361	45,211
Taxes to be paid	1,196	1,544
Employee salaries and contributions	17,763	22,618
Suppliers	12,689	13,820
Transit accounts for sundry entities	16,651	2,412
Invoices to be received	13,556	11,477
Credits in transit for financial transactions	4,799	2,490
Value date differentials on portfolio transactions	18,927	27,820
Directors' and statutory auditors' emoluments	1,084	1,047
Loans disbursed to customers to be finalised	5,396	9,543
Miscellaneous credit items being settled	39,061	91,605
Accrued expenses not allocated	1,333	1,281
Deferred income not allocated	15,370	13,269
Allowance for risks on guarantees and commitments	29,699	22,535
Residual items	53,741	76,714
Total	**629,222**	**666,090**

This line item shows a decrease of 5.54%.

Section 11 *Post-employment benefits – line item 110*

11.1 Post-employment benefits: change in the year

	2017	2016
A. **Opening balance**	**42,271**	**40,864**
B. **Increases**	**9,999**	**9,432**
B.1 Provisions	7,733	7,751
B.2 Other changes	2,266	1,681
C. **Decreases**	**9,422**	**8,025**
C.1 Payments made	2,241	1,033
C.2 Other changes	7,181	6,992
D. **Closing balance**	**42,848**	**42,271**

11.2 Other information

Other increases almost entirely relate to provisions for actuarial losses.

Other decreases relate to payments to the Arca Previdenza Fund for a total of € 5.074 million, compared with € 4.905 million the previous year, payments to INPS of € 1.956 million and tax on the annual revaluation of € 0.151 million, compared with € 0.107 million the previous year. When deciding on the discount rate, we took into account the recommendation made by ESMA in its document 725/2012 of 12 November 2012. We have chosen to use the AA-rated discount rate. We also used a yield curve that takes into account the expected average life of the Bank's obligation.

The provision for termination indemnities required under Italian regulations amounts to € 37.657 million.

The actuarial measurement of the provision for termination indemnities was carried out on a closed group. The actuarial simulations were carried out according to the Projected Unit Credit Method.

The Projected Unit Credit Method lays down that the costs to be incurred during the year to build up the termination indemnity are determined according to the proportion of services rendered during the same period. According to the accrued benefits method, the company's obligation to the individual employee is based on the services already rendered at the measurement date.

The actuarial calculations were made on the following assumptions:

	31/12/2017	31/12/2016
Discount rate	0.87%	1.54%
Rate of inflation	1.50%	1.50%
Annual rate of increase in termination indemnities	1.50%	1.50%

The discount rate has been chosen according to the I-Bo–Corporates Eurozone AA index with a duration of 7-10 years.

Section 12 *Provisions for risks and charges – line item 120*

12.1 Provisions for risks and charges: breakdown

Items/Amounts	31/12/2017	31/12/2016
1. **Pension and similar obligations**	**141,659**	**130,874**
2. **Other provisions for risks and charges**	**37,818**	**43,456**
2.1 legal disputes	21,448	26,395
2.2 personnel expenses	15,644	16,309
2.3 other	726	752
Total	**179,477**	**174,330**

At year end, the bank is not aware of being exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above.

It is reasonable to conclude that there are no contingent liabilities.

12.2 Provisions for risks and charges: change in the year

	Pension and similar obligations	Other provisions	Total
A. **Opening balance**	**130,874**	**43,456**	**174,330**
B. **Increases**	**16,096**	**14,893**	**30,989**
B.1 Provisions for the year	2,320	14,712	17,032
B.2 Changes due to the passage of time	–	–	-
B.3 Changes due to variations in the discount rate	4,820	–	4,820
B,.4 Other changes	8,956	181	9,137
C. **Decreases**	**5,311**	**20,531**	**25,842**
C.1 Utilisations during the year	3,512	17,870	21,382
C.2 Changes due to variations in the discount rate	-	-	-
C.3 Other changes	1,799	2,661	4,460
D. **Closing balance**	**141,659**	**37,818**	**179,477**

12.3 Defined-benefit pension plans

12.3.1. Characteristics of the plans and related risks

The Bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 386 employees and 259 pensioners. Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen. 2,177 employees have joined this fund.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

12.3.2 Defined-benefit pension plans: annual changes

	2017	2016
At 1 January	130,874	117,912
service cost	2,406	2,230
Interest cost	1,967	2,384
actuarial gains/losses	4,820	10,095
payments	(3,512)	(3,405)
other provisions	5,104	1,658
At 31 December	**141,659**	**130,874**

12.3.3 Defined-benefit pension plans – Other information

Details of the assets of the pension plan are summarised in the following table:

	31/12/2017	31/12/2016
Fixed-yield securities	87,451	81,256
Variable-yield securities	3,852	2,138
Mutual funds invested in shares	13,502	12,291
Mutual funds invested in property	23,330	16,189
Other assets	13,524	19,000
Total	**141,659**	**130,874**

The amount of the fund increases by € 10.785 million, +8.24%.

Payments of benefits amount to € 3.512 million compared with € 3.405 million. The contributions paid by the employees totalled € 0.233 million (€ 0.239 million in the prior year).

12.3.4 Defined-benefit pension plans – Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	31/12/2017	31/12/2016
Discount rate	1.28%	1.54%
Expected increase in salaries	0.50%	0.50%
Underlying rate of pension increases	0.825%*	0.97%
Annual rate of inflation	1.50%	1.50%

*equalisation rate

The average discount rate was determined with reference to the I-Bo Corporates Eurozona AA index with a duration of over 10 years.

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. The situation reflected in the financial statements was used as the base scenario and the two most significant assumptions (average discount rate and inflation rate) were increased and decreased, obtaining the following results:

Sensitivity

+0.25% change in the discount rate, liability of € 127.171 million

-0.25% change in the discount rate, liability of € 138.744 million

+0.25% increase in the inflation rate, liability of € 134.513 million

-0.25% decrease in the inflation rate, liability of € 131.057 million

In addition, the liability in the coming years was also analysed; as a result, the payments for the next five years were estimated, as shown in the following table:

Future payments (millions of euro)

Year	0-1	1-2	2-3	3-4	4-5
Cash flows	3.817	3.704	3.643	3.550	3.539

12.4 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2017	31/12/2016
Provision for legal disputes	21,448	26,395
Provision for personnel expenses	15,644	16,309
Other provisions	726	752
Total	**37,818**	**43,456**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off for € 4.272 million, and other disputes that have arisen in the ordinary course of business for € 17.176 million. The bank makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2017 as the discount rate.

They decrease by € 4.947 million for the difference between the provisions for the year of € 1.017 million and the release of prior year provisions of € 5.963 million.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. It decreases by € 0.665 million, -4.08%.

The provision for charitable donations comprises an allocation from profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2016 profit, while the reduction of € 0.126 million was a consequence of payments made during the year.

Section 14 *Equity – items 130, 150, 160, 170, 180, 190 and 200*

14.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, par value € 3 each, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2017.

At the year-end, the Bank held treasury shares with a carrying value of € 25.322 million.

14.2 Share capital – Number of shares: change in the year

Items/Type	Ordinary	Other
A. **Shares in existence at the start of the year**	**453,385,777**	**–**
- fully paid	453,385,777	–
- not fully paid	–	–
A.1 Treasury shares (-)	(3,650,000)	–
A.2 Shares in circulation opening balance	449,735,777	–
B. **Increases**	**–**	**–**
B.1 New issues	–	–
- for payment	–	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- others	–	–
- free of charge	–	–
- to employees	–	–
- to directors	–	–
- other	–	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**–**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	–	–
C.3 Business disposals	–	–
C.4 Other changes	–	–
D. **Shares in circulation: closing balance**	**449,735,777**	**–**
D.1 Treasury shares (+)	3,650,000	–
D.2 Shares in existence at the end of the year	453,385,777	–
- fully paid	453,385,777	–
- not fully paid	–	–

14.3 Share capital: other information

Share premium reserve

It amounts to € 79.005 million, unchanged on last year.

14.4 Revenue reserves: other information

Revenue reserves contribute to the capital adequacy of the Bank, considering both current and future operations. They amount to € 856.065 million, + 6.54% on the prior year figure and comprise:

Legal reserve, consisting of profits allocated pursuant to art. 2430 of the Italian Civil Code and art. 60 of the Articles of Association, which amounts to € 269.482 million, +11,93%, following the allocation of € 28.730 million from 2016 profit.

Statutory reserve, required by art. 60 of the Articles of Association, which amounts to €476.410 million (+5.36%), following the allocation of € 24.014 million out of the 2016 profit and dividends on treasury shares of € 0.219 million.

Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares.

This reserve amounts to € 35 million (it has been used for € 25.322 million), unchanged compared with the previous year.

Reserve pursuant to art. 13 of Decree 124/93, € 0.142 million.

Other reserves of € 75.031 million decreased by € 0.439 million, – 0.58% compared with the previous year. This reflects the change in deferred tax assets previously recorded on the capitalisation of costs related to the increase in share capital carried out in 2014, net of tax effect.

We inform you that the individual equity items are freely available and distributable, except for the valuation reserves which are only distributable under the circumstances laid down in art. 6 of Legislative Decree 38/2005, the portion of the «share premium reserve» that can only be distributed in its entirety if the legal reserve has reached one-fifth of the share capital (art. 2431 of the Civil Code) and the legal reserve, which is lower than 20% of the share capital (art. 2430 of the Civil Code).

14.5 Equity instruments: breakdown and change in the year

No equity instruments have been issued.

Other information

1. Guarantees given and commitments

Operations	31/12/2017	31/12/2016
1) **Financial guarantees:**	**912,325**	**857,392**
a) Banks	166,595	184,133
b) Customers	745,730	673,259
2) **Commercial guarantees:**	**3,004,757**	**3,055,894**
a) Banks	93,051	86,744
b) Customers	2,911,706	2,969,150
3) **Irrevocable commitments to make loans**	**1,084,638**	**1,329,446**
a) Banks	16,659	72,099
i) certain to be called on	2,247	58,552
ii) not certain to be called on	14,412	13,547
b) Customers	1,067,979	1,257,347
i) certain to be called on	374,084	337,055
ii) not certain to be called on	693,895	920,292
4) **Commitments underlying credit derivatives: protection sold**	–	–
5) **Assets lodged to guarantee the commitments of third parties**	**467,639**	**467,639**
6) **Other commitments**	**4**	**9**
Total	**5,469,363**	**5,710,380**

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2017	31/12/2016
1. Financial assets held for trading	146,397	163,123
2. Financial assets at fair value through profit or loss	–	–
3. Available-for-sale financial assets	1,926,550	2,350,417
4. Held-to-maturity investments	2,418,148	–
5. Loans and receivables with banks	–	–
6. Loans and receivables with customers	3,378,825	1,003,158
7. Property, equipment and investment property	–	–

Assets held for trading mainly comprise the securities lodged with the ECB (for TLTRO), as well as other residual types of commitments. Assets available for sale comprise the securities sold to customers under repurchase agreements and those lodged with the ECB (for TLTRO), as well as to guarantee the operations of the Swiss subsidiary. Financial assets held to maturity include securities lodged with the ECB (for TLTRO) and securities pledged in tri-party repo transactions. Loans and receivables with customers consist of loans to guarantee funding provided by the Central Bank (ABACO loans) and residential mortgages to guarantee covered bonds.

4. Management and intermediation for third parties

Type of service	31/12/2017
1. **Execution of orders on behalf of customers**	
a) Purchases	–
1. settled	–
2. not settled	–
b) Sales	
1. settled	–
2. not settled	–
2. **Portfolio management**	
a) Individual	1,521,185
b) Collective	–
3. **Custody and administration of securities**	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,593,966
1. securities issued by the reporting bank	–
2. other securities	1,593,966
b) third-party securities on deposit (excluding portfolio management): other	16,490,724
1. securities issued by the reporting bank	2,391,172
2. other securities	14,099,552
c) Third-party securities on deposit with third parties	17,247,953
d) Own securities on deposit with third parties	11,972,413
4. **Other transactions**	**–**

5. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at 31/12/2017 (f = c-d-e)**	**Net amount at 31/12/2016**
1. Derivatives	38,520	–	38,520	11,292	24,558	2,670	1,034
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2017	**38,520**	**–**	**38,520**	**11,292**	**24,558**	**2,670**	**–**
Total 31/12/2016	**58,127**	**–**	**58,127**	**14,063**	**43,030**	**–**	**1,034**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements».

In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparts, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The net positive fair value at 31/12/2017 that is not correlated with deposits received in guarantee amounts to € 2.670 million. This amount principally derives from the fact that the margin calls on deposits given in guarantee are made weekly.

Given that fair value changes daily, there may be situations intraweek in which fair value is not fully covered or in which the deposits given in guarantee exceed the value of the related derivatives.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

Repurchase agreements indicated are subject to netting agreements governed by Global Master Repurchase Agreements (GMRA). The gross amounts (a) shown in the table relating to repurchase agreements are recorded in item 10 «Due to Banks»; the related financial instruments (d) are represented by the value of the securities involved in the transactions.

6. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets netted in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits given in guarantee (e)	**Net amount at 31/12/2017 (f = c-d-e)**	**Net amount at 31/12/2016**
1. Derivatives	42,448	–	42,448	11,292	30,174	982	91
2. Repurchase agreements	99,959	–	99,959	99,959	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2017	**142,407**	**–**	**142,407**	**111,251**	**30,174**	**982**	**–**
Total 31/12/2016	**76,182**	**–**	**76,182**	**14,063**	**62,028**	**–**	**91**

PART C *Information on the income statement*

Section 1 *Interest - line items 10 and 20*

1.1 Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2017**	**Total 31/12/2016**
1. Financial assets held for trading	4,075	–	–	4,075	9,050
2. Available-for-sale financial assets	31,360	–	–	31,360	30,535
3. Held-to-maturity investments	1,771	–	–	1,771	417
4. Loans and receivables with banks	–	6,824	–	6,824	4,209
5. Loans and receivables with customers	1,575	478,866	–	480,441	531,798
6. Financial assets at fair value through profit or loss	–	–	–	–	–
7. Hedging derivatives	–	–	–	–	–
8. Other assets	–	–	22,919	22,919	3,220
Total	**38,781**	**485,690**	**22,919**	**547,390**	**579,229**

1.3 Interest and similar income: other information

Interest income again shows a decrease (- 5.50%), albeit to a lesser extent compared with the previous period, which showed a reduction of 17.73% from € 579.229 million a € 547.390 million, due to the further reduction of interest rates on both loans to customers and financial investments.

1.3.1 Interest and similar income on foreign currency assets

Items	**31/12/2017**	**31/12/2016**
Interest and similar income on foreign currency assets	24,315	25,999

1.4 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2017**	**Total 31/12/2016**
1. Due to central banks	(89)	–	–	(89)	(894)
2. Due to banks	(2,208)	–	–	(2,208)	(2,239)
3. Due to customers	(50,568)	–	–	(50,568)	(81,887)
4. Securities issued	–	(59,891)	–	(59,891)	(72,651)
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities carried at fair value	–	–	–	–	–
7. Other liabilities and funds	–	–	(8,958)	(8,958)	(6,358)
8. Hedging derivatives	–	–	–	–	–
Total	**(52,865)**	**(59,891)**	**(8,958)**	**(121,714)**	**(164,029)**

1.6 Interest and similar expense: other information

Interest expense has decreased from € 164.029 million to € 121.714 million, – 25.80%. The reduction of € 42.315 million reflects the lower cost of funding from customers and in the interbank market.

1.6.1 Interest and similar expense on foreign currency liabilities

Items	**31/12/2017**	**31/12/2016**
Interest and similar expense on foreign currency liabilities	(3,891)	(2,217)

1.6.2 Interest expense on finance lease transactions

Items	**31/12/2017**	**31/12/2016**
Interest expense on finance lease transactions	(2)	(11)

Section 2 *Commissions - line items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2017	31/12/2016
a) **guarantees given**	**28,405**	**28,783**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**84,153**	**74,431**
1. trading in financial instruments	–	–
2. trading in foreign currencies	9,933	10,594
3. portfolio management	10,491	9,404
3.1. individual	10,491	9,404
3.2. collective	–	–
4. custody and administration of securities	1,519	1,544
5. custodian bank	3,001	2,349
6. placement of securities	31,467	25,222
7. order receipt and transmission	10,035	9,489
8. consultancy	92	175
8.1 investments	–	–
8.2 corporate finance	92	175
9. distribution of third-party services	17,615	15,654
9.1 portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2 insurance products	14,113	12,454
9.3 other products	3,502	3,200
d) **collection and payment services**	**70,371**	**68,534**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**–**	**–**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**34,133**	**29,863**
j) **other services**	**60,126**	**62,175**
Total	**277,188**	**263,786**

«Other services» mainly consist of loan commissions of € 49.866 million and international/foreign exchange fees of € 6.438 million.

2.2 Fee and commission income: distribution channels for products and services

Channels/Amounts	31/12/2017	31/12/2016
a) **bank branches**		
1. portfolio management	10,491	9,404
2. placement of securities	31,467	25,222
3. third-party products and services	17,615	15,654
b) **door-to-door sales**		
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party products and services	–	–
c) **other distribution channels**		
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party products and services	–	–

2.3 Fee and commission expense: breakdown

Services/Amounts	31/12/2017	31/12/2016
a) **guarantees received**	**(423)**	**(388)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services**	**(1,935)**	**(1,648)**
1. trading in financial instruments	–	–
2. trading in foreign currencies	–	–
3. portfolio management:	–	–
3.1 own	–	–
3.2 delegated by third parties	–	–
4. custody and administration of securities	(1,935)	(1,648)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(9,340)**	**(9,252)**
e) **other services**	**(2,756)**	**(2,986)**
Total	**(14,454)**	**(14,274)**

«Other services» mainly include commissions on security and lending transactions.

Section 3 *Dividends and similar income - line item 70*

3.1 Dividends and similar income: breakdown

	31/12/2017		31/12/2016	
Items/Income	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,412	247	3,648	490
B. Available-for-sale financial assets	3,495	342	3,039	–
C. Financial assets at fair value through profit or loss	–	4,458	–	307
D. Equity investments	8,670	–	10,707	–
Total	**13,577**	**5,047**	**17,394**	**797**

Dividends from equity investments amounted to € 4.172 million paid by Arca Vita S.p.A, € 0.363 million by Unione Fiduciaria S.p.A, € 4.016 million by Arca Holding S.p.A and € 0.119 million by Polis Sgr S.p.A.

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net result [(A+B)-(C+D)] **31/12/2017**
1. **Financial assets held for trading**	**2,773**	**44,364**	**(16,647)**	**(754)**	**29,736**
1.1 Fixed-yield securities	1,571	4,064	(118)	(258)	5,259
1.2 Variable-yield securities	339	11,583	(15,201)	(179)	(3,458)
1.3 Mutual funds	403	4,043	(1,215)	(317)	2,914
1.4 Loans	–	–	–	–	–
1.5 Other	460	24,674	(113)	–	25,021
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. **Other financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**(7,058)**
4. **Derivatives**	**19,577**	**60,987**	**(20,965)**	**(44,347)**	**15,252**
4.1 Financial derivatives:	19,577	60,987	(20,965)	(44,347)	15,252
- On debt securities and interest rates	18,994	26,135	(20,378)	(24,987)	(236)
- On equities and equity indices	–	31,413	–	(15,976)	15,437
- On currency and gold	–	–	–	–	–
- Other	583	3,439	(587)	(3,384)	51
4.2 Credit derivatives	–	–	–	–	–
Total	**22,350**	**105,351**	**(37,612)**	**(45,101)**	**37,930**

The net trading income amounted to € 37.930 million on € 12.589 million, + 201.29%. Trading profits amount to € 43.610 million on € 25.753 million. Trading income on other financial assets of € 24.674 million is primarily made up of exchange gains. Exchange differences, which last year amounted to € 0.784 million, have increased to € 7.058 million and relate almost entirely to the portion of the securities portfolio denominated in US dollars, which has been affected by this currency’s depreciation in 2017. The difference between capital gains and losses on financial assets and liabilities is negative for € 13.874 million compared with a negative balance of € 22.501 million. The net result of derivative trading is positive for € 15.252 million compared with € 8.553 million. This table does not include the result of the securities in the pension fund, which is shown under another item.

Section 6 *Gains (losses) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases - breakdown

	31/12/2017			31/12/2016		
Items/income items	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
Financial assets						
1. **Loans and receivables with banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Loans and receivables with customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Available-for-sale financial assets**	**100,059**	**(5,264)**	**94,795**	**82,093**	**(5,762)**	**76,331**
3.1 Fixed-yield securities	82,698	(4,179)	78,519	77,642	(4,056)	73,586
3.2 Variable-yield securities	26	(704)	(678)	3,390	(1,706)	1,684
3.3 Mutual funds	17,335	(381)	16,954	1,061	–	1,061
3.4 Loans	–	–	–	–	–	–
4. **Held-to-maturity investments**	**–**	**–**	**–**	**–**	**–**	**–**
Total assets	**100,059**	**(5,264)**	**94,795**	**82,093**	**(5,762)**	**76,331**
Financial liabilities						
1. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Due to customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Securities issued**	**782**	**(333)**	**449**	**891**	**(1,211)**	**(320)**
Total liabilities	**782**	**(333)**	**449**	**891**	**(1,211)**	**(320)**

Section 7 *Net change in value of financial assets and liabilities at fair value - line item 110*

7.1 Net gains on financial assets/liabilities at fair value through profit or loss: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Profit (loss) [(A+B)-(C+D)] 31/12/2017	Profit (loss) [(A+B)-(C+D)] 31/12/2016
1. **Financial assets**	**5,145**	**5,742**	**(3,141)**	**–**	**7,746**	**3,427**
1.1 Fixed-yield securities	–	–	–	–	–	–
1.2 Variable-yield securities	–	–	–	–	–	–
1.3 Mutual funds	5,145	5,742	(3,141)	–	7,746	3,427
1.4 Loans	–	–	–	–	–	–
2. **Financial liabilities**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–	–
2.2 Due to banks	–	–	–	–	–	–
2.3 Due to customers	–	–	–	–	–	–
3. **Foreign currency financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**(3,499)**	**880**
4. **Credit and financial derivatives**	**–**	**–**	**–**	**–**	**–**	
Total	**5,145**	**5,742**	**(3,141)**	**–**	**4,247**	**4,307**

Section 8 *Net impairment losses - line item 130*

8.1 Net impairment losses on loans and receivables: breakdown

Transactions/Income items	Adjustments (1) Specific Write-offs	Adjustments (1) Specific Other	Adjustments (1) Portfolio	Write-backs (2) Specific A	Write-backs (2) Specific B	Write-backs (2) Portfolio A	Write-backs (2) Portfolio B	**Total 31/12/2017**	**Total 31/12/2016**
A. **Loans and receivables with banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
B. **Loans and receivables with customers**	**(21,506)**	**(435,549)**	**(27,848)**	**2,424**	**120,751**	**–**	**129,744**	**(231,984)**	**(232,177)**
Purchased impaired loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
Other receivables	**(21,506)**	**(435,549)**	**(27,848)**	**2,424**	**120,751**	**–**	**129,744**	**(231,984)**	**(232,177)**
- Loans	(21,506)	(432,323)	(27,729)	2,424	120,751	–	129,744	(228,639)	(227,459)
- Fixed-yield securities	–	(3,226)	(119)	–	–	–	–	(3,345)	(4,718)
C. **Total**	**(21,506)**	**(435,549)**	**(27,848)**	**2,424**	**120,751**	**–**	**129,744**	**(231,984)**	**(232,177)**

Key:
A = interest
B = other write-backs

8.2 Net impairment losses on available-for-sale financial assets: breakdown

Transactions/Income items	Adjustments (1) Specific Write-offs	Adjustments (1) Specific Other	Write-backs (2) Specific A	Write-backs (2) Specific B	**Total 31/12/2017**	**Total 31/12/2016**
A. Fixed-yield securities	–	–	–	–	–	–
B. Variable-yield securities	–	(8,900)	–	–	(8,900)	(9,897)
C. Mutual funds	–	(26,901)	–	–	(26,901)	(15,292)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. **Total**	**–**	**(35,801)**	**–**	**–**	**(35,801)**	**(25,189)**

Key:
A = interest
B = other write-backs

Adjustments concern listed and unlisted variable-yield securities and certain mutual funds, which have been subjected to impairment testing given that their equity value is lower than the original cost.

The most significant adjustments concern the shares of the Atlante Fund for € 26.022 million, the investment in Release S.p.A for € 5.502 million and the amount due from the IDPF-voluntary scheme for the intervention in favour of Cassa di Risparmio di Cesena for € 3.089 million.

8.4 Net impairment losses on other financial transactions: breakdown

Transactions/Income items	Adjustments (1) Specific Write-offs	Adjustments (1) Specific Other	Adjustments (1) Portfolio	Write-backs (2) Specific A	Write-backs (2) Specific B	Write-backs (2) Portfolio A	Write-backs (2) Portfolio B	**Total 31/12/2017**	**Total 31/12/2016**
A. Guarantees given	–	(7,233)	–	–	–	–	69	(7,164)	(3,442)
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to make loans	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	–
E. **Total**	**–**	**(7,233)**	**–**	**–**	**–**	**–**	**69**	**(7,164)**	**(3,442)**

Key:
A = interest
B = other write-backs

The adjustments represent net provisions for guarantees given.

Section 9 *Administrative expenses - line item 150*

9.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2017	31/12/2016
1) **Employees**	**(187,301)**	**(180,063)**
a) Wages and salaries	(112,749)	(110,433)
b) Social security contributions	(32,446)	(31,292)
c) Termination indemnities	–	–
d) Pension expenses	–	–
e) Provision for employee termination indemnities	(7,734)	(7,751)
f) Provision for pension and similar obligations:	(11,850)	(6,834)
- defined contribution	–	–
- defined benefits	(11,850)	(6,834)
g) Payments to external supplementary pension funds:	(2,830)	(2,770)
- defined contribution	(2,830)	(2,770)
- defined benefits	–	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(19,692)	(20,983)
2) **Other working personnel**	**(84)**	**(257)**
3) **Directors and Statutory auditors**	**(1,686)**	**(1,514)**
4) **Retired personnel**	**–**	**–**
5) **Recovery of expenses for personnel on secondment to other firms**	**135**	**242**
6) **Reimbursement of expenses for personnel on secondment to the company**	**(443)**	**(432)**
Total	**(189,379)**	**(182,024)**

9.2 Average number of employees by category

	31/12/2017	31/12/2016
1) **Employees**	**2,678**	**2,647**
a) Managers	27	26
b) Officials	552	546
c) Other employees	2,099	2,075
2) **Other personnel**	**3**	**5**
Total	**2,681**	**2,652**

	31/12/2017	31/12/2016
- Actual number of employees	2,702	2,676
- Other personnel	2	5

9.3 Defined-benefit pension plans: total costs

Income items/Amounts	31/12/2017	31/12/2016
Service cost	2,406	2,230
Interest cost	1,967	2,384
Contributions from employees	(233)	(239)
Reductions and payments	7,710	2,459
Total charge to income statement (A)	**11,850**	**6,834**
Portion of yield from assets servicing the fund (B)	8,956	4,662
Total charge (A-B)	2,894	2,172

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements. The cost for the Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations. An additional provision of € 8.956 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». The amount of € 4.820 million to cover the actuarial loss has not been charged to the income statement, but instead it has been deducted from equity in accordance with IAS 19, as shown in the statement of comprehensive income.

9.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

9.5 Other administrative expenses: breakdown

Type of service/Amounts	**31/12/2017**	**31/12/2016**
Telephone, post and data transmission	(12,270)	(12,247)
Maintenance of property, equipment and investment property	(7,919)	(8,328)
Rent of buildings	(24,887)	(25,435)
Security	(6,058)	(5,967)
Transportation	(1,733)	(1,719)
Professional fees	(33,031)	(28,603)
Office materials	(1,888)	(1,901)
Electricity, heating and water	(4,586)	(4,968)
Advertising and entertainment	(2,871)	(2,979)
Legal	(14,652)	(14,835)
Insurance	(1,275)	(1,472)
Company searches and information	(6,687)	(6,653)
Indirect taxes and dues	(49,578)	(48,964)
Software and hardware rental and maintenance	(12,230)	(11,197)
Data entry by third parties	(1,796)	(1,374)
Cleaning	(5,283)	(5,407)
Membership fees	(1,651)	(1,886)
Services received from third parties	(4,858)	(3,801)
Outsourced activities	(19,155)	(16,923)
Deferred charges	(1,781)	(2,466)
Goods and services for employees	(1,077)	(1,043)
Other	(33,970)	(53,618)
Total	**(249,236)**	**(261,786)**

Other expenses include € 26.892 million comprising the ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

Section 10 *Net accruals to provisions for risks and charges - line item 160*

10.1 Net accruals to provisions for risks and charges: breakdown

This line item amounts to € 4.946 million made up of the net balance of allowances made during the year to the provision for legal disputes of € 1.017 million and the use or release of provisions set aside in previous years of € 5.963 million.

Section 11 *Depreciation and net impairment losses on property, equipment and investment property - line item 170*

11.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) 31/12/2017	Net result (a+b-c) 31/12/2016
A. **Property, equipment and investment property**					
A.1 Owned	(13.343)	–	–	(13,343)	(13,172)
- For business purposes	(13,343)	–	–	(13,343)	(13,172)
- For investment purposes	–	–	–	–	–
A.2 Acquired under finance leases	(1,019)	–	–	(1,019)	(1,019)
- For business purposes	(1,019)	–	–	(1,019)	(1,019)
- For investment purposes	–	–	–	–	–
Total	**(14,362)**	**–**	**–**	**(14,362)**	**(14,191)**

The finance lease charges paid during the year amounted to € 0.065 million, compared with € 0.617 million in the prior year.

Section 12 *Amortisation and net impairment losses on intangible assets - line item 180*

12.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c) 31/12/2017	Net result (a+b-c) 31/12/2016
A. **Property, equipment and investment property**					
A.1 Owned	(14,119)	–	–	(14,119)	(13,433)
- Internally generated	–	–	–	–	–
- Other	(14,119)	–	–	(14,119)	(13,433)
A.2 Acquired under finance leases	–	–	–	–	–
Total	**(14,119)**	**–**	**–**	**(14,119)**	**(13,433)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year; accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36

Section 13 *Other operating income and expense - line item 190*

This caption amounts to € 68.152 million and comprises other operating income of €71.915 million, net of other operating expenses of € 3.763 million.

13.1 Other operating expenses: breakdown

	31/12/2017	31/12/2016
Out-of-period expense	(3,440)	(3,103)
Other	(323)	(914)
Total	**(3,763)**	**(4,017)**

13.2 Other operating income: breakdown

	31/12/2017	31/12/2016
Recovery of charges on deposits and overdrafts	348	268
Rental income from buildings	1,057	1,098
Recovery of taxes	42,899	42,563
Financial income of pension and similar obligations plan	8,956	4,662
Out-of-period income - other	3,095	2,476
Out-of-period income - overprovisions	–	–
Other	15,560	17,851
Total	**71,915**	**68,918**

The sub-item «other» includes € 6.151 million for the rapid enquiry fee, which has been allocated to this item in accordance with the Supervisory Authority's interpretation as it is merely a recovery of the costs incurred.

Section 14 *Net gains (losses) on equity investments - line item 210*

14.1 Net gains (losses) on equity investments: breakdown

Income item/amount	31/12/2017	31/12/2016
A. **Income**	**–**	**–**
1. Revaluations	–	–
2. Gains on disposal	–	–
3. Writebacks	–	–
4. Other income	–	–
B. **Charges**	**(622)**	**(1,680)**
1. Writedowns	(454)	(340)
2. Impairment writedowns	(168)	(1,340)
3. Loss from disposals	–	–
4. Other charges	–	–
Profit (loss)	**(622)**	**(1,680)**

This item is negative for € 0.622 million, whereas last year it was negative for € 1.680 million; it relates to the subsidiary Pirovano Stelvio Spa for € 0.454 million and the associate Bormio Golf Spa for € 0.168 million.

Section 17 *Net gains on sales of investments - line item 240*

17.1 Net gains on sales of investments: breakdown

Income item/amount	31/12/2017	31/12/2016
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**12**	**10**
- Gains on disposal	12	13
- Losses on disposal	–	(3)
Profit (loss)	**12**	**10**

Section 18 *Income taxes - line item 260*

18.1 Income taxes: breakdown

Income items/Amounts		31/12/2017	31/12/2016
1.	Current taxes (+/-)	(22,150)	(8,500)
2.	Change in prior period income taxes (+/-)	(6,497)	–
3.	Reduction in current taxes (+)	–	–
3. bis	Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4.	Change in deferred tax assets (+/-)	(29,116)	(16,162)
5.	Change in deferred tax liabilities (+/-)	1,264	(809)
6.	Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(56,499)	(25,471)

This line item comes in at € 56.499 million, up by 121.81%. The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 32.30% compared with 24.14%.

18.2 Reconciliation between the theoretical and current tax burden

INCOME TAXES	Tax base	Tax
Theoretical tax burden	174,899	48,097
Increases	18,274	5,026
Decreases	(147,719)	(40,623)
Effective tax burden	**45,454**	**12,500**

IRAP	Tax base	Tax
Theoretical tax burden	174,899	9,742
Increases	92,846	5,172
Decreases	(94,495)	(5,264)
Effective tax burden	**173,250**	**9,650**
Total effective tax burden	**–**	**22,150**

Income taxes are calculated at 27.50% for IRES and 5.57% for IRAP.

The total tax charge for the year is reconciled with the profit for the year as indicated in the table below.

IRES (CORPORATE INCOME TAXES)

The main add-backs relate to non-deductible provisions for risks and charges, losses and writedowns of equity investments classified as PEX, administrative expenses, amortisation and depreciation.

The principal deductions relate to the non-taxable portion of dividends received, the deductible portion of IRAP, the use of taxed provisions, the effect of the ACE regulation and the share of adjustments to loans of previous years that became deductible during the year.

IRAP (REGIONAL BUSINESS TAX)

The main add-backs concern non-deductible personnel expenses, adjustments for impairment of AFS securities, non-deductible amortisation and depreciation and other administrative expenses.

The principal deductions relate to the portion of adjustments to loans of previous years that became deductible during the year and the share of non-taxable dividends.

Section 21 Earnings per share

21.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2017	31/12/2016
number of shares	453,385,777	453,385,777

This is the weighted average used as the denominator in the calculation of basic earnings per share.

21.2 Other information

IAS 33 requires that EPS «earnings per share» be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

Diluted earnings per share was calculated with reference to the number of shares issued for payment at the time of the capital increase.

	31/12/2017	31/12/2016
Basic EPS - €	0,261	0,177
Diluted EPS - €	0,261	0,177

PART D *Comprehensive income*

Statement of comprehensive income

Items/Amounts	Gross amount	Income taxes	Net amount
10. **Profit for the year**	**–**	**–**	**118,400**
Other items of comprehensive income that will not be reclassified to profit or loss			
20. **Property, equipment and investment property**	**–**	**–**	**–**
30. **Intangible assets**	**–**	**–**	**–**
40. **Defined-benefit plans**	**(5,978)**	**1.644**	**(4,334)**
50. **Non-current assets held for sale and discontinued operations**	**–**	**–**	**–**
60. **Share of valuation reserves of equity investments valued at net equity**	**–**	**–**	**–**
Other items of comprehensive income that may be reclassified subsequently to profit or loss			
70. **Hedges of foreign investments:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
80. **Exchange differences:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
90. **Cash-flow hedges:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
100. **Available-for-sale financial assets:**	**6,262**	**(642)**	**5.620**
a) changes in fair value	36,574	(10.666)	25,908
b) transfer to income statement	(30,312)	10,024	(20,288)
- adjustments for impairment	–	–	–
- gains/losses on disposals	(30,312)	10,024	(20,288)
c) other changes	–	–	–
110. **Non-current assets held for sale and discontinued operations:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
120. **Share of valuation reserves of equity investments valued at net equity:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
- adjustments for impairment	–	–	–
- gains/losses on disposals	–	–	–
c) other changes	–	–	–
130. **Total other income items**	**284**	**1,002**	**1,286**
140. **Comprehensive income (Item 10+130)**	**–**	**–**	**119,686**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Bank's website.

Introduction

The purpose of managing and controlling risks is to ensure the reliable and sustainable generation of value, safeguard the financial solidity and reputation of the Bank, and provide transparent disclosure about the risks accepted. In particular, this activity seeks to verify compliance with the limits placed on the acceptance of risk, to identify criteria and methodologies for the measurement/assessment of risk, to check the consistency of the work performed in each operational area with the risk objectives assigned, if any, and to monitor current and future capital adequacy.

The Board of Directors is responsible for establishing guidelines, the strategic direction and policies for the governance of business risks, in order to ensure that the principal risks to which the Bank is exposed are correctly identified and managed. Consistent with this, the Board establishes the propensity to accept risk and obtains information about the actual exposures recorded, checking that the risk profiles are monitored appropriately by the units made responsible for internal control. In addition, with support from senior management, the Board promotes the development and spread at all levels of a «risk culture», capable of recognising the importance of healthy and prudent business management and facilitating a consistent, integrated and complete understanding of the types of risk that are important for the Bank.

Based on their specific responsibilities, the managing director and the members of general management supervise implementation of the guidance, direction and instructions provided by the Board, translating them into a system of exposure limits, procedures and operations designed to ensure the moderate acceptance of risk; the practical application of significant risk policies is delegated to the central services, offices and branches, depending on how they are organised.

The Board of Statutory Auditors monitors the adequacy of the risk management processes and their consistency with regulatory requirements.

The measurement and control of risks are performed by separate functions that are organisationally independent of the units authorised to accept them. The Risk Control Department plays a primary role by constantly supervising operations via the Risk Control Office, which makes use of systems, instruments, procedures and methodologies for the identification, assessment and monitoring of risk. The department manager reports to senior management, in an objective and impartial manner, on the outcome of these control activities.

The high-level information describing the risks accepted, prepared by the above department, is organised so that senior management – having regard for the duties and responsibilities of each person – can make an informed, complete and documented assessment of the various types of risk and the related management, control and mitigation mechanisms, as well as of the adequacy of the capital held to cover such risks. The changes in the risk profiles are also communicated to the operational areas, via operational reports designed to make personnel aware of the need to intensify efforts to prevent and attenuate risk.

Section 1 *Credit risk*

QUALITATIVE INFORMATION

1. General matters

In line with its mission as a cooperative, the Bank's lending policy aims to provide support to local economies in the areas that we serve, by granting financial resources to applicants that are pursuing admirable objectives and who meet suitable parameters of credit-worthiness.

The size and composition of the loan portfolio reflect the financial needs of the two specific customer segments: the entrepreneurial spirit of small and medium-sized business owners, mainly located in territory of the Bank, and households. The Bank prefers to lend to SMEs since they do not move in broader financial circles and, consequently, need a point of reference that can understand their requirements and meet them with skill, efficiency and speed, following the evolution of the business over time. However, the needs of bigger counterparties, such as large enterprises and public entities, are not overlooked, providing their credit rating following a rigorous preliminary investigation shows that they are solid and reliable.

In this context, the lending activity is based on principles of healthy and prudent management, fair remuneration of risk and professional, efficient operational conduct, with a view to establishing two-way communications with borrowers based on reciprocal trust and transparency; this in order to enhance the Bank's particular aptitude for building long-term customised relationships with local business owners.

In consideration of the Bank's strategic objectives and approach to operations, its lending strategy is based on a low propensity for risk and full awareness of the risks that are taken on; this involves:

- measurement of the current and prospective risk inherent in the loan portfolio, both as a whole and at various levels of disaggregation;
- diversifying the exposure, so as to reduce concentration;
- refusing to get involved in operations that could jeopardise the Bank's profitability and solidity.

These strategies and policies have not changed since last year.

2. Credit risk management policies

2.1 Organisational aspects

The Bank's approach to credit risk management is based on maximum involvement at all levels of the organisation to ensure timely processing of customers' applications, combined with an analytical assessment of the risk involved in lending money to them.

The various stages that make up the lending process include the planning of credit policies, the preliminary investigation, disbursement of the loan, periodic review, monitoring and management of impaired loans.

Implementing the strategic guidelines established by the Corporate Bodies during the planning process and in compliance with the risk limits set, the lending policy defines the size and composition of the loan book, in order to guarantee an adequate balance between the risk profile accepted and the return earned. The guidelines cover the products, segments, sectors and categories of counterparty that maximise forecast profitability while, at the same time, governing the quality of the portfolio and ensuring capital adequacy on a prospective basis. For planning purposes, the guidelines establish objectives for the operational offices, covering the quality of the portfolio, as well as its growth and profitability. These objectives must be achieved while respecting the capital adequacy requirements and risk limits.

The procedures and organisational structure set up for this purpose have been formalised, clearly specifying activities, roles and responsibilities.

In order to avoid potential conflicts of interest, we ensure that operating functions and control functions are kept separate.

The system of decision-making powers approved by the Board of Directors is based on the principle of «cascade delegation», which means assigning limited powers to the branches, giving preference to control by specialist central units.

The following is an explanation of the bodies and the main corporate functions that are involved in supervising the lending process, also specifying their principal duties.

- *The Board of Directors*. The Board of Directors supervises and oversees the proper allocation of financial resources and, in particular:
  - establishes the strategic direction and lending policies;
  - establishes criteria for the recognition, management and assessment of risks;
  - approves the decision-making and signature powers attributable to the other corporate bodies and organisational units for the granting and revision of lines of credit;
  - ensures that the structure of the control functions is defined in a way that is consistent with the Bank's strategies, that they have an appropriate level of decision-making autonomy and that they have adequate resources in terms of both quality and quantity;
  - gains a general knowledge of rating systems, proposes their application during the various stages of the process and assesses how effective they are with the help of the internal control and internal audit functions.
- *Managing Director. The Managing Director supervises implementation of the decisions taken by the Board of Directors with regard to the management of lending and the related risks. In addition, exercises the powers to make loans granted under the Bank's regulations.*
- *General Management*. General Management implements the strategies and policies established by the Board of Directors and, in particular:
  - prepares regulations, activities, procedures and organisational structures for the adoption and application of an efficient lending process, of an adequate rating system and of a solid system for the control of the related risks;
  - verifies the adequacy and functional capacity of these various elements, also in light of the internal and external changes that are affecting the bank;
  - takes the necessary action to eliminate any weaknesses and inefficiencies that are identified.

  In addition, General Management adopts resolutions to the extent of the autonomy granted.
- *Branches*. The branches are assigned the fundamental task of handling the relationship with the customer who is borrowing or who would like to borrow money from the bank. They acquire the documentation, make an initial selection of the applications and directly approve those within the scope of their powers, and monitor the credit report on a day-to-day basis, checking for potentially anomalous situations.
- *Coordination functions*. They give the branches fundamental support in handling more complex loan positions and/or those that are looking critical.

  They examine requests for loans to be presented to the central functions and express an opinion, while approving directly those within the scope of their powers.
- *Loans Department*. The Credit Assessment office supports the work of the central committees by receiving applications from branches, checking their completeness and accuracy, and completing the assessment.

  The Medium-term and Special Loans Office assesses mortgages, leases, factoring arrangements, artisan and agricultural loans, loans under framework agreements and personal loans from a technical and legal point of view. Through the Risk Office, it finalises the guarantees and then activates the loan.
- *Corporate Finance Department*. The Corporate Finance Department analyses, structures and coordinates corporate finance operations and identifies the best types of financing for complex investment projects.

It makes a preliminary evaluation of project financing transactions, directly structuring the intervention or proposing the Bank's participation in a lending syndicate.

– *Problem Loans Management Department*. It oversees the performance of credit quality and verifies the effectiveness of the actions taken to settle credit anomalies and recover the debt. It monitors in particular critical performing, non-performing and past due positions classified as unlikely-to-pay and implements, either directly or via the network, the appropriate actions to minimise the risks and prepare appropriate initiatives to protect the bank's credit. It also supports the network in managing positions subject to restructuring and bankruptcy proceedings, searching for negotiated solutions to business crises.

– *Legal and Claims Department.* The Legal and Claims Department works to safeguard the interests of the bank with regard to disputed assets and liabilities. In particular, with regard to non-performing loans, the department takes the legal action needed to recover the outstanding amounts and also takes out-of-court action together with the Problem Loans Management Department.

– *Risk Control Department.* The Risk Control Department defines, develops and maintains the models underlying the rating system through the Credit Models Development Office; it checks the reliability and effectiveness of the estimates produced by them and, where necessary, takes steps to update them.
The department also analyses, using various analysis dimensions, the riskiness of the loan portfolio, produces the related information flows and makes them available to the competent bodies and operating functions. From an organisational point of view, a thorough review of the structure was carried out during the year, in order to make credit risk control and monitoring of the loan portfolio quality even more effective; in particular, the current structure involves the following organisational units:
  · *Integrated Risk Office*: it has control over the definition and implementation of the RAF, ICAAP, stress tests and the Group's Recovery Plan;
  · *Credit Risk Organisation Office*: with the constant aim to increase efficiency and adoption of best market practices, it organises and monitors the overall activities carried out by the offices responsible for credit risk monitoring and management, with particular attention to the evolution of the internal rating system;
  · *Credit Models Development Office*: designs, develops and maintains models and metrics adopted for the measurement of credit risk for both regulatory and management purposes;
  · *Lending Policies Office*: it oversees the planning of lending policies in compliance with the RAF and monitors their timely application;
  · *Asset Quality Office*: it monitors the overall quality of the credit portfolio through aggregate analysis and, where necessary, looking more closely at individual balances;
  · *Large Exposures Office and Rating Desk*: it evaluates the more significant credit exposures in terms of risk, preparing the related analyses and performing verifications of the exceptions to the rating assessments expressed by the operating structures.
This Department also includes the *Validation Office*, which is devoted to verifying the internal risk management systems and assessment of corporate activities used for both regulatory and management purposes.

– *Internal Audit Department*. The Internal Audit Department checks the proper functioning of controls and compliance with rules and procedures. In particular, this department checks that the criteria for the proper classification of loans are correctly applied.

2.2 Systems for managing, measuring and monitoring

Control over credit risk has the support of rating models that have been specifically developed by the Bank.

The Bank has models for the following segments: Private Customers (resident and non-resident consumer households), Small Economic Operators (family businesses, personal businesses and practising professionals), Small Business (non-financial partnerships and companies with sales unknown or less than €1.5 million and total credit lines at Group level of less than €1 million), SMEs (non-financial partnerships and companies with sales between €1.5 million and €100 million, or sales unknown or less than €1.5 million and total credit lines at Group level of €1 million or more), Corporate non-profit institutions (non-profit entities and associations with sales of €1.5 million or more or, if less or unknown, with total credit lines of €1 million or more), Retail non-profit institutions, Large Enterprises (non-financial partnerships and companies with sales in excess of €100 million), Public Enterprises and non-resident, non-financial companies.

These models are designed to create a counterparty rating and an associated probability of default (PD), representing the estimated likelihood that the borrower will become insolvent within one year. The rating depends solely on the characteristics of the counterparty and is not influenced by any guarantees that the Bank has acquired. The rating assessments are produced by qualitative statistical models and are split into 14 categories for «performing» counterparties and one for those that are insolvent. They are then summarised in eight risk ratings: «Excellent», «Good», «Medium», «Uncertain», «Bad», «Very bad», «Insolvent» and «Not classified».

Together, at the end of December 2017, the sub-portfolios subject to these rating systems account for 78.09% of lending to customers (91.30% in terms of number of counterparties).

Ratings are used in the credit process all the way from policy planning through to performance control. For monitoring purposes, the rating is calculated monthly with reference to the entire population of interest, whereas it is determined on an ad hoc basis when considering new loans or reviewing existing loans.

Estimates of two other important risk factors complete the rating system described above: The rate of the Loss Given Default (LGD) and the estimated Exposure at Default (EAD). These estimates, which are specific for each counterparty, also derive from internal models, and they are heavily influenced by the presence and type of guarantees acquired by the Bank and by the technical form by which the loan is granted.

Having input on such risk factors, updated on a monthly basis, contributes towards a complete assessment of the risk profile, helping to improve the amount of information available to support the lending process.

The PD, LGD and EAD results also make it possible to determine the Expected Loss, which is an estimate of the potential loss associated with a particular loan exposure; and as an element of cost, it also provides useful input for determining prudent loan loss provisions.

The concept of insolvency used when estimating and calibrating includes: non-performing, unlikely to pay and past due loans, including those significantly overdrawn for more than 90 consecutive days. Together with the assessments made using internal models, the ratings granted by independent agencies are gathered automatically. These are used in determining the capital requirements for credit and counterparty risk, for which the Bank adopts the so-called «standardised approach»; this involves weighting the exposures on the basis of ratings, where available, assigned to each counterparty by a specialist firm (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, DBRS and Cerved Group).

With regard to the exposures to Italian and foreign banks, the ratings given by leading agencies are used wherever available. Otherwise, an internal rating, based on the application of a simplified model, is used.

More specifically, this model involves the examination of a series of quantitative and qualitative indicators and information, which produce values for the determination of a final score. This score is positioned on a scale of ten classes, the first of which represents a counterpart/issuer with minimal risk, while the ninth highlights maximum risk and the tenth represents a state of insolvency. These ten classes are then grouped into four macro classes for comparison with the ratings given by international agencies.

As regards counterparty risk, in addition to continuously monitoring the main banking groups with credit lines, we periodically carry out a specific analysis of each position that has been taken on. This is performed by taking various indicators into consideration, such as their rating, accounting information and market data.

Risk analyses are carried out periodically on the loan portfolio. These address various dimensions, including the trends in the distribution of counterparties by rating class and by economic and productive sector.

These assessments support the formulation of policy guidelines for lending, help adopt suitable operational measures and provide operational guidelines to the central and branch functions concerned.

With regard to credit risk and the extension of the way it is measured to the various operational areas, the Bank has established objectives for the control of expected loss (cost of credit risk) that branches have applied for some time in the preparation of their annual budgets. The spread and the margin applied on loans are adjusted by a correction factor to take account of the credit risk based on PD and LGD parameters deriving from internal models. The objective is to ensure closer correlation between the profitability performance assigned to each productive unit and its actual ability to accept and manage risk, thus indicating growth paths for lending that are as effective as possible in risk-return terms. The lending process provides for a series of checks aimed at mitigating risk during the various phases that make it up.

The preliminary investigation, which aims to establish whether applicants satisfy certain conditions for credit-worthiness, includes consideration of whether the characteristics of the loan are consistent with its purpose, a check on whether any guarantees being provided are suitable to cover the risk of non-repayment, and a review of the economic aspects of the loan. In this context, the opinion expressed by the internal rating system, if available, and the associated estimates of default are taken into due consideration as essential elements for an overall evaluation of the customer.

Exceptions to the internal rating system are applied to certain operational segments.

An override is proposed by the branch or, for certain segments (Large Enterprises, Public Enterprises and Corporate Non-Profit Institutions) by the Credit Assessment Office, and requires central approval from the Large Exposures office and rating desk.

The use of indicators of risk-adjusted value creation (EVA) meets the need to assess more selectively certain loan positions and to control more closely the quality of loans granted. Using a specific application already integrated within the electronic credit line system, it is possible to determine a measure of profitability that is adjusted for credit risk (expected loss based on the customer's rating) and for the opportunity cost of the regulatory capital absorbed. This is applied to the individual lending relationship, resulting in an estimate of the value added by current or potential exposures. By consolidating the controls applied to contain risk in the selection, management and monitoring phases, this tool makes it possible to identify poorly performing accounts more precisely and, therefore, take action to restore profitability. In order to orient the price of loans in a more efficient and fair manner, according to EVA logics, on the request for new finance or a review of relationships, the pricing procedure in use has also been revised and refined during the year.

The decision whether to grant a loan or not is taken by the competent decision-making bodies prior to disbursement, carefully assessing all of the information that emerged during the preliminary investigation, as well as any other element that might be available. In order to ensure maximum control over credit risk, the mechanism for establishing decision-making powers for the bodies at the lower end of the hierarchical ladder now operates alongside the nominal value of the operation with another system of powers that also takes into account an objective assessment of the counterparty risk which is reflected in the internal rating.

Credit lines are then made operative and the funds made available to the borrower, but only after all matters foreseen in the approval have been dealt with, particular emphasis being put on the acquisition of guarantees and their verification and assessment in terms of being suitable to lower the credit risk.

After disbursement, loans of whatever amount are reviewed periodically to check whether all of the conditions established during the preliminary investigation and taken into consideration when granting the loan still exist. Particular attention is paid to reviewing the reasons that led to changes in ratings.

Lines of credit can also be reviewed automatically in the case of positions with low levels of risk, ascertained through a rigorous examination of suitable indicators that are established in advance, where the rating takes on a great deal of importance.

Outstanding loans and guarantees are constantly monitored to ensure that the borrower and any guarantors remain solvent and that the general and specific requisites still apply and that the guarantees are still valid, to ensure that they can be fully and effectively enforced in the event of the debtor's insolvency. This monitoring, which is carried out in accordance with formal company procedures, is designed to spot any negative symptoms as early as possible and to take rapid and effective action to avoid any further deterioration. In this regard, the home branches of the loans concerned play an important role since, by maintaining direct customer relations, they are able to identify any signs of impairment immediately. Operating units are supported in these activities by a series of reports produced internally or by external contributors; with regard to the Parent Company, particular importance is attached to the report on changes in the risk factors at counterparty level calculated by the rating system. Specific head office units are dedicated to analysing the different information available, in order to assess continuously the merit class of each exposure and identify those potentially subject to excessive risk. The depth of this analysis is linked to the needs expressed.

The bank also has a process of identification, resolution and monitoring of forborne exposures (i.e. credit exposures for which changes in contractual conditions or refinancing have been granted due to financial difficulties on the part of the debtor); forborne as an attribute is transversal to all loans, whatever their administrative status.

In addition, a range of management information is generated periodically in order to monitor better, via meaningful analysis, the changes in portfolio risk.

With regard to the monitoring of loans that appear anomalous, all overdrawn situations are analysed carefully with a view to taking timely action in relation to problem positions.

The Problem Loans Management Department makes use of performance measurement and control methodologies that take into consideration internal and industry data, together with the opinion given by the rating system, if available, to build up the identification of potentially problematic counterparties and promotes actions to mitigate credit risk. These positions are appropriately analysed and, where there are clear signs of difficulty, they are classified as «impaired», depending on how serious the situation is.

The task of monitoring and managing anomalous loans is given to specific central offices, which make use of «corporate managers» located throughout the territory and who carry on their activity with a view to returning the position to «performing», if this is possible; otherwise, with a view to recovering the loan in the event of insolvency, operating in close collaboration with the home branches of the problem loans concerned.

Within the Risk Control Department, a separate unit supports the Loans Department by identifying «performing» customers that show initial anomalies and signs of difficulty, as well as those counterparties that are persistently overdrawn. In order to deal with deteriorating relationships promptly and effectively supervise the overall quality of the loans portfolio, the bank has adopted monitoring processes and support tools that promote actions leading to the regularisation of the relationships.

Checks are performed during the initial assessment, payout, review and monitoring stages with regard to the concentration of risk in relation to individual counterparties or groups of counterparties that are linked by legal or economic relationships.

In accordance with the above regulations, specific procedures are followed for loan applications deemed to be «of greater significance», based on the size of the exposure and the amount of the request for new lines of credit. In particular, these applications and the related investigation report prepared by the Loan Investigation Office are sent to the Large exposures office and rating desk, which assesses the consistency of the operation, at both the individual and consolidated levels, with the system of risk objectives identified in the RAF (Risk Appetite Framework). In addition to the normal analysis by the loan investigation office, large exposures are also examined by the Large exposures office and rating desk in order to provide additional support for the approval process.

2.3 Credit risk mitigation techniques

The Bank obtains the guarantees considered usual for banking activities in order to reduce credit risk: these principally comprise mortgages on buildings, pledges on financial instruments and unsecured guarantees. Unsecured guarantees principally comprise limited, general guarantees given by individuals and companies whose creditworthiness is considered adequate following a specific assessment. Clearly it is fundamental with regard to unsecured guarantees to check the quality of the guarantor's assets. This analysis is not limited to the initial phase of the relationship, but is repeated over the life of the relationship. If the guarantor is found to be economically unsuitable, the Bank reviews the relationship in order to verify the continued reliability of the borrowing counterparty.

The presence of guarantees is taken into consideration when weighting the overall credit lines to be granted to a customer or to the legal or economic group to which it might belong.

The estimated value of the security offered by counterparties is «discounted» on a prudent basis, having regard for the nature of the instrument made available (mortgages on buildings, pledges of cash or other financial instruments).

With regard to mortgage guarantees, the bank adopts reliable principles and standards for the valuation of properties in order to obtain realistic and detailed estimates of the value of the assets as collateral. The Bank has also a procedure that is able to ensure efficient management and timely assessment of properties that are subject to real encumbrances, by taking a census of the assets and filing the expert appraisals in a specific IT application. Moreover, residential and commercial buildings are assessed at least once a year, partly with a view to complying with the supervisory instructions. Property must meet specific requirements in order to mitigate lending risk (value of the property independent of the creditworthiness of the counterparty, loan repayments independent of cash flows deriving from the asset, and residential property used directly or rented). These requirements are checked by the branches and the electronic credit application is processed for subsequent checks by the investigation office and the approval committees.

The value of security given in the form of financial instruments listed on regulated markets is automatically revised each day with reference to the quoted prices, in order to check that the cover remains within the agreed line of credit or, otherwise, to report the situation to the account managers on a timely basis.

The Bank is not party to settlement agreements regarding on- and off-balance sheet transactions.

Suitable arrangements are made when obtaining, assessing and verifying guarantees to ensure that they will prevail over third parties and can be enforced, both at the time and in the future.

At this time, there are no contractual restrictions threatening the legal validity of guarantees received.

The central functions that perform the above checks are different to the functions that grant and review lending; the Internal Audit Department carries out periodic checks to ensure that these activities are performed properly and on a prudent basis.

2.4 Impaired financial assets

Credit risk management is carried out during all stages of lending by means of effective surveillance and monitoring, so that timely assessments can be made as soon as any anomalies arise.

Loans are classified as «impaired» (Non-Performing Exposures), if there are serious signs of tension and, depending on the nature and gravity of the anomaly, in compliance with the EU Implementation Regulation 2015/227 which approved the implementing Technical Standard (ITS), issued by the European Banking Authority (EBA), when they meet one of the following criteria:

- they are due from counterparties that are not deemed able to meet their loan obligations in full without the enforced collection of guarantees, regardless of whether or not any amounts are overdue, or the number of days that payments are past due;
- the debtor has large exposures (as defined with reference tot he thresholds of significance established in the Supervisory regulations) that are past due by more than 90 days.

Depending on the nature and gravity of the anomaly, they are split into the following sub-categories:

- Non-performing loans, covering the entire exposure to borrowers that are insolvent or in an equivalent state, regardless of the guarantees given and/or any loss forecasts made;
- Unlikely to pay, all exposures to debtors that, in the opinion of the Bank, are unlikely to pay in full (principal and/or interest) their loan obligations without recourse to the enforced collection of guarantees; this assessment is made regardless of whether or not there are any past due amounts (or instalments);
- Past due and/or impaired overdrawn, cash exposure, other than bad or unlikely to pay loans, which have remained unpaid and/or overdrawn continuously for more than 90 days according to the current regulations.

The loans not allocated to the above categories are deemed to be performing exposures.

The management of «impaired» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

More precisely, in the event of positions that are:

- non-performing loans, suitable procedures are implemented to recover the loans; if circumstances permit, recovery plans are drawn up and/or settlements are proposed on an amicable basis in order to terminate the relationship;
- unlikely to pay, an assessment is made of the probability that the debtor will meet its contractual obligations in full, in order to re-establish the original conditions of reliability and profitability of the relationship, or, if this is impossible, steps are taken to transfer the position to the non-performing category. For unlikely to pay loans subject to restructuring agreements, checks are made continuously to ensure that the agreed conditions are met;
- past due and/or impaired overdrawn exposures are monitored and timely attempts are made to get the situation back to normal; if it is seen that the borrower really is in financial difficulty, the necessary steps are taken to transfer the loan to unlikely-to-pay loan or to non-performing loans, depending on the circumstances.

Adjustments are made in strict compliance with both the primary and secondary regulations and on a highly prudent basis. In particular, having regard for non-performing loans and unlikely-to-pay loans, the bank carries out an analysis of each position, which also takes into account the discounting effects of expected recovery.

Overall assessments are made solely with regard to smaller individual loans, being not more than € 10,000 for non-performing loans and € 15,000 for unlikely-to-pay loans. The objective is to adopt a prudent approach to the control of these impaired assets that, given their intrinsic characteristics (large number of not significant amounts), can be processed rapidly and at low cost on primarily an automated basis, thus ensuring the uniformity of the assessments made.

With reference to past due and/or impaired overdrawn exposures, the adjustment is determined with reference to the historical experience of losses on loans with that type of anomaly.

Every so often, the Bank bought small quantities of non-performing loans from third parties.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired	Past due exposures, not impaired	Other non-impaired exposures	**Total 31/12/2017**
1. Available-for-sale financial assets	–	317	–	–	6,647,081	6,647,398
2. Held-to-maturity investments	–	–	–	–	4,132,572	4,132,572
3. Loans and receivables with banks	–	–	–	–	2,815,466	2,815,466
4. Loans and receivables with customers	778,653	1,144,901	82,522	319,869	19,493,083	21,819,028
5. Financial assets at fair value through profit or loss	–	–	–	–	–	–
6. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2017	**778,653**	**1,145,218**	**82,522**	**319,869**	**33,088,202**	**35,414,464**
Total 31/12/2016	**763,817**	**1,304,341**	**220,694**	**412,841**	**27,817,388**	**30,519,081**

The word exposures is understood as excluding equities and mutual funds.

The table below shows the analysis of the ageing of past due amounts by portfolio with reference to non-impaired financial assets, in line with IFRS 7 (paragraph 37, letter a).

	Past due exposures, not impaired				
Portfolio/quality	Past due up to 3 months	Past due from 3 to 6 months	Past due from 6 to 12 months	Past due for over 1 year	Other exposures not past due
4. Loans and receivables with customers	250,294	38,962	25,424	5,189	19,493,083

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

	Impaired assets			Not impaired assets			
Portfolio/quality	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	**Total (net exposure)**
1. Available-for-sale financial assets	317	–	317	6,647,081	–	6,647,081	6,647,398
2. Held-to-maturity investments	–	–	–	4,132,572	–	4,132,572	4,132,572
3. Loans and receivables with banks	–	–	–	2,815,466	–	2,815,466	2,815,466
4. Loans and receivables with customers	4,108,807	(2,102,731)	2,006,076	19,923,096	(110,144)	19,812,952	21,819,028
5. Financial assets at fair value through profit or loss	–	–	–	–	–	–	–
6. Financial assets being sold	–	–	–	–	–	–	–
Total 31/12/2017	**4,109,124**	**(2,102,731)**	**2,006,393**	**33,518,215**	**(110,144)**	**33,408,071**	**35,414,464**
Total 31/12/2016	**4,253,837**	**(1,964,985)**	**2,288,852**	**28,355,937**	**(125,708)**	**28,230,229**	**30,519,081**

With reference to financial assets at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial write-offs recorded over the years in relation to the above portfolios total € 107.843 million, reflecting the non-performing loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» presents the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the other financial assets.

	Assets obviously of poor quality		Other assets
Portfolio/quality	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	5	106	416,439
2. Hedging derivatives	–	–	–
Total 31/12/2017	**5**	**106**	**416,439**
Total 31/12/2016	**14**	**322**	**791,472**

A.1.3 Cash and off-balance sheet exposures to banks: gross and net values and past due bands

	Gross exposure							
	Impaired assets							
Type of exposure/Amounts	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**								
a) Non-performing loans	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
c) Impaired past due exposures	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
d) Not impaired past due exposures	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
e) Other not impaired exposure	–	–	–	–	3,288,260	–	–	3,288,260
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
Total A	–	–	–	–	3,288,260	–	–	3,288,260
B. **Off-balance sheet exposures**								
a) Impaired	–	–	–	–	–	–	–	–
b) Not impaired	–	–	–	–	765,622	–	–	765,622
Total B	**–**	**–**	**–**	**–**	**765,622**	**–**	**–**	**765,622**
Total (A+B)	**–**	**–**	**–**	**–**	**4,053,882**	**–**	**–**	**4,053,882**

Cash exposures include the loans and receivables with banks, shown under item 60, as well as other financial assets consisting of bank securities included in items 20, 30, 40, 50 of assets, excluding variable-yield securities. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

A.1.4 Cash exposures to banks: dynamics of impaired exposures

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
A. **Opening gross exposure**	**–**	**639**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–
B. **Increases**	**–**	**528**	**–**
B.1 transfers from performing loans	–	–	–
B.2 transfers from other categories of impaired exposure	–	–	–
B.3 other increases	–	528	–
C. **Decreases**	**–**	**1,167**	**–**
C.1 transfers to performing loans	–	–	–
C.2 write-offs	–	–	–
C.3 collections	–	1,167	–
C.4 proceeds from disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposure	–	–	–
C.7 other decreases	–	–	–
D. **Closing gross exposure**	**–**	**–**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–

A.1.6 Cash and off-balance sheet exposures to customers: gross and net values and past due bands

Type of exposure/Amounts	Gross exposure – Impaired assets – Up to 3 months	Gross exposure – Impaired assets – 3 to 6 months	Gross exposure – Impaired assets – 6 to 12 months	Gross exposure – Impaired assets – Beyond 1 year	Gross exposure – Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**								
a) Non-performing loans	2,873	9,635	34,649	2,220,827	–	(1,489,331)	–	778,653
- of which: exposures subject to forbearance	47	693	2,932	114,129	–	(69,657)	–	48,144
b) Unlikely-to-pay loans	692,656	66,153	189,314	793,888	–	(596,792)	–	1,145,218
- of which: exposures subject to forbearance	316,016	25,114	44,038	134,893	–	(165,075)	–	354,986
c) Impaired past due exposures	15,404	17,126	41,800	24,800	–	(16,608)	–	82,522
- of which: exposures subject to forbearance	551	3,138	8,494	2,810	–	(2,514)	–	12,479
d) Not impaired past due exposures	–	–	–	–	322,250	–	(2,381)	319,869
- of which: exposures subject to forbearance	–	–	–	–	59,342	–	(401)	58,941
e) Other not impaired exposure	–	–	–	–	30,271,398	–	(107,763)	30,163,635
- of which: exposures subject to forbearance	–	–	–	–	552,599	–	(3,706)	548,893
Total A	**710,933**	**92,914**	**265,763**	**3,039,515**	**30,593,648**	**(2,102,731)**	**(110,144)**	**32,489,898**
B. **Off-balance sheet exposures**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Impaired	83,937	–	–	–	–	(25,146)	–	58,791
b) Not impaired	–	–	–	–	4,702,354	–	(4,553)	4,697,801
Total B	**83,937**	**–**	**–**	**–**	**4,702,354**	**(25,146)**	**(4,553)**	**4,756,592**
Total (A+B)	**794,870**	**92,914**	**265,763**	**3,039,515**	**35,296,002**	**(2,127,877)**	**(114,697)**	**37,246,490**

Cash exposures include the customer loans shown in item 70 as well as other financial assets represented by non-bank securities included in items 20, 30, 40, 50 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.7 Impaired cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
A. **Opening gross exposure**	**2,051,538**	**1,945,855**	**255,805**
- of which: sold but not eliminated from the balance sheet	34	3,240	2,833
B. **Increases**	**500,586**	**521,728**	**74,904**
B.1 transfers from performing loans	51,957	251,061	66,394
B.2 transfers from other categories of impaired exposure	388,536	125,126	395
B.3 other increases	60,093	145,541	8,115
C. **Decreases**	**284,140**	**725,573**	**231,579**
C.1 transfers to performing loans	–	119,391	61,968
C.2 write-offs	151,204	–	–
C.3 collections	132,906	108,392	8,410
C.4 proceeds from disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposure	30	364,023	150,005
C.7 other decreases	–	133,767	11,196
D. **Closing gross exposure**	**2,267,984**	**1,742,010**	**99,130**
- of which: sold but not eliminated from the balance sheet	–	6,455	1,766

A.1.7bis Cash exposures to customers: dynamics of exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: impaired	Exposures subject to forbearance: not impaired
A. **Opening gross exposure**	**539,021**	**448,332**
- of which: sold but not eliminated from the balance sheet	–	–
B. **Increases**	**236,929**	**359,482**
B.1 transfers from performing loans not subject to forbearance	43,948	235,074
B.2 transfers from performing loans subject to forbearance	40,461	–
B.3 transfers from performing loans subject to forbearance and impaired	–	47,084
B.4 other increases	152,520	77,324
C. **Decreases**	**123,095**	**195,873**
C.1 transfers to performing loans not subject to forbearance	–	74,817
C.2 transfers to performing loans subject to forbearance	47,084	–
C.3 transfers to performing loans subject to forbearance and impaired	–	40,461
C.4 write-offs	–	–
C.5 collections	33,083	35,867
C.6 proceeds from disposals	–	–
C.7 losses on disposal	–	–
C.8 other decreases	42,928	44,728
D. **Closing gross exposure**	**652,855**	**611,941**
- of which: sold but not eliminated from the balance sheet	1,278	19,368

A.1.8 Impaired cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans Total	Non-performing loans Of which: exposures subject to forbearance	Unlikely-to-pay loans Total	Unlikely-to-pay loans Of which: exposures subject to forbearance	Past due exposures, impaired Total	Past due exposures, impaired Of which: exposures subject to forbearance
A. **Total opening adjustments**	**1,287,721**	**40,886**	**642,153**	**131,045**	**35,111**	**3,254**
- of which: sold but not eliminated from the balance sheet	7	–	500	–	357	–
B. **Increases**	**398,836**	**34,518**	**225,252**	**57,423**	**12,462**	**332**
B.1 adjustments	69,285	24,026	83,620	54,454	1,487	65
B.2 losses on disposal	–	–	–	–	–	–
B.3 transfers from other categories of impaired exposure	148,995	10,492	17,743	2,969	58	–
B.4 other increases	180,556	–	123,889	–	10,917	267
C. **Decreases**	**197,226**	**5,747**	**270,613**	**23,393**	**30,965**	**1,073**
C.1 write-backs on valuation	29,689	5,012	47,754	7,579	236	144
C.2 write-backs due to collections	16,327	735	10,118	4,913	140	48
C.3 gains on disposal	–	–	–	–	–	–
C.4 write-offs	151,204	–	–	–	–	–
C.5 transfers to other categories of impaired exposure	6	–	145,487	10,901	21,303	881
C.6 other decreases	–	–	67,254	–	9,286	–
D. **Total closing adjustments**	**1,489,331**	**69,657**	**596,792**	**165,075**	**16,608**	**2,513**
- of which: sold but not eliminated from the balance sheet	–	–	921	110	274	16

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of cash loans and off-balance sheet items by external rating class

Exposure	External rating classes Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	Total 31/12/2017
A. **Cash exposure**	**9,213,662**	**195,448**	**2,129,132**	**315,521**	**2,657**	**–**	**24,351,760**	**36,208,180**
B. **Derivatives**	**–**	**13,203**	**1,039**	**237**	**–**	**–**	**38,372**	**52,851**
B.1 Financial derivatives	–	13,203	1,039	237	–	–	38,372	52,851
B.2 Credit derivatives	–	–	–	–	–	–	–	–
C. **Guarantees given**	**12,568**	**24,070**	**46,464**	**4,080**	**2,505**	**–**	**4,295,034**	**4,384,721**
D. **Commitments to make loans**	**–**	**–**	**–**	**16,546**	**–**	**–**	**1,068,096**	**1,084,642**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**9,226,230**	**232,721**	**2,176,635**	**336,384**	**5,162**	**–**	**29,753,262**	**41,730,394**

The distribution of exposures other than those in variable-yield securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Bank's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	From AAA to AAL	From AH to AL	From BBBH to BBBL	From BBH toBBL	From BH to BL	CCC
Standard &Poor's Rating Services	From AAA to AA-	From A+ to A-	From BBB+ to BBB-	From BB+ to BB	From B+ to B-	from CCC+ down
FitchRatings	From AAA to AA-	From A+ to A-	From BBB+ to BBB-	From BB+ to BB-	From B+ to B-	from CCC+ down

A.2.2 Distribution of cash loans and off-balance sheet items by internal rating class

PRIVATE CUSTOMERS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**15,203**	**19,757**	**77,969**	**270,667**	**539,821**	**601,406**	**456,208**
B. **Derivatives**	**3**	**5**	**94**	**71**	**55**	**48**	**24**
B.1 Financial derivatives	3	5	94	71	55	48	24
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**1,050**	**487**	**2,285**	**2,856**	**4,246**	**2,568**	**14,551**
D. **Commitments to make loans**	**763**	**252**	**1,209**	**3,129**	**5,876**	**3,514**	**3,998**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**17,019**	**20,501**	**81,557**	**276,723**	**549,998**	**607,536**	**474,781**

SMALL ECONOMIC OPERATORS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**37,909**	**78,231**	**195,371**	**273,951**	**193,039**	**198,432**	**177,897**
B. **Derivatives**	**–**	**8**	**36**	**852**	**1**	**16**	**13**
B.1 Financial derivatives	–	8	36	852	1	16	13
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**5,849**	**5,488**	**40,721**	**5,259**	**1,542**	**7,239**	**10,230**
D. **Commitments to make loans**	**157**	**509**	**1,258**	**50,748**	**333**	**1,511**	**214**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**43,915**	**84,236**	**237,386**	**330,810**	**194,915**	**207,198**	**188,354**

SMALL BUSINESS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**26,315**	**39,591**	**79,452**	**139,587**	**194,452**	**229,935**	**228,467**
B. **Derivatives**	**1**	**19**	**41**	**23**	**99**	**92**	**19**
B.1 Financial derivatives	1	19	41	23	99	92	19
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**14,461**	**13,972**	**15,124**	**16,900**	**18,871**	**26,712**	**17,016**
D. **Commitments to make loans**	**273**	**885**	**1,067**	**1,262**	**4,296**	**4,437**	**3,852**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**41,050**	**54,467**	**95,684**	**157,772**	**217,718**	**261,176**	**249,354**

							Total
08	09	10	11	12	13	Insolvent	31/12/2017
318,997	**235,835**	**128,994**	**194,368**	**116,637**	**119,834**	**332,628**	**3,428,324**
16	**394**	**69**	**3**	**3**	**1**	**42**	**828**
16	394	69	3	3	1	42	828
–	–	–	–	–	–	–	–
5,579	**2,365**	**867**	**1,596**	**1,113**	**958**	**1,864**	**42,385**
3,083	**2,566**	**401**	**1,238**	**1,078**	**106**	**345**	**27,558**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
327,675	**241,160**	**130,331**	**197,205**	**118,831**	**120,899**	**334,879**	**3,499,095**

							Total
08	09	10	11	12	13	Insolvent	31/12/2017
195,673	**140,038**	**104,325**	**108,212**	**97,225**	**84,727**	**229,739**	**2,114,769**
1	**12**	**13**	**12**	**–**	**–**	**4**	**968**
1	12	13	12	–	–	4	968
–	–	–	–	–	–	–	–
6,693	**2,627**	**2,950**	**2,862**	**2,314**	**2,137**	**2,419**	**98,330**
1,100	**705**	**615**	**2,226**	**381**	**939**	**578**	**61,274**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
203,467	**143,382**	**107,903**	**113,312**	**99,920**	**87,803**	**232,740**	**2,275,341**

							Total
08	09	10	11	12	13	Insolvent	31/12/2017
191,111	**138,684**	**120,282**	**111,777**	**89,463**	**80,264**	**335,766**	**2,005,146**
23	**8**	**3**	**6**	**10**	**16**	**7**	**367**
23	8	3	6	10	16	7	367
–	–	–	–	–	–	–	–
10,952	**6,104**	**7,418**	**6,342**	**3,886**	**1,737**	**10,762**	**170,257**
12,825	**3,346**	**5,513**	**2,184**	**1,201**	**1,094**	**743**	**42,978**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
214,911	**148,142**	**133,216**	**120,309**	**94,560**	**83,111**	**347,278**	**2,218,748**

PMI - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. **Cash exposures**	**78,663**	**378,841**	**526,674**	**603,066**	**664,187**	**932,746**	**789,524**
B. **Derivatives**	**35**	**349**	**1,450**	**559**	**534**	**531**	**601**
B.1 Financial derivatives	35	349	1,450	559	534	531	601
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**50,964**	**105,623**	**174,680**	**160,032**	**131,027**	**109,275**	**92,839**
D. **Commitments to make loans**	**550**	**6,790**	**21,784**	**38,401**	**16,711**	**22,827**	**8,079**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**130,212**	**491,603**	**724,588**	**802,058**	**812,459**	**1,065,379**	**891,043**

LARGE AND PUBLIC ENTERPRISES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. **Cash exposures**	**18,231**	**129,806**	**181,528**	**330,259**	**239,853**	**273,579**	**257,890**
B. **Derivatives**	**127**	**76**	**123**	**21**	**3**	**1,385**	**2**
B.1 Financial derivatives	127	76	123	21	3	1,385	2
B.2 Credit derivatives	–	–	–	–	–	–	–
C. **Guarantees given**	**15,993**	**84,341**	**233,170**	**181,985**	**303,261**	**434,641**	**116,668**
D. **Commitments to make loans**	**–**	**925**	**24,212**	**100,000**	**87,392**	**85,780**	**14,917**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**34,351**	**215,148**	**439,033**	**612,265**	**630,509**	**795,385**	**389,477**

NON-RESIDENT NON-FINANCIAL BUSINESSES - Exposure	Internal rating classes						
	01	02	03	04	05	06	07
A. **Cash exposures**	**–**	**–**	**49,946**	**45,047**	**8,783**	**18,288**	**4,519**
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Financial derivatives	–	–	–	–	–	–	–
B.2 Credit derivatives							
C. **Guarantees given**	**–**	**13,381**	**–**	**42,889**	**2,156**	**67**	**120,652**
D. **Commitments to make loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**13,381**	**49,946**	**87,936**	**10,939**	**18,355**	**125,171**

08	09	10	11	12	13	Insolvent	Total 31/12/2017
483,722	**428,223**	**307,884**	**238,488**	**214,805**	**187,723**	**1,059,929**	**6,894,475**
588	**29**	**159**	**7**	**19**	**32**	**50**	**4,943**
588	29	159	7	19	32	50	4,943
–	–	–	–	–	–	–	–
58,431	**26,992**	**43,080**	**16,785**	**4,858**	**31,963**	**25,888**	**1,032,437**
15,836	**7,693**	**3,218**	**7,457**	**3,344**	**2,910**	**3,585**	**159,185**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
558,577	**462,937**	**354,341**	**262,737**	**223,026**	**222,628**	**1,089,452**	**8,091,040**

08	09	10	11	12	13	Insolvent	Total 31/12/2017
52,942	**200,525**	**34,206**	**–**	**–**	**–**	**35,702**	**1,754,521**
29	**4,572**	**–**	**–**	**–**	**–**	**–**	**6,338**
29	4,572	–	–	–	–	–	6,338
–	–	–	–	–	–	–	–
63,394	**55,315**	**52,844**	**–**	**1,753**	**–**	**5,479**	**1,548,844**
–	**58,386**	**1,263**	**5,200**	**–**	**–**	**6,332**	**384,407**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
116,365	**318,798**	**88,313**	**5,200**	**1,753**	**–**	**47,513**	**3,694,110**

08	09	10	11	12	13	Insolvent	Total 31/12/2017
25,238	**74**	**26**	**4,572**	**–**	**–**	**2,141**	**158,634**
8	**–**	**–**	**–**	**–**	**–**	**–**	**8**
8	–	–	–	–	–	–	8
10,923	**57**	**–**	**–**	**–**	**–**	**2,664**	**192,789**
–	**–**	**–**	**–**	**–**	**–**	**260,000**	**260,000**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
36,169	**131**	**26**	**4,572**	**–**	**–**	**264,805**	**611,431**

CORPORATE NON-PROFIT INSTITUTIONS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**24,958**	**5,555**	**9,679**	**35,661**	**55,026**	**44,070**	**7,146**
B. **Derivatives**	**–**	**–**	**–**	**–**	**22**	**–**	**–**
B.1 Financial derivatives	–	–	–	–	22	–	–
B.2 Credit derivatives							
C. **Guarantees given**	**10,834**	**7,730**	**35,276**	**9,526**	**6,687**	**11,748**	**18,155**
D. **Commitments to make loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**35,792**	**13,285**	**44,955**	**45,187**	**61,735**	**55,818**	**25,301**

RETAIL NON-PROFIT INSTITUTIONS - Exposure	Internal rating classes 01	02	03	04	05	06	07
A. **Cash exposures**	**1,964**	**743**	**2,008**	**4,478**	**5,922**	**7,278**	**3,852**
B. **Derivatives**	**–**	**–**	**8**	**–**	**–**	**–**	**–**
B.1 Financial derivatives	–	–	8	–	–	–	–
B.2 Credit derivatives							
C. **Guarantees given**	**1,543**	**1,087**	**1,343**	**1,122**	**1,455**	**655**	**863**
D. **Commitments to make loans**	**–**	**–**	**300**	**–**	**–**	**100**	**–**
E. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**3,507**	**1,830**	**3,659**	**5,600**	**7,377**	**8,033**	**4,715**

BANKS - Exposure	Internal rating classes 01	02	03	04
A. **Cash exposures**	**–**	**–**	**1,098,032**	**20,127**
B. **Derivatives**	**–**	**–**	**24,365**	**14**
B.1 Financial derivatives	–	–	24,365	14
B.2 Credit derivatives	–	–	–	–
C. **Guarantees given**	**–**	**–**	**607,745**	**487**
D. **Commitments to make loans**	**–**	**–**	**–**	**–**
E. **Other**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**1,730,142**	**20,628**

The table shows, in rising order of risk, the distribution by rating class of exposures in the Customers portfolio for which the internal rating models are operative.

As regards «Customers», the ratings are split into thirteen classes for performing counterparties and one for those that are insolvent. The first class identifies customers with the lowest risk, while the thirteenth class indicates the maximum risk; situations of insolvency go into another category.

The «Banks» segment presents the ten classes used by the internal system to classify counterparties. The first class identifies customers with the lowest risk, while the ninth class indicates the maximum risk; situations of insolvency go into the tenth class. The model is applied to those borrowers who do not have a merit assessment issued by a rating agency.

Note that the Bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

08	09	10	11	12	13	Insolvent	Total 31/12/2017
27,550	**91,252**	**35,264**	**2,888**	**–**	**–**	**3,187**	**342,238**
41	**–**	**–**	**–**	**–**	**–**	**–**	**63**
41	–	–	–	–	–	–	63
4,593	**347**	**274**	**–**	**–**	**–**	**1,728**	**106,896**
–	**–**	**–**	**–**	**–**	**–**	**12**	**12**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
32,184	**91,599**	**35,568**	**2,888**	**–**	**–**	**4,927**	**449,209**

08	09	10	11	12	13	Insolvent	Total 31/12/2017
3,256	**2,217**	**671**	**942**	**272**	**711**	**1,519**	**35,833**
–	**–**	**–**	**–**	**–**	**–**	**4**	**12**
–	–	–	–	–	–	4	12
106	**–**	**317**	**301**	**26**	**23**	**1,903**	**10,744**
–	**–**	**–**	**–**	**–**	**–**	**–**	**400**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3,362	**2,217**	**988**	**1,243**	**298**	**734**	**3,426**	**46,989**

05	06	07	08	09	Insolvent	Total 31/12/2017
6,608	**23,689**	**6,930**	**437**	**9,644**	**–**	**1,165,467**
6	**16**	**57**	**34**	**–**	**–**	**24,492**
6	16	57	34	–	–	24,492
–	–	–	–	–	–	–
39	**2,406**	**1,653**	**2,196**	**–**	**–**	**614,526**
–	**–**	**13**	**–**	**–**	**–**	**13**
–	**–**	**–**	**–**	**–**	**–**	**–**
6,653	**26,111**	**8,653**	**2,667**	**9,644**	**–**	**1,804,498**

A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in columns «guarantees» refer to the actual value of the collateral (so-called «fair value»), which can be much higher than the amount guaranteed: this means that the real value of the guarantees may exceed that shown in the table.

A.3.1 Guaranteed exposures to banks

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**43,264**	**–**	**–**	**–**	**–**
1.1 fully guaranteed	37,681	–	–	–	–
- of which: impaired	–	–	–	–	–
1.2 partially guaranteed	5,583	–	–	–	–
- of which: impaired	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**16,574**	**–**	**–**	**1,653**	**410**
2.1 fully guaranteed	16,354	–	–	1,653	353
- of which: impaired	–	–	–	–	–
2.2 partially guaranteed	220	–	–	–	57
- of which: impaired	–	–	–	–	–

A.3.2 Guaranteed exposures to customers

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**13,688,185**	**8,905,376**	**–**	**1,590,096**	**217,567**
1.1 fully guaranteed	12,909,446	8,901,078	–	1,492,086	179,236
- of which: impaired	1,729,309	1,511,105	–	11,852	3,159
1.2 partially guaranteed	778,739	4,298	–	98,010	38,331
- of which: impaired	77,815	3,949	–	10,842	1,577
2. **Guaranteed off-balance sheet exposures:**	**1,176,770**	**96,805**	**–**	**47,530**	**90,745**
2.1 fully guaranteed	1,064,188	96,805	–	40,452	74,184
- of which: impaired	19,392	1,958	–	1,634	2,980
2.2 partially guaranteed	112,582	–	–	7,078	16,561
- of which: impaired	2,388	–	–	354	76

Personal guarantees (2)										
Credit derivatives					Guarantees given					
	Other derivatives									
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2017**
–	**–**	**–**	**–**	**–**	**3,104**	**–**	**35,514**	**–**	**38,618**
–	–	–	–	–	3,104	–	34,577	–	37,681
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	937	–	937
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**14,397**	**–**	**81**	**–**	**16,541**
–	–	–	–	–	14,267	–	81	–	16,354
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	130	–	–	–	187
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Credit derivatives					Guarantees given				
	Other derivatives								
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2017**
–	**–**	**–**	**–**	**–**	**77,916**	**58,186**	**13,574**	**2,548,874**	**13,411,589**
–	–	–	–	–	37,886	47,592	5,813	2,185,117	12,848,808
–	–	–	–	–	2,802	2,531	–	180,760	1,712,209
–	–	–	–	–	40,030	10,594	7,761	363,757	562,781
–	–	–	–	–	1,789	737	467	44,677	64,038
–	**–**	**–**	**–**	**–**	**6,391**	**211**	**7,657**	**861,400**	**1,110,739**
–	–	–	–	–	2,665	43	3,500	823,862	1,041,511
–	–	–	–	–	–	–	–	12,441	19,013
–	–	–	–	–	3,726	168	4,157	37,538	69,228
–	–	–	–	–	–	–	–	1,726	2,156

B. Distribution and concentration of exposure

Preparation of this section has excluded in the exposures reported in tables A.1.3. and A.1.6., exposures to counterpart risk relating to loans of securities or goods, granted or received.

B.1 Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

	Government			Other public entities		
Exposures/Counterparties	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. **Cash exposures**						
A.1 Non-performing loans	–	–	–	–	–	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–	–	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.3 Past due exposures, impaired	–	–	–	2	–	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.4 Not impaired exposures	10,518,997	–	–	171,199	–	53
- of which exposures subject to forbearance	–	–	–	–	–	–
Total A	**10,518,997**	**–**	**–**	**171,201**	**–**	**53**
B. **Off-balance sheet exposures**						
B.1 Non-performing loans	–	–	–	–	–	–
B.2 Unlikely-to-pay loans	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–
B.4 Not impaired exposures	1,669	–	2	27,899	–	37
Total B	**1,669**	**–**	**2**	**27,899**	**–**	**37**
Total (A+B) 31/12/2017	**10,520,666**	**–**	**2**	**199,100**	**–**	**90**
Total (A+B) 31/12/2016	**6,784,256**	**–**	**–**	**97,697**	**–**	**69**

B.2 Territorial distribution of cash and off-balance sheet exposures to customers (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposures**				
A.1 Non-performing loans	772,315	1,451,865	5,964	32,872
A.2 Unlikely-to-pay loans	1,142,289	596,306	2,927	485
A.3 Past due exposures, impaired	81,072	16,345	1,439	261
A.4 Not impaired exposures	28,344,848	109,519	2,004,294	550
Total A	**30,340,524**	**2,174,035**	**2,014,624**	**34,168**
B. **Off-balance sheet exposures**				
B.1 Non-performing loans	5,237	13,109	–	–
B.2 Unlikely-to-pay loans	48,539	12,032	–	–
B.3 Past due exposures, impaired	5,015	5	–	–
B.4 Not impaired exposures	4,243,046	4,280	452,357	270
Total B	**4,301,837**	**29,426**	**452,357**	**270**
Total A+B 31/12/2017	**34,642,361**	**2,203,461**	**2,466,981**	**34,438**
Total A+B 31/12/2016	**31,848,840**	**2,076,340**	**1,282,807**	**32,444**

As regards the geographical distribution of exposures to customers resident in Italy, amounts «Loans and receivables with customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West (54.21%) and Centre (38.49%), followed by the North East (6.21%) and the South and Islands (1.09%).

Financial companies			Insurance companies			Non-financial companies			Other parties		
Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
7,529	47,593	–	–	–	–	623,435	1,232,607	–	147,689	209,131	–
605	6,069	–	–	–	–	43,283	60,408	–	4,256	3,180	–
14,057	10,716	–	–	–	–	937,867	508,374	–	193,295	77,702	–
2,847	4,550	–	–	–	–	308,504	148,082	–	43,635	12,443	–
112	25	–	–	–	–	58,301	11,896	–	24,107	4,688	–
–	–	–	–	–	–	10,721	2,168	–	1,758	346	–
5,163,441	–	22,003	11,290	–	18	10,718,182	–	73,778	3,900,395	–	14,292
1,223	–	17	–	–	–	451,892	–	3,398	154,719	–	692
5,185,139	**58,334**	**22,003**	**11,290**	**–**	**18**	**12,337,785**	**1,752,877**	**73,778**	**4,265,486**	**291,521**	**14,292**
–	–	–	–	17	–	5,032	12,737	–	205	355	–
837	115	–	18	12	–	46,785	11,666	–	899	239	–
222	–	–	–	–	–	3,660	4	–	1,133	1	–
599,225	–	112	3,369	–	4	3,802,164	–	4,129	263,475	–	269
600,284	**115**	**112**	**3,387**	**29**	**4**	**3,857,641**	**24,407**	**4,129**	**265,712**	**595**	**269**
5,785,423	**58,449**	**22,115**	**14,677**	**29**	**22**	**16,195,426**	**1,777,284**	**77,907**	**4,531,198**	**292,116**	**14,561**
5,420,315	**63,420**	**16,674**	**16,216**	**17**	**19**	**16,457,208**	**1,664,452**	**105,456**	**4,427,546**	**255,009**	**8,113**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
374	760	–	3,810	–	24
3	1	–	–	–	–
4	1	4	1	3	1
109,162	19	22,610	50	2,590	6
109,543	**781**	**22,614**	**3,861**	**2,593**	**31**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
573	1	163	–	1,662	2
573	**1**	**163**	**–**	**1,662**	**2**
110,116	**782**	**22,777**	**3,861**	**4,255**	**33**
46,135	**400**	**22,740**	**4,017**	**2,716**	**28**

B.3 Territorial distribution of cash and off-balance sheet exposures to banks (book value)

Exposures/Geographical areas	ITALY Net exposure	ITALY Total writedowns	OTHER EU COUNTRIES Net exposure	OTHER EU COUNTRIES Total writedowns
A. **Cash exposures**				
A.1 Non-performing loans	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Past due exposures, impaired	–	–	–	–
A.4 Not impaired exposures	2,004,424	–	1,214,642	–
Total A	**2,004,424**	**–**	**1,214,642**	**–**
B. **Off-balance sheet exposures**	**–**	**–**	**–**	**–**
B.1 Non-performing loans	–	–	–	–
B.2 Unlikely-to-pay loans	–	–	–	–
B.3 Past due exposures, impaired	–	–	–	–
B.4 Not impaired exposures	50,019	–	711,165	–
Total B	**50,019**	**–**	**711,165**	**–**
Total A+B 31/12/2017	**2,054,443**	**–**	**1,925,807**	**–**
Total A+B 31/12/2016	**1,738,233**	**–**	**1,996,217**	**–**

B.4 Significant risks

	31/12/2017	**31/12/2016**
Number of positions	13	12
Nominal exposure	16,848,964	13,099,806
Risk position	3,149,301	3,734,670

The exposure limit of 10% of capital for supervisory purposes - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

The above positions include the Republic of Italy (nominal exposure, 9,120 million; risk position, 4.6 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione e Garanzia - Clearing House (nominal exposure, 1,636 million; risk position, 0 million), principally in relation to lending and funding repo transactions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
53,567	–	13,382	–	2,245	–
53,567	**–**	**13,382**	**–**	**2,245**	**–**
–	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1,411	–	1,290	–	1,737	–
1,411	**–**	**1,290**	**–**	**1,737**	**–**
54,978	**–**	**14,672**	**–**	**3,982**	**–**
41,827	**–**	**38,459**	**–**	**3,287**	**–**

C. Securitisation transactions

QUANTITATIVE INFORMATION

C.2 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	Cash exposure					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042	–	–	–	–	–	–
Mortgage loans	52,793	16,381	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045	–	–	–	–	–	–
Lease contracts	297,991	1,043	–	–	–	–

C.3 Special purpose vehicle for securitisation

Name	Registered offices of the company	Consolidation	Loans
Alba 6 Spv Srl	Conegliano (TV)	NO	402,405
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	235,992

C.4 Non-consolidated special purpose vehicle for securitisation

The SPV Alba 6 Spv Srl and BNT Portfolio Spv Srl have not been consolidated as there are not the requirements of IFRS 10.

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Assets		Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior
–	16,773	299,038	–	76,166
–	13,784	326,090	–	–

E. Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

E.1 Financial assets sold and not eliminated from the balance sheet: book value and full value

	Financial assets held for trading			Financial assets at fair value through profit or loss			Available-for-sale financial assets		
Technical forms/Portfolio	A	B	C	A	B	C	A	B	C
A. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**355,482**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	355,482	–	–
2. Variable-yield securities	–	–	–	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total 31/12/2017	**–**	**–**	**–**	**–**	**–**	**–**	**355,482**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–
Total 31/12/2016	**–**	**–**	**–**	**–**	**–**	**–**	**610,161**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–

Key:
A = financial assets sold and recognised in full (book value)
B = financial assets sold and recognised in part (book value)
C = financial assets sold and recognised in part (full value)

These are securities sold under repurchase agreements.

E.2 Financial liabilities associated with assets sold and not eliminated from the balance sheet: book value

Liabilities/Portfolio of assets	Financial assets held for trading	Financial assets at fair value through profit or loss	Available -for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	**Total 31/12/2017**
1. **Due to customers**	**–**	**–**	**356,725**	**–**	**–**	**–**	**356,725**
a) for assets recognised in full	–	–	356,725	–	–	–	356,725
b) for assets recognised in part	–	–	–	–	–	–	–
2. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**99,959**	**99,959**
a) for assets recognised in full	–	–	–	–	–	99,959	99,959
b) for assets recognised in part	–	–	–	–	–	–	–
3. **Securities issued**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in full	–	–	–	–	–	–	–
b) for assets recognised in part	–	–	–	–	–	–	–
Total 31/12/2017	**–**	**–**	**356,725**	**–**	**–**	**99,959**	**456,684**
Total 31/12/2016	**–**	**–**	**610,237**	**–**	**–**	**–**	**610,237**

Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			**Total 31/12/2017**	**Total 31/12/2016**
A	B	C	A	B	C	A	B	C		
–	**–**	**–**	**–**	**–**	**–**	**129,129**	**–**	**–**	**484,611**	**610,161**
–	–	–	–	–	–	129,129	–	–	484,611	610,161
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**129,129**	**–**	**–**	**484,611**	**–**
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**610,161**
–	–	–	–	–	–	–	–	–	–	–

E.3 Disposals with recourse limited solely to the assets sold: fair value

Technical forms/Portfolio	Financial assets held for trading A	Financial assets held for trading B	Financial assets at fair value through profit or loss A	Financial assets at fair value through profit or loss B	Available-for-sale financial assets A	Available-for-sale financial assets B
A. **Cash assets**	**–**	**–**	**–**	**–**	**355,482**	**–**
1. Fixed-yield securities	–	–	–	–	355,482	–
2. Variable-yield securities	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
Total assets	**–**	**–**	**–**	**–**	**355,482**	**–**
C. **Associated liabilities**	**–**	**–**	**–**	**–**	**(356,725)**	**–**
1. Due to customers	–	–	–	–	(356,725)	–
2. Due to banks	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**(356,725)**	**–**
Net value 31/12/2017	**–**	**–**	**–**	**–**	**(1,243)**	**–**
Net value 31/12/2016	**–**	**–**	**–**	**–**	**(76)**	**–**

E4. Covered bond operations

On 6 November 2013, the Board of Directors of the Parent Company authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015, under the same contract.

Two additional assignments were carried out in 2016. The first, on 1 February 2016, relating to a total portfolio of € 576 million of performing loans in connection with the issue of a second series of covered bonds totalling € 500 million on 4 April 2016. The second, on 1 November 2016, relating to a portfolio of performing loans totalling € 226 million.

A fifth assignment of performing loans for a total of € 307 million took place in 2017 under the same contract.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as assignments without recourse pursuant to IAS 39. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue including equipping the Parent Company with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related

Held-to-maturity investments (fair value)		Loans and receivables with banks (fair value)		Loans and receivables with customers (fair value)		Total	
A	B	A	B	A	B	31/12/2017	31/12/2016
–	**–**	**–**	**–**	**129,129**	**–**	**484,611**	**610,161**
–	–	–	–	129,129	–	484,611	610,161
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**129,129**	**–**	**484,611**	**610,161**
–	**–**	**–**	**–**	**(99,959)**	**–**	**(456,684)**	**(610,237)**
–	–	–	–	–	–	(356,725)	–
–	–	–	–	(99,959)	–	(99,959)	–
–	**–**	**–**	**–**	**(99,959)**	**–**	**(456,684)**	**(610,237)**
–	**–**	**–**	**–**	**29,170**	**–**	**27,927**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**(76)**

regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparts involved for various reasons, BDO Italia Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bonds issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, Popso Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 1
ISIN Code:	IT0005039711
Issue date	05/08/2014
Maturity Date	05/08/2019
Extended maturity	05/08/2020
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	1.375%
Annual	Coupon
Applicable law	Italian

Series and Class	Series 2
ISIN Code:	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
Annual	Coupon
Applicable law	Italian

Section 2 *Market risks*

2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The principal source of interest rate risk consists of the fixed-yield securities classified under «financial assets held for trading».

The objectives and strategies for trading activities involving the securities portfolio are designed to maximise its profitability by taking investment opportunities, while working to contain the level of risk. This means that the duration of the bond portfolio is short.

The bank's role in trading activities essentially consists of arbitrage in securities to benefit from short-term trading opportunities, rather than of taking long-term risk positions.

This strategy is consistent with the general approach adopted by the bank, based on the prudent management of all risks.

As regards the treatment of derivative instruments (derivatives in the strictest sense), the offices deal in interest-rate options and interest rate swaps.

Compared with last year, the reduction in bond exposure continued, especially as regards Italian government bonds. This resulted in a further increase in the weighting of variable-yield securities within the entire securities portfolio held for trading (excluding those servicing pensions and similar obligations of employees), which represent 32.4% compared with 22.9% last year.

The main source of price risk consists of variable-yield securities and units in mutual funds classified as «financial assets held for trading», including the investments that service employees' pension and similar obligations.

As with regard to interest rate risk, the strategy for containing price risk as part of the bank's overall risk management strategy is to take a prudent approach.

Furthermore, variable-yield securities comprise holdings in leading companies with a liquid market.

Once again, trading activity concentrated on exploiting short-term opportunities while, as regards derivatives, there have been transactions in equity options listed on the IDEM market.

B. Management and measurement of interest rate risk and price risk

The internal processes for control and management of the interest rate risk associated with the trading portfolio are based on a system for the limitation of risk within the financial activities, especially market risk (exchange rate, share price). This system has the following characteristics. As part of its governance functions, the Board of Directors quantifies the Maximum Acceptable Loss for the period, consistent with the investment policies defined and with financial operations expected over the next year. With reference to the Maximum Acceptable Loss determined by the Board, the Risks Committee establishes appropriate potential exposure limits in terms of the Value at Risk (VaR). The Financial Risk Office, within the Risk Control Department, measures risk on a daily basis, produces the related reports and monitors compliance with credit limits. The «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets in compliance with the identified exposure limits.

The characteristics of the internal management and control of price risk in relation to the trading portfolio are the same – in terms of organisational structure and the limitation of risk acceptance – as those described in relation to interest rate risk. In line with the Bank's risk map, the above limits do not apply to the securities servicing pensions and similar obligations of employees and real estate funds.

The methodology used for the analysis of sensitivity to interest rate risk comprises application of the internal model for strategic Asset & Liability Management (ALM), described in section 2.2 below (interest rate risk inherent in the bank's portfolio), and an internal model for the daily calculation of Value at Risk (VaR) also used for the analysis of sensitivity to price risk.

VaR is a probabilistic estimate of the maximum amount that can be lost with reference to a specific time horizon and a given probability level (consistent with the investor's level of risk aversion).

The model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known riskmetrics methodology. According to this methodology, the total risk arises from the sensitivity of each position to changes in market factors and in the volatility of their yields, as well as their degree of correlation. At the reporting date, the following assets in terms of financial instruments exposed to interest rate risk included in the trading portfolios held for supervisory purposes are covered by the VaR model: as for interest rate risk, debt securities, lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes) and forward contracts on exchange rates, in addition to other financial derivatives (in a strict sense) traded by the Exchange Centre (options on exchange rates, forward contracts on goods, options on interest rates, interest rate swaps); for price risk: variable-yield securities. Apart from the instruments shown in table 2 below, the VaR model also covers mutual funds and forward contracts traded by the Exchange Centre. The price risk on foreign currency mutual funds also includes exchange risk.

Options and warrants are treated using the delta-gamma methodology, which is more able to reflect the risk profile of transactions where the relationship between the value of the position and the price of the underlying instrument (risk factor) is not linear.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

The policies and procedures for comparison of the model's results with the actual results («back-testing») regarding the trading portfolio for management purposes, limited to debt securities on the one hand, and variable-yield securities and mutual funds on the other, consist of a comparison between the daily VaR and the change in market value on the following day for the same positions used to calculate the VaR (theoretical losses) and the difference between capital gains, capital losses and realised gains and losses as reported by the securities procedure on the real portfolio (actual losses). For back-testing purposes, the VaR information and the theoretical and actual losses include both the price risk and the exchange risk element deriving from shares, funds and sicavs denominated in foreign currencies.

As for the changes that have taken place in the risk exposure, measured in terms of VaR, compared with the previous year, based on interest rate risk the total average VaR has gone down from 2.475 million to 0.691 million (€ 0.410 million for the risk-free rate and € 0.524 million for the credit spread) mainly because of fixed-yield securities (from 2.474 to 0.616); on the Price risk the global VaR at period end decreased from 3.594 million to 2.879 million.

With regard to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates, interest rate swaps, the following information is taken from the ALM procedure: the effect of a change in interest rates of +200 basis points over twelve months on the future interest margin – the difference between the future interest income and the future interest expense – would be 27.639 million, whereas a change in interest rates of -200 basis points would decrease in the interest margin by 0.602 million euro; the effect of an instantaneous change in interest rates by +200 basis points on equity – the difference between the present value of assets and liabilities - would be a loss of 12.540 million, whereas a change in interest rates by -200 basis would result in a profit of 3.841 million euro.

The internal model is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The Standardised approach is used in this case.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**1,320,376**	**80,922**	**6**	**45,780**	**54,274**	**–**	**–**
1.1 Fixed-yield securities	–	98,774	80,922	6	45,780	54,274	–	–
- with early repayment option	–	–	–	–	–	2,514	–	–
- other	–	98,774	80,922	6	45,780	51,760	–	–
1.2 Other assets	–	1,221,602	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**4,462,102**	**477,965**	**149,113**	**999,643**	**897,446**	**244,070**	**–**
3.1 With underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	4,462,102	477,965	149,113	999,643	897,446	244,070	–
- Options	–	7,541	16,822	17,617	215,371	266,316	240,942	–
+ Long positions	–	3,778	8,426	8,811	107,685	133,158	120,471	–
+ Short positions	–	3,763	8,396	8,806	107,686	133,158	120,471	–
- Other derivatives	–	4,454,561	461,143	131,496	784,272	631,130	3,128	–
+ Long positions	–	2,231,444	230,395	65,115	391,666	315,565	1,564	–
+ Short positions	–	2,223,117	230,748	66,381	392,606	315,565	1,564	–

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**82,972**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	82,972	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	82,972	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**2,282,726**	**1,019,613**	**286,822**	**736,106**	**91,608**	**–**	**–**
3.1 With underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	2,282,726	1,019,613	286,822	736,106	91,608	–	–
- Options	–	6,143	14,499	11,433	–	–	–	–
+ Long positions	–	3,072	7,251	5,726	–	–	–	–
+ Short positions	–	3,071	7,248	5,707	–	–	–	–
- Other derivatives	–	2,276,583	1,005,114	275,389	736,106	91,608	–	–
+ Long positions	–	1,134,277	502,749	138,438	368,531	45,804	–	–
+ Short positions	–	1,142,306	502,365	136,951	367,575	45,804	–	–

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	ITALY	UNITED STATES	UNITED KINGDOM	JAPAN	GERMANY	OTHER	
A. **Variable-yield securities**							
- long positions	120,543	–	–	–	9,427	21,900	–
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of year

	(in thousands of euro)
1. **Cash assets**	**692**
1.1 Fixed-yield securities	616
1.2 Other assets	259
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**2**
3.1 With underlying security	–
- Options	–
+ Long positions	–
+ Short positions	–
- Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying security	2
- Options	–
+ Long positions	3
+ Short positions	4
- Other derivatives	2
+ Long positions	1,246
+ Short positions	1,247
Total interest rate risk	**691**
A. **Variable-yield securities**	**2,714**
- Long positions	2,714
- Short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**–**
- Long positions	–
- Short positions	–
C. **Other derivatives on variable-yield securities**	**–**
- Long positions	–
- Short positions	–
D. **Derivatives on stock indices**	**–**
- Long positions	–
- Short positions	–
Total Price risk transactions table 2	**2,714**
Mutual funds	**268**
Forward contracts on other instruments (goods)	**–**
- Long positions	194
- Short positions	194
Options on other instruments (goods)	**–**
- Long positions	–
- Short positions	–
Total Price risk	**2,879**
Total Interest rate risk and price risk	**3,126**

Interest-rate risk

Information on average, minimum and maximum VaR is provided below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	1,560
minimum	434
maximum	3,109

With regard to the distribution of VaR during the year, the average interest rate VaR for each month in 2017 is shown below.

January	2,297
February	2,817
March	2,309
April	2,087
May	2,104
June	1,770
July	1,614
August	1,017
September	906
October	783
November	578
December	507

With reference to fixed-yield securities forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 1 out of 253 observations, the number of days on which theoretical losses exceeded VaR was 2 out of 253 observations.

With regard to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates, interest rate swaps. the following information is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to the bank book.

Effects of a change in interest rates by +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

	Change in interest margin				
In thousands of euro	**31/12/2017**				**31/12/2016**
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	27,639	17,117	5,657	27,639	18,567
negative parallel shift	- 602	- 284	- 3,087	902	1,067
flat rotary shift	51,498	27,334	- 8,047	51,498	36,163
steep rotary shift	- 1,075	- 401	- 5,716	2,092	1,065
short-term positive shift	53,416	33,368	11,177	53,416	37,670
short-term negative shift	- 1,143	- 1,528	- 7,029	908	1,065
long-term positive shift	1,887	868	- 75	1,896	- 104
long-term negative shift	- 67	- 1,207	- 8,377	76	109
medium-term positive shift	3,795	1,992	304	3,814	697
medium-term negative shift	- 133	- 952	- 6,282	164	233
worst-case scenario	- 1,143	- 1,528	- 8,377	76	- 104

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

Equity is understood as being the difference between the present value assets and liabilities items.

	Change in equity value				
In thousands of euro	**31/12/2017**				**31/12/2016**
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	- 12,540	- 21,556	- 29,048	- 12,540	- 27,667
negative parallel shift	3,841	4,996	3,804	7,445	2,264
flat rotary shift	- 15,860	- 16,312	- 32,314	27,726	- 32,885
steep rotary shift	4,795	3,457	- 1,038	6,064	2,248
short-term positive shift	- 19,795	- 32,855	- 43,386	- 19,795	- 42,103
short-term negative shift	4,828	8,941	3,824	28,371	2,264
long-term positive shift	- 4,700	- 9,396	- 14,112	- 4,700	- 12,352
long-term negative shift	2,884	9,975	2,613	43,386	2,292
medium-term positive shift	- 8,986	- 17,080	- 24,630	- 8,986	- 22,077
medium-term negative shift	2,923	8,119	2,679	31,442	2,292
worst-case scenario	- 19,795	- 32,855	- 43,386	- 19,795	- 42,103

Price risk

Information on average, minimum and maximum VaR is provided below.

Valore a Rischio (VaR) di prezzo

	(in thousands of euro)
average	3,048
minimum	2,096
maximum	4,324

With regard to the distribution of VaR during the year, the average VaR for each month in 2017 is presented below.

January	2,718
February	3,985
March	3,601
April	3,279
May	3,313
June	3,516
July	3,088
August	2,644
September	2,649
October	2,340
November	2,694
December	2,783

With reference to variable-yield securities and mutual funds forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 2 out of 253 observations, the number of days on which theoretical losses exceeded VaR was 2 out of 253 observations.

2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

The principal sources of interest rate risk deriving from fair value are associated with funding transactions (especially the issue of bonds and sight deposits, but with appropriate modelling of the maturities) and fixed-rate lending transactions (principally long-term loans and fixed-yield securities); the interest rate risk deriving from cash flows is originated by other sight or indexed rate assets and liabilities.

The internal processes for the management and control of interest rate risk are based on two synthetic risk indicators and on the respective systems of thresholds defined in the Risk Appetite Framework. The exposure to interest rate risk on the banking book measured by the first indicator is monitored through the attribution of a value limit to the percentage ratio between the amount of capital needed to cover the risk obtained through Sensitivity Analysis in Full Evaluation, at inertial conditions, with simulation of a parallel movement of the reference curves equal to +/- 200 basis points and the total of own funds. The exposure to interest rate risk, on banking and trading portfolios, measured by the second indicator is monitored by attributing a value limit to the percentage ratio between the maximum potential reduction in net interest income over a time horizon of one year obtained through Repricing Analysis, under static conditions with constant volumes, simulating a parallel movement of the reference curves of +/- 200 basis points and the expected interest margin over the same period.

Monitoring of these indicators is done monthly. The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

With regard to the principal assumptions and underlying parameters, the model used supports Sensitivity Analysis in Full Evaluation for analysing the sensitivity of equity and the Repricing Analysis for analysing the sensitivity of net interest income, at constant volumes, considering solely the transactions outstanding at the reference date. Specifically, the first methodology is used to determine the flows of principal and interest generated by the individual assets and liabilities held in the bank book. This calculation uses, where necessary, the coupon rate applied to each instruments or, if not predetermined, the market curve associated with the risk factor to which the rate in indexed. Next, the present values of the assets and liabilities concerned are calculated by summing their cash flows as discounted using the yield curves.

Then these curves are subjected to a parallel shock of +/- 200 basis points, in order to simulate other scenarios involving, respectively, an increase and a decrease in market rates. The flows of interest and principal, as redetermined with reference to the modified curves, are discounted with reference to the new rate curves to obtain the «stressed discounted value» of each asset and liability.

In the event that a downward or upward shift of the market curves produced negative interest rate values, they would be subject to a restriction that interest rates cannot be negative.

Then, for each operation, the change in present value is calculated as the difference between the «stressed present value» and the «non-stressed present value».

In this way, the model estimates the sensitivity of the bank book, in terms of change in the economic value of equity due to an increase or decrease in market rates, by summing for each operation in the bank book the change in present value obtained above.

In addition, euro loan and deposit current accounts and savings deposits, which are highly stable in volume terms and whose rates are not usually established by contract, are represented by behavioural models that take account of the persistence of their volume and their elasticity with respect to changes in market rates.

Another type of operations subject to its own modelling is mortgages and unsecured loans in euro granted by the Parent Company. In these operations, the borrower has an early extinction option with respect to the contractual maturity of the loan, which can be exercised at any time.

The adoption of a specific behavioural model makes it easier to track this situation, which is known as «Prepayment». This model is defined using a historical series of a suitable length in terms of time, containing prepayments and other variables that can be used to differentiate behaviours.

The above analyses are supplemented by the results of applying the repricing analysis methodology that, following parallel shocks to the market rate curves of +/- 200 basis points, measures the sensitivity of net interest income for the current year to the positioning of the flows of principal at the time when the funding and lending operations start to become sensitive to changes in market interest rates.

Ideally, the bank book, made up of both debit and credit items that generate the interest margin, is subdivided between transactions that are partly sensitive to changes in interest rates and those that are entirely sensitive. The second type, mostly comprising fixed-rate transactions, is neutral when it comes to determining the sensitivity of net interest income up to the natural expiry of the transaction, but is impacted at the time of renewal; the second, represented by variable-rate transactions, is conditioned by changes in rates at the time of revision of the coupon rate.

The difference between the net interest income generated by each transaction following the application of shocked market curves, and that generated under current market conditions, determines the marginal contribution to overall sensitivity.

Summing this differential for all the operations comprising the bank book determines the total sensitivity of net interest income to the risk of changes in market rates.

The fact, in the case of a downward shift in the curves, the interest rate values would be subject to the restriction that interest rates cannot be negative and the bank book may contain transactions with a cap or a floor on the coupon rate, leads to a situation of asymmetry in the results of the model, affecting both the interest rate risk from fair value and the interest rate risk from cash flow. In this case, for the sake of prudence, the risk exposure is taken to be the higher figure for sensitivity of the book obtained from the two rate change scenarios.

The source of price risk lies in the variable-yield securities and mutual funds not included in the trading portfolio for supervisory purposes, excluding treasury shares. It therefore includes the variable-yield securities classified as equity investments and the variable-yield securities and mutual funds classified as «available-for-sale financial assets» or «Financial assets at fair value through profit or loss», including the investments that service employees' pension and similar obligations.

We would reiterate that «available-for-sale financial assets» include non derivative financial assets not classified as «loans», «financial assets held for trading» or «held-to-maturity assets», while the portfolio of «Financial assets carried at fair value» includes those securities to which the Bank decided to apply the fair value option.

Limited to financial assets classified as «available-for-sale financial assets» and «financial assets at fair value through profit or loss», net of those servicing pensions and similar obligations of employees and real estate funds, there is also a process of internal control and management of interest rate risk and price risk similar to that detailed in the qualitative information on «Interest rate risk and price risk - supervisory portfolio». The methodology used for calculating the daily Value at Risk (VaR) is also the same as the one explained above. The price risk on foreign currency mutual funds also includes exchange risk.

The VaR on the investments held is also monitored.

The strategies for governing the bank book interest-rate risk (but not price risk) include, as part of the stress testing of the principal economic, financial and equity variables, carrying out joint simulations to determine the impact of adverse shocks on:

- the economic value of equity;
- the performance of the total net interest income.

Consistent with the «Sensitivity Analysis in Full Evaluation» and «Repricing Analysis» methods explained above, stress tests are carried out monthly by performing simulative analyses that involve the use of multiple scenarios regarding rate trends aimed at identifying the trend of the interest rate risk profile in particularly adverse market conditions. The main objective of stress tests is to estimate the impact on risk exposure caused by sudden and unpredictable changes in the general level of interest rates caused by a change in one or more specific risk factors.

These simulations envisage ten market rate trend scenarios which include parallel shifts of the reference curves, rotary shifts and shifts on the short, medium and long term.

To assess the performance of exposure to interest rate risk in adverse conditions, the most penalising value in terms of sensitivity reached in the above scenarios is used for prudence sake. The stress analysis is carried out both in terms of the fair value interest rate risk profile, and in terms of cash flow interest rate risk.

B. Fair value hedges

The bank has not arranged any macro hedges, nor has hedging operations outstanding.

C. Cash flow hedges

The Bank has not arranged any cash-flow hedges.

D. Hedges of foreign investments

The bank did not carry out any hedges of foreign investments.

QUANTITATIVE INFORMATION

Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. Financial derivatives	**2,643**	**118,596**	**1,838**	**2,478**	**64,149**	**115,347**	**162,521**	**–**
3.1 With underlying security								
Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	2,643	118,596	1,838	2,478	64,149	115,347	162,521	–
Options	2,643	118,596	1,838	2,478	64,149	115,347	162,521	–
+ Long positions	1,082	16,214	578	1,482	40,825	70,976	98,885	–
+ Short positions	1,561	102,382	1,260	996	23,324	44,371	63,636	–
Other								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. Other off-balance sheet transactions	**403,664**	**61,919**	**90,677**	**–**	**30,695**	**1,476**	**6,549**	**–**
+ Long positions	106,171	61,919	90,677	–	30,695	1,476	6,549	–
+ Short positions	297,493	–	–	–	–	–	–	–

This table only shows financial derivatives as an interest rate risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Bank book: internal models and other methodologies for the analysis of sensitivity

Interest-rate risk

With reference to the assets and liabilities that generate the interest margin - except for the fixed-yield securities held in the trading portfolio for supervisory purposes and lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates and interest rate swaps, as the information on these is disclosed in the section on the trading portfolio for supervisory purposes - as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

Effects of a change in interest rates by +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

	Change in interest margin				
In thousands of euro	**31/12/2017**				**31/12/2016**
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	18,010	21,477	- 35,263	68,560	- 28,477
negative parallel shift	716	1,084	97	2,944	- 204
flat rotary shift	36,771	3,843	- 93,333	110,701	- 59,943
steep rotary shift	1,477	2,731	93	7,659	- 201
short-term positive shift	39,127	42,550	- 74,925	136,946	- 62,391
short-term negative shift	1,505	- 8,643	- 62,992	5,779	- 201
long-term positive shift	2,330	2,517	217	5,637	429
long-term negative shift	- 77	- 14,415	- 89,563	117	- 248
medium-term positive shift	4,599	4,882	- 1,072	11,439	985
medium-term negative shift	- 52	- 9,020	- 56,795	277	- 283
worst-case scenario	- 77	- 14,415	- 93,333	117	- 62,391

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

Equity is understood as being the difference between the present value assets and liabilities items.

	Change in equity value				
In thousands of euro	**31/12/2017**				**31/12/2016**
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	24,399	32,838	- 158,465	188,318	- 92,736
negative parallel shift	- 75,135	- 35,499	- 103,596	52,098	28,955
flat rotary shift	- 48,388	50,429	- 68,381	293,469	69,931
steep rotary shift	- 85,583	- 19,094	- 101,806	254,207	- 53,204
short-term positive shift	- 21,848	49,166	- 188,822	240,068	- 71,733
short-term negative shift	- 102,747	- 81,256	- 240,216	23,728	4,204
long-term positive shift	101,559	40,409	- 117,632	161,156	- 89,423
long-term negative shift	- 76,096	- 85,240	- 343,370	27,148	5,726
medium-term positive shift	269,652	179,710	- 86,882	390,645	- 19,897
medium-term negative shift	- 101,261	- 65,134	- 147,828	25,547	4,937
worst-case scenario	- 102,747	- 85,240	- 343,370	23,728	- 92,736

With respect to fixed-yield securities classified as «available-for-sale financial assets», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	21,311
minimum	10,186
maximum	32,349

With regard to the distribution of VaR during the year, the average VaR for each month in 2017 is presented below.

January	21,729
February	25,378
March	21,626
April	22,851
May	23,003
June	25,366
July	27,537
August	20,061
September	17,041
October	17,360
November	18,901
December	14,728

With reference to debt securities forming part of «available-for-sale financial assets», the number of days on which actual losses exceeded VaR was 7 out of 253 observations for Italian government bonds and 2 out of 253 observations for other fixed-yield securities. The same number of overruns were observed with reference to theoretical losses.

Price risk

With reference to the closing date, we report above all the VaR figures of variable-yield securities (shares and mutual funds) classified as «available-for-sale financial assets» or «financial assets at fair value through profit or loss», net of any investments servicing pensions and similar obligations of employees and real estate funds, as well as the figure for investments.

Value at Risk (VaR), end of year

	(in thousands of euro)
Variable-yield securities	1,650
Mutual funds	1,119
Total AFS and CFV	**2,375**
Equity investments	**6,755**

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(in thousands of euro)
average	2,872
minimum	1,733
maximum	3,861

With regard to the distribution of VaR during the year, the average VaR for each month in 2017 is presented below.

January	3,450
February	3,279
March	3,121
April	2,937
May	3,430
June	3,056
July	3,036
August	2,881
September	2,648
October	1,889
November	2,330
December	2,431

With reference to variable-yield securities classified as «available-for-sale financial assets» or «financial assets at fair value through profit or loss», net of any investments servicing pensions and similar obligations of employees and real estate funds, the number of days on which actual losses exceeded VaR was 3 out of 253 observations, while the number of days on which theoretical losses exceeded VaR was 3 out of 253 total observations.

2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

The principal sources of exchange risk are: the investment in Banca Popolare di Sondrio (SUISSE) SA, denominated in Swiss francs, certain other equities, variable-yield securities and mutual funds denominated in foreign currencies and the net foreign currency position managed by the «Exchange Centre», deriving principally from intermediation in repos with private customers and on the interbank market, as well as the implications of the Bank's foreign exchange position deriving from trading in other financial products (difference between premiums on currency options, interest on foreign currency deposits. etc.).

Excluding securities, the Bank's role in foreign currency transactions is largely commercial, with a view to meeting customers' needs.

The characteristics of the internal management and control of exchange risk are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk in section 2.1, to which reference is made. The measurement and control of exchange risk essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described in section 2.1 above.

At the balance sheet date, the following assets in terms of financial instruments exposed to exchange rate risk are covered by the VaR model: all of the foreign currency assets and liabilities (excluding gold, the African Financial Community franc, the Peruvian new sol, the Kenyan shilling, the new Bulgarian lev, the Bahraini dinar, the Jordanian dinar, the Oman riyal and the Qatari riyal) shown in table 1 below, excluding mutual funds in foreign currency where the exchange risk is included in price risk; moreover, the balances used by the internal model do not include accrued income and prepaid expenses, accrued expenses and deferred income, the interest portion of unpaid instalments, the differentials on adoption of the amortised cost principle and loan writedowns. In addition to those shown in table 1 above (options on exchange rates and forward contracts on commodities), the financial derivatives (in a strict sense) traded by the Exchange Centre also include interest rate swaps.

The forward contracts on exchange rates and variable-yield securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The standard methodology is used in this case.

B. Hedging of exchange risk

The Bank has not arranged any specific hedges of exchange risk.

The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above.

Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations of the Exchange Centre and the tighter limits on VaR established by General Management.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. **Financial assets**	**629,150**	**70,043**	**6,696**	**559,026**	**13,351**	**57,820**
A.1 Fixed-yield securities	83,232	–	–	–	–	–
A.2 Variable-yield securities	44,296	–	–	137,731	–	–
A.3 Loans to banks	268,202	69,784	3,957	5,806	13,351	57,818
A.4 Loans to customers	233,420	259	2,739	415,489	–	2
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**3,845**	**1,247**	**217**	**4,298**	**163**	**1,300**
C. **Financial liabilities**	**505,014**	**70,153**	**6,721**	**429,752**	**14,122**	**58,631**
C.1 Due to banks	180,487	8,340	2,719	297,097	1,246	6,532
C.2 Due to customers	324,527	61,813	4,002	132,655	12,876	52,099
C.3 Fixed-yield securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**373**	**1,865**	**642**	**157**	**–**	**–**
E. **Financial derivatives**	**1,701,093**	**250,577**	**57,356**	**23,301**	**2,252**	**176,065**
- Options	30,688	1,388	–	–	–	–
+ long positions	15,356	694	–	–	–	–
+ short positions	15,332	694	–	–	–	–
- Other derivatives	1,670,405	249,189	57,356	23,301	2,252	176,065
+ long positions	833,145	124,874	28,631	10,169	1,442	88,423
+ short positions	837,260	124,315	28,725	13,132	810	87,642
Total assets	**1,481,496**	**196,858**	**35,544**	**573,493**	**14,956**	**147,543**
Total liabilities	**1,357,979**	**197,027**	**36,088**	**443,041**	**14,932**	**146,273**
Net balance (+/-)	**(123,517)**	**169**	**544**	**(130,452)**	**(24)**	**(1,270)**

2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities	639
Variable-yield securities	921
Net balance between other assets and liabilities	65
Financial derivatives	69
- Options	–
+ Long positions	120
+ Short positions	120
- Other derivatives	69
+ Long positions	7,085
+ Short positions	7,150
Total transactions table 1	**1,300**
- Interest Rate Swap	12
+ Long positions	7,383
+ Short positions	7,371
Total	**1,310**

Details of the principal currencies

US Dollars	689
Sterling	–
Japanese Yen	8
Swiss Francs	906
Canadian Dollars	–
Other currencies	4
Total	**1,310**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(in thousands of euro)
average	1,233
minimum	117
maximum	2,284

With regard to the distribution of VaR during the year, the average VaR for each month in 2017 is presented below.

January	723
February	540
March	558
April	659
May	1,194
June	1,266
July	1,315
August	1,952
September	1,730
October	1,665
November	1,656
December	1,398

2.4 Derivative instruments

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

Underlying assets/Type of derivative	Total 31/12/2017 Over the counter	Total 31/12/2017 Central Counterparties	Total 31/12/2016 Over the counter	Total 31/12/2016 Central Counterparties
1. **Fixed-yield securities and interest rates**	**3,334,839**	**–**	**4,183,768**	**–**
a) Options	24,366	–	24,947	–
b) Swap	3,310,473	–	4,158,821	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**11**	**–**
a) Options	–	–	11	–
b) Swap	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	**2,065,361**	**–**	**2,354,482**	**–**
a) Options	65,004	–	60,593	–
b) Swap	–	–	–	–
c) Forward	2,000,357	–	2,293,889	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**17,095**	**–**	**26,882**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**5,417,295**	**–**	**6,565,143**	**–**

As foreseen in the Bank of Italy's Circular 262/05, the tables in this section do not include trades in securities, commodities or foreign currencies with settlement by a date in line with market practice for transactions of the same kind or within five working days of the transaction date.

A.3 Financial derivatives: gross positive fair value - breakdown by product

Portfolio/Type of derivatives	POSITIVE FAIR VALUE			
	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**52,851**	**–**	**90,548**	**–**
a) Options	1,280	–	1,221	–
b) Interest rate swap	36,524	–	61,913	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	14,131	–	25,912	–
f) Futures	–	–	–	–
g) Other	916	–	1,502	–
B. **Bank book - for hedging purposes**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. **Bank book - other derivatives**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**52,851**	**–**	**90,548**	**–**

The positive fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

A.4 Financial derivatives: gross negative fair value - breakdown by product

	NEGATIVE FAIR VALUE			
	Total 31/12/2017		**Total 31/12/2016**	
Portfolio/Type of derivatives	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**51,080**	**–**	**87,616**	**–**
a) Options	1,201	–	1,142	–
b) Interest rate swap	35,321	–	59,223	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	13,662	–	25,775	–
f) Futures	–	–	–	–
g) Other	896	–	1,476	–
B. **Bank book - for hedging purposes**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. **Bank book - other derivatives**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**51,080**	**–**	**87,616**	**–**

The negative fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

A.5 Over the Counter financial derivatives - trading portfolio for supervisory purposes: notional values, gross positive and negative fair value by counterparty - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. **Fixed-yield securities and interest rates**							
- notional value	–	–	3,203,166	92	–	126,186	5,394
- positive fair value	–	–	30,548	6	–	5,978	59
- negative fair value	–	–	35,333	–	–	7	42
- future exposure	–	–	17,879	–	–	269	1
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3. **Currency and gold**							
- notional value	308,513	–	1,194,299	61,837	–	416,615	84,097
- positive fair value	–	–	8,093	1,701	–	4,686	865
- negative fair value	3,128	–	8,564	1,440	–	741	928
- future exposure	3,085	–	12,443	1,075	–	4,172	822
4. **Other assets**							
- notional value	–	–	8,548	–	–	8,548	–
- positive fair value	–	–	676	–	–	241	–
- negative fair value	–	–	238	–	–	658	–
- future exposure	–	–	858	–	–	858	–

A.9 Residual life of OTC financial derivatives: notional values

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	**Total**
A. **Trading portfolio for supervisory purposes**	**2,393,012**	**1,984,030**	**1,040,253**	**5,417,295**
A.1 Financial derivatives on fixed-yield securities and interest rates	342,554	1,952,032	1,040,253	3,334,839
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
A.3 Financial derivatives on exchange rates and gold	2,033,668	31,693	–	2,065,361
A.4 Financial derivatives on other instruments	16,790	305	–	17,095
B. **Bank book**	**–**	**–**	**–**	**–**
B.1 Financial derivatives on fixed-yield securities and interest rates	–	–	–	–
B.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
B.3 Financial derivatives on exchange rates and gold	–	–	–	–
B.4 Financial derivatives on other instruments	–	–	–	–
Total 31/12/2017	**2,393,012**	**1,984,030**	**1,040,253**	**5,417,295**
Total 31/12/2016	**3,145,205**	**2,199,934**	**1,220,004**	**6,565,143**

Section 3 *Liquidity risk*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Liquidity risk typically reveals itself in the form of an inability to meet payment commitments or an incapacity to finance assets with the necessary punctuality on a cost/effective basis. These negative circumstances can occur as the company finds it impossible:

- to raise funds or obtain them at a reasonable cost (funding liquidity risk*)*;
- to sell or reduce its position without severely affecting the price, due to low efficiency or malfunctioning on the part of the market (market liquidity risk*)*.

The Bank's overall strategy for managing liquidity risk, with its low propensity for risk, manifests itself firstly in the adoption of specific operating guidelines that make it possible to reduce the likelihood of such problems arising.

In particular, as regards the first of these sources of risk, the Bank is primarily committed to have a wide and stable retail funding base, which by definition is widely diversified; further significant sources of funding are represented by national and international entities and companies, from which the Bank has never had problems raising money at market conditions, given its high reputation. The Bank also makes use of loans granted by the European Central Bank (Targeted Longer-Term Refinancing Operations), amounting to 4.6 billion euro at 31 December 2017.

The potential liquidity risk deriving from difficulties in unwinding positions is contained by the decision of the Bank maintain a portfolio of high quality bonds: most of this portfolio consists of government securities and, to a lesser extent, of other corporate bonds that are highly liquid as they easily be sold on the market or used, when liquidity is needed, in repurchase agreements with banks or in refinancing operations held by the European Central Bank as most of them are eligible.

Another element that contributes positively to the reserve availability known as the «counterbalancing capacity» is represented by the loans granted to the European Central Bank, in addition to eligible fixed-yield securities, in the form of collateral, so-called ABACO loans (A.BA. CO stands for Attivi BAncari COllateralizzati or collateralised bank assets).

Control over liquidity risk is carried out by various units: the first level control is performed by the operating functions that provide for a timely check that they carry out their duties properly and report the results in summary form on a daily basis.

Then there is systematic monitoring of the expected liquidity position by the Risk Control Department using a variety of indicators and different analytical time horizons. Focusing on the principal indicators used for short-term analysis, the profile of liquidity mismatches is determined and highlighted in specific tables, covering the following three months, using operational treasury and similar data and the counterbalancing capacity. These tables are made available to the Bank of Italy on a weekly basis. The long-term liquidity position is also monitored monthly, with no time limits.

The short and long-term regulatory indicators, Liquidity Coverage Ratio and Net Stable Funding Ratio, are also quantified monthly and quarterly, respectively. Further risk measures relating to the concentration of funding and its cost are also monitored on a monthly basis, as is the composition of the counterbalancing capacity as required by supervisory regulations (the so-called Additional Liquidity Monitoring Metrics) and the indicators relating to the intraday liquidity risk provided for by the Basel Committee on Banking Supervision are quantified.

We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5, complies with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**5,003,713**	**1,467,324**	**2,225,647**	**791,514**	**773,839**	**793,912**	**1,556,629**	**14,845,702**	**6,712,919**	**1,107,892**
A.1 Government securities	–	–	823	2,475	10,470	7,900	111,037	8,051,528	2,194,000	-
A.2 Other fixed-yield securities	238	–	5,048	328	2,733	6,915	3,312	386,038	591,644	317
A.3 Mutual funds	393,621	–	–	–	–	–	–	–	–	-
A.4 Loans	4,609,854	1,467,324	2,219,776	788,711	760,636	779,097	1,442,280	6,408,136	3,927,275	1,107,575
- Banks	176,010	128,599	263	12,958	15,297	54,643	200,810	700,000	–	1,107,575
- Customers	4,433,844	1,338,725	2,219,513	775,753	745,339	724,454	1,241,470	5,708,136	3,927,275	-
Cash liabilities	**24,634,682**	**358,165**	**3,956**	**14,922**	**964,145**	**117,506**	**503,687**	**6,362,935**	**651,854**	**-**
B.1 Current accounts and deposits	24,472,434	2,851	3,495	12,892	934,761	96,576	44,435	3,755	–	-
- Banks	308,741	–	–	–	–	–	–	–	–	-
- Customers	24,163,693	2,851	3,495	12,892	934,761	96,576	44,435	3,755	–	-
B.2 Fixed-yield securities	107,690	44	81	1,580	17,828	18,585	345,233	1,706,391	617,437	-
B.3 Other liabilities	54,558	355,270	380	450	11,556	2,345	114,019	4,652,789	34,417	-
Off-balance sheet transactions	**323,615**	**90,123**	**661,131**	**196,737**	**811,969**	**316,288**	**145,791**	**79,859**	**89,605**	**-**
C.1 Financial derivatives with exchange of capital	–	90,123	661,131	140,411	811,942	224,638	137,273	28,501	–	-
- Long positions	–	47,526	330,623	70,511	407,314	112,157	68,006	13,780	–	-
- Short positions	–	42,597	330,508	69,900	404,628	112,481	69,267	14,721	–	-
C.2 Financial derivatives without exchange of capital	26,118	–	–	–	–	–	–	–	–	-
- Long positions	12,791	–	–	–	–	–	–	–	–	-
- Short positions	13,327	–	–	–	–	–	–	–	–	-
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	-
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-
C.4 Irrevocable commitments to make loans	297,497	–	–	56,326	27	91,650	8,518	51,358	89,605	-
- Long positions	4	–	–	56,326	27	91,650	8,518	51,358	89,605	-
- Short positions	297.493	–	–	–	–	–	–	–	–	-
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	-
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	-
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	-
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	-
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-

Line item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «sight» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Bank for financial statement purposes. Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**141,805**	**351,278**	**37,931**	**53,557**	**122,950**	**43,908**	**120,208**	**138,643**	**191,067**	**-**
A.1 Government securities	–	–	–	313	–	–	83.695	–	–	–
A.2 Other fixed-yield securities	–	–	–	–	–	–	–	–	–	–
A.3 Mutual funds	36,400	–	–	–	–	–	–	–	–	–
A.4 Loans	105,405	351,278	37,931	53,244	122,950	43,908	36,513	138,643	191,067	–
- Banks	63,361	306,416	25,618	6,848	7,836	1,883	4,068	–	3,088	–
- Customers	42,044	44,862	12,313	46,396	115,114	42,025	32,445	138,643	187,979	–
Cash liabilities	**664,802**	**190,497**	**129,423**	**75,032**	**17,746**	**5,009**	**1,647**	**257**	**-**	**-**
B.1 Current accounts and deposits	664,802	190,497	129,423	75,032	17,746	5,009	1,647	257	–	–
- Banks	160,201	146,819	126,394	55,269	7,785	–	–	–	–	–
- Customers	504,601	43,678	3,029	19,763	9,961	5,009	1,647	257	–	–
B.2 Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**54,029**	**149,378**	**665,457**	**146,186**	**842,288**	**225,621**	**145,980**	**32,636**	**-**	**-**
C.1 Financial derivatives with exchange of capital	–	149,378	665,194	145,479	838,141	224,707	145,651	32,636	–	–
- Long positions	–	72,256	332,537	72,439	417,850	112,547	73,579	16,796	–	–
- Short positions	–	77,122	332,657	73,040	420,291	112,160	72,072	15,840	–	–
C.2 Financial derivatives without exchange of capital	47,667	–	–	–	–	–	–	–	–	–
- Long positions	24,716	–	–	–	–	–	–	–	–	–
- Short positions	22,951	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	2,335	–	250	584	1,501	–	–	–	–	–
- Long positions	2,335	–	–	–	–	–	–	–	–	–
- Short positions	–	–	250	584	1,501	–	–	–	–	–
C.4 Irrevocable commitments to make loans	4,027	–	13	123	2,646	914	329	–	–	–
- Long positions	–	–	13	123	2,646	914	329	–	–	–
- Short positions	4,027	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Section 4 *Operational risks*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes; the scope of operational risk includes legal risk and IT risk, but excludes strategic and reputational risks.

To ensure that the Bank has a system of risk management that reflects the changing structure of the business as much as possible, it has adopted a system of operational risk governance and management that is in continuous refinement, with a view to adopting the most suitable technical-organisational solutions to prevent and/or mitigate critical issues involved in its operations.

As regards governance of operational risks, the Risk Control Department is responsible for defining the methodologies and coordinating execution of the various risk detection and assessment processes, monitoring the related profile, both on a historical and forward-looking basis, directing measures to prevent and mitigate any risks that are identified.

The qualitative and quantitative system adopted for managing operational risk is made up of the following components:

- a process of loss data collection (LDC), designed for the accurate detection of risk events that generate losses and the registration not only of monetary values, but also of qualitative information which, put briefly, specify when, how, where and why the event has occurred;
- a Risk Self Assessment process (RSA), aimed at investigating the perception of business experts regarding the potential risks in which the Bank could incur in corporate operations, as well as to gather indications on the subject of interventions, proposed or implemented, for the prevention and mitigation of risk situations;
- a process of measuring operational risk for regulatory purposes, focusing on the adoption of the Basic Indicator Approach (BIA) method, which provides for the application of a single regulatory coefficient (15%) to the average of the last three observations of the Significant Indicator, calculated in accordance with the procedures laid down in EU regulations;
- a process for measuring operational risk exposure through the implementation of an internal statistical model aimed at calculating quantitative risk metrics (Operational Value at Risk - OpVaR).

These processes are generally functional for monitoring and controlling the historical and forecast exposure to operational risk and its evolution, as well as identifying and directing consistent risk prevention and mitigation measures, subject to specific information flows to competent corporate bodies and departments.

In line with previous years, the model adopted to monitor operational risk has been refined, with the aim of consolidating the methodological structure and reinforcing, in terms of functionality, the IT tools to support detection, evaluation and analysis of risk situations.

With regard to the aspects of operational risk measurement, calculation techniques were developed during the year for the purpose of managing this type of risk exposure, implementing a statistical model based on the joint use of historical and forward-looking data derived from the processes mentioned above.

Particular attention was paid to improving the system of reporting on operational risk, through the preparation of detailed information in favour of the main operating and control structures and a dedicated management report, with details on the main sub-categories of operational risk and the progress being made on the main steps taken to mitigate the risk.

Legal risk

Among the issues falling within the category of operational risks, particular attention is paid to economic events relating to legal disputes and judicial proceedings in which the Bank is being sued. Given the peculiarity of these issues, the process of identification, assessment and monitoring of legal risk is carried out in close and constant collaboration with the corporate departments responsible for handling legal issues and litigation.

The operational losses associated with legal risk include the prudent accounting provisions made against proceedings initiated by the Bank or in which it is summoned to court, but not directly relating to the scope of debt collection, and any related increases or reductions; provisions are in fact subject to periodic review following favourable rulings obtained by the Bank in defining the damages and/or indications deriving from the results of disputes suffered by other institutions of the banking system.

The expenses incurred for services rendered by lawyers and cases lost in court are also included in losses related to legal risk.

IT risk

Upon completion of the evidence gathered as part of the operational risk management process, there are critical issues relating to the use of information and communication technology, namely risks that have arisen, or that could arise, from the malfunctioning of procedures and/or equipment and/or breaches or attempts to breach IT security.

The approach used for integration with IT risk, in line with the general structure of operational risk management, provides, on the one hand, for the collection and classification of IT incidents, or events that have occurred as a result of errors or failures in computer systems (quantitative approach); and, on the other hand, for the assessment of threats inherent in the IT system in order to identify areas where risk could potentially occur and consequently quantify the gravity of the situation (qualitative approach).

In this regard, the Bank paid particular attention to monitoring and minimising the risks associated with so-called cyber security, or to violations or attempted breach of IT security, aimed in most cases at carrying out fraudulent payment instructions.

Specific measures are also adopted for the management of emergency situations and business interruptions, through the definition of Operational Continuity Plans and the provision of disaster recovery measures to allow timely restoration of the systems and procedures in the event of a disaster.

QUANTITATIVE INFORMATION

The most significant impact in absolute terms is losses in connection with violations of regulatory provisions and/or the adoption of improper commercial and market practices, mainly in the form of prudent provisions set aside for legal disputes.

Also included in operational losses are errors in the performance of daily activities, in particular in the execution of payments and counter operations, as well as events of an external nature, such as bank robberies, cloning of debit cards, forging cheques and fraudulent payment orders, which are normally mitigated by taking out suitable insurance.

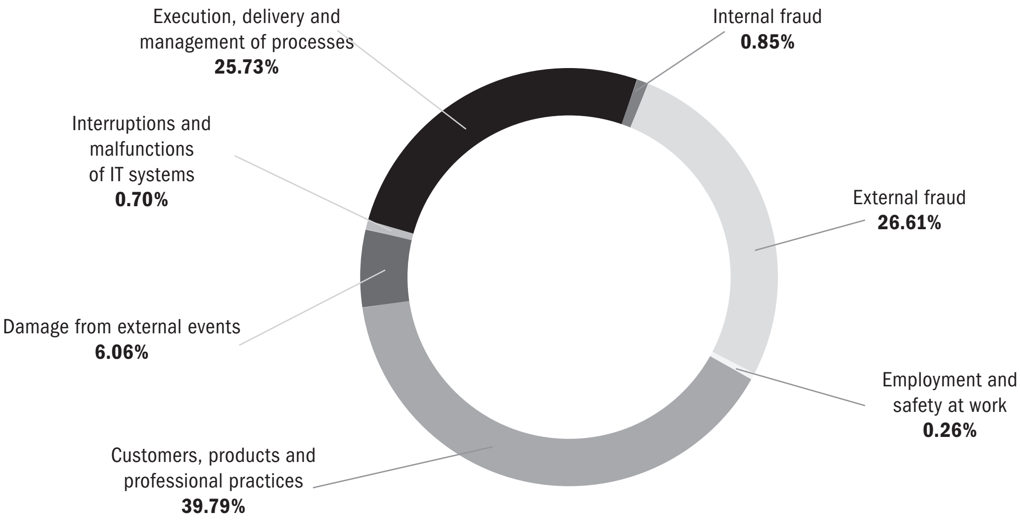
The following chart shows the operational losses identified by the Parent Company over the past five years (2013 – 2017) as part of the Loss Data Collection process, using the regulatory classification for operational risk events:

- Internal fraud – Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.

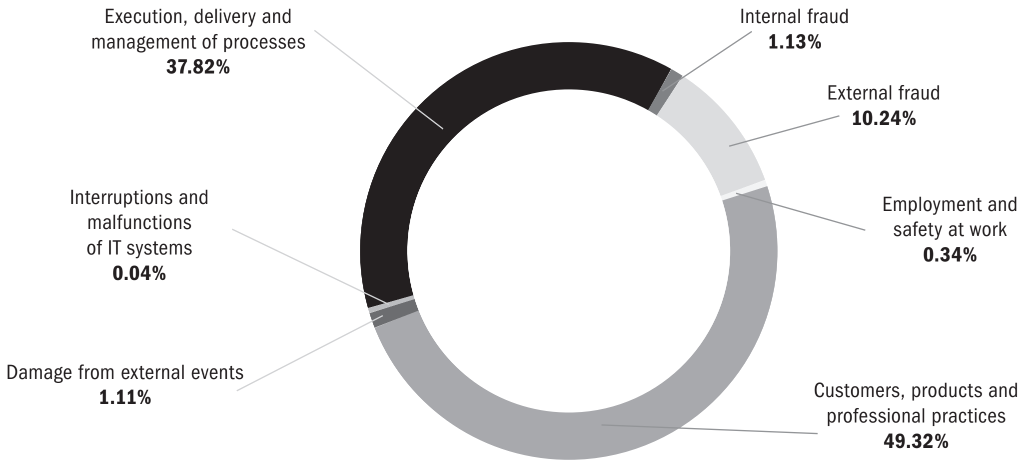
- External fraud – Events of fraud, embezzlement or circumvention of the law by external/third parties to obtain personal benefits that involve damage to the Bank.
- Employment and safety at work – Events attributable to acts that do not comply with the law or agreements on employment, health and safety at work.
- Customers, products and professional practices - Events due to non-compliance/negligence in the application of laws, codes, rules of conduct and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models.
- Damage from external events - Events involving damage or destruction of property due to accidents, natural disasters or other vandalism.
- Operational interruptions and system malfunctions - Events due to interruptions or malfunctions of the Bank's IT systems (hardware/software).
- Execution, delivery and management of processes - Events due to errors, shortages and unintentional delays in the execution of daily operations, in the management of processes and relationships with counterparties other than customers (e.g. commercial counterparties, suppliers of goods and services).

Banca Popolare di Sondrio – Sources of operational losses (accounting period: 01/01/2013 - 31/12/2017)

Number of operational loss events - breakdown by Event Type



Impact of the events of operational losses - Breakdown by Event Type



Section 5 *Sovereign risk*

Information on exposure to sovereign debt

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

In this regard, the overall exposure of the bank at 31/12/2017 amounted to € 11,311 million and was structured as follows:

a) Italian government securities: € 10,515 million;

b) Securities of other issuers: € 49 million;

c) Loans to government departments: € 68 million;

d) Loans to state-owned or local government-owned enterprises: € 572 million;

e) Loans to other public administrations and miscellaneous entities: € 107 million.

PART F Information on equity

Section 1 Capital

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for banks to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects their reputation.

The need for adequate capital has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery. Recent events that have affected the banking system are evidence of this. Supervisory Bodies are focusing more and more on the capital adequacy of banks.

The Bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up *en masse*.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the bank to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

The crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit Spa with a view to providing specialist tools in support of the real economy. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

The responsibilities that the bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

B. QUANTITATIVE INFORMATION

The component parts and size of the Bank's capital and equity are described in Part B, Section 14 of these notes to the financial statements.

B.1 Equity: breakdown

Items	31/12/2017	31/12/2016
1. **Share capital**	**1,360,157**	**1,360,157**
2. **Share premium reserve**	**79,005**	**79,005**
3. **Reserves**	**856,065**	**803,541**
- retained earnings	856,065	803,541
a) legal	269,482	240,752
b) statutory	476,410	452,177
c) treasury shares	35,000	35,000
d) other	75,173	75,612
- other	–	–
4. **Equity instruments**	**–**	**–**
5. **(Treasury Shares)**	**(25,322)**	**(25,322)**
6. **Valuation reserves**	**38,643**	**37,357**
- Available-for-sale financial assets	79,104	73,484
- Property, equipment and investment property	–	–
- Intangible assets	–	–
- Hedges of foreign investments	–	–
- Cash-flow hedges	–	–
- Exchange differences	–	–
- Non-current assets and disposal groups held for sale	–	–
- Actuarial profits (losses) related to defined-benefit pension plans	(40,461)	(36,127)
- Portions of valuation reserves related to subsidiaries carried at equity	–	–
- Special revaluation regulations	–	–
7. **Profit (loss)**	**118,400**	**80,048**
Total	**2,426,949**	**2,334,786**

B.2 Valuation reserves for available-for-sale financial assets: breakdown

	Total 31/12/2017		Total 31/12/2016	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	27,927	(1,552)	20,848	(5,869)
2. Variable-yield securities	50,987	–	45,896	–
3. Mutual funds	1,923	(181)	12,659	(50)
4. Loans	–	–	–	–
Total	**80,837**	**(1,733)**	**79,403**	**(5,919)**

B.3 Valuation reserves for available-for-sale financial assets: change in the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. **Opening balance**	**14,979**	**45,896**	**12,609**	**–**
2. **Positive changes**	**26,307**	**5,091**	**1,269**	**–**
2.1 Increases in fair value	21,421	5,091	1,246	–
2.2 Release to the income statement of negative reserves	4,886	–	23	–
- from impairment	–	–	–	–
- from disposals	4,886	–	23	–
2.3 Other changes	–	–	–	–
3. **Negative changes**	**14,911**	**–**	**12,136**	**–**
3.1 Reductions in fair value	1,695	–	154	–
3.2 Impairment writedowns	–	–	–	–
3.3 Transfer to income statement from positive reserves: from disposals	13,216	–	11,982	–
3.4 Other changes	–	–	–	–
4. **Closing balance**	**26,375**	**50,987**	**1,742**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans is negative by € 40.461 million.

This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 *Capital and capital adequacy ratios*

2.1 Own funds

A. QUALITATIVE INFORMATION

Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36 EU (CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

While the CRR Regulation is directly applicable in national law, the CRD IV Directive was implemented by Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to Own Funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the EU instructions.

Own funds

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds comprise:

– Tier 1 Capital;

– Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:

– Common Equity Tier 1 – CET1;

– Additional Tier 1 – AT1.

The Tier 1 capital (CET1) is made up of the following positive and negative components:

- Share capital;
- Share premium reserve;
- Retained earnings;
- Negative valuation reserves – OCI;
- Other reserves;
- Previous CET 1 instruments subject to transitional instructions (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

Additional Tier 1 capital (AT1) consists of the following positive and negative components:

- Equity instruments and related premiums;
- Previous AT1 instruments subject to transitional instructions (grandfathering);
- Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:

- Equity instruments, subordinated loans and related premiums;
- Positive measurement reserves – OCI;
- Previous T2 instruments subject to transitional instructions (grandfathering);
- Deductions.

The supervisory regulations envisaged a transition period, still in progress, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

Following the entry into force of the ECB Regulation, since October 2016, larger banks have to include in or deduct from CET 1, respectively, gains and losses arising from exposures to EU central governments classified as AFS according to the following percentages: 80% for 2017 and 100% from 2018. The amounts that remain after application of these percentages (i.e. 20% for 2017) should not be counted for the purposes of calculating Own Funds, continuing to be subjected to sterilisation: under the transitional arrangements laid down in CRR, in fact, the national arrangements already in force on 31 December 2013 still apply.

B. QUANTITATIVE INFORMATION

	31/12/2017	31/12/2016
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,367,576**	**2,297,882**
Of which: CET1 instruments subject to transitional instructions	–	–
B. **Prudential filters of CET1 (+/-)**	**–**	**–**
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,367,576**	**2,297,882**
D. **Elements to be deducted from CET1**	**14,396**	**14,313**
E. **Transitional instructions – Impact on CET1 (+/-)**	**364**	**(7,717)**
F. **Total Common Equity Tier 1-CET1 (C – D +/- E)**	**2,353,544**	**2,275,852**
G. **Additional Tier 1 – AT1, gross of the elements to be deducted and the effects of the transitional instructions**	**–**	**–**
Of which: AT1 instruments subject to transitional instructions	–	–
H. **Elements to be deducted from AT1**	**–**	**–**
I. **Transitional instructions – impact on AT1 (+/-)**	**–**	**–**
L. **Total Additional Tier 1 – AT1 (G – H +/- I)**	**–**	**–**
M. **Tier 2 – T2, gross of the elements to be deducted and the effects of the transitional instructions**	**433,560**	**474,149**
Of which: T2 instruments subject to transitional instructions	–	–
N. **Elements to be deducted from T2**	**21,365**	**14,316**
O. **Transitional instructions – Impact on T2 (+/-)**	**40,223**	**103,057**
P. **Total Tier 2 – T2 (M – N +/- O)**	**452,418**	**562,890**
Q. **Total Own funds (F + L + P)**	**2,805,962**	**2,838,742**

The composition of own funds takes account of the profit for the period, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

The Basel 3 regulations establish the following minimum ratios for banking groups:

- CET 1 ratio of 4.50%;
- Tier 1 ratio of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions are provided for:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; currently this is not being implemented in Italy but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;
- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significant may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;
- Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which on a fully phased basis (January 2019) shall be as follows:
- CET 1 ratio of 7%;
- Tier 1 ratio of 8.5%;
- TotTotal Capital Ratio of 10.5%.

These coefficients are lower in 2017 and 2018, during the transition phase.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

With the «SREP Decision» of 2017, the European Central Bank used its powers to impose compliance with the following minimum capital requirements to be maintained at a consolidated level in 2017:
- a minimum requirement of Common Equity Tier 1 ratio of 7.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.25%), and an additional Second Pillar requirement (1.50%);
- a minimum requirement of total capital ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.25%) and an additional Second Pillar requirement (1.50%).

Indeed, on the basis of the evidence collected as part of the Supervisory Review and Evaluation Process (SREP), it is up to the ECB to set the capital ratios and/or cash ratios for each intermediary under its direct supervision, as well as an indication of further qualitative and quantitative considerations and recommendations: similar activities are also carried out by the Bank of Italy for the smaller banks that are under its direct supervision.

On 28 November 2017, at the end of the annual Supervisory Review and Evaluation Process (SREP), the European Central Bank sent the Bank the Supervisory Body's decision regarding the new minimum ratios to be applied with effect from 1 January, for the year 2018. The new minimum capital levels required of our Banking Group are:
- a minimum requirement of Common Equity Tier 1 ratio of 8.375%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.875%), and an additional Second Pillar requirement (2%);
- a minimum requirement of total capital ratio of 11.875%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.875%) and an additional Second Pillar requirement (2%).

While the first two items of each index shown above are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

At 31 December 2017, the bank expressed the following coefficients on an individual basis:
- CET 1 Capital ratio 11.92%;
- Tier 1 Capital ratio 11.92%;
- Total Capital ratio 14.22%.

B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/ requirements	
	31/12/2017	**31/12/2016**	**31/12/2017**	**31/12/2016**
A. **Assets at risk**				
A.1 Credit and counterparty risk	–	–	–	–
1. Standardised approach	39,148,522	34,947,369	17,203,407	17,626,124
2. Approach based on internal ratings	–	–	–	–
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	350,784	360,145	311,964	315,447
B. **Capital adequacy requirements**				
B.1 Credit and counterparty risk			1,401,230	1,435,326
B.2 Loan adjustment risk			1,534	1,782
B.3 Regulation risks			–	–
B.4 Market risks			–	–
1. Standard methodology			55,923	68,830
2. Internal models			–	–
3. Concentration risk			–	–
B.5 Operational risk			–	–
1. Basic method			120,408	126,964
2. Standardised approach			–	–
3. Advanced method			–	–
B.7 Total precautionary requirements			1,579,095	1,632,902
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets			19,738,683	20,411,275
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			11.92%	11.15%
C.3 Tier 1 capital/ Risk-weighted assets (Total capital ratio)			11.92%	11,15%
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)			14.22%	13.91%

PART G Operations of business divisions

Section 1 Operations realised during the year

1.1 Business combination: Purchase of Banca della Nuova Terra S.p.A.

For details of the transaction, please refer to Part G of the Notes to the consolidated financial statements at 31 December 2017.

1.2 Business combinations: Purchase of Servizi Internazionali e Strutture Integrate 2000 S.r.l..

For details of the transaction, please refer to Part G of the Notes to the consolidated financial statements at 31 December 2017.

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in Office	Expiry of Office	Emoluments for the office held in Banca Poplare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	Chairman	1/1/2017-31/12/2017	31/12/2018	250	–	–	66
STOPPANI LINO ENRICO	Deputy Chairman	1/1/2017-31/12/2017	31/12/2019	136	–	–	16
PEDRANZINI MARIO ALBERTO (*)	Director	1/1/2017-31/12/2017	31/12/2019	151	–	–	124
BIGLIOLI PAOLO	Director	1/1/2017-31/12/2017	31/12/2019	46	–	–	–
CORRADINI CECILIA	Director	1/1/2017-31/12/2017	31/12/2019	44	–	–	–
CREDARO LORETTA	Director	1/1/2017-31/12/2017	31/12/2017	51	–	–	–
FALCK FEDERICO	Director	1/1/2017-31/12/2017	31/12/2018	45	–	–	–
FERRARI ATTILIO PIERO	Director	1/1/2017-31/12/2017	31/12/2017	47	–	–	–
FONTANA GIUSEPPE	Director	1/1/2017-31/12/2017	31/12/2017	43	–	–	–
GALBUSERA CRISTINA	Director	1/1/2017-31/12/2017	31/12/2018	48	–	–	–
PROPERSI ADRIANO	Director	1/1/2017-31/12/2017	31/12/2017	48	–	–	–
RAINOLDI ANNALISA	Director	1/1/2017-31/12/2017	31/12/2019	45	–	–	–
ROSSI SERENELLA	Director	1/1/2017-31/12/2017	31/12/2018	46	–	–	–
SOZZANI RENATO	Director	1/1/2017-31/12/2017	31/12/2017	76	–	–	3
TRIACCA DOMENICO	Director	1/1/2017-31/12/2017	31/12/2018	54	–	–	2
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	1/1/2017-31/12/2017	31/12/2017	95	–	–	8
DEPPERU DONATELLA	Auditor	1/1/2017-31/12/2017	31/12/2017	79	–	–	18
VITALI MARIO	Auditor	1/1/2017-31/12/2017	31/12/2017	75	–	–	8
MORELLI DANIELE	Alternate auditor	1/1/2017-31/12/2017	31/12/2017	–	–	–	2
PEDRANZINI MARIO ALBERTO (*)	General Manager	1/1/2017-31/12/2017		–	89	80	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2017-31/12/2017		–	52	187	913

(*) also Managing Director.

In accordance with the changes introduced by Consob resolution no. 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 2.657 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.083 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution no. 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	1,070	5,860	20	28	–	1,467
Statutory auditors	293	221	6	2	–	–
Management	18	1,233	–	6	–	–
Family members	3,218	13,719	54	63	275	10,158
Subsidiaries	2,872,406	242,736	18,806	15,983	933,359	11,089
Associated companies	603,061	338,203	2,202	354	49,056	7,153
Other related parties	207,979	81,070	2,465	84	7,196	32,875

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.A and Banca della Nuova Terra S.p.A, while loans to associated companies relate for € 591 million to Alba Leasing S.p.A; assets with other related parties include loans of € 86 million granted to the affiliate Release S.p.A.

APPENDICES:

The appendices listed below contain additional information with respect to the notes to the financial statements, of which they form an integral part:

– list of revalued assets still owned by the Bank (article 10, Law 72 of 19/3/1983);

– schedule of the Independent Auditors' fees for the year (as per art. 149 duodecies of the Issuers' Regulations;

– financial statements of the subsidiaries Banca Popolare di Sondrio (SUISSE) SA, Factorit S.p.A, Pirovano Stelvio S.p.A and Sinergia Seconda S.r.l.

LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)

(in euro)

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total as of 31/12/2017	Accumulated depreciation as of 31/12/2017	Net book value as of 31/12/2017
ABBIATEGRASSO - Via S. Maria - Ang P. Garibaldi	2,261,103	0	0	0	2,261,103	273,401	1,987,702
APRICA - Corso ROME, 140	450,765	0	356,355	146,929	954,049	640,943	313,106
BERBENNO DI VALTELLINA - Via Raneè, 542	16,568,053	0	0	99,417	16,667,470	6,337,146	10,330,323
BERGAMO - Via Broseta, 64/B	3,794,328	0	0	0	3,794,328	1,186,039	2,608,288
BERGAMO - Via G. D'alzano, 5	2,324,744	0	0	0	2,324,744	410,535	1,914,208
BERGAMO - Via Ghislandi Vittore, 4	1,288,525	0	0	0	1,288,525	135,295	1,153,230
BORMIO - Via ROME, 64	439,238	46,481	573,267	136,524	1,195,510	310,446	885,065
BORMIO - Via ROME Angolo Via Don Peccedi	2,966,333	0	361,520	301,774	3,629,627	1,662,602	1,967,025
BRENO - Piazza Ronchi, 4	1,529,470	0	0	87,467	1,616,937	848,928	768,009
CAMOGLI - Via Cuneo, 9	220,960	0	0	0	220,960	9,943	211,016
CHIAVENNA - Via Dolzino, 67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	2,389,089	1,073,200
CHIESA VALMALENCO - Via ROME, 138	800,868	17,560	664,795	133,250	1,616,473	729,015	887,458
COLICO - Piazza Cavour, 11	177,749	0	0	96,488	274,237	267,230	7,008
DELEBIO - Piazza S. Carpoforo, 7/9	844,205	23,241	645,773	688,773	2,201,992	1,456,111	745,881
DERVIO - Via Don Invernizzi, 2	1,270,219	0	0	329,276	1,599,495	990,121	609,375
DOMASO - Via Statale Regina, 71	584,106	0	0	53,817	637,923	183,582	454,341
DONGO - Piazza V. Matteri, 14	3,273,703	0	0	415,551	3,689,254	1,381,988	2,307,264
EDOLO - Piazza Martiri della Libertà, 16	1,058,736	0	0	509,161	1,567,897	1,450,177	117,721
GENOA - Via XXV Aprile, 7	10,239,131	0	0	0	10,239,131	2,563,229	7,675,904
GERA LARIO - Via Statale Regina, 14	292,667	0	131,677	227,733	652,077	390,742	261,335
GRAVEDONA - Piazza Garibaldi, 10/12	3,400,645	0	0	223,957	3,624,602	1,075,967	2,548,637
GRAVEDONA - Via Tagliaferri, 5	309,900	0	0	0	309,900	51,134	258,766
GROSIO - Via ROME, 67	95,936	7,230	229,791	51,484	384,441	251,883	132,557
GROSOTTO - Via Statale, 73	452,238	12,911	147,146	42,099	654,394	321,762	332,632
ISOLACCIA VALDIDENTRO - Via Nazionale, 31	403,788	0	290,229	272,602	966,619	633,512	333,107
LECCO - Corso Martiri della Liberazione, 63/65	9,574,332	0	351,191	2,124,557	12,050,080	7,539,092	4,510,989
LECCO - Via Galandra, 28	168,623	0	0	41,959	210,582	164,254	46,328
LIVIGNO - Via S. Antoni, 135 - Via Prestefan	5,946,629	0	345,487	358,828	6,650,944	2,079,096	4,571,847
LODI - Via Garibaldi, 23/25 - Angolo Via Marsala	3,264,046	0	0	0	3,264,046	182,227	3,081,818
MADESIMO - Via Carducci, 3	493,542	0	0	203,733	697,275	659,467	37,808
MANTUA - Corso Vittorio Emanuele, 26	5,631,152	0	0	0	5,631,152	421,886	5,209,266
MANTUA - Piazza Broletto, 7	1,265,944	0	0	0	1,265,944	18,990	1,246,955
MARCHIROLO - Via Cav. Emilio Busetti, 7/A	1,089,019	0	0	0	1,089,019	471,447	617,572
MAZZO VALTELLINA - Via S. Stefano, 18	641,635	16,010	163,550	48,833	870,028	272,830	597,197
MELEGNANO - Piazza Garibaldi, 1	3,202,980	0	0	0	3,202,980	321,050	2,881,930
MILAN - Piazza Borromeo, 1	38,217	0	0	213,722	251,939	197,659	54,280
MILAN - Via A. Messina, 22	150,000	0	0	0	150,000	33,750	116,250
MILAN - Via Compagnoni, 9	51,141	0	0	6,842	57,983	57,983	0
MILAN - Via Lippi, 25	53,970	0	0	1,635	55,605	55,605	0
MILAN - Via Morigi, 2/A	73,590	0	0	123,930	197,520	183,694	13,826
MILAN - Via Porpora, 104	5,318,962	0	0	165,381	5,484,343	1,895,043	3,589,299
MILAN - Via Procaccini	1,381,851	0	0	0	1,381,851	20,728	1,361,123
MILAN - Via S. Maria Fulcorina, 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	6,101,834	10,448,015
MILAN - Via S. Maria Fulcorina, 11	493,165	0	0	0	493,165	443,848	49,316
MILAN - Via Sangallo, 16	4,752	0	0	11,915	16,667	15,500	1,167
MILAN - Via Sforza, 48	3,166,417	0	0	0	3,166,417	211,378	2,955,038
MILAN - Via Solari, 15	422,156	0	0	0	422,156	189,970	232,186
MILAN - Viale Faenza	864,004	0	0	0	864,004	12,960	851,044

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total as of 31/12/2017	Accumulated depreciation as of 31/12/2017	Net book value as of 31/12/2017
MONTAGNA IN VALTELLINA - Via Stelvio, 30	472,050	0	328,458	398,008	1,198,516	731,095	467,421
MONZA - Via Cavallotti, 5	3,291,530	0	0	0	3,291,530	49,373	3,242,157
MORBEGNO - Piazza Caduti Della Libertà, 6	2,101,004	0	1,088,606	704,283	3,893,893	2,404,046	1,489,847
MORBEGNO - Via Nani, 13	54,709	0	0	17,739	72,448	71,723	725
MORBEGNO - Via Garibaldi, 81	435,688	25,823	0	56,050	517,561	431,037	86,524
MOZZO - Via G. D'annunzio, 4	26,424	0	0	14,259	40,683	32,953	7,730
NOVATE MEZZOLA - Via ROME, 13	1,079,528	0	251,282	89,219	1,420,029	351,766	1,068,264
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	872,097	54,495
PESCATE - Via Roma, 98	1,336	0	0	0	1,336	20	1,316
PONTE VALTELLINA - Piazza Della Vittoria, 1	459,742	12,911	258,098	86,540	817,291	280,521	536,771
REGOLEDO DI COSIO VALTELLINO - Via ROME, 7	134,617	0	0	78,405	213,022	165,544	47,478
REGOLEDO DI COSIO VALTELLINO - Piazza S, Martino, 14	132,135	0	0	0	132,135	5,946	126,189
ROME - Piazza Filippo II Macedone, 75	2,400,000	0	0	0	2,400,000	972,000	1,428,000
ROME - Via Della Farnesina, 154	928,169	0	0	0	928,169	264,528	663,641
ROME - Via Di Propaganda Fide, 27	155,625	0	350,503	88,926	595,054	595,054	0
ROME - Via del Tritone, 205/206	7,451,913	0	0	0	7,451,913	111,780	7,340,134
S. CASSIANO VALCHIAVENNA - Via Spluga, 108	397,672	0	0	103,093	500,765	342,935	157,830
S. PIETRO BERBENNO - Via Nazionale Ovest, 110	1,288,306	22,208	328,181	122,795	1,761,490	632,208	1,129,284
S. SIRO - Via Statale Regina	467,692	0	0	0	467,692	240,408	227,284
SEREGNO - Via Wagner, 137/A	123,950	0	0	13,282	137,232	123,509	13,723
SESTO CALENDE - Piazza Mazzini, 10	443,111	0	0	0	443,111	59,820	383,291
SONDALO - Via Zubiani, 2/4/6/8/10	21,757	25,823	312,456	158,005	518,041	404,479	113,562
SONDRIO - Corso V. Veneto, 7	858,944	0	0	1,190,813	2,049,757	872,417	1,177,340
SONDRIO - Largo Pedrini, 8	363,862	0	0	22,527	386,389	226,183	160,206
SONDRIO - Lungo Mallero Cadorna, 24	3,441,301	0	196,254	451,249	4,088,804	1,409,447	2,679,356
SONDRIO - Piazzale Tocalli - Via Delle Prese	348,608	0	0	0	348,608	287,602	61,007
SONDRIO - Piazza Garibaldi, 1	16,056,897	0	0	0	16,056,897	1,175,260	14,881,637
SONDRIO - Piazza Garibaldi, 16	1,563,597	351,191	7,810,125	3,142,651	12,867,564	7,786,043	5,081,522
SONDRIO - Via Bernina, 1	181,930	0	82,385	45,795	310,110	186,085	124,025
SONDRIO - Via Caimi, 29	357,915	0	0	46,342	404,257	404,257	0
SONDRIO - Via Cesura, 4	388,303	0	0	64,149	452,452	156,016	296,436
SONDRIO - Via Lusardi, 53	247,506	0	0	0	247,506	193,055	54,451
SONDRIO - Via Tonale, 6	56,297	0	243,248	54,643	354,188	354,188	0
SONDRIO - Via Pio Rajna, 1	16,195	0	0	40,221	56,416	49,082	7,334
TALAMONA - Via Cusini, 29	223,475	0	313,640	203,691	740,806	586,576	154,230
TEGLIO - Piazza S. Eufemia, 2	40,150	13,944	546,700	148,165	748,959	506,171	242,788
TIRANO - Località Valchiosa	139,352	0	0	0	139,352	97,859	41,493
TIRANO - Piazza Cavour, 20	392,571	0	1,736,322	718,576	2,847,469	1,973,760	873,709
TURIN - Via XX Settembre, 37	6,473,624	0	0	0	6,473,624	1,067,975	5,405,648
TRESCORE BALNEARIO - Piazza Cavour, 6	1,292,789	0	0	0	1,292,789	174,527	1,118,263
TRESENDA DI TEGLIO - Via Nazionale, 57	192,524	0	193,671	67,596	453,791	430,087	23,704
TREVISO - Corso Del Popolo, 50	3,744,706	0	0	0	3,744,706	168,193	3,576,513
VALMADRERA - Via S. Rocco, 31/33	1,348,914	0	0	0	1,348,914	141,636	1,207,278
VERCELLI - Piazza Mazzucchelli, 12	1,773,241	0	0	0	1,773,241	186,190	1,587,051
VERONA - Piazza delle Pasque Veronesi, 315	1,669,747	0	0	0	1,669,747	25,047	1,644,700
VILLA DI CHIAVENNA - Via ROME, 39	197,712	0	0	7,639	205,351	205,351	0
VILLA DI TIRANO - Traversa Foppa, 25	440,817	0	0	7,651	448,468	271,667	176,799
GRAND TOTAL	**174,733,576**	**781,632**	**22,496,863**	**19,084,124**	**217,096,195**	**75,578,627**	**141,517,568**

SCHEDULE OF THE INDEPENDENT AUDITORS' FEES FOR THE YEAR (AS PER ART. 149 DUODECIES OF THE ISSUERS' REGULATIONS)

Type of services	Service provided by	Recipient	Fees (thousands of euro)
Audit of the financial statements	EY S.p.A	Banca Popolare di Sondrio	224
Other emoluments	EY S.p.A	Banca Popolare di Sondrio	20
Other emoluments	EY FBA S.p.A	Banca Popolare di Sondrio	40
Audit of the financial statements	EY SA	Banca Popolare di Sondrio (SUISSE) SA	285
Audit of the financial statements	EY S.p.A	Factorit S.p.A	48
Audit of the financial statements	EY S.p.A	Popso Covered Bond S.r.l	5
Audit of the financial statements	EY S.p.A	Sinergia Seconda S.r.l	5

A fee of € 50 thousand was paid to KPMG S.p.A, the former independent auditors, for their certification of the financial statements at 31/03/2017, as well as € 941 thousand for consulting services provided up to that date.

These amounts do not include the reimbursement of out-of-pocket expenses and VAT.

FINANCIAL STATEMENTS:

BANCA POPOLARE DI SONDRIO (SUISSE) SA
FACTORIT S.p.A
PIROVANO STELVIO S.p.A
SINERGIA SECONDA S.r.l

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

(in Swiss francs)

ASSETS	2017	2016
Liquid assets	687,288,547	744,365,898
Loans and receivables with banks	283,017,336	402,831,405
Loans and receivables with customers	436,103,479	435,224,929
Mortgage loans	3,472,727,021	3,288,027,752
Positive replacement value of derivative products	81,721,702	8,975,089
Financial assets	60,859,460	51,489,235
Accrued income and prepayments	6,978,292	5,523,458
Equity investments	1,190,728	1,190,728
Property, equipment and investment property	18,310,438	23,167,603
Other assets	31,064,333	45,584,416
Total assets	**5,079,261,336**	**5,006,380,513**
Total subordinated receivables	0	0

LIABILITIES	2017	2016
Due to banks	1,296,201,267	1,173,829,277
Customer deposits	2,951,841,457	2,959,351,387
Negative replacement value of derivative products	29,610,703	67,342,270
Treasury liabilities	56,772,000	153,001,000
Due to issuers of construction bonds and loans	354,500,000	274,900,000
Accrued liabilities and deferred income	18,111,139	19,011,554
Other liabilities	4,774,365	4,017,971
Reserves	6,161,481	7,847,365
Reserve for general banking risks	15,000,000	15,000,000
Share capital	180,000,000	180,000,000
Legal reserve from share capital	0	0
Legal reserve from profits	152,079,689	140,011,976
Optional retained earnings	0	0
Profit for the year	14,209,235	12,067,713
Total liabilities	**5,079,261,336**	**5,006,380,513**
Total subordinated commitments	0	0

OFF-BALANCE SHEET TRANSACTIONS	2017	2016
Contingent liabilities	187,602,390	198,328,206
Irrevocable commitments	21,930,900	23,057,993
Derivative products	2,959,827,062	3,219,540,638
- Gross positive replacement value	81,721,702	8,975,089
- Gross negative replacement value	29,610,703	67,342,270
Fiduciary transactions	51,823,148	34,919,733

INCOME STATEMENT
(in Swiss francs)

	2017	2016
Interest income:		
- Interest income and discounts	61,410,705	59,325,683
- Interest income and dividends from equity investments	625,019	767,181
- Interest and dividends from trading activity	-26	44
Interest expense	-17,730,224	-20,797,539
Gross interest income	**44,305,474**	**39,295,369**
Change in adjustments for loss risks and losses from interest-earning operations	-1,105,440	-241,749
Net interest income	**43,200,034**	**39,053,620**
Fee and commission income:		
- on trading in securities and investments	18,021,979	17,748,796
- on lending transactions	1,978,151	2,080,285
- on services	7,042,911	7,799,019
Fee and commission expense	-2,860,155	-2,498,175
Net fee and commission income and income from services	**24,182,886**	**25,129,925**
Profits from financial transactions and fair value option	**23,349,201**	**21,851,371**
Profit (loss) on disposal of financial assets	-304,460	-643,267
Income from equity investments	11,374	10,120
Net proceeds from properties	174,156	190,999
Other ordinary income	76,685	1,106,693
Other ordinary charges	-819,013	-444,052
Other ordinary result	**-861,258**	**220,493**
Operating expenses		
Personnel costs	-45,842,369	-44,421,970
Other operating expenses	-21,920,421	-21,499,718
Operating expenses	**-67,762,790**	**-65,921,688**

	2017	2016
Adjustments to equity investments and depreciation of property, equipment and investment property and amortisation of intangible assets	-6,522,858	-4,455,951
Change in provisions and other adjustments and losses	2,944,876	-136,419
Profit for the year	**18,530,091**	**15,741,351**
Extraordinary income	543,238	415,520
Extraordinary charges	-24,094	-56,771
Change in reserve for general banking risks	0	0
Income taxes	-4,840,000	-4,032,387
Profit for the year	**14,209,235**	**12,067,713**
ALLOCATION OF PROFIT		
Profit for the year	14,209,235	12,067,713
Retained earnings	0	0
Earnings available for allocation	**14,209,235**	**12,067,713**
Proposal of the Board of Directors to allocate the 2017 profit of CHF 14,209,235 to the legal reserve from profits.		
Retained earnings	**0**	**0**

FACTORIT S.p.A

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

(in euro)

ASSET ITEMS	31/12/2017	31/12/2016
10. Cash and cash equivalents	1,557	1,315
40. Available-for-sale financial assets	21,803	350,000
60. Receivables	2,390,951,101	2,160,157,275
100. Property, equipment and investment property	469,338	514,185
110. Intangible assets	101,919	89,145
120. Tax assets	33,283,383	36,418,871
a) current	9,114,380	9,175,924
b) deferred	24,169,003	27,242,947
of which as per Law 214/2011	23,113,222	25,238,577
140. Other assets	5,665,395	5,854,232
TOTAL ASSETS	**2,430,494,496**	**2,203,385,023**

EQUITY AND LIABILITY ITEMS	31/12/2017	31/12/2016
10. Payables	2,175,251,227	1,968,727,056
70, Tax liabilities	6,232,634	2,202,847
a) current	4,193,219	163,518
b) deferred	2,039,415	2,039,329
90. Other liabilities	13,984,466	12,368,320
100. Post-employment benefits	2,430,284	2,363,578
110. Provisions for risks and charges:	3,261,433	3,427,950
b) other provisions	3,261,433	3,427,950
120. Share capital	85,000,002	85,000,002
150. Share premium reserve	11,030,364	11,030,364
160. Reserves	118,499,935	115,270,549
170. Valuation reserves	-318,667	-235,029
180. Profit (loss) for the year	15,122,818	3,229,386
TOTAL LIABILITIES AND EQUITY	**2,430,494,496**	**2,203,385,023**

INCOME STATEMENT	31/12/2017	31/12/2016
10. Interest and similar income	27,044,473	25,937,168
20. Interest and similar expense	-3,539,245	-4,064,970
NET INTEREST INCOME	**23,505,228**	**21,872,198**
30. Fee and commission income	23,746,543	24,146,154
40. Fee and commission expense	-3,065,641	-3,525,190
NET FEE AND COMMISSION INCOME	**20,680,902**	**20,620,964**
60. Net trading income	7,013	-16,960
TOTAL INCOME	**44,193,143**	**42,476,202**
100. Net impairment losses on:	601,197	-18,360,734
a) financial assets	520,412	-18,568,657
b) other financial transactions	80,785	207,923
110. Administrative expenses:	-22,563,756	-21,977,037
a) personnel expenses	-13,825,845	-13,358,251
b) other administrative expenses	-8,737,911	-8,618,786
120. Depreciation and net impairment losses on property, equipment and investment property	-182,602	-158,056
130. Amortisation and net impairment losses on intangible assets	-42,602	-54,712
150. Net accruals to provisions for risks and charges	-925,193	-141,639
160. Other operating income and expenses	1,336,778	2,018,014
OPERATING PROFIT (LOSS)	**22,416,965**	**3,802,038**
180. Net gains on sales of investments	4,827	52,585
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	**22,421,792**	**3,854,623**
190. Income taxes	-7,298,974	-625,237
POST-TAX PROFIT FROM CONTINUING OPERATIONS	**15,122,818**	**3,229,386**
PROFIT (LOSS) FOR THE YEAR	**15,122,818**	**3,229,386**

PIROVANO STELVIO S.p.A

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

(in euro)

ASSETS	31/12/2017	31/12/2016
B) **NON-CURRENT ASSETS**		
I Intangible assets		
03 Industrial patent rights and intellectual property rights	9,199	4,379
06 Assets in process of formation and advances	0	2,672
Total intangible assets	***9,199***	***7,051***
II Property, equipment and investment property		
01 Land and buildings	2,624,880	2,695,536
02 Equipment and machinery	87,157	65,472
03 Industrial and commercial equipment	18,526	18,609
04 Other assets	3,275	4,324
05 Assets under construction and advances	0	7,676
Total property, equipment and investment property	***2,733,838***	***2,791,617***
III Financial assets		
01 Equity investments		
b) associated companies	397,759	370,473
d-bis) other companies	1,992	1,992
Total equity investments	*399,751*	*372,465*
Total financial assets	***399,751***	***372,465***
TOTAL NON-CURRENT ASSETS (B)	**3,142,788**	**3,171,133**
C) **CURRENT ASSETS**		
I INVENTORIES		
04 Finished products and merchandise	21,025	21,591
Total inventories	***21,025***	***21,591***
II Receivables		
01 Loans and receivables with customers:		
a) due within 12 months	13,209	22,439
Total loans and receivables with customers	*13,209*	*22,439*
04 Due from parent companies		
a) due within 12 months	149,815	134,383
Total due from parent companies	*149,815*	*134,383*
05-bis Due from tax authorities		
a) due within 12 months	8,422	13,073
Total due from tax authorities	*8,422*	*13,073*
05-quater Due from others		
a) due within 12 months	1,475	2,366
Total due from others	*1,475*	*2,366*
Total receivables	***172,921***	***172,261***
IV Cash and banks		
01 Bank and post office deposits	707	601
03 Cash and cash equivalents on hand	190	196
Total cash and banks	***897***	***797***
TOTAL CURRENT ASSETS (C)	**194,843**	**194,649**
D) **ACCRUED INCOME AND PREPAYMENTS**		
TOTAL ACCRUED INCOME AND PREPAYMENTS (D)	**7,482**	**7,862**
TOTAL ASSETS	**3,345,113**	**3,373,644**

LIABILITIES AND EQUITY	31/12/2017	31/12/2016
A) **EQUITY**		
I Share capital	2,064,000	2,064,000
III Valuation reserves	192,104	192,104
IV Legal reserve	5,959	5,959
VI Other reserves, clearly indicated:		
Payments to cover losses	232,397	232,397
Miscellaneous other reserves	(1)	1
Total other reserves	***232,396***	***232,398***
IX Loss for the year		
Loss for the year	***(454,473)***	***(340,158)***
TOTAL EQUITY	**2,039,986**	**2,154,303**
C) **POST-EMPLOYMENT BENEFITS**		
TOTAL POST-EMPLOYMENT BENEFITS	**181,589**	**170,045**
D) **PAYABLES**		
07 Due to suppliers:		
a) due within 12 months	57,705	55,704
Total due to suppliers	***57,705***	***55,704***
10 Due to associated companies:		
a) due within 12 months	8,500	10,110
Total due to associated companies	***8,500***	***10,110***
11 Due to parent companies:		
a) due within 12 months	994,148	931,106
Total due to parent companies	***994,148***	***931,106***
12 Taxes payable:		
a) due within 12 months	8,842	8,845
Total taxes payable	***8,842***	***8,845***
13 Due to social security institutions:		
a) due within 12 months	9,802	9,316
Total due to social security institutions	***9,802***	***9,316***
14 Other payables:		
a) esigibili entro l'esercizio successivo	26,721	30,915
Total other payables	***26,721***	***30,915***
TOTAL PAYABLES	**1,105,718**	**1,045,996**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**17,820**	**3,300**
TOTAL LIABILITIES AND EQUITY	**3,345,113**	**3,373,644**

INCOME STATEMENT	31/12/2017	31/12/2016
A) **PRODUCTION VALUE**		
01 Revenues from sales and services	1,090,810	1,215,874
05 Other revenues and income:		
b) other	36,618	69,390
Total other revenues and income	***36,618***	***69,390***
TOTAL PRODUCTION VALUE	**1,127,428**	**1,285,264**
B) **PRODUCTION COSTS**		
06 Raw materials, consumables and goods	(263,784)	(267,087)
07 For services	(612,313)	(688,416)
08 Leases and rentals	(2,206)	(0)
09 Personnel costs:		
a) wages and salaries	(520,893)	(493,097)
b) social security contributions	(167,513)	(158,396)
c) termination indemnities	(32,034)	(28,340)
e) other costs	(508)	(206)
Total personnel costs	***(720,948)***	***(680,039)***
10 Depreciation, amortisation and writedowns:		
a) amortisation of intangible assets	(5,693)	(3,026)
b) depreciation of property, equipment and investment property	(102,934)	(109,003)
Total depreciation, amortisation and writedowns	***(108,627)***	***(112,029)***
11 Change in raw materials, consumables and goods	(566)	937
14 Sundry operating costs	(67,274)	(57,291)
TOTAL PRODUCTION COSTS	**(1,775,718)**	**(1,803,925)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)	**(648,290)**	**(518,661)**
C) **FINANCIAL INCOME AND CHARGES**		
15 Income from equity investments:		
b) in associated companies	24,316	21,884
Total income from equity investments	***24,316***	***21,884***
17) Interest and other financial charges:		
a) parent companies	(6,789)	(1,927)
e) other	(811)	(785)
Total interest and other financial charges	***(7,600)***	***(2,712)***
TOTAL FINANCIAL INCOME AND CHARGES (15+16-17+-17-BIS)	**16,716**	**19,172**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
18 Revaluations:		
a) of equity investments	27,286	25,194
Total revaluations	***27,286***	***25,194***
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS (A-B+-C+-D)	**27,286**	**25,194**
PRE-TAX PROFIT (LOSS)	**(604,288)**	**(474,295)**
20 Current income taxes and change in deferred tax assets and liabilities:		
a) current taxes	(0)	(246)
d) income (charges) from membership of tax consolidation/tax transparency	149,815	134,383
Total current income taxes and change in deferred tax assets and liabilities	***149,815***	***134,137***
21 **LOSS OF THE YEAR**	**(454,473)**	**(340,158)**

These financial statements agree with the accounting entries.

SINERGIA SECONDA S.r.l

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

(in euro)

ASSETS	31/12/2017	31/12/2016
A) **AMOUNTS RECEIVABLE FROM SHAREHOLDERS**	**0**	**0**
Of which already called €		
B) **NON-CURRENT ASSETS**		
I Intangible assets	0	0
II Property, equipment and investment property		
1) Land and buildings		
1 - owned	61,411,633	62,959,968
2) Equipment and machinery		
1 - owned	59,023	77,532
Total property, equipment and investment property	***61,470,656***	***63,037,500***
III Financial assets		
1) equity investments in		
a) subsidiary companies	10,548,857	10,108,857
Total financial assets	***10,548,857***	***10,108,857***
TOTAL NON-CURRENT ASSETS	**72,019,513**	**73,146,357**
C) **CURRENT ASSETS**		
I Inventories	0	0
II Receivables		
1) loans and receivables with customers		
a) due within 12 months	12,943	13,713
2) due from subsidiary companies		
a) due within 12 months	328	15,545
5 bis) due from tax authorities		
a) due within 12 months	15,781	161,896
5 quater) due from others		
a) due within 12 months	6,586	3,371
Total receivables	***35,638***	***194,525***
III Financial assets not held as non-current assets	0	0
IV Cash and banks		
3) cash and cash equivalents on hand	400	0
Total cash and banks	***400***	***0***
TOTAL CURRENT ASSETS	**36,038**	**194,525**
D) **ACCRUED INCOME AND PREPAYMENTS**		
TOTAL ACCRUED INCOME AND PREPAYMENTS	**2,069**	**0**
TOTAL ASSETS	**72,057,620**	**73,340,882**

LIABILITIES AND EQUITY		31/12/2017	31/12/2016
A) **EQUITY**			
I	Share capital	60,000,000	60,000,000
II	Share premium reserve	0	0
III	Valuation reserves	0	0
IV	Legal reserve	2,110,933	2,040,000
V	Statutory reserves	0	0
VI	Other Reserves		
	d) rounding differences on conversion to euro	0	0
VII	Reserve for cash flow hedges	0	0
VI	Reserve for treasury shares	0	0
VIII	Retained earnings	5,019,962	4,618,438
IX	Net profit for the year	474,064	472,457
X	Negative reserve for treasury shares in portfolio	0	0
TOTAL EQUITY		**67,604,959**	**67,130,895**
B) **PROVISIONS FOR RISKS AND CHARGES**			
TOTAL PROVISIONS FOR RISKS AND CHARGES		**0**	**0**
C) **POST-EMPLOYMENT BENEFITS**		**0**	**0**
D) **PAYABLES**			
	6) advance payments		
	a) due within 12 months	0	0
	7) due to suppliers		
	a) due within 12 months	101,053	103,988
	9) due to subsidiary companies		
	a) due within 12 months	65,666	340,250
	11) due to parent companies		
	a) due within 12 months	4,238,179	5,741,910
	12) taxes payable		
	a) due within 12 months	20,217	0
	14) other payables		
	a) due within 12 months	923	941
TOTAL PAYABLES		**4,426,038**	**6,187,089**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**			
	1) accrued expenses and deferred income	26,623	22,898
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME		**26,623**	**22,898**
TOTAL LIABILITIES AND EQUITY		**72,057,620**	**73,340,882**

INCOME STATEMENT	31/12/2017	31/12/2016
A) **PRODUCTION VALUE**		
1) revenues from sales and services		
d) residential rents	34,410	28,000
e) office rents	3,562,291	3,565,650
f) residential property expense reimbursements	386	288
g) office expense reimbursements	17,730	17,679
5) other revenues and income		
c) other revenues	10,464	3,130
TOTAL PRODUCTION VALUE	**3,625,281**	**3,614,747**
B) **TOTAL PRODUCTION VALUE**		
7) for services		
c) residential property management expenses	4,103	1,510
d) office management expenses	628,533	577,437
10) depreciation, amortisation and writedowns		
b) depreciation of property, equipment and investment property	1,703,932	1,743,087
14) sundry operating costs		
a) other operating costs and charges	111,157	108,536
b) non-deductible charges	298,452	304,628
TOTAL PRODUCTION COSTS	**2,746,177**	**2,735,198**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**879,104**	**879,549**
C) **FINANCIAL INCOME AND CHARGES**		
17) interest and other financial charges		
c) from parent companies	76,320	114,638
d) from others	0	299
TOTAL FINANCIAL INCOME AND CHARGES	**-76,320**	**-114,937**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	**0**	**0**
PRE-TAX PROFIT (LOSS)	**802,784**	**764,612**
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	282,977	245,746
b) IRAP (Regional business tax)	45,743	46,409
c) Deferred taxes	0	0
23) **PROFIT FOR THE YEAR**	**474,064**	**472,457**

Attestation pursuant to art. 154-bis of Decree 58/98 on the separate financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Financial Reporting Officer of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Legislative Decree 58 of 24 February 1998, confirm:

– the adequacy in relation to the characteristics of the company and
– the effective application

of the administrative and accounting procedures for the formation of the separate financial statements during the course of the period between 1 January 2017 and 31 December 2017.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the «Internal Control - Integrated Framework (CoSO)», issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the separate financial statements at 31 December 2017:
– have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
– agree with the balances on the books of account and the accounting entries;
– are able to provide a true and fair view of the issuer’s assets and liabilities, results and financial position.

The report on operations contains a reliable analysis of the trend and results of operations, together with a description of the main risks and uncertainties to which the Bank is exposed.

Sondrio, 22 March 2018

The Managing Director Mario Alberto Pedranzini	The Financial Reporting Officer Maurizio Bertoletti

Banca Popolare di Sondrio S.C.p.A.

Financial statements at December 31, 2017

Independent auditor's report in accordance with Article 14 of Legislative Decree n. 39, dated January 27, 2010, and Article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

Independent auditor's report in accordance with Article 14 of Legislative Decree n. 39, dated January 27, 2010 and Article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Sondrio S.C.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca Popolare di Sondrio S.C.p.A. (the "Company" or the "Bank"), which comprise the balance sheet at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and the notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at December 31, 2017, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing Article 9 of Legislative Decree n. 38, dated February 28, 2005 and Article 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.
We are independent from the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements of the Company at December 31, 2016 were audited by another auditor, who issued an unqualified opinion on March 27, 2017.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matter:

Key Audit Matter	Audit Response
Classification and evaluation of loans to customers	
Loans to customers, the amount of which is shown in item 70 of the balance sheet, represent, at December 31, 2017, 57% of total assets. The process of classifying loans to customers in the various risk categories and measuring them is relevant for the audit, both, because the value of loans is significant for the financial statements as a whole and because the value of the related impairment losses are determined by the directors through the use of estimates that have a high degree of subjectivity. Among these, the following are particularly important: the identification of objective evidence of impairment of the loans, the recoverable value of the collateral acquired, the determination of expected cash flows and their timing of collection. Furthermore, as regards to the statistical evaluations: the definition of homogeneous loan categories in terms of credit risk, the determination of the probability of default ("PD") and the related estimated loss (Loss Given Default - "LGD"), based on historical data observation for each risk class. Information on the classification and measurement of loans to customers is provided by the directors within Part A of the notes to the financial statements.	In relation to these aspects, our audit procedures included, among other: • understanding of the policies, processes and controls implemented by the Bank in relation to the classification and measurement of loans to customers and the performance of compliance procedures on the controls considered as key, including those relating to IT; • execution of substantive procedures aimed at verifying the correct classification and measurement of credit positions; • understanding, also through the support of our *risk management* and information systems experts, of the methodology used in relation to statistical evaluations and the reasonableness of the assumptions adopted as well as the performing of test of controls and substantive procedures, aimed at the analysis of the completeness of the historical databases used for the determination of the parameters of PD and LGD, relevant for the purpose of determining the impairment losses; • comparative analysis of the portfolio of loans to customers and the related coverage levels, and analysis of the most significant deviations; • analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing Article 9 of Legislative Decree n. 38, dated February 28, 2005 and Article 43 of Legislative Decree n. 136, dated August 18, 2015 within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The board of statutory auditors ("*Collegio Sindacale*") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional Information Pursuant to Article 10 of EU Regulation n. 537/14

The shareholders of Banca Popolare di Sondrio S.C.p.A., in the general meeting held on April 29, 2017, appointed us to perform the audit of the financial statements of each year from the year ending December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services, referred to Article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the board of statutory auditors (*Collegio Sindacale*) in their capacity as audit committee, prepared in accordance with Article 11 of the EU Regulation n. 537/2014.

Report on Compliance with Other Legal and Regulatory Requirements

Opinion pursuant to Article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of Article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Banca Popolare di Sondrio S.C.p.A. at December 31, 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by Article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the financial statements of Banca Popolare di Sondrio S.C.p.A. at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Banca Popolare di Sondrio S.C.p.A. at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by Article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, April 5, 2018

EY S.p.A.

Signed by: Davide Lisi
(Partner)

This report has been translated into the English language solely for the convenience of international readers.

Banca Popolare di Sondrio

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

REPORT ON OPERATIONS

Shareholders,

As Parent Company of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements.

COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent bank:

Banca Popolare di Sondrio S.C.p.A – Sondrio

Group companies:

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

The Parent Company holds all the capital of Banca Popolare di Sondrio (SUISSE) SA, CHF 180,000,000, which is fully paid-up.

Factorit S.p.A - Milan.

The Parent Company holds 60.5% of the capital of Factorit S.p.A, 85,000,002 euro.

Sinergia Seconda S.r.l – Milan.

The Parent Company holds all the capital of Sinergia Seconda S.r.l, Euro 60,000,000.

Banca della Nuova Terra S.p.A – Milan

The Parent Company holds all the capital of Banca della Nuova Terra S.p.A, 31,315,321 euro.

Popso Covered Bond S.r.l - Conegliano

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

Equity investments are consolidated as follows:

FULLY CONSOLIDATED SHAREHOLDINGS:

Name	Head office	Share capital (in thousands)	% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000	100
Factorit S.p.A	Milan	85,000	60.5
Sinergia Seconda S.r.l	Milan	60,000	100
Banca della Nuova Terra S.p.A	Milan	31,315	100
Pirovano Stelvio S.p.A *	Sondrio	2,064	100
Servizi Internazionali e Strutture Integrate 2000 S.r.l *	Milan	75	100
Immobiliare San Paolo S.r.l *	Tirano	10 **	100
Immobiliare Borgo Palazzo S.r.l *	Tirano	10 **	100
Popso Covered Bond S.r.l	Conegliano	10	60

* equity investments not included in the banking group.
** held by Sinergia Seconda S.r.l

SHAREHOLDINGS MEASURED USING THE EQUITY METHOD:

Name	Head office	Share capital (in thousands)	% held
Alba Leasing S.p.A	Milan	357,953	19.264
Arca Vita S.p.A	Verona	208,279	14.837
Arca Holding S.p.A	Milan	50,000	21.137
Unione Fiduciaria S.p.A	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Rajna Immobiliare S.r.l	Sondrio	20	50.000

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

GENERAL ECONOMIC CONTEXT

The report on operations accompanying the Parent Company's financial statements contains information on the international, Swiss and Italian economic situation during the year 2017.

TERRITORIAL EXPANSION

Once again moving against the general trend, our policy of expanding the commercial network continued during the year, in line with the established guidelines for the Group.

Banca Popolare di Sondrio has opened six new branches - two in Emilia Romagna and Liguria, one in Lombardia and another in the Veneto - for a total of 343 branches.

Banca Popolare di Sondrio (SUISSE) SA, in turn, opened the Martigny branch in the Canton of Valais.

At the end of 2017, the Group had a total of 363 branches.

GROUP PERFORMANCE

In order to facilitate the understanding of the Group's economic and financial information, a number of ratios are shown below, taking into account the requirements of the document «Guidelines on alternative performance indicators», published by the European Securities and Markets Authority (ESMA) in June 2016.

RESULTS IN BRIEF

(in millions of euro)	2017	2016	Change %
Balance sheet			
Loans and receivables with customers	25,756	25,313	1.75
Loans and receivables with banks	1,920	1,787	7.48
Financial assets	11,893	7,877	50.98
Equity investments	218	209	4.34
Total assets	41,625	37,202	11.89
Direct funding from customers	31,634	30,934	2.26
Indirect funding from customers	30,119	28,409	6.02
Direct funding from insurance premiums	1,336	1,266	5.50
Customer assets under administration	63,089	60,609	4.09
Other direct and indirect funding	10,164	6,127	65.89
Equity	2,679	2,573	4.12
Income statement			
Net interest income	490	474	3.30
Total income	962	885	8.72
Profit from continuing operations	234	130	79.80
Profit for the year	159	99	61.47
Capital ratios (%)			
CET1 Capital ratio	11,60%	11,07%	
Total Capital ratio	13,66%	13,55%	
Free capital	1,287	1,288	
Other information on the banking group			
Number of employees	3,196	3,153	
Number of branches	363	356	

These economic and financial indicators are based on accounting figures and are used in internal management and performance management systems, in line with the most common metrics used in the banking sector in order to ensure that published figures are comparable.

ALTERNATIVE PERFORMANCE INDICATORS

(in millions of euro)	2017	2016	Change %
Key ratios			
Equity/Direct funding from customers	8.47%	8.32%	0.15%
Equity/Loans and receivables with customers	10.40%	10.16%	0.24%
Equity/Financial assets	22.52%	32.66%	-10.14%
Equity/Total assets	6.44%	6.92%	-0.48%
Profitability indicators			
Cost/Income ratio	50.00%	55.31%	-5.31%
Net interest income/Total income	50.94%	53.61%	-2.67%
Administrative expenses/Total income	54.30%	59.45%	-5.15%
Net interest income/Total assets	1.18%	1.27%	-0.11%
Net financial income/Total assets	1.65%	1.63%	0.02%
Net profit for the year of the Parent Company/Total assets	0.38%	0.27%	0.11%
Asset quality indicators			
Texas ratio	77.99%	93.47%	-15.48%
Net non-performing loans/Equity	29.10%	29.85%	-0.75%
Net non-performing loans/ Loans and receivables with customers	3.03%	3.03%	-0.01%
Loans and receivables with customers/ Direct funding from customers	81.42%	81.83%	-0.41%
Cost of credit	0.90%	0.99%	-0.09%

Cost/Income ratio: the ratio between operating costs and total income
Texas ratio: the ratio between impaired loans and the difference between equity and intangible assets, as the denominator.
Cost of credit: the ratio between net write-downs/write-backs for impairment losses on loans in the income statement and total loans and receivables with customers.

FUNDING

In 2017, the European Central Bank's expansive monetary policy again led to a great deal of liquidity in the market, while interest rates remained at all-time lows. Against this background, the Group achieved a satisfactory increase in funding.

Direct funding from customers amounted to 31,634 million, +2.26%.

Indirect funding from customers amounted to 30,119 million, +6.02%.

Direct funding from insurance premiums came to 1,336 million, +5.50%.

Total funding from customers therefore amounted to 63,089 million (+4.09%).

Amounts due to banks totalled 6,205 million, +147.75%. As in prior years, this total includes the refinancing operations arranged with the European

Central Bank, which amounted to 4,600 million at the end of the year. Indirect funding from banks rose from 3,623 million to 3,960 million, +9.29%.

Total deposits from customers and banks therefore came to 73,253 million (+9.76%).

The table «Direct funding from customers» shows the various components in more detail with respect to the Notes.

Considering the individual components, current accounts in euro and foreign currency rose to 26,791 million, +2.27%, and make up 84.68% of all direct funding. Bonds have declined by 13.53%, to 2,724 million.

Time deposits have sharply increased: from 355 to 1,122 million. Repo transactions fell to 357 million, -41.54%; savings deposits decreased at a slower pace to 531 million, -1.62%. Certificates of deposit dropped to 2 million, -35.63%, and remain entirely marginal. Bank drafts amount to 107 million, +37.27%.

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	2017	%	2016	%	% Change
Savings deposits	531,271	1.68	540,046	1.75	-1.62
Certificates of deposit	2,101	0.01	3,264	0.01	-35.63
Bonds	2,723,980	8.61	3,150,367	10.18	-13.53
Repo transactions	356,725	1.13	610,237	1.97	-41.54
Bank drafts and similar	107,277	0.34	78,150	0.25	37.27
Current account overdrafts	24,451,274	77.29	23,641,895	76.43	3.42
Time deposit accounts	1,122,442	3.55	355,475	1.15	215.76
Foreign currency accounts	2,339,214	7.39	2,554,701	8.26	-8.43
Total	**31,634,284**	**100.00**	**30,934,134**	**100.00**	**2.26**

TOTAL FUNDING

(in thousands of euro)	2017	%	2016	%	% Change
Total direct funding from customers	31,634,284	43.18	30,934,135	46.35	2.26
Total indirect funding from customers	30,119,036	41.12	28,409,167	42.57	6.02
Total insurance-related deposits	1,335,569	1.82	1,265,888	1.90	5.50
Total	**63,088,889**	**86.12**	**60,609,190**	**90.82**	**4.09**
Due to banks	6,204,835	8.47	2,504,510	3.75	147.75
Indirect funding from banks	3,959,663	5.41	3,622,959	5.43	9.29
Grand total	**73,253,387**	**100.00**	**66,736,659**	**100.00**	**9.76**

LENDING

The economic recovery gradually strengthened during 2017, which also benefited from the minimum level of interest rates as a result of the ECB's monetary policy. In particular, the trend in home-purchase mortgage loans

LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	2017	%	2016	%	Change %
Current accounts	4,376,329	16.99	4,834,195	19.10	-9.47
Foreign currency loans	893,898	3.47	1,175,623	4.64	-23.96
Advances	447,712	1.74	407,575	1.61	9.85
Advances subject to collection	210,754	0.82	197,294	0.78	6.82
Discounted portfolio	17,354	0.07	4,537	0.02	282.50
Artisan loans	47,473	0.18	40,513	0.16	17.18
Agricultural loans	22,362	0.09	26,950	0.11	-17.02
Personal loans	238,174	0.92	219,897	0.87	8.31
Other unsecured loans	5,358,788	20.81	5,280,407	20.86	1.48
Mortgage loans	9,520,429	36.96	9,470,151	37.41	0.53
Non-performing loans	779,652	3.03	767,900	3.03	1.53
Repo transactions	1,221,602	4.74	698,937	2.76	74.78
Fixed-yield securities	350,784	1.36	360,145	1.42	-2.60
Factoring	2,270,525	8.82	1,829,340	7.23	24.12
Total	**25,755,836**	**100.00**	**25,313,464**	**100.00**	**1.75**

was quite dynamic, with a prevalence of new fixed rate loans. Cyclical improvement has naturally favoured credit quality. Loans total 25,756 million, up by 1.75% with respect to the prior year. The trend showed ups and downs during the year, with a strong recovery towards the end. The ratio of loans to direct deposits from customers is 81.42% compared with 81.83% last year.

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

The change in other operations and unsecured loans was positive: +1.48% to 5,359 million, being 20.81% of the amount due from customers. In turn, mortgage loans increased by 0.53% to 9,520 million or 36.96% of total lending. This line item includes loans assigned but not derecognised of 1,470 million in relation to the issue of covered bonds. These loans have not been derecognised because the chosen structure does not meet the requirements of IAS 39. Current account overdrafts have decreased from 4,834 to 4,376 million, -9.47%. Advances have gone up to 448 million, +9.85%, and advances subject to collection, to 211 million, +6.82%. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, reported a strong recovery, both in absolute and percentage terms, passing from 699 to 1,222 million, +74.78 %. The factoring operations also grew by +24.12% to 2,271 million as did personal loans, 238 million, +8.31%. Debt securities amounted to 351 million and decreased by -2.60% at the end of 2017; they derive from the securitisation of loans to customers made by Banca della Nuova Terra S.p.A and Alba Leasing S.p.A. Foreign currency loans declined to 894 million, -23.96%.

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/12/2017	31/12/2016	(+/-)	% change
Impaired loans	Gross exposure	4,224,880	4,425,892	-201,012	-4.54
	Adjustments	2,154,122	2,043,501	110,621	5.41
	Net exposure	2,070,758	2,382,391	-311,633	-13.08
- Non-performing loans	Gross exposure	2,301,387	2,099,717	201,670	9.60
	Adjustments	1,521,735	1,331,817	189,918	14.26
	Net exposure	**779,652**	**767,900**	**11,752**	**1.53**
- Unlikely to pay loans	Gross exposure	1,768,590	1,987,517	-218,927	-11.02
	Adjustments	607,145	664,922	-57,777	-8.69
	Net exposure	**1,161,445**	**1,322,595**	**-161,150**	**-12.18**
- Past due and/or impaired overdrawn exposures	Gross exposure	154,903	338,658	-183,755	-54.26
	Adjustments	25,242	46,762	-21,520	-46.02
	Net exposure	**129,661**	**291,896**	**-162,235**	**-55.58**
Performing loans	Gross exposure	23,810,267	23,070,964	739,303	3.20
	Adjustments	125,189	139,891	-14,702	-10.51
	Net exposure	**23,685,078**	**22,931,073**	**754,005**	**3.29**
Total loans and receivables with customers	Gross exposure	28,035,147	27,496,856	538,291	1.96
	Adjustments	2,279,311	2,183,392	95,919	4.39
	Net exposure	**25,755,836**	**25,313,464**	**442,372**	**1.75**

Total impaired loans amount to 2,071 million, -13.08%, representing 8.04% of loans and receivables with customers, compared with 9.41% at the end of 2016. The dynamic benefited from the general economic cycle, and reflects the highly prudential Group policies on classification and provisions.

Writedowns of impaired loans totalled 2,154 million, +5.41%, representing 50.99% of the gross amount, compared with 46.17% at the end of 2016 and 44.47% at the end of 2015. The table gives a overview of impaired and performing loans.

Net non-performing loans amount to 780 million, +1.53%, corresponding to 3.03% of total loans and receivables with customers, as at 31 December 2016. Although higher, the rate of increase was slower than in the prior year, when the rise was 4.52%, and the total remains significantly lower in percentage terms with respect to the banking system as a whole. This also reflects the still substantial, but declining adjustments made in application of the extremely prudent criteria recommended in the past by the Supervisory Authorities, especially with regard to those positions that are secured against property. The adjustments to cover estimated losses on non-performing loans have risen to 1,522 million, +14.26%, representing 66.12% of the gross amount compared with 63.43% last year. It is one of the highest coverage percentages at national level. Considering the amounts written off in prior years against non-performing loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 75.23%.

Unlikely-to-pay loans relate to exposures, excluding non-performing loans, that the debtor is deemed unlikely to settle in full, without recourse by the bank to the collection of guarantees or similar forms of protection. These have decreased to 1,161 million, -12.18%, corresponding to 4.51% of total loans and receivables with customers, compared with 5.22% in the previous year. The related adjustments totalled 607 million, -8.69%, with coverage of 34.33% compared with 33.45% at the end of 2016. The decrease in unlikely-to-pay loans and the related provisions is due to the transfer to non-performing loans of the positions at greatest risk and to the reduction of incoming flows with respect to those outgoing.

Past due and/or impaired overdrawn exposures, other than non-performing or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 130 million, -55.58%, and represent 0.50% of total loans and receivables with customers compared with 1.15% in the previous year. The related adjustments amounted to 25 million, -46.02%.

In addition to the adjustment of impaired loans, provisions against performing loans totalled 125 million, -10.51%, representing coverage of 0.53% compared with 0.61% in the previous year. This reduction in coverage mainly correlates with the improvement in asset quality.

Adjustments totalled 2,279 million overall, +4.39%.

As required by Consob Communication no. DEM/RM11070007 of 5 August 2011, we note that loans to customers include loans to central and local government for 68 million, local or state-owned enterprises for 639 million and various other entities for 148 million.

TREASURY AND TRADING OPERATIONS

The performance of the financial markets is discussed in the report on operations presented by the Parent Company.

The net interbank position was 4,284 million negative at the end of 2017, compared with 718 million negative at 31 December 2016. The change is essentially due to the Parent Company's decision to take advantage of TLTRO II loans for 3,500 million, despite the fact that the liquidity situation was good.

At the end of the year, there were two TLTRO II transactions outstanding with ECB, totalling 4,600 million, the first one was stipulated for 1,100 million on 23 June 2016 and maturing on 24 June 2020, with an early redemption option from 27 June 2018. The second one was stipulated in March 2017, for 3,500 million in order to take part in the last operation aimed at refinancing the TLTRO II programme by the ECB with maturity on 24 March 2021, with the target of stimulating the real economy, guaranteeing further liquidity to the banking system.

Net of these TLTRO II operations, the balance would have been positive for 316 million.

The exposure to liquidity risk is monitored both in the short term, taking a three-month view every day, and over the long term with a monthly check. The net liquidity position at 3 months comes to 9,173 million at 31 December 2017.

The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are considerably higher than the established minimums. The Group has a substantial portfolio of refinanceable assets that, net of the haircuts applied, total 12,564 million, of which 7,103 available and 5,461 committed.

The Bank's portfolios of financial assets at the end of 2017 total 11,893 million, +50.98%. The hefty increase is mainly due to purchases of government securities (Italy, Spain and France) carried out throughout the year, especially in the second and fourth quarters of the year, also thanks to the abundant liquidity deriving from access to the ECB's TLTRO II refinancing facility.

The following schedule analyses these assets and indicates the change between years:

FINANCIAL ASSETS

(in thousands of euro)	2017	2016	% Change
Financial assets held for trading (HFT)	691,411	1,019,712	-32.20
of which, derivatives	*97,983*	*56,581*	*73.17*
Financial assets carried at fair value (CFV - Carried at Fair Value)	281,139	96,303	191.93
Available-for-sale financial assets (AFS - Available For Sale)	6,788,037	6,644,437	2.16
Held-to-maturity investments (HTM - Held to Maturity)	4,132,572	117,023	
Total	**11,893,159**	**7,877,475**	**50.98**

As in the past, the portfolio mostly comprises domestic government securities, despite the sales especially of securities near to maturity. The year was characterized by intense purchases and sales, in line with the comparison period, with movements mainly involving the HFT and AFS portfolios and which, given the good performance of the markets, especially in the first part of the year, gave us a chance to sell securities, mainly Government bonds, with substantial gains on disposal/trading. At the same time, similar new securities with a limited duration were purchased.

The ECB's expansionary monetary policy caused yields on public debt securities to fall to all-time lows, with negative or zero short-term yields, which suggested continuing the action taken the previous year to achieve higher yields. The duration of the portfolio has remained unchanged at around four years.

As required by Consob communication no. DEM/RM11070007 of 5 August 2011, we note that on 31 December 2017 these portfolios contain so-called «sovereign debt» bonds, issued by central governments, local governments and other government entities, totalling 10,582 million.

Financial assets held for trading

The disposal of HFT financial assets continued during the year. They amount to 691 million, down by 32.20%, and are shown in the following table.

(in thousands of euro)	2017	2016	Change %
Floating-rate Italian government securities	116,287	398,469	-70.82
Fixed-rate Italian government securities	–	54,438	-100.00
Bank bonds	129,353	212,690	-39.18
Bonds of other issuers	26,502	33,236	-20.26
Bonds of other issuers in foreign currency (USD)	102,090	11,383	–
Securitisations	24,098	27,507	-12.39
Variable-yield securities and mutual funds	195,098	225,408	-13.45
Net book value of derivative contracts	97,983	56,581	73.17
Total	**691,411**	**1,019,712**	**-32.20**

The composition of the HFT portfolio is simple and transparent. The sale of financial assets continued, especially of Italian government securities, the amount of which decreases to 116 million compared with a total of 453 million of fixed- and floating-rate securities in the comparison year (-74.32%), representing 16.82% of the portfolio, versus 44.42%. Net trading income has increased significantly, while the more relaxed climate on financial markets limited the imbalance between gains and losses, even if the weakness of the dollar had a negative impact on securities in that currency.

The overall profit from managing the HFT portfolio was 60,429 million, compared with 32.545 million in 2016. This reflects the result from trading in securities of 5,053 million and of 62,427 million from currency, exchange and derivative transactions, less 7.051 million due to exchange differences attributable essentially to US dollar securities. Analysing «net trading income» in detail with regard to fixed-yield securities as a whole, net trading profits totalled 3.788 million, while unrealised gains amounted to 1.669 million and losses to 0.118 million. In addition, we reached profits of 15.122 million and net losses of 15.408 million on variable-yield securities and mutual funds. This situation compares with net trading income of 31.545 million in 2016, of which net profits of 35.273 million; unrealised gains of 26.440 million; unrealised losses of 30.881 million.

In detail, the HFT portfolio largely comprises equities and mutual funds, which represent 28.22% of portion, even though they decrease by 13.45% to 195 million. Corporate bonds amount to 156 million, down by 90 million, of which 129 million relate to bank issues, mostly covered bonds. Then there are 102 million in US dollar bonds. Securities that are part of securitisations are all senior and have decreased to 24 million. Floating-rate Government securities amount to 116 million, -74.32%, following the sale of

BTPs and BOTs. Derivatives have increased by 73.17% to 98 million and comprise: derivatives on debt securities and interest rates, € 14 million; derivatives on variable-yield securities, stock indices, currency, gold and precious metals, 84 million.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (CFV) have almost tripled and come to 281 million on 96 million. The portfolio almost entirely relate to various types of funds and sicavs. The increase is essentially due to the fact that the new purchases of negotiable mutual funds have been included in this portfolio, rather than in the portfolio of available-for-sale assets, with the objective of a better allocation with a view to a new composition of the securities portfolios in anticipation of the entry into force of the new IFRS 9 in 2018.

Available-for-sale financial assets

Available-for-sale financial assets (AFS) total 6,788 million, +2.16%, with hefty fluctuations during the period due to sales and purchases which made it possible to achieve even better results than the previous year. Among these, Italian government securities have increased by 0.33% to 5,458 million and represent the principal component, accompanied by fixed-income Spanish and French government securities, with a view to diversification.

In accordance with the usual operational guidelines, this portfolio holds part of the liquidity invested, partly to replace similar securities within the HFT portfolio that are sold or redeemed. The objective is to contain, at least in part, the effect on the income statement of the volatility present in the financial markets. The bond component has been significantly increased with the purchase of fixed-income corporate and financial securities issued by banks.

Impairment tests were performed on those equity investments and mutual funds with negative valuation reserves resulting in the recognition in the income statement of writedowns based on the criteria used to identify permanent losses.

The changes included: purchases of debt securities of 8,994 million, relating to government securities and bonds; units in UCITS of 14 million and shares of 6 million; in addition, positive changes in fair value came to 39 million. Other increases of 153 million mainly relate to the recognition of trading profits, coupons, discounts and the period element of the amortised cost adjustment. Decreases included the disposal of fixed-yield securities of 8,748 million, equities of 1 million and mutual funds of 177 million. There were also negative fair value changes of 3 million and impairment adjustments of 35.811 million. Of these, 26.022 million related to the quotas held in Fondo Atlante, to which the bank is committed for up to 50 million. This fund was established to help stabilise the banking system and has intervened in the crises faced by Banca Popolare di Vicenza and Veneto Banca. A further 5.502

million reflects the writedown of the investment in Release S.p.A, as well as the charge of 3.089 million related to the voluntary action by the IDPF in favour of C.R. Cesena, while the remainder related to other listed and unlisted shares and units in UCITS. Other decreases of 97 million related to coupons, the elimination of capital gains already recognised in equity, trading losses and the negative components of the amortised cost adjustment.

Held-to-maturity investments

The portfolio of held-to-maturity investments (HTM) have increase considerably in the last part of the year reaching 4,133 million on 117 million. This was done as part of the re-composition of portfolios, particularly in the last quarter of the year, as mentioned previously. These are government securities with a duration of just over 4 years.

With regard to the contents of this portfolio, readers are reminded that the anomalous performance of the equity and bond markets in 2008 persuaded the Parent Company to take advantage of the amendment to IAS 39, issued by the International Accounting Standards Board (IASB) on 13 October 2008 and endorsed by the European Commission with Regulation (EC) 1004/2008 of 15 October 2008, which amended Regulation (EC) 1725/2003. In exceptional circumstances, this measure allows companies to disregard the ban on transferring financial assets (apart from derivatives) from the category of those designated at fair value through profit and loss to another category where securities are booked at amortised cost. As a result, we transferred from the HFT portfolio to the HTM portfolio unlisted bonds that were illiquid and not expected to be sold. These had a par value of 243 million and were carried at 233 million, whereas their fair value at 31 December 2008 was 193 million, generating a theoretical loss, prior to the tax effect, of 40 million.

At 31 December 2017, the above securities were almost entirely redeemed. The residual value comes to 3.817 million, with a fair value of 3.884 million.

Asset management

The asset management industry took advantage of the extremely positive international market scenarios. The related volumes have further increased, thanks in part to the continuation of low interest rates and to customers' growing need for an active and structured approach to financial investments.

We have shown once again that the Group is able to face up to the competitive challenge. Among other products, we would mention the Parent Company's launch of Individual Savings Plans (PIR), which offer subscribers significant tax advantages. The assets managed in various forms totalled 5,438 million at the end of 2017, up by 13.09% since 31 December 2016, of which 3,662 million, +19.49%, relates to the mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; the Group's asset management schemes came to 1,776 million, +1.84%.

BPS stock

BPS stock is listed on the Mercato Telematico Azionario (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed 2017 with a negative performance of 2.69%, marking a reference price at 29 December of 3.044 euro, compared with 3.128 euro at the end of 2016. Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Group holds 3,665,609 treasury shares with a carrying amount of 25.370 million, of which 3,650,000 pertain to the Parent Company, unchanged on 2016, as no purchases or sales were made. There are also 15,609 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies.

EQUITY INVESTMENTS

Equity investments amount to 218 million. The increase of 9 million essentially reflects the measurement at equity of these investments, except for the least significant. Compared with the previous year, Banca della Nuova Terra SpA and Servizi Internazionali e Strutture Integrate 2000 S.r.l are no longer included. In fact, following the total acquisition of their share capital, they are now fully consolidated.

The reader is referred to the report accompanying the Parent Company's 2017 financial statements and to Part A, section 3 and Part B, section 10 of the explanatory notes for the related comments.

Related-party transactions

Related party transactions, as identified in accordance with IAS 24 and with the «Regulation on related party transactions», issued by Consob with resolution 17221 and subsequent amendments, form part of the Group's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred.

In compliance with the disclosure requirements of article 5 of the above Consob Regulation, between 1 January and 31 December 2017, the competent bodies of the Parent Company approved the following transactions of greater significance with related parties (the other Group companies did not carry out any transactions of greater significance during 2017):

- Factorit S.p.A, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 10,000,000 repayable on demand; resolution of 16/02/2017;
- Factorit S.p.A, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 5,000,000 repayable on demand; resolution of 17/03/2017;
- Factorit S.p.A, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 80,000,000 repayable on demand; granting of a

revolving facility for guarantees in favour of residents of € 5,000,000 repayable on demand; resolutions of 21/03/2017;

– Factorit S.p.A, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 50,000,000 repayable on demand; resolution of 27/04/2017;
– Alba Leasing S.p.A, associated company; granting of commercial guarantees given on behalf of residents of € 600,000 repayable on demand; renewal of lines of credit totalling € 447,878,702 repayable on demand; resolutions of 29/06/2017;
– Factorit S.p.A, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 470,000,000 repayable on demand; renewal of lines of credit totalling € 2,850,100,000 repayable on demand; resolutions of 19/12/2017.

In addition, as part of the programme for the issue of covered bonds authorised by the Board of Directors in 2014 and updated in 2017, on 1 October 2017, the bank assigned to Popso Covered Bond S.r.l a portfolio of performing mortgages granted directly by the bank amounting to € 307 million.

During 2017, no transactions of greater or lesser significance were carried out with related parties, which could have had a significant impact on the Group's balance sheet or results. Additionally, there have not been any developments and/or modifications of the transactions carried out with related parties during 2016 - in any case none of an atypical, unusual or non-market nature - with a significant effect on the Group's balance sheet or results for 2017.

In relation to Consob communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and

TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

(in thousand of euro)

	Associated companies of the parent company		Associated companies of the subsidiaries	
	2017	2016	2017	2016
ASSETS				
Loans and receivables with banks	–	–	–	–
Loans and receivables with customers	603,061	769,870	366	724
Other financial assets	–	–	–	–
LIABILITIES AND EQUITY				
Due to banks	–	2,213	–	–
Due to customers	338,202	209,025	1,209	564
Other financial liabilities	–	–	–	–
GUARANTEES AND COMMITMENTS				
Guarantees given	48,463	49,051	89	98
Commitments	2,876	2,852	–	–

financial position, as well as on the Group's economic results and cash flows. In Part H of the notes to the financial statements, the section entitled «Related party transactions» includes a table that summarises these figures.

During 2017 and the current year, there have not been any positions or transactions deriving from atypical or unusual operations. According to Consob Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are any that may raise doubts concerning the accuracy of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the subject of the transaction, the methods in which the transfer price is set or the time at which the transaction is carried out.

GOODWILL

Intangible assets include goodwill of 7.847 million recognised on the acquisition of Factorit S.p.A in 2010. In compliance with IAS 36, this goodwill has been subjected to impairment testing in order to check for any impairment in value. Information about this is provided in Part B, section 13 Intangible assets, of the notes to the financial statements. Together, the evaluation processes did not highlight any need to write down the balance of goodwill on the books.

HUMAN RESOURCES

The Group has 3,199 employees at the end of 2017, an increase of 43 people from 3,156 at the end of the previous year.

The personnel departments have been heavily involved in selecting, training and managing staff, in order to ensure that the necessary professional resources are available for the Group's operational development and growth, having regard for the changes taking place in the reference markets.

A breakdown of personnel by individual category is contained in the notes.

CAPITAL AND RESERVES

Consolidated shareholders' equity at 31 December 2017, inclusive of valuation reserves and the profit for the period, amounts to 2,678.920 million, being an increase of 106.091 million, +4.12 on 2016, when it changed and amounted to 2,572.829 million comparing to 2,587.756 million; this change derives from the inclusion in the financial statements, following a more strict interpretation of IAS 19 «Employee benefits», of the theoretical liability for Banca Popolare di Sondrio (SUISSE) SA in relation to supplementary pension plans for employees based on actuarial calculations.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares with a par value of 3 euro, amounts to 1,360.157 million, unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million.

The line item reserves rose to 44.023 million to 1,077.440, +4.26%, due to the allocation of a significant portion of the 2016 profit for the year. In this regard, note that the Parent Company's Shareholders' Meeting of 29 April 2017 approved the result for 2016 and the proposed distribution of a dividend of 0.06 euro for each of the 453,385,777 shares outstanding at 31 December 2016.

The valuation reserves, representing the net unrealised gains and losses recorded on AFS financial assets and the net actuarial gains and losses on the defined benefit plans arranged for employees, have shown a net positive balance of 28.478 million, up 5.47% from the reclassified figure of 27 million reported at the end of 2016 (41.927 million before adjustment). Even if the amount has not changed a lot, it should be noted that there were substantial negative changes deriving from reversals to the income statement following the sale of securities in the AFS portfolio.

The value of the shares held in the Parent Company has increased from 25.349 million to 25.370 million, following purchases made by Banca Popolare di Sondrio (SUISSE) SA in the context of the Group's remuneration policies.

As regards capital adequacy, the new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and EU Directive 2013/36 (CRD IV) came into force from 1 January 2014. Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios that, when fully implemented (January 2019), will be 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio; these coefficients are higher in 2017 and 2018, during the transition phase.

In December 2016, as part of its powers, the ECB informed the bank about the decision of the Supervisory Board on the new minimum ratios for 2017 applicable from 1 January. The new minimum capital levels required of our Banking Group are:

– a minimum requirement of Common Equity Tier 1 ratio of 7.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.25%), and an additional Second Pillar requirement (1.50%);
– a minimum requirement of total capital ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.25%) and an additional Second Pillar requirement (1.50%).

While the first two items of each index are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the Group's capital, was added to the two ratios in 2017. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

On 28 November 2017, at the end of the annual Supervisory Review and Evaluation Process (SREP) carried out in 2017, the European Central Bank notified to the Bank the newly defined prudential minimum requirements to be complied with at consolidated level. The minimum capital ratios to be met by our Banking group for 2018 relate to:

– a minimum requirement of Common Equity Tier 1 ratio of 8.375%, calculated as the sum of the First Pillar regulatory minimum requirement (4.5%), the Capital Conservation Buffer (1.875%), and an additional Second Pillar requirement (2%);
– a minimum requirement of total capital ratio of 11.875%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.875%) and an additional Second Pillar requirement (2%).

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,106.272 million at 31 December 2017.

Set out below are the Group's adequacy requirements at 31 December 2017 and the minimum requirements:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	11.60%	7.25%
Tier 1 Capital Ratio	11.63%	7.25%*
Total Capital Ratio	**13.66%**	**10.75%**

* minimum requirements.

The leverage ratio is 5.77%, applying the Phased In transitional criteria in force for 2017, and 5.74% based on the Fully Phased criteria. These figures rank among the best when compared with those of the main Italian and European banking groups.

In accordance with the provisions of the ESMA document no. 725/2012, which originated from the observation that the market value of various listed companies was lower than their book value, the Parent Company carried out an impairment test on the entire structure. The results of this test showed that the Group was worth 3,972 million, 1,293 million more than its consolidated equity, which amounted to 2,679 million. Further details are provided in Part F «Information on equity» of the notes.

IFRS 9: impacts of the new standard

With reference to the entry into force of IFRS 9 on financial instruments, the Group will have to apply the new requirements from 1 January 2018, restating the prior year figures and recording the effect of the transition in equity. We report them below; instead, reference should be made to Part A

«Accounting Policies» of the notes for the methodological details of IFRS 9 and an explanation of how it was implemented.

Classification and Measurement

Following the decisions taken, which also involved Top Management, the Company did not make any significant reclassifications of financial instruments according to their accounting category. In detail, the bulk of the portfolio recorded at amortised cost will continue to be accounted for in this way, whereas, a marginal portion of financial instruments (held to maturity and loans and receivables) will be subject to a change in the accounting treatment, passing from the amortised cost to the fair value through profit and loss method.

More specifically, the mutual fund units, closed-end funds and open-end funds, if not «held for trading», are reclassified as financial assets that have to be measured at fair value through profit or loss, also as a result of in-depth analyses and accounting interpretations made at national and international level.

Within the securities portfolio, the debt instruments previously classified as «held to maturity» have been traced back to the portfolio of financial assets valued at amortised cost, with the exception of those securities which, not passing the SPPI test, have been traced back to the portfolio of financial assets that have to be measured at fair value through profit or loss.

Debt securities previously classified as «available for sale» have been included in the «held to collect and sell» business model, and therefore put in the portfolio of financial assets valued at fair value through profit or loss with an impact on comprehensive income, except for certain bonds that are included in the portfolio valued at amortised cost.

The portfolio of financial assets valued at fair value through profit or loss with an impact on comprehensive income also includes the majority of debt securities previously classified in the «held-for-trading» portfolio, always subject to passing the SPPI test. For most of the variable-yield securities already classified in the AFS portfolio, the «Fair Value OCI Option» was chosen.

Held-for-trading financial assets include debt securities denominated in foreign currencies, as well as variable-yield securities and mutual funds units held for trading.

The portfolio of assets measured at fair value according to IAS 39 was entirely reclassified, given that the new standard limits the cases and possibilities for exercising the «Fair Value Option», it was decided not to exercise it for now.

The portfolio of financial assets that have to be measured at fair value through profit or loss includes some securitisations, in addition to the financial assets already mentioned previously and the debt instruments that have not passed the SPPI test.

Given this new composition of the securities portfolio, on first-time adoption, there are no material quantitative effects as a result of this change in accounting measurement that might have significant impacts on book equity and on the indicators of capital adequacy.

The financial instruments belonging to the loan portfolio are almost entirely classified in the «Held to collect» business model and, therefore, valued at amortised cost; an exception is a non-significant portion of financial instruments which, following failure to pass the SPPI test, have been reclassified in financial assets measured at fair value through profit or loss.

The percentage of financial instruments on the entire loan portfolio that did not pass the SPPI test was not significant, standing at around 1%. The cases of failure to pass the test concern:

- products with standard contractual features, but which do not provide for an adequate remuneration of credit risk;
- financial instruments that present an imperfect relationship between the rate applied and the frequency with which it is set, or other financial characteristics that show significant differences in the cash flows produced by the instrument in portfolio compared with a hypothetical one of reference («benchmark test»);
- financial instruments linked to restructuring operations or loans with contractual clauses limiting credit rights or options that introduce elements of remuneration other than credit risk.

In continuity with the provisions of IAS 39, financial liabilities have not been reclassified. Cash payables and direct deposits in the form of securities have been reclassified to financial liabilities valued at amortised cost. Financial liabilities measured at fair value are not accounted for, as they were not valued under the IAS 39 regime. In turn, derivative contracts have not undergone reclassification effects, nor effects linked to the different measurement.

Impairment

On the other hand, as regards the effects deriving from the new impairment model envisaged by IFRS 9, there has been an increase in adjustments to total performing exposures with respect to the equivalent IAS 39 figures.

This is attributable to the substantial elements of novelty introduced by the accounting standard, related to the following areas:

- the time horizon considered for the calculation of impairment;
- the introduction of forward-looking elements in the estimate of adjustments;
- stage segmentation of the financial assets in portfolio;
- change in the perimeter subject to impairment with respect to IAS 39.

With reference to non-performing financial assets (classified in stage 3), the increase in adjustments is mainly due to the inclusion in the valuation process of forward-looking factors introduced by IFRS 9, in this case essentially related to hypothetical transfer scenarios based on objectives and forecasts assumed as part of the NPL Strategy, which is currently being reformulated.

The implementation of these new requirements and the reclassification of financial instruments have implied an overall rise in adjustments to the total portfolio and will entail the recognition of a negative equity reserve initially estimated at approximately 43 million, net of the tax effect and a negative impact on the fully phased CET1 ratio estimated at around 16 basis points, but which still remains around 11.4%.

In any case, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their class 1 primary capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of the new standard. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 95% in 2018 to 25% in 2022, until it is completely eliminated in 2023. The expected impact on capital ratios calculated under the transitional (or «phase in») rules is therefore more limited.

Financial reporting will include the application of IFRS 9 from the first quarter of 2018. On this occasion, more detailed information will be provided on changes in the balance sheet figures and economic results, specifying those involved in the transition to the new standard, in accordance with the IAS-IFRS rules on disclosure.

RECONCILIATION BETWEEN THE PARENT COMPANY'S AND 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.

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

(in thousand of euro)

	Equity	of which: Profit for the year
Equity of the Parent Company as of 31.12.2017	2,426,949	118,400
Consolidation adjustments	(8,194)	(8,194)
Difference with respect to carrying values of equity investments in:		
- companies consolidated on a line-by-line basis	214,412	26,196
- companies valued using the equity method	45,753	22,808
Balance as of 31.12.2017,as reported in the Group consolidated financial statements	**2,678,920**	**159,210**

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group has been assessed by the rating agencies Fitch Ratings and Dagong Europe Credit Rating. For further information, see the directors' report accompanying the 2017 financial statements of the Parent Company.

Banca Popolare di Sondrio

2017 NON-FINANCIAL
REPORT PURSUANT TO
DECREE LAW 254/16

CONTENT

Introduction

This Report has been drafted at a consolidated level in compliance with Legislative Decree 254 of 30 December 2016.

BANCA POPOLARE DI SONDRIO: WHO WE ARE AND WHAT WE DO

THE BANK'S IDENTITY

Banca Popolare di Sondrio società cooperativa per azioni was founded in Sondrio on 4 March 1871, under the name «Banca Mutua Popolare della Provincia di Sondrio» based on the values of the cooperative credit movement promoted by Luigi Luzzatti.

The share capital of 1,360 million euro is held by more than 175,000 shareholders, most of whom are also customers. It is precisely through this combination of shareholder and customer that one of the original and founding principles of our movement is implemented, increasing the intensity of their relationship with the bank.

Banca Popolare di Sondrio is characterised by its commitment to promoting the social and economic development of the areas that it serves, paying particular attention to households and small and medium-sized enterprises (SMEs). This is the central element of the social mission that characterises our entire business.

The fundamental link with the territory and the desire to be an active player in its development has been accompanied by an intense process of expanding our network to 343 branches.

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

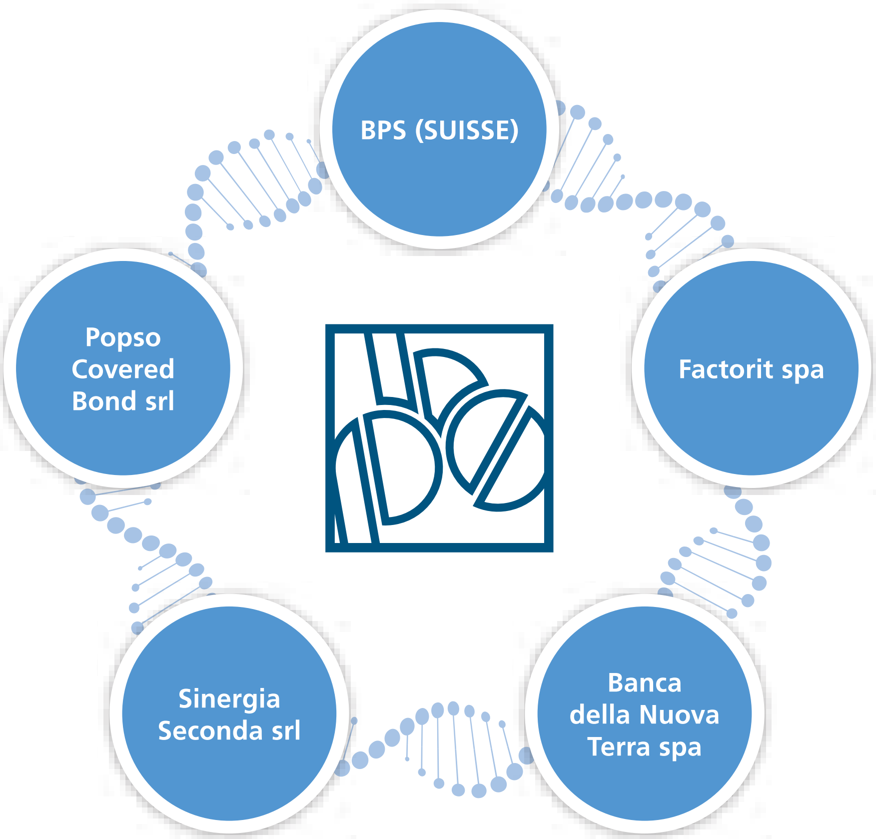
Based on these principles, we have a constant commitment to meeting our customers' and shareholders' demand for banking products and services, credit above all. This is our mission as a cooperative bank and, as always, we have acted accordingly, giving attention not only to the needs of individuals, but also to the more general requirements of the communities that we serve. This means working with a vision that seeks to make best use of the resources and specific characteristics of each territory, thereby reflecting their nature and desires, as well as enhancing our mutual interests. We take the opportunities for work offered by the various counterparties, while they benefit from operating in a healthy and profitable environment.

Rigour, proximity to the territory, orientation to technology, availability and transparency, are perhaps the words that best describe this institution.

Banca Popolare di Sondrio (SUISSE) SA also operates with the same objectives, having regard for its size and the nature of the reference market. Our subsidiary was incorporated in Lugano on 3 May 1995.

The companies belonging to our Banking Group are:

- Factorit S.p.A, which factors and manages the collection of trade receivables on a with- or without-recourse basis; it also grants advances on such receivables;



- Sinergia Seconda S.r.l, active in the property sector, which mainly provides operational support for the activities of the Bank and other members of the Banking Group;
- Popso Covered Bond S.r.l, a SPV involved in the issue of covered bonds;
- Banca della Nuova Terra S.p.A, a company that supports the farming and agri-food and serves households and individuals with the assignment of a fifth of salary or pension and delegation of payment.

The following companies are also part of the Group, even though they are not members of the Banking Group: Pirovano Stelvio S.p.a., Immobiliare San Paolo S.r.l, Immobiliare Borgo Palazzo S.r.l. and Servizi Internazionali e Strutture Integrate 2000 S.r.l.

2017 - a year of confirmations and growth

Our institution, which ranks among the top ten Italian banks, has distinguished itself by having remained healthy and profitable even in these last ten years of adverse economic and financial conditions, featuring extreme volatility and turbulence in all markets.

During the year just ended we received confirmation of the positive opinions of two major rating agencies, Dagong Europe (an affiliate of the Chinese parent company «Dagong Global Credit Rating») and Fitch Ratings. As regards the outcome of the annual Supervisory Review and Evaluation Process (SREP) carried out by the European Central Bank (ECB), our capital ratios are well above the minimum thresholds requested by the ECB, demonstrating the Bank's solidity.

Our good results made it possible to open another 6 units: branch no. 2 in Piacenza and a branch in Fidenza (PR) in Emilia Romagna; in Liguria, branches in Imperia and La Spezia; in Lombardy, a branch in Milan; in Veneto, a branch in Venice.

In addition to our branch network, we have 139 treasury units for entities and institutions.

The subsidiary Banca Popolare di Sondrio (SUISSE) SA (which operates through 20 branches, including one foreign branch in Monte Carlo in the Principality of Monaco and the Direct Banking virtual branch in Lugano) set up a branch in Martigny, in the Canton of Valais, in February 2017.

On 8 September 2017, the Bank completed the acquisition of 100% of BNT - Banca della Nuova Terra Spa of Milan - which then joined the Banca Popolare di Sondrio Group.

Last October, Banca Popolare di Sondrio and Fondazione Cassa di Risparmio di Cento, which holds 67% of Cassa di Risparmio di Cento, signed a non-binding «letter of intent» to look into our possible acquisition of a controlling interest of up to 100% in Cassa di Risparmio di Cento.

In December, Servizi Internazionali e Strutture Integrate 2000 S.r.l became part of our Group. This company provides assistance to customers interested in operating in China.

Banca Popolare di Sondrio (SUISSE) SA and Factorit S.p.A operated profitably and their contribution to the Group was higher than the previous year.

BUSINESS MODEL AND BUSINESS STRATEGY

«The economy and business need an ethic that puts the individual and the community centre-stage»

(*Pope Francis*)

Banca Popolare di Sondrio is active in the collection of savings, the granting of loans and the provision and intermediation of financial, lending and insurance services, as well as in the general system of payments; accordingly, it is active as a commercial retail bank operating via a network of branches and, electronically, via Internet banking applications for the provision of information and the receipt customers' instructions.

Key counterparties comprise households and SMEs, without excluding major large companies; the Bank also works with institutional customers (professional pension funds, universities, municipalities, mountain communities, schools etc.), providing them with treasury, cash flow management and other services.

These services are provided by specialist internal departments – commercial, credit, finance, international, public entities and treasury – and by affiliated or partner companies, that have operated for many years in numerous sectors: mutual funds invested in securities and property, pension funds, stockbroking, life assurance and loss cover, leasing, factoring, medium/long-term lending, consumer credit, trust services, credit cards, retail electronic payments etc.

In substance, the commercial catalogue, which is constantly updated, enables the Bank to meet the needs of private individuals, firms and institutions, and therefore – via the granting of loans and the provision of services – to support the local economies in the territories served. This is the principal and most concrete expression of the Issuer's culture as a cooperative company.

The value that the Bank creates does not come only from offering state-of-the-art products and services, but also from its members of staff: all part of the same team with a strong esprit de corps and a distinctive style shared by all, in which courtesy, willingness to help and professionalism are at the service of all our customers, whoever they are and whatever they need.

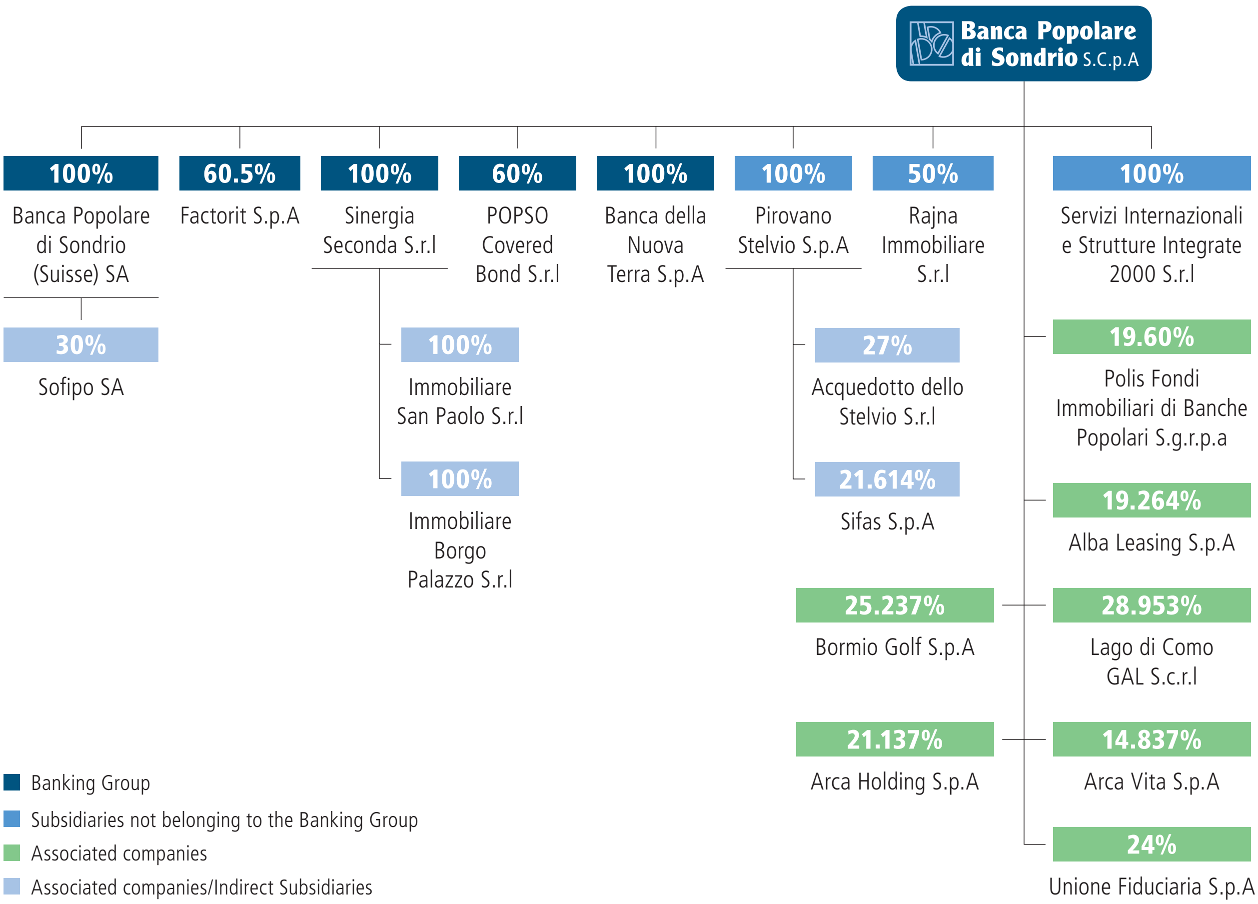
Market

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

In Italy, the Banking Group can count on 343 branches located in seven regions of northern Italy, as well as in Rome and its province; in addition to 139 treasury branches for entities and institutions; «SUISSE» has 20 branches, of which 19 in all the linguistic areas of the Swiss Confederation (7 cantons) and 1 in the Principality of Monaco, in addition to the virtual Direct Banking unit. The Bank has been able to position itself effectively and reinforce its roots in the territory, adapting to changes in environmental conditions in a progressive and structured manner, achieving its growth objectives.

GROUP STRUCTURE

Further information on the Group's structure and equity investments can be found in the financial statements from page 43 to page 48.



Business strategies

The business continues to develop through a process of natural growth that is based on the historical decision to give preference to the values of the cooperative movement and localism, while constantly modernising the structure and refining professional skills. The search for new products and services to make better use of all opportunities continues unabated; the intention is to prefer working in a deep and intense way, even if for a limited market, rather than going after a wider, but less incisive presence in a much larger market.

With regard to the development of new products and services, attention has focused particularly on the following sectors: mortgages, loans, asset management, services to international operators, on-line current accounts, current accounts for young people, credit cards, insurance policies and technology products.

The Bank conquers increasing market shares in the «load-bearing» sectors of banking, namely credit intermediation, payment systems, asset administration and asset management. This result is attributable to a series of factors among which, without a doubt, the «special» relationship that the Bank is able to establish with new customers, while consolidating the relationship with existing customers.

Customers, whether private individuals or SMEs, find at the branch where they have their account an efficient, competent and attentive interlocutor, in addition to fair and transparent conditions, well-kept environments and cutting-edge technology.

The branch manager is an important point of reference for households and entrepreneurs. One could say essential, as the branch manager is able to analyse the customer's financial situation, identify their needs and, with a sense of responsibility, direct their options, even at times of difficulty.

Sector specialists, located at the central offices, are ready to intervene in support, but only at the request of the branch manager, who remains the fulcrum around which the entire system rotates.

Banking relationships with entrepreneurs or investors are based on mutual trust; this means that it is the most important element of the entire business.

The Bank's investments again contribute towards its high level of competitiveness, thanks to good profitability and excellent levels of capitalisation.

We make particular reference to:

- our progressive expansion into areas adjacent to those where the bank is already present, having previously been tested in terms of actual potential, also through treasury and cashier services;
- the hiring of young, motivated, high-quality personnel whose professional

growth is taken care of by providing training courses and coaching by more experienced colleagues;

- continuous modernisation of tools and technological structures in all operational contexts, with particular regard to those in distinctive areas such as treasury management, Scrigno, internet banking, payment systems, lending;
- a review of operational processes in order to achieve a constant increase in their efficiency and to meet the needs of customers who increasingly require integrated approaches and unique references;
- the progressive evolution of the tools and processes responsible for the measurement, management, control and mitigation of the various types of risk.

With regard to the role that the Bank could assume in the context of the consolidation process under way among banking institutions, the intention is to preserve an independent role in the near future and to continue mainly in a strategy of organic growth, with a view to affirming BPS as an efficient and competitive bank.

This is a way of operating that responds to a medium/long-term vision, where we opt to establish a relationship of trust with our customers, which is destined to last over time, rather than for short-term objectives focused on an immediate economic return. The overall corporate structure benefits in terms of cohesion and the overall action does not run the risk of being dispersive or haphazard.

We believe that, regardless of the changes in corporate status introduced recently for the major cooperative banks, the cooperative banking model is based on three elements that characterise its identity and which have been adopted by Banca Popolare di Sondrio: the link between bank and shareholder, the business model (as a retail bank) and organisational model (decentralised).

Of these three elements, the first one is characterised by a strong sense of belonging for the shareholder/customer, which reflects positively on the business.

The second element, the business model, which is essentially based on a search for long-term relationships with customers, encouraged by the fact that of these the most important and stable ones are also shareholders or in any case linked to shareholders, is still extremely valid and topical.

As for the organisational model, the solutions adopted to make accelerated organic growth compatible with «localism» are appropriate.

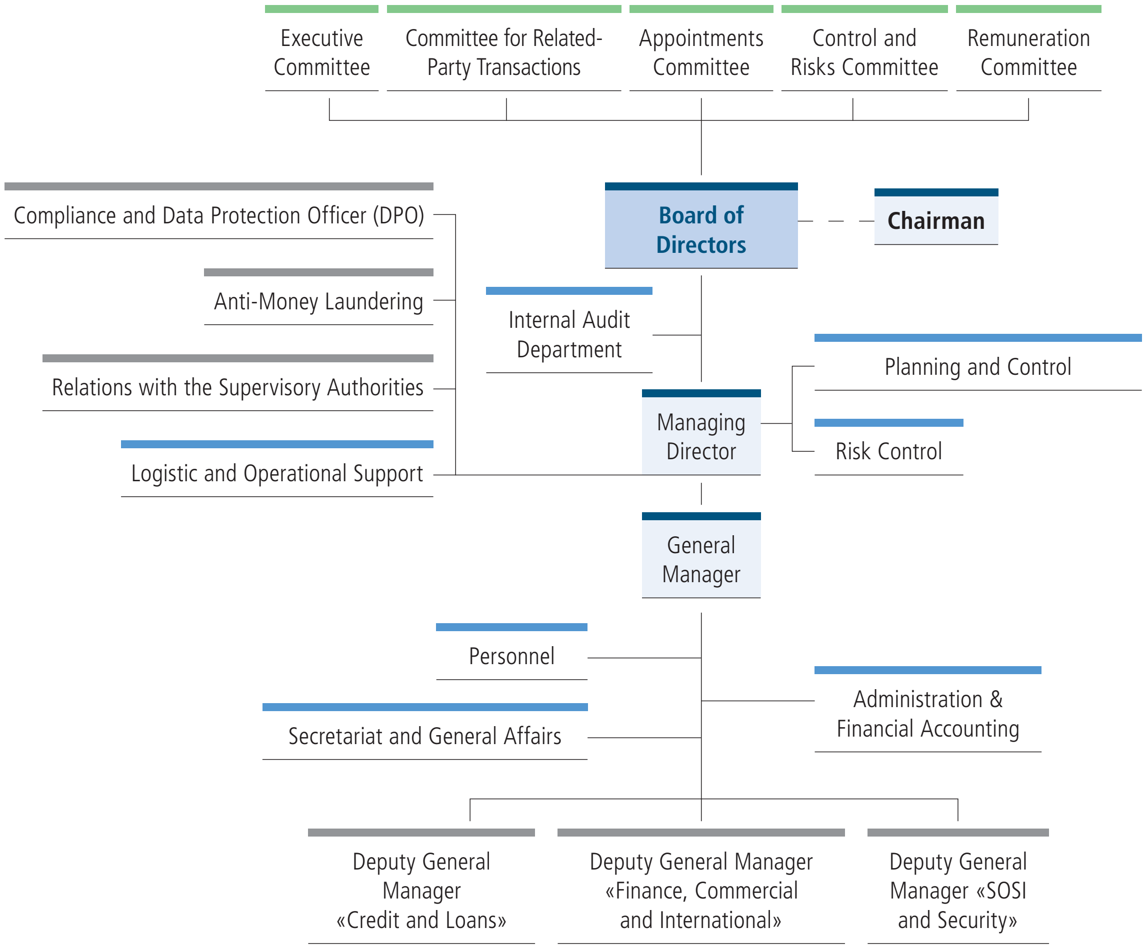
In short, we believe that the philosophy that inspired the creation of Cooperative Banks, when it presents an internal management based on ethical values and a high degree of professionalism, is more than ever topical and continues to prove highly suitable for banking at a local level, also to balance the interests of shareholders, customers and other stakeholders.

GOVERNANCE

Banca Popolare di Sondrio adopts the traditional administration and control model.

Detailed information on the corporate governance system and the remuneration policy is provided on the bank's website at www. popso.it, in the section «corporate information».

The main administrative and management bodies are shown below.



MATERIALITY ANALYSIS

The materiality analysis has been developed through different phases that can be summarised as follows:

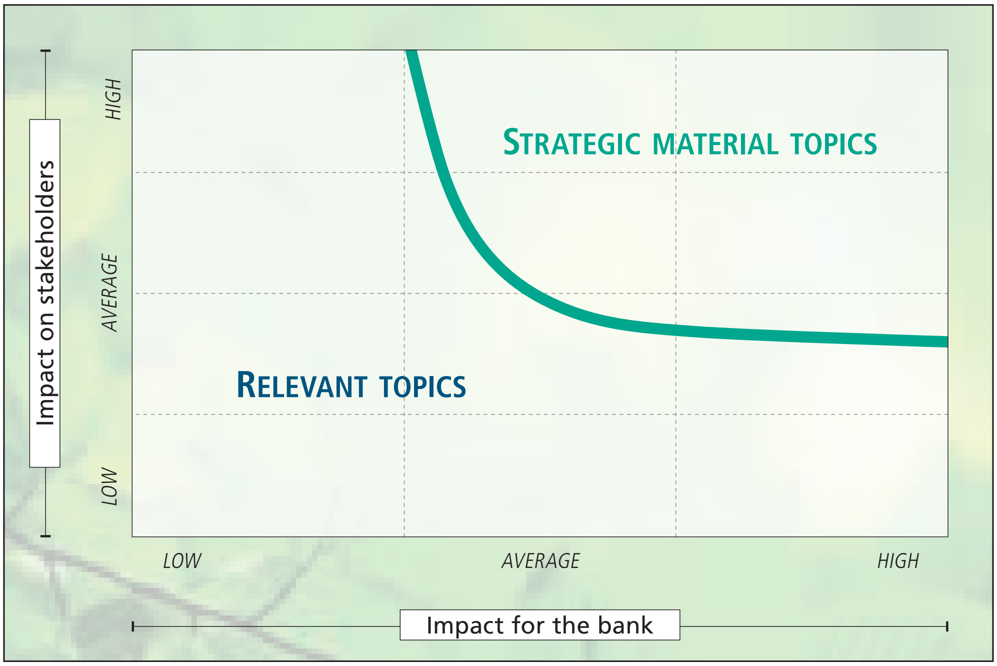
1. **Identification of potentially relevant topics**, through the analysis of international guidelines, including the publications of the GRI (Global Reporting Initiative), the values of Banca Popolare di Sondrio and the sustainability reporting of peers;

2**. Evaluation of the relevance of each topic for the bank and for the relevant stakeholders**, through internal engagement activities.

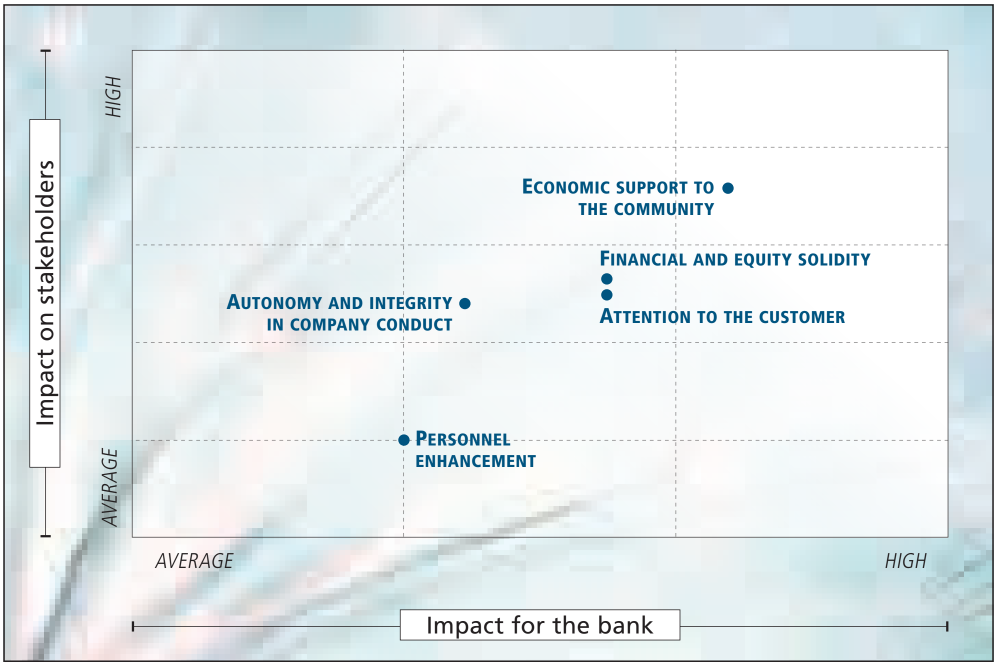
The topics identified were thus shared with the management, which assessed the relevance of each issue for both the bank and its stakeholders. With reference to the relevance of the topics for the stakeholders, a contact person has been identified for each category of stakeholder, with the task of conducting the related assessment (for example HR for the point of view of employees, Purchasing Manager for suppliers, Commercial Manager for customers, etc.);

3. **Preparation and validation of the materiality matrix**, thanks to consolidation of the results achieved. The matrix was then submitted to validation by Management, in the person of Mario Alberto Pedranzini, Managing Director and General Manager.

The matrix below shows the different position of the generally relevant topics and material ones considered most strategic for the bank. With regard to the relevant topics, it should be noted that only those expressly required by Legislative Decree 254/2016 will be reported.



Materiality matrix of the BPS Group



The materiality analysis has also made it possible to identify the Bank's main stakeholders (those who influence the Bank's activities, or that are influenced by them, and who contribute to the creation of its value).

The main stakeholders of Banca Popolare di Sondrio are Customers, Suppliers, Shareholders, Regulatory Bodies, Institutions, Employees, Auditors and Communities. For more information, see the specific sections.

MEMBERSHIP OF THE UNITED NATIONS GLOBAL COMPACT

«I *invite you, individually with your companies and collectively through your trade associations, to embrace, support and implement a set of key values in the areas of human rights, labour standards and environmental practices*»

(*Kofi Annan, Secretary-General of the United Nations, World Economic Forum, 31 January 1999, Davos*)

Banca Popolare di Sondrio participates since 2004 in the «Global Compact» project launched in 2000 by the then UN Secretary-General, Kofi Annan, with the aim of creating synergies by involving the world of entrepreneurship and non-governmental organisations in the great challenges of humanity, in order to give further impetus to achieving the objectives of the millennium development.

Specifically, companies and institutions around the world have been invited by the United Nations to embrace and uphold ten universal principles on human rights (respect for universally proclaimed rights), labour rights (protection of trade union law, elimination of any form of forced labour, the abolition of child labour and the fight against discrimination in employment), environmental protection (adoption of precautionary measures against environmental threats, promotion of greater environmental responsibility and dissemination of technologies «friends of the environment») and fight against corruption (in all its forms).

By joining the project, the business world, as primary players of the globalisation process, is committed to ensuring that markets, trade, technology and finance join forces for the economic and social benefit of the entire international community. Thanks to this initiative, the United Nations has provided a common platform of international alliances between companies, governments, civil societies and the world of work to achieve the same objectives.

Banca Popolare di Sondrio, always attentive to the issues of corporate social responsibility and the protection of moral and environmental principles, welcomed the invitation of the United Nations by signing up to the «Global Compact». In concrete terms, our Bank has voluntarily filed a report with the UN Office in New York on the progress we have made in implementing the principles of the «Global Compact», underlining the constant commitment of its Directors to uphold the social, ethical and environmental values that are inherent in the very nature of a «cooperative bank».

In a dedicated space on the official UN website, in a section entitled «Participants», BPS describes and annually updates its initiatives implemented in the respect and continuous improvement of its business ethics, presenting its own Communication on Progress (COP).

A SUSTAINABLE ECONOMIC PERFORMANCE

FINANCIAL AND CAPITAL SOLIDITY

ECONOMIC PERFORMANCE

GRI Standard 201-1: Direct economic value generated and distributed

Economic value directly generated	Unit of measurement	2017	2016	2015
a) Revenue (Net sales + gains on financial investments and sales of assets)	€ thousand	786,433	691,489	747,295
Economic value directly generated				
b) Operating costs (payments to suppliers, non-strategic investments, royalties and facilitating payments with a clear commercial objective)	€ thousand	223,963	236,548	227,956
c) Wages and employee benefits (total expenses for employees (current payments, not future commitments))	€ thousand	245,170	236,834	235,800
d) Payments to lenders (all financial payments made to lenders of the organisation’s capital)	€ thousand	34,087	27,203	34,960
e) Payments to the Public Administration (gross taxes)	€ thousand	121,663	82,673	112,994
f) Investments in the Community (voluntary contributions and fund investments in the community, including donations)	€ thousand	175	131	258
Economic value obtained				
Economic value generated less Economic value distributed	€ thousand	161,375	108,100	135,327

The Group produces wealth contributing to the economic growth of the social and environmental context in which it operates and measures this wealth in terms of Value Added produced and distributed to its reference stakeholders. The representation shown is based on the standard drawn up by the Study Group for the Social Report and the guiding principles of the Global Reporting Initiative. The values shown here on a consistent basis over the years refer to continuing operations.

The Value Added produced in the year amounted to 786 million euro, an increase of 95 million euro compared with 2016.

With regard to the main reference stakeholders, the Value Added was distributed as follows:

- Employees 31.2% – through direct remuneration consisting of salaries and employee termination indemnities and indirect remuneration consisting of social charges and personnel service costs (canteen services, travel expenses reimbursement);

- Public Administration 15.5% - through the payment of direct and indirect taxes;
- Shareholders 4.3% - through the distribution of dividends. The increase compared with the previous year is due to dividends distributed by the subsidiary Factorit.
- Suppliers 28.5% - through payment for services received from professionals or other services.

The Value Added produced was also reinvested in the Group in the form of depreciation and amortisation of the tangible and intangible assets used in the production process, as well as in the form of self-financing for the development and supply of new services to the territories and markets served.

An amount of around € 0.2 million has also been allocated to local and national communities through donations and sponsorships.

More detailed information attesting to the economic performance and stability of the Bank can be found in the report on operations included in this file.

RISK MANAGEMENT

The Group's approach to risk management is based on a culture oriented to the promotion and awareness-building of the entire corporate structure of the critical issues involved in adverse events and the adoption of behaviour consistent with internal policies and regulations, and protection of the Group's assets and reputation.

Risk governance involves the collaboration of various Group structures, according to a system based on clear identification of roles and responsibilities and generally designed to ensure effective supervision of multiple risk events, through constant monitoring of the triggering factors and identification of possible areas for improvement and mitigation.

Specific attention is also paid to the indirect impacts on the Company's reputation that risk events could have by monitoring complaints or claims received from customers, on the one hand, and, on the other, analysing the main news items published in the mass media or on the web, in order to gather useful information on the level of reputation enjoyed and ideas for constant improvement of the services offered.

Sustainability risks

The sustainability risks associated with corporate social responsibility are covered by the BPS risk management system, with particular attention to the aspects concerning operational and reputational risks, for which the Group adopts specific management models aimed at identifying, assessing, measuring, monitoring and mitigating potential risky phenomena and the related repercussions, also at a financial level.

Operational risk is the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events; this category also includes losses caused by malfunctioning and unavailability of systems, natural and environmental events and non-compliance with regulations.

Specifically, the qualitative and quantitative model adopted by the Group for the management of operational risk envisages, on the one hand, the identification and census of losses actually incurred in relation to operational risk events and, on the other hand, an estimate of the prospective risk that could potentially be incurred in carrying out company operations. Particular attention is paid to the monitoring of IT risks, through the systematic collection of information relating to incidents resulting from errors, failures or malfunctioning of ICT systems and the assessment of computer threats potentially inherent in the systems.

With regard to reputational risk, the Group uses a management model exclusively of a qualitative nature, which identifies factors and events potentially prejudicial to the corporate image and assesses the related exposure in prospective terms.

Specific attention is paid to the evolution of the level of risk exposure, also in prospective terms, and, through the direct involvement of the company structures in which the risk phenomenon is generated or managed, to monitoring the progress of measures to strengthen existing controls for their prevention and mitigation.

In order to make the risk management methods more comprehensible, we have brought key topics together in Macro-topics and for each of them we have identified the related risks and management methods.

COMMUNITY AND TERRITORY

Protection of the Group's reputation is implicitly guaranteed by the pursuit of a corporate culture that is strongly rooted in the territory and enthusiastic participation in charitable and solidarity activities, as well as by intense promotion of the naturalistic, cultural and artistic heritage of the communities that we serve.

CUSTOMERS

The Group promotes an approach to banking in accordance with principles of professionalism and customer care, with a view to establishing and maintaining relationships based on fairness and mutual respect, preventing risks, mainly of a legal and reputational nature, attributable to inadequate provision of financial services or conduct detrimental to customers' interests. Particular attention is paid to the pursuit of appropriate levels of information transparency, not only in terms of regulatory compliance, but also to ensure that customers are fully aware of the characteristics and costs of the products and services that they are offered or held.

To protect the confidentiality and integrity of company data, above all those of customers, and the related risks of illegal manipulation and theft, the Group also adopts suitable IT processes and controls for the acquisition, custody and processing of confidential and sensitive information, in compliance with regulatory requirements.

OPERATING INNOVATION

The Group constantly modernises its technological tools and infrastructures to support corporate operations, with particular attention to electronic services and internet banking, overseeing risks, mainly computer risks, connected to the implementation of measures in favour of innovation and operational efficiency, which are indispensable in a context of increasing digitisation. Emphasis is put on monitoring cyber risk, understood as the risk of violations of computer security perpetrated mainly through the theft of access credentials and aimed, in most cases, at executing fraudulent payment instructions. Against this, the Group implements targeted investments and is constantly involved in strengthening security systems, to combat criminal attacks to protect customers and the Bank itself. As a further safeguard, the Group adopts a structured process to assess potential critical issues related to the provision of new products/services with innovative or complex characteristics, with the involvement of various corporate structures, each according to their sphere of competence.

VALUE CREATION

In a logic of business continuity, the Group assigns due importance to risk management and control, as an essential condition to guarantee a reliable and sustainable generation of value, to safeguard its financial solidity and its reputational credibility and allow a transparent representation of the level of risk assumed. All this, in line with the principles of sound and prudent management and in compliance with the provisions of prudential supervision.

CORPORATE GOVERNANCE AND CONDUCT

The conduct of business according to ethical principles of fairness, transparency, integrity and professionalism, as well as punctual compliance with codes of conduct, regulations and laws is a fundamental safeguard against the risks connected with illegal behaviour by employees, as well as the consequent impacts on corporate reputation. Among them, specific attention is paid to overseeing the risks of fraudulent behaviour aimed at corruption and personal gain through a constant monitoring of operations, with the purpose of identifying illicit conduct and improper business practices on a timely basis. The Group is also committed to meticulous compliance with the regulations on money laundering and terrorist financing, with particular attention to transactions with countries subject to restrictions or operating in controversial sectors, and to the negative impact this could have, especially on the corporate image. Management of these risks is implicitly guaranteed by the adoption of an organisational model based on the principles of independence and transparency, within which specific control functions are envisaged to monitor operating behaviour and practices that do not comply with internal and external regulations.

BUSINESS AND STAKEHOLDERS

The adoption of a business model specifically focused on long-term relationships with customers and support for the territory is the basis of our corporate identity, ensuring positive returns in terms of recognition and perception of the Company's reputation, especially by public opinion and the Group's various stakeholders (shareholders, customers, employees, local communities, suppliers, authorities), with whom we maintain clear, correct and mutually respectful relationships. The promotion and dissemination of business values go through direct, comprehensive and transparent communication mechanisms, aimed at maintaining an attitude of constant and constructive dialogue with stakeholders, in a logic of sharing corporate objectives and policies and involving the members in corporate life.

PERSONNEL

The Group pursues policies of careful selection and management of human resources, sharing principles and behaviours inspired by professionalism, transparency, honesty, fairness and attention to the customer, to prevent risks, mainly of a legal and reputational nature, which could derive from improper behaviour that does not comply with the corporate spirit or current regulations, including discriminatory behaviour. Particular attention is also paid to the growth and enhancement of staff, through constant training and professional development, with the aim, among other things, of promoting a widespread culture of risk prevention and mitigation. The Group protects the health of its customers and employees in full compliance with the provisions on health and safety at work, making all staff aware of the risks involved and the adoption of responsible behaviour, as well as preparing appropriate prevention measures, including the stipulation of appropriate insurance.

ENVIRONMENT

The Group has a marked sensitivity to the issues of environmental and territorial protection, paying attention to the prevention of related risks, particularly fines and reputational risk resulting from a failure to comply with the rules in this area or being involved, even indirectly, in environmental crimes.

ECONOMIC SUPPORT TO THE COMMUNITY

LINK WITH THE TERRITORY

Banca Popolare di Sondrio has always been committed to fostering the economic and social development of local communities and the areas where it has chosen to open a branch, with particular attention to households and SMEs.

At 31/12/2017 loans to customers amounted to 25,756 million, +1.75% on the previous year. This figure highlights the scale of the financial support provided to households and businesses. Among other things, we have supported numerous eco-compatible economic initiatives by making loans intended to spread further the use of renewable energy and implement rural development plans. The same is true for the support provided for property renovations, which seek to save energy and, of course, upgrade.

In terms of funding, customers were given all necessary support, including expert advice, when choosing between the various investments. This reflects our absolute transparency and respect for the propensity to accept risk of each person.

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

Direct deposits amount to 31,634 million at the end of 2017, +2.26%. This confirms the validity of our commercial proposals and, above all, the trust placed in the bank as a result of the concrete efforts made to safeguard savings.

Entities and institutions are among the principal recipients of our specialist services. Our offer – delivered through dedicated desks, traditional branches and, more and more frequently, electronic tools – is designed for both local entities and the numerous other institutions, with which we have cooperated for some time. Without focusing on any particular segment, we provide services to small municipalities and to regional and national entities, as well as to local associations and to major non-profit organisations with an international outlook. Laying down roots in each location is not a passing fad, but a deliberate decision to strengthen our ethos and build our organisational structure. In brief: we are a bank for the territory, in the territory.

In this role, we are called to the difficult task of supporting the productive and commercial world from a financial point of view, under penalty of losing competitiveness in these areas.

As often recognised by counterparties, this action is also done with enthusiasm and prudence, even in these difficult times when others succumb to the temptation to reduce exposures, carefully selecting counterparties through an assessment of the personal and entrepreneurial qualities of borrowers, an examination of the sustainability and profitability of the projects, bearing in mind the indications provided by the internal rating systems and the available data, as well as a review of the organisational and financial structure of the companies.

In particular, we focus on financing local economies: the first to benefit from this is Valtellina, which has a structurally sound economy and, in turn, has a positive influence on the quality of the credit granted.

For this availability to lend at a higher rhythm than the system, we try to achieve a more accurate remuneration of the risk. The objective is to apply conditions that effectively take into account the risk profile of the counterparty, i.e. to cover not only the expected loss, but also the cost of capital absorbed.

RELATIONSHIP WITH THE COMMUNITY

Introduction

The commitment to cultural promotion of Banca Popolare di Sondrio has always been based on listening to the territory where it has its «feet, heart and head» with the aim of enhancing the multiple naturalistic aspects and resources available to the creativity of human work. Consequently, the life and culture of a borderland, such as the province of Sondrio, found congenial, concrete manifestation in a renewed «cultural circulation» carried out by the Bank, which draws its energies – financial or otherwise – from the land of origin to foster the dialogue with these communities, which has never been interrupted.

«Notiziario», the magazine of Banca Popolare di Sondrio

The cultural activity of the Bank finds a significant example of continuity and consistency in the publication that is probably its flagship: Notiziario (www.popso.it/notiziario), which in December 2017 reached a total of 135 issues. With four-monthly regularity and uninterrupted fidelity to the original image and spirit, the magazine marks the life of the Institute since 1973, but represents much more than just a house organ. The proof lies in its distribution, which goes beyond national borders, and in its numerous readers, who do not fail to appreciate the authoritative texts – whose contents range from economy to culture, from current events to history, from literature to health – and the fabulous illustrations. Constant collaboration on the part of prestigious signatures of Italian journalism and freelance writers make BPS's Notiziario a quality magazine, which represents a small but significant observatory of current society and its transformations. But at the same time, it is also the mirror of the economic-social reality of the province of Sondrio – where the Bank was founded in 1871 and has developed – as well as the situation inside and outside Italy. All of the issues of the magazine published since April 1999 are available online at «http://nonsolobanca.popso.it/notiziario».

Publishing

This four-monthly magazine is accompanied by the consolidated and valuable publishing activity, which began in the early fifties of the last century, and consolidated in the following decades with outstanding publications and always aimed at disseminating topics related to the territory where the Bank was born and operates. Richness of issues, ease of use, creations of great visual impact, multiplicity of forms and contents are the aspects that make it possible to satisfy the interest of an ever increasing number of people, a way to make its presence felt and its closeness to shareholders and customers. A proximity, among other things, which is renewed every year during the Shareholders' Meeting, at which the shareholders present receive a publication made specially for the occasion. Numerous publications have become real points of reference in every bibliography as regards history, economy, art, landscape and the natural and human environment of the province of Sondrio.

Conferences and conventions

In a context that, for geographic and environmental reasons, has inherent difficulties in spreading culture, the Bank also plays a fundamental role as an intermediary, not so much in favour of the culture of the territory, but circulation of culture in the territory with the realization of top-level conferences and conventions (www.popso.it/conferenze). In almost 47 years, more than a hundred speakers, among the most authoritative politicians, economists, culture, journalists, and culture, sports and entertainment personalities, have held conferences at the table of the «Fabio Besta» Hall. Fabio Besta was a Valtellinese and the «father» of bookkeeping, to whom a specific publication has been dedicated. It is impossible to list them all, so we will indicate just a few of them, all of them well-known, so they need no introduction: Mikhail Gorbaciov, Giulio Andreotti, Leo Valiani, Giovanni Agnelli, Lamberto Cardia, Letizia Moratti, Roberto Ruozi, Angelo Sodano, Gianfranco Ravasi, Carlo Maria Martini, Ersilio Tonini, Tullio De Mauro, Francesco Sabatini, Umberto Veronesi, Rita Levi Montalcini, Giuseppe Lazzati, Sergio Romano, Claudio Magris, Pietro Citati, Giuseppe Pontiggia, Igor Man, Enzo Biagi, Indro Montanelli, Gianni Brera, Reinhold Messner, Nino Manfredi, Alberto Sordi, Pupi Avati, Ermanno Olmi. In 2017, Carlo Cottarelli, executive director of the «International Monetary Fund» – IMF, and Franco Anelli, rector of the Università Cattolica del Sacro Cuore in Milan, entertained a large audience during two interesting public meetings.

Meeting with the Nobel Prize for Literature

In the wake of this cultural proposal and in collaboration with the «Culture Commission» of the Municipality of Bormio, since 2009 the Bank has been organising meetings during the Christmas and New Year period – in the mountain setting of the Magnifica Terra – designed to benefit the public of residents and tourists in the Upper Valley. During these events, the personality and work of famous writers and poets awarded the coveted recognition are presented year after year – through an evocative «conference-show» conducted by an academic. On 29 December 2017, the initiative focused on the Russian author, Boris Pasternak, Nobel prize in 1957.

Celebration of the «World Savings Day»

Every year, Banca Popolare di Sondrio celebrates the World Savings Day, with an event for high school students of the province of Sondrio. The World Savings Day, which reached the 92nd edition, falls on 31 October of each year. An occasion during which one or more speakers – also based on their own personal experience – invite young people to think about the value inherent in «savings», which is a concept that enters into every sector of human and social activity. In 2017 the sports journalist Paolo Beltramo, together with Loris Calipari, manager of the «Fondazione Marco Simoncelli 58», entertained us – relating the adventurous life of the famous and unfortunate motorcyclist – on the meaning of «savings» in life, launching an incisive message to the large audience of young people present for the occasion.

«Luigi Credaro» Library

A wide-ranging and important initiative, in which many cultural activities are combined and integrated, was the creation of a public library, inaugurated in October 2007 in the presence of the then Minister of Education, Giuseppe Fioroni. Named after the illustrious Valtellinese Luigi Credaro (1860-1939), pedagogue, MP, senator and Minister of Public Education from 1910 to 1914, the library (www.popso.bibliotecacredaro.it) finds its raison d'être in the need and willingness to make available the huge and precious documentary and book heritage possessed by Banca Popolare di Sondrio thanks to a number of substantial donations by customers and shareholders and, above all, following the acquisition of an important collection of letters of the economist and sociologist Vilfredo Pareto (1996) and the archive-library of the Sondrio scholar Battista Leoni (2000).

The project to establish the library has found the support and patronage of local public bodies, which signed a special programme agreement for this initiative in December 2005.

The rooms housing the «Luigi Credaro» Library provide a cultural space that integrates with other libraries in the city and the province, seeking to broaden opportunities and boundaries by means of the targeted and careful use of new IT and digital technologies.

Now equipped with over 40,000 volumes, pamphlets and periodicals and about 25,000 handwritten papers, it initially developed its central core around the themes of the economy and the territory, in line with the nature of its owner, an economic and financial institution deeply rooted in the local reality, and with the intention of combining the contents of the «Fondo Vilfredo Pareto» and «Fondo Battista Leoni». It has since expanded the scope of interest to scientific and technical disciplines to meet the needs of a large number of readers – it is consulted about 10,000 times per year – made up mainly of university students.

The library therefore dedicates the most substantial and representative part of its collections to economic subjects, with particular attention to the sectors of interest for the provincial economy, the historical evolution of its characters and the transformations of the landscape and the territory. It extends its collections to academic manuals and essays for students of the faculties of engineering, architecture, mathematics, physics, chemistry, biology, medicine, nursing, etc.

In addition, through donations or loans, it handles the acquisition of bibliographic or private archival funds that fall into these categories, thereby symbolically enlarging the cooperative nature of the Bank and the role of its shareholders and customers. Significant examples are the «Fondo Credaro», which preserves part of the library and the private papers of Luigi and Bruno Credaro, the «Fondo Giulio Spini» and the «Fondo Salvatore Bonomo».

In other words, an ongoing interaction with the area where the bank acts as a «driving force» to promote the creation of social wealth, in the broadest sense of the term.

Lastly, it should be noted that this library is located in the former Palazzo Sertoli-Guicciardi, built in the 18th century.

Popsoarte

Another particular initiative enriches and widens the Bank's contribution to the knowledge of its own land of choice and Italian culture. In fact, the art website *www.popsoarte.it*, made its debut on the internet in 2004. It was created with the specific intent to make the Bank's art collection known to the general public, through a rigorous scientific catalogue. The collection grew over the years along with the Bank in more than fifty years of acquisitions and cultural patronage. In 2005, in the prestigious «e-Content Award Italy» prize, awarded ex aequo with the «Museo della Scienza di Firenze» in the category e-culture for the quality of its digital content and innovative communication creativity, Popsoarte distinguished itself for the ease of access to its content even by the motor and sensory disabled.

Its contents have been enriched to some 300 works and about ninety authors, all equipped with critique cards and a bibliography – periodically updated – and a rich glossary of artistic terms that supports the cards and allows easy reading and analysis. At the same time, Popsoarte also launched a section to present the most representative Valtellinese artists of the twentieth century, as a dutiful tribute to the land where Banca Popolare di Sondrio had its origin and today maintains its roots. This work also gave rise to the initiative to include the Bank's art collections in the financial statements in a series to present to the Annual General Meeting of the Shareholders who, thanks to a small exhibition of works shown from time to time, have a chance to come into direct contact with the artistic heritage of their bank.

Invitation to the Palace

Popsoarte combines with the «Invitation to the Palace» initiative, promoted at national level by the Italian Banking Association. On the first Saturday of October, the «Palaces» of the credit institutions welcome anyone to their offices who wants to know about the cultural and civil history of our country by visiting their head offices and the collections owned by them. In this sense, the visit to the «Palaces» of the banks, transformed for a day from places of the banking profession to «museum spaces» freely accessible to citizens and tourists, is meant to put a spotlight on an important heritage, «fruit» of the conscious commitment of the banking community.

Banca Popolare di Sondrio makes this possible thanks to the extraordinary opening of the head office and general management building located in the Valtellina capital, the premises of the «Luigi Credaro» library and those of the «Carlo Donegani» historical museum at the Stelvio Pass.

In fact, at the first two locations there are numerous valuable paintings (and sculptures) belonging to the collection that can also be viewed on the «www.popsoarte.it» website.

Pirovano Stelvio Spa

Although not one of the primary tasks of a credit institution, the inclusion of «Pirovano» in the Group – which took place in 1985 – forms part of its vocation as a territorial and cooperative bank. Its function is also to support the economic and social development of its components, enhancing its natural resources, on the one hand, and the creativity and entrepreneurial spirit of its business people, on the other. Faithful to the teachings of its founders, Giuseppe Pirovano and his wife Giuliana Boerchio who established it in the 1940s, the Ski School at the Stelvio Pass has become a real training ground for the human values of sport. Confirmation and certification of the achievement of these training objectives are represented by the «Memorandum of Understanding» signed in 2001 with the Ministry of Education, which also aims to promote training activities and information for entire classes of students of all levels, with the purpose of consolidating awareness of the important relationship between mankind and the natural environment.

The Bank also makes a continued effort to get people to rediscover, not just skiing, but also the Pass and its natural area, the Stelvio National Park, with a view to diversifying and, naturally, requalifying what it offers.

The merely «institutional» activities of a Ski School (courses for beginners and experts, as well as for small kids), are flanked, season after season, by others aimed at an increasingly demanding and varied public. «Pirovano» has thus become an irreplaceable point of reference for cycling events and motorcycle rallies at national and international level, appointments for fans of cars, vintage or otherwise, as well as a place for study and in-depth research, whether environmental, naturalistic, historical or sporting.

The Carlo Donegani Historical Museum

In 1998 – on the occasion of the eightieth anniversary of the end of the First World War, of which the Stelvio and its area was the western pillar – in the rooms adjacent to the Bank's seasonal window at the Stelvio Pass, a unique museum with free access was set up, named after the engineer from Brescia, Carlo Donegani (1775-1845), who was the brilliant designer of the Strada Imperiale dello Stelvio.

The most evocative section of the Museum is dedicated to the «Great War» (1915-18) and represents an ideal starting point for a visit to a much wider and more suggestive «museum»: the outdoor one, made up of a dense network of walkways, fortifications, trenches – as well as a spectacular restored gun embrasure, thanks to the active collaboration of the National Alpini Association – which still bear witness to the dramatic events that took place there. Another part of the Museum is dedicated to the memory of Engineer Donegani and collects a copy of the original technical and historical documentation taken from his road project.

The last part is dedicated to the events that have contributed to making the Stelvio Pass famous, events linked to snow sports, in particular summer skiing, cycling, mountaineering, motorcycling and motoring. On 30 September 2000, during a suggestive ceremony celebrated at the Stelvio Pass, the «twinning» took place between the «Carlo Donegani» Historical Museum and the important Kobarid/Caporetto Museum (Slovenia), one of the most important in Europe.

Internet website

The cultural commitment of Banca Popolare di Sondrio obviously found a congenial outlet by being disseminated through online communication. This is why the Bank has paid much attention to building its website (www.popso.it), being aware of the duty to put into circulation fragments of a story that «rewrites» itself continuously, to meet new needs and sensibilities.

On the website there is an interesting section on hiking trips, ski mountaineering and cycle touring, richly commented and illustrated, and focused, above all, on the territory of the valley, even if particular attention is also given to numerous destinations outside the province of Sondrio.

Sponsorship and donations

Five citizens from Sondrio – Carlo Bressan, Francesco Romegialli, Maffio Rossi, Pietro Meneghini and Francesco Villa, animated by the ideas and action of Luigi Luzzatti, great economist of the past, considered the father of Italian cooperative credit, promoted the establishment of our bank, originally called «Banca Mutua Popolare della Provincia di Sondrio», whose notarial deed of incorporation is dated 4 March 1871. A local credit institution was created, owned by the people to help the people.

Those years are far away, but the cooperative spirit of that time remains a milestone for us. It translates into attention to healthy businesses, the community and a wide variety of social needs, including those of a philanthropic nature.

Also in 2017, a difficult year, for the negative effects of the infamous long-standing crisis, now behind us, but which are slow and difficult to resolve (it will still take a long time to return to normality), Banca Popolare di Sondrio has made various kinds of donations for a variety of needs, taking the contingent situation, in any case, into account.

We have satisfied many requests sent by retirement homes, parishes – well-known as being important points of reference for the community – charitable, humanitarian and volunteer organisations, recreational clubs and religious entities; from schools of all levels; from cultural, artistic and musical associations; and so on.

Banca Popolare di Sondrio has allocated funds for artistic works that are worthy of restoration and conservation in a number of local towns.

Of the great deal that the Bank has done, we like to remember how we started charitable interventions to support situations of serious human hardship, with an eye, understandably, on the province of Sondrio, the land where we were born, we took the first steps and to which we feel we need to give priority.

Our many charitable initiatives include incentives to raise funds for important hospitals and organisations, customers and «friends» of the Bank, who among other things also carry out research in the medical, scientific and other fields.

The «Solidarity Current Account» is also active; this is a category of current account established by us a few years ago, through which in 2017 we donated funds to AISLA-Associazione Italiana Sclerosi Laterale Amiotrofica; to the Italian Branch of UNICEF; to AVIS-Associazione Volontari Italiani Sangue; to AIRC-Associazione Italiana Ricerca sul Cancro; and to ADMO-Associazione Donatori Midollo Osseo.

Donations*		**2017**	**2016**	**2015**
WELFARE ORGANISATIONS	€	77,080	36,200	51,050
HUMANITARIAN AND VOLUNTEER INSTITUTIONS	€	21,520	31,430	15,700
CULTURAL AND ARTISTIC ASSOCIATIONS	€	3,500	5,000	3,250
RECREATIONAL CLUBS	€	17,750	14,750	15,550
MUSICAL ASSOCIATIONS	€	1,100	2,400	1,200
SCHOOLS	€	32,000	25,600	3,600
PUBLIC ENTITIES	€	1,100	1,850	110,500
RELIGIOUS ENTITIES	€	9,800	6,150	34,400
TRADE ASSOCIATIONS	€	2,900	2,200	2,300
SUNDRY OTHER ASSOCIATIONS	€	8,500	5,150	19,630
	€	**175,250**	**130,730**	**257,180**

** the figure for donations also includes the amounts donated through the Solidarity Account.*

Sponsorships*		2017	2016	2015
Cultural and recreational associations	€	24,785	28,128	23,453
Trade Associations	€	12,669	11,263	26,343
Religious Schools and Associations	€	62,196	8,096	14,029
Sports and sundry other associations	€	301,332	458,516	103,637
	€	**400,982**	**506,003**	**167,462**

** The figures refer to Banca Popolare di Sondrio for the entire three-year period and to Banca Popolare di Sondrio (SUISSE) SA only for 2017 and 2016 .*

Providing financial support with a view to advertising the Bank is done by making contributions that are very small in value, in line with one of our precise and consolidated guidelines. So Banca Popolare di Sondrio primarily turns to all local and non-local organisations that promote small initiatives, but which attract an audience in their area of operations, which usually coincides to a large extent with customers and shareholders of Banca Popolare di Sondrio. The variety of these interventions is mainly oriented to sport, especially for young people. Not that we forget about schools, where we mainly get involved in extra-didactic activities. Finally, Banca Popolare di Sondrio does not fail to support the numerous cultural and recreational activities proposed by Associations and Entities operating in the territories that it serves. In particular, this kind of advertising allows us to express our closeness – also by joining in the fun – to people who are already our customers or who could become so.

RELATIONS WITH THE SUPPLY CHAIN

The supply chain is managed by selecting each supplier based on the ability to perform the required services over time.

We envisaged an on-going monitoring system of the performance produced through the Work Flow procedure (invoicing). For the same services offered, the «supplier-customer» option constitutes a preferential title for an appointment to supply goods or services. Pursuant to art. 26 of the Security Law, the presence of disqualification and suspension measures against the contractor constitutes a reason for exclusion from an appointment to supply goods or services.

Failure to comply with the Code of Ethics (pursuant to Legislative Decree 231/2001) on the part of the supplier constitutes a valid prerequisite for the interruption of the collaboration/working relationship. Only the provision of some services related to fundamental activities is governed by safeguard contracts, which include back-up of the services rendered, business continuity procedures and disaster recovery scenarios. Suppliers of certain services such as: supports, procedures and IT services, cash handling, important corporate control and operational functions must be authorised in advance by the Bank of Italy in accordance with the Prudential Supervision provisions issued by the Central Bank.

GRI Standard 204-1: Percentage of expenditure concentrated on local suppliers

The Local Perimeter is defined differently for the various Group companies. For Banca Popolare di Sondrio, local means the Lombardy Region. For Pirovano Stelvio S.p.A., local means the Province of Sondrio and Trento-Bolzano. For Factorit S.p.A., local means Milan and Metropolitan City of Milan. For Banca Popolare di Sondrio (SUISSE) SA, local means the whole of Switzerland. We do not think that BNT will contribute significantly to the Group's annual turnover during the latter part of 2017.

Local suppliers	Unit of measurement	2017	2016	2015
Spending on procurement	€	230,477,669	235,995,435	234,012,131
of which to local suppliers	€	159,748,265	161,432,054	161,021,837
% of total	%	69. 3%	68.4%	68.8%

The ratio between the amount billed by local suppliers and general supplies is almost constant every year.

CREDIT ACCESS

The Bank's financing activities pay particular attention to the disbursement of loans to the weaker categories of customers, trying to assist them with specially designed products. In particular, solutions to finance studies are dedicated to young people, often promoted in collaboration with universities or local authorities. The life-long mortgage loan (PIV), on the other hand, was designed to provide senior citizens with a form of financing that would allow them to supplement their income, improve their living standards and meet their liquidity needs by cashing in on the value of their property assets.

FINANCING FOR SOCIAL PURPOSES		
LOANS TO STUDENTS OF THE UNIVERSITY OF PARMA TO PARTICIPATE IN THE MASTER IN ENGINEERING MANAGEMENT (MEM)	Progressive CTV (€)	195,000
LOANS TO STUDENTS FOR IULM MASTER	Progressive CTV (€)	108,486
SHORT TERM PERSONAL LOAN FOR STUDENTS ENROLLED IN THE FIRST YEAR DEGREE COURSE - IULM	Progressive CTV (€)	83,989
LOAN TO STUDENTS AS A GRADUATION PRIZE	Progressive CTV (€)	36,395
LOANS TO STUDENTS OF BRESCIA UNIVERSITY FOR SHORT DEGREE COURSES	Progressive CTV (€)	15,090
LOANS TO STUDENTS OF BRESCIA UNIVERSITY FOR OTHER DEGREE OR SPECIALISATION COURSES	Progressive CTV (€)	113,593
LOANS TO STUDENTS OF THE ALTA VALTELLINA MOUNTAIN COMMUNITY	Progressive CTV (€)	110,500
Online funding for young members of INARCASSA	Amount (mn €)	0.39
Online funding for young members of CASSA FORENSE (on sale from 2017)	Amount (mn €)	3.21
Life-long mortgage loan: this is a medium-long term loan, backed by a first degree mortgage on a residential building, reserved for people over the age of 65. It frees up cash for senior citizens to cover various financial needs: to renovate the home, supplement income, improve living standards, financially support children or pay off other debts (**on sale from OCTOBER 2016**).	Amount (mn €)	6.68

Percentage of products dedicated to the weaker members of the community (e.g. young or elderly people)

COMPARISON OF ALL RELATIONSHIPS	2017	2016	2015
Active +MA cards	37,005	31,306	28,110
Active Ateneo+ cards	91,488	67,760	45,679
Current accounts (individuals)	360,994	353,251	345,879
Savings deposit books (individuals)	53,373	48,335	44,520
Total relationships	**542,860**	**500,652**	**464,188**

RELATIONSHIPS WITH WEAKER MEMBERS OF THE COMMUNITY	2017	2016	2015
Active +MA cards <25 years old	14,839	11,926	9,291
Active Ateneo+ cards	91,488	67,760	45,679
Current accounts (individuals)	8,730	3,478	781
Savings deposit books (individuals)	12,781	10,907	8,951
Total relationships	**127,838**	**94,071**	**64,702**
Percentage comparison	**23.55%**	**18.79%**	**13.94%**

Production of electricity from renewable sources

The loan disbursements has begun in 2015 on the basis of progress reports on agricultural bio-energy initiatives were completed in 2016.

In the hydroelectric sector, we financed a new initiative in 2017 and two other deals that are currently being agreed will be disbursed in the first few months of 2018.

One aspect in this sector that is worth pointing out is the refinancing of «medium-large size» plants already started up some years ago (with assignment of the GSE tariff).

Photovoltaics

With the closure in July 2013 of the incentives (the so-called «all-inclusive tariff»), «photovoltaics» in its original conception (medium-large plants that produced «guaranteed» flows thanks to the «benevolent» incentive tariffs) came to an end. The focus now is on small plants linked to the refurbishment of buildings facilitated by a tax credit (50% or 65% of the investment depending on the interventions but no longer «favoured» by incentive tariffs) which, as a rule, involve loans of a modest amount granted to consumer households (usually counted as personal loans).

In addition to small interventions by private individuals, which as we said are normally «counted» as personal loans, in 2016 we recorded a deal to finance a «change of ownership» of a medium-sized photovoltaic system, which had already been the beneficiary of generous tariffs for a number of years.

PV Park – Berbenno Service Centre

The photovoltaic plant installed at the Service Centre of Banca Popolare di Sondrio in Berbenno di Valtellina – Località Ranee 511, operates under the On-the-spot Exchange regime of the IV Conto Energia, having entered production in March 2011.

The structure consists of 31 panels fixed to the ground, facing south with an inclination of 30°, each one composed of 24 modules of the SCHEUTEN MULTISOL P6-66 260W type, for a total installed power of 193.44 kW.

The system is linked to the grid through three 3-phase solar inverters with a maximum power of 116 Kwp.

The construction works for the field were totally self-financed by the Bank for an amount close to 965,000 € including tax charges.

Average energy production, which is totally self-consumed by our Service Centre, is around 240,000 Kwh of electricity, for a value of about 55,000 € per year, while the average annual incentive paid by GSE under the IV Conto Energia is around 80,000 € per year (0.334 €/KWhe).

So, if the energy production achieved during the first six years of operation is confirmed in the coming periods, the system will probably break even before the end of 2019.

Last but not least, the emissions of climate-altering gases avoided in the atmosphere, thanks to self-production and consumption on site, come to around 75 tons of CO_2 equivalent per year.

Social

The only outstanding government measure (extended until 31 July 2018) for the suspension of repayment of loans to households in difficulty is that ensured by the Solidarity fund for the suspension of loan instalments for the purchase of first homes.

Agreed interventions over the last three years have been decreasing, but more because of the rigidity of the law than because of any real economic improvement in the situation concerned.

Under to the various decrees currently in force, there were suspensions (for 12 months) of the entire instalment (principal and interest) on loans granted to persons enrolled in the Assistance Funds and resident in the areas hit by the calamitous events of the last two years (essentially earthquakes).

Together with the other main banks in the area, BPS participated in the extension for the whole of 2016 and 2017 of the Memorandum of Understanding (signed by the ABI Regional Commission of the Lombardy Region and the trade union and employers' organisations) called «Social Advance» to support workers of the Lombardy Region laid off and paid redundancy payments (CIGS/ CIGD) at zero hours and reduced hours.

Considering the social purpose of the initiative, the interest rate was reduced to zero and no commission or other charge is payable by the applicant.

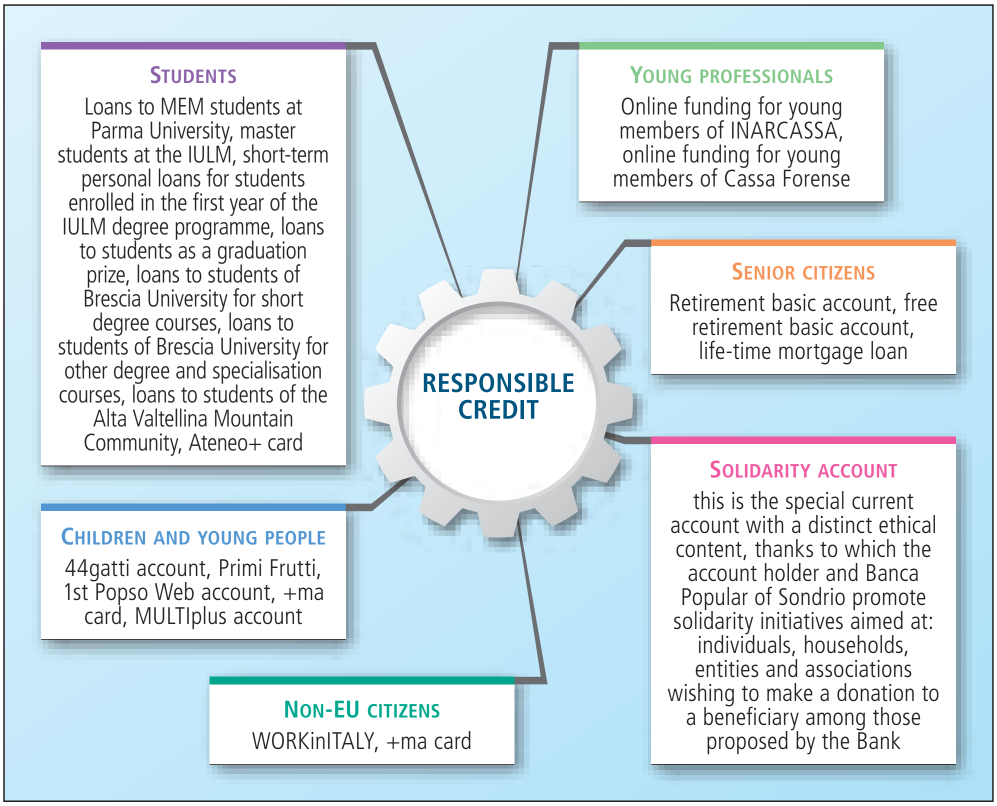
Various Social Advances were paid out in 2016.

No payments of this type were made in 2017, a sign that the initiative had lost interest, partly as a result of a better labour market and an easing of the crisis, to the extent that the Lombardy Region has not extended the convention to 2018.

Moratorium for SMEs

In the last three years, companies have been able to benefit from the ABI Moratorium for SMEs (it was extended to 31 July 2018), which allows companies to keep cash on hold, thanks to the suspension of principal repayments on outstanding loans and/or an extension to the residual duration of loans being amortised.

RESPONSIBLE CREDIT



Solidarity account:

Since 1996, Banca Popolare di Sondrio has given its customers the chance to open an account with an ethical background, as evidence of BPS's vocation for solidarity.

In particular, through the Solidarity Current Account, the bank undertakes to donate to charity each year a sum based on the average annual amounts deposited on these accounts.

It was designed for individuals, families, entities and associations wanting to make a donation to one of the beneficiaries proposed by the Bank: UNICEF, Associazione Italiana per la Ricerca sul Cancro (AIRC), Associazione Volontari Italiani del Sangue (AVIS), Associazione Donatori Midollo Osseo (ADMO) and Associazione Italiana Sclerosi Laterale Amiotrofica (AISLA).

The Solidarity Current Account can be requested at any branch of Banca Popolare di Sondrio: the objective is to increase the donations to important charitable institutions.

Association	2017	2016	2015
A.I.R.C.	21,810	25,750	18,500
UNICEF	11,760	16,120	12,700
AVIS	3,080	3,670	1,800
ADMO	4,190	7,850	4,900
AISLA	3,760	4,760	2,100
Total	**46,617**	**60,166**	**40,000**

OFFER OF RESPONSIBLE PRODUCTS

Banca Popolare di Sondrio holds an investment in the share capital of Etica SGR (9.87%). The management and coordination of the SGR are entrusted to Banca Popolare Etica (51.47%). The peculiarity of Etica lies in the fact that it is the only Italian SGR to establish, promote and manage exclusively socially responsible mutual funds, which combine financial analysis with an environmental, social and governance assessment. Following these principles, Etica Sgr has developed a security selection process aimed initially at excluding governments and companies involved in controversial activities. Then it identifies the most virtuous experiences based on an analysis of the social, environmental and governance aspects of the issuers. To date, the range on offer consists of the following 5 mutual funds:

- *Etica Azionario*
- *Etica Bilanciato*
- *Etica Rendita Bilanciata*
- *Etica Obbligazionario Misto*
- *Etica Obbligazionario Breve Termine*

Another typical feature of Etica is its active shareholder base, which is achieved through the SGR's participation in the shareholders' meetings of the companies in which the funds of the Responsible Values System are invested by voting and intervening in a manner consistent with the Active Ownership Guidelines.

Lastly, Etica promotes micro-finance projects: whoever subscribes to the Etica SGR's Responsible Values funds can choose to devolve 0.1% of the subscribed capital (1 euro every thousand) to a fund managed by Banca Popolare Etica that guarantees micro-finance projects in Italy and which supports crowdfunding initiatives with a high social and environmental impact, again in Italy.

In collaboration with Etica SGR, 10 days of training and in-depth study of the funds promoted by Etica SGR (1 per month excluding August and December) are set aside each year for 40 participants.

Etica SGR and Banca Popolare di Sondrio offer – also through SCRIGNOInternet Banking – the chance to invest in government bonds and companies that are committed to respecting the environment and human rights by subscribing to the Responsible Values Funds. The securities selected for the Responsible Values Funds are chosen according to social and environmental criteria, not only on the basis of financial valuations.

	2017	2016	2015
Assets on deposit (mn €)	351	313	211
Number BPS customers subscribers of Etica SGR funds	10,113	8,699	6,274

COLLABORATION WITH INSTITUTIONS

As defined in the Code of Ethics, relations with the Public Administration, public entities, supervisory and control authorities, trade unions and public bodies in general are managed with the utmost correctness, impartiality and independence, as well as with adequate transparency and integrity, giving them all the cooperation they might need.

Entities and the Public Administration make use of the Bank's assistance through its high quality **treasury and cashier services**, which are accompanied by an offer addressed to their employees.

With regard to such entities, it is forbidden to conceal information or provide false documentation or evidence of things that are not true, to prevent or hinder the performance of controls or inspections, also for those that the law grants powers of verification and control (shareholders, Statutory Auditors, Internal Auditors, Independent Auditors, Supervisory Body).

If the Bank uses consultants or, in any case, persons outside the Bank as representatives in relations with the Public Administration or with concessionaires of public services, such third parties must accept the rules of the Code of Ethics.

Relations with the Trade Unions and Political Organisations are conducted with the utmost transparency, respecting the roles and prerogatives of each individual, in a climate of mutual respect and willingness to discuss and participate, guaranteeing the widest possible freedom and representation. Any conduct that limits or could potentially limit trade unions' freedom of association is banned.

In principle and without prejudice to compliance with current regulations, the Bank does not finance or give contributions to political parties, whether in Italy or abroad, nor to their representatives or candidates.

With regard to activities with foreign counterparties, the Bank is very careful that they are developed correctly and in full compliance with the law. In particular for countries subject to restrictions, we:

– verify the lawful origin of funds by acquiring adequate documentation that excludes the involvement of financial institutions subject to restrictions;
– verify the commercial counterparties involved to ascertain that they are not included on any embargo lists;
– verify in advance the codes of the goods involved in the transaction, to ascertain that they do not fall in the category of «dual use» goods, i.e. which could be used for both civil and military purposes, though, in fact, the due diligence on whether the goods can legally be exported on not is still up to the exporter.

Relations with the press and other means of mass communication are reserved for the competent central offices and/or expressly delegated persons, as well as to General Management.

Any request for news from the press or other media received by the Bank's staff must be communicated to the corporate functions responsible for external communication, before making any commitment to answer the request.

Communication with the outside world follows the guiding principles of truth, correctness, transparency and prudence and is designed to foster knowledge of the Bank's policies, programmes and projects. Relations with the media are based on compliance with the law, the Code of Ethics, the related protocols and the principles already outlined with reference to relations with public institutions, with the objective of protecting the Bank's image.

ATTENTION TO THE CUSTOMER

One of the values to which the Bank aspires is attention to its customers, who «must not constitute a certain and immediate source of income on the basis of their net worth, but on whom the Bank is willing to invest in order to secure a long-term relationship of mutual satisfaction.

This is a guideline and a value that allows us to consolidate our relationships with customers and maintain them over time, especially with those who are less experienced in financial matters, who tend to be apprehensive about banking issues» (page «Our Values» on the website www.popso.it). One of the Bank's main competitive strategies is to satisfy the needs of the customer, considered not as a mere number, as happens in many other situations, but as a unique element with whom to establish a personal relationship and to formulate proposals suited to their needs and not to the segment that they belong to.

As mentioned in the section on «Our Values» on the Bank's website, our staff «have a distinctive style, shared by all, in which courtesy, willingness to help and professionalism are at the service of all our customers, whoever they are and whatever they need.»

The Bank's main customers are households, small and medium-sized enterprises and institutions.

Any conflicts of interest essentially concern the provision of investment services, in which the Bank provides the necessary information and applies the appropriate management procedures, especially with reference to the placement of financial instruments issued by it. The annual report that the Compliance function draws up pursuant to article 16 of the Bank of Italy-Consob Joint Regulation declares that the Bank has suitable procedures to ensure effective and correct management of conflicts of interest in the field of investment services. These procedures and measures are indicated in the MiFID information document published on the company website and available at the branches via intranet.

More generally, the function believes that the Bank operates in compliance with the risk profiles and commercial needs of customers. It is important to underline that the staff does not receive any incentive in connection with the placement or intermediation of products and services, which makes it possible to limit considerably any non-compliance risks with customers and potential conflicts of interest.

FS6: Breakdown of the portfolio by business lines by region, size and sector:

* *Consistent with other sector information, the location refers to the branch of the customer*

** *the subdivision among individual customers, entities and institutions is done on the basis of the CIC, while the type of company is based on turnover*

Territorial distribution of the portfolio	Unit of measurement	2017	2016
North	%	70.28%	68.70%
Centre	%	19.42%	19.87%
Switzerland	%	10.30%	11.43%
		100%	**100%**

Distribution of the portfolio by size and type of customers	Unit of measurement	2017	2016
Micro businesses	%	15.00%	15.20%
SMEs	%	19.99%	19.63%
Large Enterprises	%	8.74%	7.32%
Individuals	%	33.54%	33.97%
Entities and institutions	%	22.73%	23.88%
		100%	**100%**

Shareholders

Banca Popolare di Sondrio devotes particular attention to the relationship with its shareholders, who are often also customers, in order to maintain a strong link with the shareholder body, even as it develops outside the more traditional areas where the Bank has opened branches.

Enhancement of the shareholder/customer combination, in addition to increasing the loyalty of important customer segments, allows most of the shareholders to make use of the services offered by their Bank. The functions devoted to relations with the shareholders are carried out by the Secretariat and General Affairs Office and by the Shareholders' Office, under the supervision of General Management.

The Bank's website (www.popso.it) contains a specific section dedicated to corporate information, in which important news items are made available to the shareholders.

The Administration dedicates time and resources to encouraging the widest possible participation on the part of shareholders in company life, particular in the Annual General Meeting, a family gathering, a moment to consolidate the relationship with the Bank and to find out how the Bank is getting on (which is also communicated twice a year by letter to all shareholders and friends). The shareholders who attended the annual meeting held on Saturday 29 April 2017 at the «Pentagono» in Bormio, were presented with a book entitled «Food, History and Recipes», by the Valtellina writer Massimo Mandelli. It is a journey through the typical products of Valtellina and Valchiavenna, where the reader is accompanied to discover the relationship between the culinary environment and the inhabitants over the centuries. Another «surprise» for the shareholders was prepared in the spaces in front of the Pentagono, where an exhibition called «Seasons» by Paolo Punzo, a popular painter from Bergamo (1906-1979), was set up in an elegant hall. Note that from 1871 to the present day, the Bank has always distributed dividends to its shareholders.

Complaints

According to the area to which they refer, complaints are managed as follows:

- banking and insurance services, entrusted to the Complaints Office which is part of the Legal and Claims Department; the structure itself also handles complaints for which customers have filed an appeal with the Financial and Banking Arbitrator (FBA) regarding banking services or IVASS with regard to insurance services;
- investment services, entrusted to the Compliance Function, which makes use of collaboration from Internal Audit for the preliminary investigation and evaluation. This also in relation to possible customer appeals addressed to the Financial Disputes Arbitrator (FDA).

Complaints by customers and the Bank's reply can be sent by both ordinary mail and e-mail. Complaints are handled free of charge. The ways in which customers can submit complaints to the Bank, the FBA, the FDA and IVASS are available on the institutional website, in the «Transparency» section. Complaints are examined and answered, if possible, on the same day that they arrive or a few days later and, in any case, before the legal deadline of thirty days from receipt of the complaint. The trend of complaints received by the Bank is subject to communication to the corporate bodies and Supervisory Authorities through periodic regulatory reports.

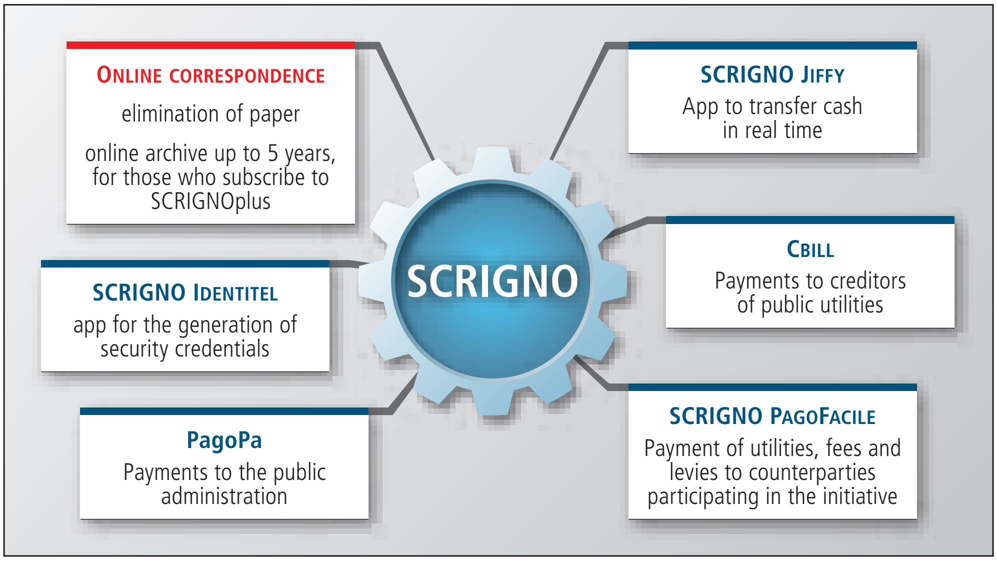
Banca Popolare di Sondrio (SUISSE) SA handles complaints in the same way as the Parent Company; complaints are received centrally at the Front Office, whereas it is up to Risk Management, an independent unit that reports directly to General Manager, to register the complaints, monitor the situation and verify that they are resolved, preventing the emergence of a possible conflict of interest.

There have been no reports of non-compliance with regulations or voluntary codes of conduct regarding the information and labelling of products or services, nor related to marketing activities (including advertising, promotion and sponsorship).

INNOVATION IN TRADITION

The digital revolution that is affecting the banking sector represents a new way of living the bank, but a bank that does not forget its founding values and tradition. The first home-banking product created by our institute in 1997 was **Scrigno Internet Banking**, a service offered free of charge, simple to use (translated into English, French and German), guaranteed by a solid security system (it obtained certification of the Security Management System according to ISO27001) and is accessible to people with reduced or impeded motor and sensory capacities through technological aids (such as special screens and vocal synthesizers). The availability of a wide range of banking services, both for getting information and giving instructions, allows a high degree of financial inclusion by eliminating the need to access the bank physically during opening hours.

The Bank was one of the first companies to believe in the MyBank initiative, the European payment service based on current accounts that



allows online purchases of goods and services through the Internet Banking service from suppliers affiliated with this circuit, recognizable through the brand name. This initiative aims at spreading among customers a simple payment method to access the vast e-commerce market thanks to the familiarity with and security of the Internet banking tool.

Another innovation introduced by our institute was the electronic signature that allows to sign digital banking documents by eliminating the use of paper. All this is done by means of a Graphometric Signature, which is done by using an electronic device, the signature pad, with a manual gesture the same as a handwritten signature on paper and which has the technical, IT and legal requirements needed to qualify as an «advanced electronic signature» in terms of the law. These requirements are contained in Legislative Decree no. 82/2005 (Digital Administration Code) and in the DCPM – Decr. Pres. Cons. Min. of 22.2.2013.

The innovation also involved Banca Popolare di Sondrio (SUISSE) SA, which revised its e-banking platform for better use on mobile devices and introduced credit cards with an e-wallet function (Apple Pay/Samsung Pay).

With regard to internal processes, the main changes concerned:

- development of a platform for digital and centralized management of credit agreements and related flows and controls;
- development of a platform for automatic management of compliance requirements in the field of stock exchange orders;
- introduction of Interactive Voice Response (IVR) at the Call Centre to improve the direction of flows;
- development of Direct Banking.

AUTONOMY AND INTEGRITY IN COMPANY CONDUCT

FAIRNESS AND TRANSPARENCY

Over the years, Banca Popolare di Sondrio has acquired and consolidated an excellent reputation, both nationally and internationally, as a bank characterised by sound and prudent management, which conducts business in compliance with the ethical principles of fairness, transparency, integrity and professionalism, as well as the rules of conduct set by art. 21 of the Consolidated Law on financial intermediation (Legislative Decree 58/1998).

The Bank's corporate and business objectives are pursued by all those operating within it with loyalty, seriousness, honesty, competence and transparency, in full compliance with the laws and regulations currently in force. These are the ethical principles to which the Bank aspires, in the context of its more than 100 year mission as a cooperative bank, and from which derive its models of conduct, in order to compete effectively and fairly in the market, to satisfy the expectations of the communities of the territories in which it operates, to improve customer satisfaction, increase shareholder value and develop the skills and professional growth of its human resources. The creation and dissemination of business values cannot be separated from real respect for fundamental principles such as professional correctness, personal integrity, effective protection of health and safety in the workplace, as well as transparent competition on the market by all those who work there. In this regard, the Code of Ethics, adopted by both Banca Popolare di Sondrio and Factorit, obliges all third parties with which the Bank has relations to avoid behaviour that could compromise the integrity and reputation of the parties or such as to be interpreted as aimed at obtaining improper advantages. No member of staff can accept benefits in kind connected with business relations, if not after the approval of the Supervisory Body, as this would be interpreted as corruption.

The Bank has therefore prepared a structured and organic system (organisation, management and control model pursuant to Legislative Decree 231/2001) for prevention, deterrence and control, aimed at developing awareness of they may be committing a crime in persons directly or indirectly involved in sensitive activities in terms of corruption. Thanks to constant monitoring of activities, the Bank has set itself the task of preventing or reacting promptly to prevent the commission of this type of crime. A Supervisory Body has been set up with the task of monitoring the functioning and observance of the model and to ensure that it is updated.

Banca Popolare di Sondrio (SUISSE) SA does not have any particular risk of corruption deriving from business activities, as it is subject to strict supervision by the Swiss Supervisory Authority. However, the Bank has identified potential areas of risk of internal fraud and has implemented suitable prevention measures to ensure effective internal control. The internal regulatory apparatus, the separation of duties, inclusion in the relevant operational flows according to the «four-eyes» principle, the establishment of first level formal controls as well as the presence of independent units responsible for second level controls (Risk Control Office and Compliance Office) and third level (Internal Audit) ensure that operations are in compliance with regulatory standards in all respects.

The organisational models set up at the Parent Company and at Factorit to prevent corruption, among other things, explicitly provide that the organisation provides information and training for all members of staff who need to apply the Code. Information is transmitted by means of circulars and the publication of internal regulations. The training is developed through classroom courses and compulsory courses accessible via the multimedia platform.

The Bodies of Banca Popolare di Sondrio (SUISSE) SA and the independent control functions are aware of this risk.

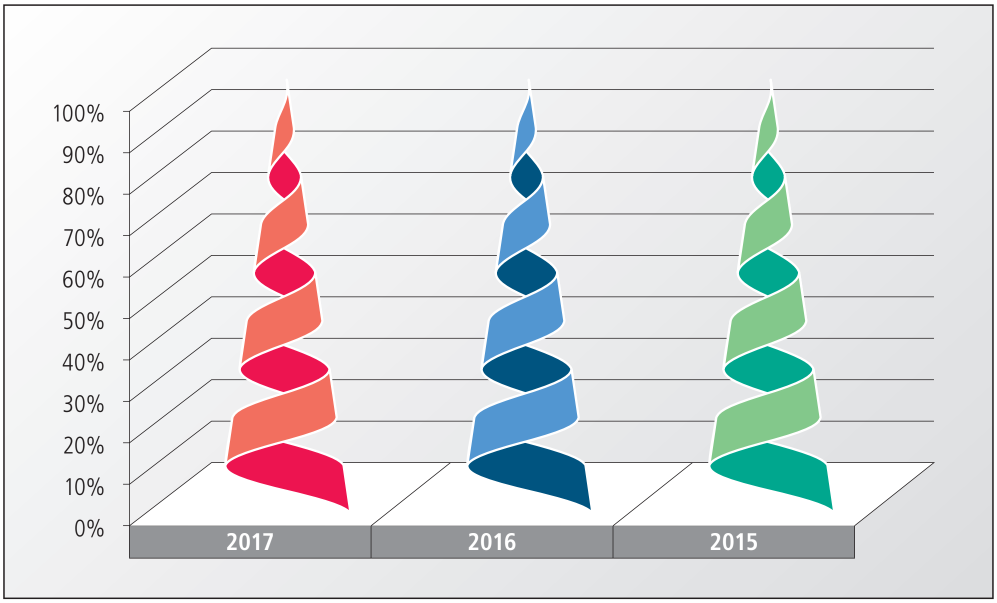
However, the laws in force do not require that the latter carries out specific training on anti-corruption policies or procedures. The situation in Switzerland does not currently represent a material risk, to the extent that in international statistics on corruption, the Swiss Confederation ranks as one of the least corrupt countries of all. The Supervisory Authority requires the Bank to provide adequate training on Compliance, Anti-Money Laundering and Rules of Conduct in the market, which takes place regularly.

No cases of corruption have been found in any of the Group companies.

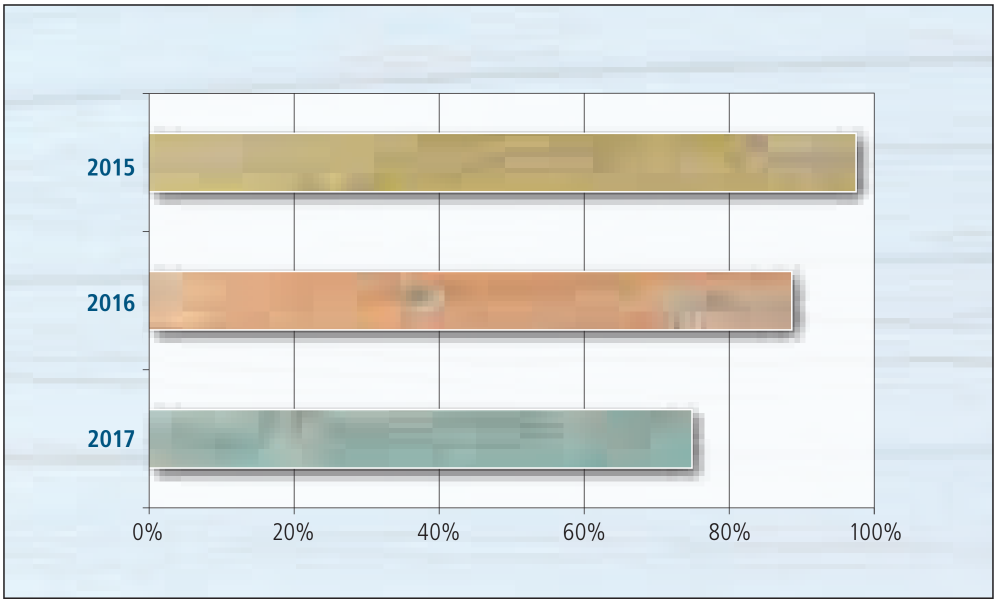
All members of the governing bodies and the business partners have been informed about the anti-corruption policies and procedures adopted. In addition to the specific issues of corruption envisaged under the organisational model as per Law 231/2001, staff training includes anti-money laundering and the fight against terrorism, which are also considered for the purposes of the Non-Financial Report.

The multimedia platform contains training modules that reach all staff and two information modules for new recruits (issued every six months) dedicated specifically to these important issues.

GRI Standard 205-2: Communication and training related to anti-corruption policies and procedures



Percentage of members of the governing bodies who have benefited from anti-corruption training in the three-year period.



Total percentage of employees who have benefited from anti-corruption training.

PRIVACY AND DATA PROTECTION

Protection of the confidentiality and integrity of customer and employee data is ensured by specific operating functions which handle the operational and regulatory aspects, cooperating with internal and external resources. Information is a fundamental asset for the Bank and is therefore protected by various levels of security depending on their value and the risks related to their treatment (known as «risk-based security»).

The Human Resources department has activated a number of multimedia courses for employees on the following topics:

- Privacy code;
- Security of personal data within the Bank;
- Protection of privacy in the promotion and sale of products and services within the Bank;
- Management of employee data within the Bank.

Since 2006, Banca Popolare di Sondrio has an information security management system that is certified ISO27000.

In addition to specific industry standards, this certification system includes, among other things, technologies, organisations and processes to oversee ICT (or «cyber») security.

In particular, to support application design and development with an emphasis on security, in 2016 the Bank introduced Security by Design and Risk-Based Security, as well as the concept of a Structural Framework for application security, which was systematically adopted by all active applications on the Bank's IT platforms; these basic concepts respond to business and compliance needs that comply, among other things, with the GDPR (General Data Protection Regulation), which is due to be adopted soon.

It is worth noting that this approach was particularly appreciated by the inspectors during the last certification audit, as they had the chance to thoroughly analyse the progress made and urged us to continue in this direction.

The certificate renewed last year can be viewed at the following internet address: http://www.popso.it/servizi-online/sicurezza/certificazione-sicurezza-iso27001

Banca Popolare di Sondrio (SUISSE) SA is also very careful and scrupulous in managing the question of privacy. Cyber security is under the responsibility of the Security Officer and managed through a Control Framework (annual, monthly and continuous checks). Any incident that takes place (whether IT or specifically a Security issue) must follow a well-defined notification process and the disclosure of confidential data is part of this domain. The process foresees the immediate involvement of the Security Officer, who handles escalation to the correct organisational levels, if needed. A summary of the incidents that have taken place is communicated regularly to management (through the Risk Committee and through a section in the monthly security report). On an annual basis, the entire Control Framework is reviewed by means of a security assessment addressed to General Management. This entire process is aligned with the FINMA regulations and checked regularly.

During 2017, Banca Popolare di Sondrio started a process aimed at guaranteeing the compliance with Regulation UE 679/2016 («GDPR»). On 18 May 2016, we organised a meeting entitled: «Privacy, the European Regulation and the new role of the Data Protection Officer», to explain the main changes introduced by this Regulation. The meeting was attended by the Deputy General Managers and by all Heads of Department, together with other colleagues who deal with the question of privacy in various ways.

As part of the process and with reference to article 30 of EU Regulation 679/2016, Banca Popolare di Sondrio has created a register of the data processing activities carried out both as Data Controller and as Data Processor.

The register was elaborated through a series of interviews involving all representatives of the Bank's Organisational Units. In addition to the information that is mandatory under the Regulation, supplementary information was collected, which allowed the connection with the main corporate «objects» (organisation chart and function chart; process map; application map; supplier portfolio), thus transforming the register from a mere regulatory obligation to a real «asset» of the company.

In light of the ever-increasing computerisation of banking processes, and in order to make the Data Processing Register a useful tool for the Company's privacy management system, the Bank decided to use the «Configuration Management Data Base» (CMDB) – a tool that can represent the various elements that characterise the Company's information system. This approach was mentioned as one of the best practices for the creation of a data treatment register in the «Guidelines for the implementation of the GDPR in banks» published by the Italian Banking Association in November.

From an organisational point of view, the Bank aims to:

i) identify, in the cases expressly provided for in art. 37, paragraph 1, of the GDPR, a «Data Protection Officer» (DPO);

ii) assign roles and responsibilities regarding data protection.

The DPO will be an important part of the new governance system in terms of personal data protection, having to act as an intermediary between the various stakeholders (supervisory authorities, interested parties and various business units) to guarantee compliance with the legislation. Considering the importance of a correct management of personal data, also in terms of security, the Bank will also set up appropriate safeguards for the protection of personal data, with the aim of coordinating the definition and updating of the Data Protection Model, as part of a structured General Data Personal Regulation.

No complaints related to the loss of customer data or violation of privacy were received.

ENHANCEMENT OF OUR HUMAN RESOURCES

CREATING VALUE THROUGH THE VALUE OF PEOPLE

The development and success of a service company like Banca Popolare di Sondrio cannot be separated from the quality of its personnel which, in relations with customers and in the offer of products and services, is a distinctive factor that is recognised and appreciated by the market.

Banca Popolare di Sondrio has always pursued organic growth based on the enhancement of human resources and the insertion of young people into the company, in the awareness of developing and strengthening internal cohesion. Attention is therefore particularly focused on the following main variables: measurement of professional needs, number of employees, recruitment, selection and insertion of new recruits, evaluation, training and rotation of internal resources.

Insertion of new recruits is an essential process for the organic growth plan. It takes place mainly at the branches and in compliance with defined learning objectives, in line with the Bank's development plan. The needs of professionalism are satisfied, on the one hand, with the insertion of new recruits, and on the other by means of staff rotation in different professional roles of increasing complexity; rotation that is supported by an intense training activity.

Consequently, an evaluation system has been introduced to support the development and professional improvement of each individual, to encourage their skill in interpreting organisational and behavioural models in the performance of their duties and roles. The system refers to two different types of assessments: performance assessment and the skills survey.

The performance assessment considers the way that people act in practice and measures the distance between the expectations for that role and the results achieved over a period of one year, in line with what is indicated in the current national labour contract and in agreement with the trade union representatives.

The skills survey aims to map the professional skills that exist within the Bank, to plan targeted actions for the management and development of personnel and to implement training plans. This survey concerns the acquired level of mastery of the processes in question and possession of the knowledge and skills needed for the role being played.

To further enhance the effectiveness of the instrument – at the same time encouraging the processes of empowering people, self-diagnosis and promoting self-development skills – the survey carried out by the heads of the operating units is accompanied by a self-assessment carried out by each employee; this also in order to acquire directly from the source employees' personal perception of their level of autonomy in the work that they perform and the technical knowledge that they have developed.

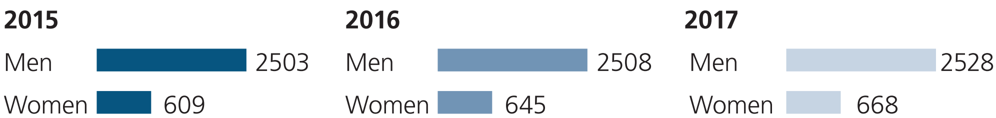
The performance assessment and the skills survey ends with an individual feedback interview by the employee's direct supervisor, during which they analyse the evidence emerged from the findings and discuss their expectations of professional growth, motivations, interests and aspirations.

The Bank complies with the regulations aimed at respecting the principle of non-discrimination in access to employment, training and professional promotion and in working conditions. The Code of Ethics confirms that the Bank undertakes to guarantee working conditions that respect the dignity of the person and that forms of discrimination contrary to the law are not admitted or tolerated. To this end, it requires that acts of psychological violence or attitudes or behaviour that discriminate or harm the person, their beliefs or preferences in internal or external work relationships are not allowed.

The Bank insists that there be no mobbing or harassment of any kind in internal or external work relationships; furthermore, the Bank will not adopt or tolerate any form of retaliation against employees who complain about discrimination or harassment, nor against other workers who report such situations.

GRI Standard 102-8: Information on the staff

Total employees by gender: the number of employees is constantly increasing, in contrast to the sector. Female members of staff are showing a more rapid growth trend, favoured by new hires and by the fact that resignations are mainly of men.



Total employees by job category: organic growth involves the recruitment of mainly high school leavers or recent graduates with little or no work experience. The growth trend in female employees is higher.

Category	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Managers	0	38	38	0	37	37	0	32	32
Middle managers	72	668	740	64	655	719	59	645	704
Office workers	596	1,822	2,418	581	1,816	2,397	550	1,826	2,376

Total employees by age: the policy focused on high school leavers and recent graduates means that the highest increase in personnel is in the under 29 category.

Age	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
<= 29 years old	126	280	406	125	311	436	93	254	347
30 – 50 years old	437	1,693	2,130	428	1,685	2,113	428	1,703	2,131
>= 51 years old	105	555	660	92	512	604	89	545	634

Breakdown by contract type: the Group's growth in size favours the inclusion of employees with permanent contracts.
The use of fixed-term contracts is limited to impromptu situations.

Type of contract	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Total number of permanent contracts	651	2,490	3,141	628	2,483	3,111	598	2,480	3,078
Total number of fixed-term or temporary contracts	17	38	55	17	25	42	12	22	34

Breakdown by type of employment: there has been a higher use of part-time employment for female staff to help them reconcile their personal and family needs with those of the Bank.

Type of employment	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Full-time employment as defined by national laws	581	2,515	3,096	554	2,497	3,051	529	2,491	3,020
Part-time employment as defined by national laws	87	13	100	91	11	102	59	33	92

Breakdown by areas of employment/task	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Total ABI categories	668	2,528	3,196	645	2,508	3,153	610	2,502	3,112
distribution	318	1,818	2,136	307	1,793	2,100	285	1,783	2,068
business unit	70	173	243	63	180	243	62	178	240
staff	146	203	349	145	204	349	138	204	342
operational services	134	334	468	130	331	461	125	337	462

Employees broken down by area of operations	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
North	508	2,092	2,600	486	2,085	2,571	451	2,082	2,533
Centre	29	251	280	27	248	275	28	248	276
Abroad	131	185	316	132	175	307	130	173	303

Breakdown by educational qualification: there is a higher growth trend in graduate staff, given that new recruits tend to be increasingly qualified from a scholastic point of view.

Education	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
University degree	295	830	1125	272	803	1,075	245	783	1,028
High school diploma	361	1,648	2,009	362	1,650	2,012	354	1,657	2,011
Middle school diploma	12	50	62	11	55	66	11	62	73

GRI Standard 102-41: Collective agreements

As far as Banca Popolare di Sondrio and Factorit are concerned, all employees for the three-year period were covered by collective agreements, whereas Banca Popolare di Sondrio (SUISSE) SA does not apply collective agreements under Italian law. Swiss labour law is in any case complied with.

The Staff Regulations form an integral part of all employment contracts with Banca Popolare di Sondrio (SUISSE) SA and are valid for all employees and collaborators employed in Switzerland.

The rights and obligations of the employee are governed by the following rules with the following hierarchy, except for any mandatory provisions:

- individual job contract;
- the Regulation;
- the Convention on the Working Conditions of Bank Employees (CCBE);
- Code of Obligations (CO) and the Federal Labour Law;
- the Federal Law on Banks and Savings Banks.

The CCBE applies to all employment relationships stipulated for a period of more than three months.

The working relationships of the members of management are not subject to the Convention, except as provided for in the Agreement on waiving the registration of working hours, which they are asked to sign.

GRI Standard 401-1: Total number and turnover rate by age, gender and region

New recruits:

Age	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Total	54	122	176	57	74	131	48	84	132
<= 29 years old	39	77	116	45	45	90	36	60	96
30 – 50 years old	12	34	46	10	25	35	12	20	32
>= 51 years old	3	11	14	2	4	6	0	4	4

Incoming staff turnover	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Incoming staff turnover: ratio between new recruits and total employees	8%	5%	6%	9%	3%	4%	8%	3%	4%

Leavers: the number of leavers continues to be at levels that are considered physiological; there has been an increase in the number of leavers going into retirement.

Leavers	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Total	31	102	133	22	68	90	20	59	79
by age:									
<= 29 years old	19	39	58	11	18	29	10	20	30
30 – 50 years old	8	31	39	8	28	36	7	19	26
>= 51 years old	4	32	36	3	22	25	3	20	23
Reason for leaving:									
Voluntary leavers (excluding retirement)	13	48	61	10	34	44	10	36	46
Retirement	4	28	32	2	13	15	2	9	11
Lay-offs	1	8	9	4	6	10	2	5	7
Other (i.e. end of a fixed-term contract)	13	18	31	6	15	21	6	9	15

Outgoing turnover rate	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Outgoing turnover rate: ratio between leavers and total employees	5%	4%	4%	3%	3%	3%	3%	2%	3%

PERSONNEL ENHANCEMENT

Professional growth is supported by a training system that includes projects destined to specific segments of the corporate population, such as new recruits, and development of all the main issues of the banking business. Training programmes do not neglect the transversal contents of the various professions that exist within the bank, with the aim of strengthening certain abilities, such as the relationship, negotiation and management skills.

A great deal of attention is given to training new recruits, in order to support the organic growth model. A new training programme is dedicated to new recruits: by integrating various methods (classroom, multimedia, targeted on-the-job support), it covers not just the specific regulatory and process aspects of the front and back office roles of the branch, but also notions regarding the organisation of the Bank, the rules governing the employment relationship, corporate security and the main business areas: the commercial products and services on offer, an introduction to lending, the securities markets and international operations.

Some modules are also dedicated to behaviour and the development of personal skills.

The training offer that characterises the various activities of the banking sector is wide. In this regard, the HR Department supports the central structures in planning training initiatives for various areas such as, but not limited to, IVASS, portfolio advice, MiFID2, compliance, lending (preliminary investigation, guarantees, management and control of positions assigned, analysis of a business in financial difficulty, analysis of financial flows, monitoring and management of overruns), SEPA, transparency, privacy, health and safety of workers, administrative responsibility of banks, cash recirculation, usury and anti-money laundering.

In addition to the traditional classroom courses, there are various training proposals available through e-learning tools.

The training programmes also deal with the issues of quality certification processes in accordance with ISO9001 and ISO27001 standards. These processes are an integral part of the company strategy, in a constant search for customer satisfaction and ever-increasing efficiency, with the aim of bringing benefits in the organisation and work processes, together with the involvement (training and information) of the staff.

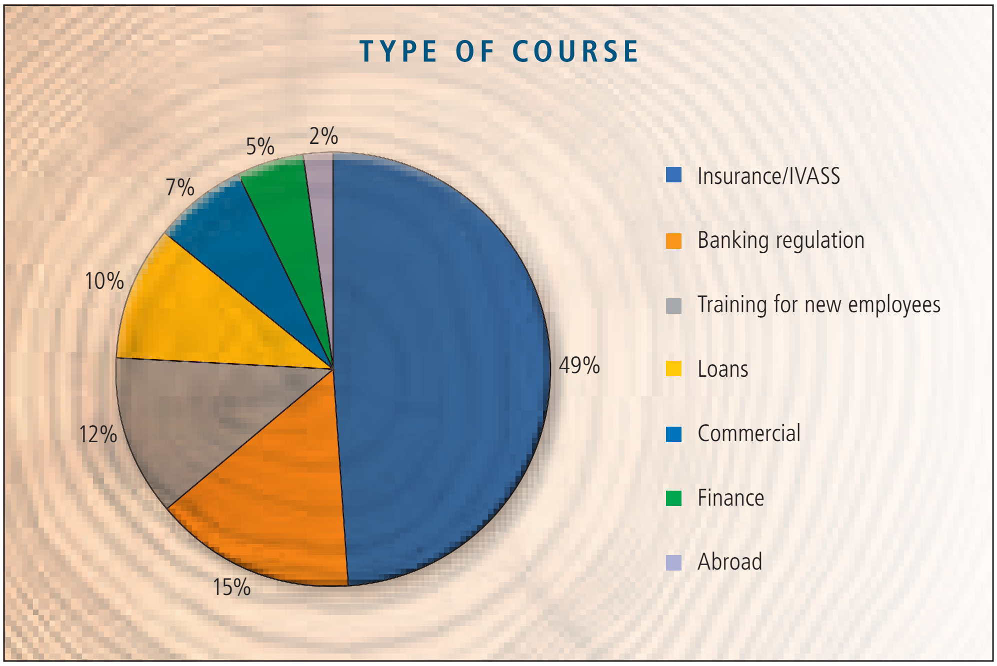
With regard to Banca Popolare di Sondrio (SUISSE) SA, in addition to the managerial training programmes for managers of the production units and for new resources, the employees assigned to consultancy to private customers are involved in educational activities aimed at obtaining the Federal Certification SAQ (Swiss Association for Quality).

GRI Standard 404-1: Average annual training hours per employee: the numbers refer to head counts.

Total number of training hours to employees: the number of training hours decrease in 2017 compared with the previous year, mainly due to a decrease of around 22% in the hours of multimedia courses. Classroom hours of the parent company increased by about 4% in the last year.

Qualification	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Managers	0	352	352	0	539	539	0	859	859
Middle managers	1,608	21,612	23,220	1,484	24,625	26,109	2,003	29,191	31,194
Office workers	15,048	62,653	77,701	15,518	71,926	87,444	12,090	74,361	86,451

Average training hours per employee	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
Managers	0	9	9	0	15	15	0	27	27
Middle managers	22	32	31	23	38	36	34	45	44
Office workers	25	34	32	27	40	36	22	41	36



Banca Popolare di Sondrio has for years been the point of reference for commercial and technical schools in Lombardy and collaborates with the main universities the area for orientation activities, internships and placement of students, undergraduates and graduates.

In particular, the bank is in contact with around 30 universities and 250 technical schools for post-diploma placement. In 2017, it organised orientation meetings with students of 63 of these schools, training activities with teaching in the classroom and work/school alternation projects.

Collaboration with the universities aims at encouraging orientation in the world of work and career choices, offering young people a chance to acquire the first contact tools in their search for a job that responds to their personal aptitudes and expectations. At the same time, it has allowed the Bank to select, through the university channel, the resources with the skills most suited to its recruitment needs.

This consists of orientation meetings and presentation of how the Bank operates, participation in career days and the organisation of internships.

As a result of these activities, the Bank offered internships to 226 students during the course of 2017.

Over the past 10 years, internships have been organised for more than 2900 students.

HEALTH AND SAFETY

The Group pays particular attention to protecting the health and safety of workers.

Constant control and improvement in this area represent the main policy and objectives, as well as the «precautionary principle» on the basis of art. 15 of Legislative Decree 81/08, and art. 2087 of the Italian Civil Code, in drawing up measures to improve the «welfare» of workers. These are achieved through one line control (Managing Entity) and one Level II control carried out by the Bank's Internal Audit Department.

The main management system adopted by the Bank follows what was laid down in the former art. 30 of Legislative Decree 81/2008: it is made up of operating instructions and procedures relating to the various areas of safety in the workplace, over which control is carried out by each of the Bank's Managing Entity. In particular, some of the areas subject to monitoring are those related to compliance with technical-structural standards (e.g. equipment, systems, physical agents, etc.), risk assessment and prevention and protection measures, organisational activities (e.g. emergencies, first aid), health surveillance and information and training for workers.

In compliance with the decree (which defines the safety organisation chart and the related responsibilities), the employer has appointed the manager, the head of the prevention and protection unit, the person in charge of the prevention and protection unit of the persons in charge, the fire fighters and first aid units, and the company doctor.

The workers' safety representatives are elected by the workers by means of a vote. Safety officers are trained through specific courses.

As regards the Swiss subsidiary, the control protocol and the MSSL

Federal Directive (concerning the use of company doctors and other safety specialists) guide the company's management methods and the methodology adopted. In fact, they are equipped with safety guidelines on how to organise it, for the protection of health. The guidelines regulate, among other things, ventilation and air quality, ergonomics, control of stress factors, duration of work, special protections, such as those for new mothers, environmental protection, lighting and noise checks.

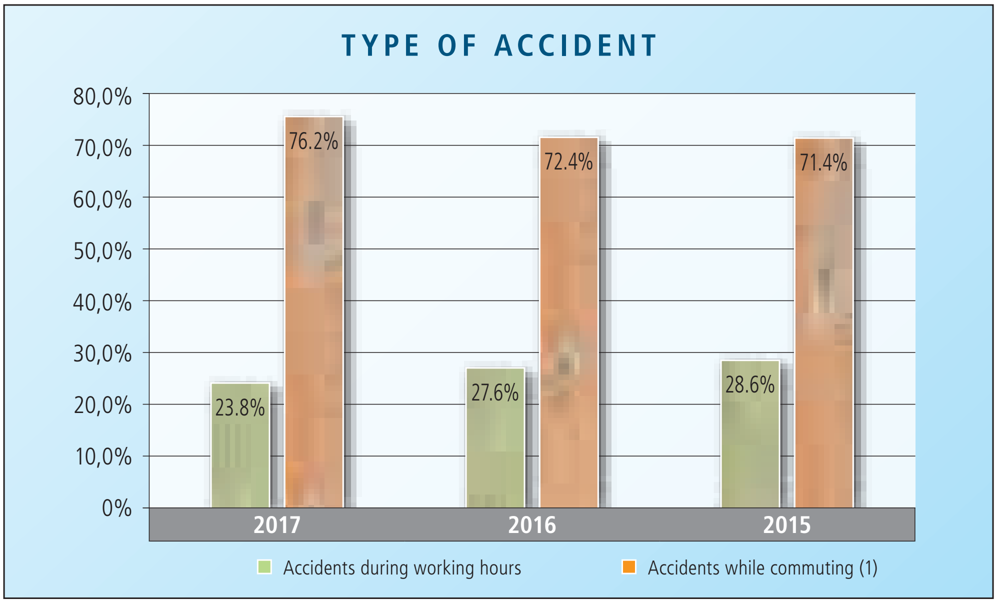
All employees have carried out a general training course on this issues (updates are made according to the new indications coming from the State and Regions Agreement of 21 December 2011 and 7 July 2016); employees who work more than 20 hours per week at a video terminal are subject to health surveillance.

One of the biggest risks for the health and safety of bank workers is a robbery: this is a phenomenon due to fraudulent conduct by third parties, that obviously cannot be eliminated at source by the Company, but which is decreasing, mainly due to the lower amount of cash held by each teller and the widespread presence of video surveillance systems.

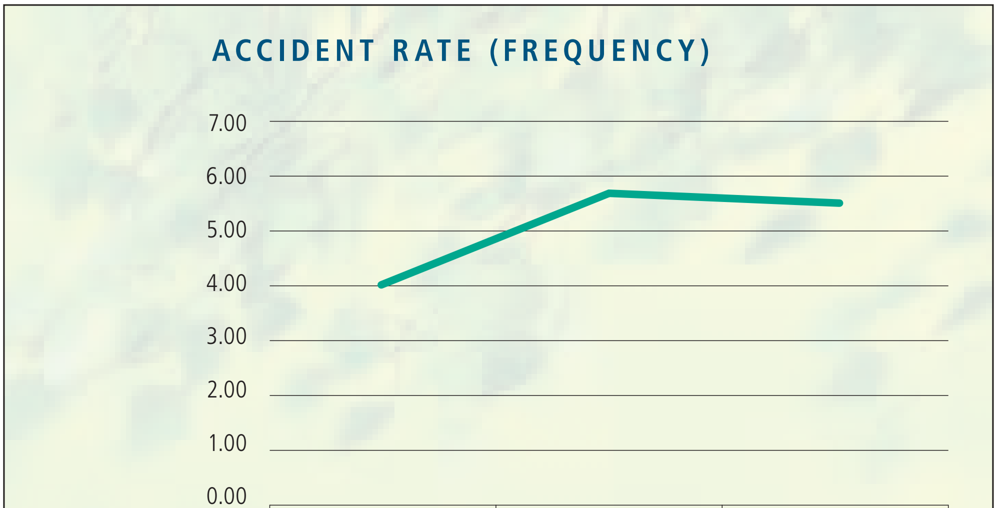
This risk is managed through:

- use of ABI's OS.SI.F. (Observatory for Physical Safety) procedure in order to define the endogenous, exogenous and combined risk indices.
- Signing memoranda of understanding with local Prefectures (Police) with the adoption of defensive preparations.
- Implementation of specific anti-robbery training courses.
- Psychological assistance for workers who are victims of robberies.

GRI Standard 403-2: Type of accident, accident rate, occupational diseases, lost work days, absenteeism and number of work-related fatalities



Workdays lost, days of absence and hours worked		2017	2016	2015
Workdays lost due to accidents	days	331	741	606
Days of absence during the period	days	14,537	13,635	12,110
Hours actually worked	hours	5,107,453	5,023,121	4,986,957
Workable days	days	783,270	784,732	780,146



	2017	2016	2015
Accident rate (frequency) (2)	4.11	5.77	5.61

The accident rate is calculated by multiplying the number of injuries by one million and then dividing by the number of hours worked

	2017	2016	2015
Absenteeism rate	1.86	1.74	1.55

The absenteeism rate is the ratio between days of absence and workable days multiplied by 100

	2017	2016	2015
Severity rate	0.06	0.15	0.12

The severity rate is calculated by multiplying by 1000 the total number of days lost through injury divided by the number of hours worked

CORPORATE WELFARE

All forms of corporate welfare applied by the company are contained in the Company Contract and are valid only for the Parent Company.

The main ones are shown below:

Corporate productivity bonus: the current national labour contract (which leaves it to the company contract to define the criteria for awarding bonuses) for managerial staff and personnel of the professional areas envisages the adoption of a corporate productivity bonus (governed by specific second-level company agreements) linked to the company's results in terms of real increase in productivity and/or profitability that can be objectively verified on the basis of the financial statements.

Long-service bonus: employees who work at Banca Popolare di Sondrio for an effective period of 30 years are paid a «long-service bonus» of 2,300 euro gross.

Graduation bonus: non-graduate workers who, after two years of employment, complete a three-year degree course included among those that used to lead to conventional seniority under the labour contract, are awarded a one-off bonus of 1,800 euro gross.

Scholarships: scholarships are given to children or other dependants for tax purposes. The amount of the scholarship depends on the school being attended.

Meal contribution: the company gives luncheon vouchers to non-residents (Euro 7.00) and residents (Euro 4.50), as indicated in the current national labour contract.

Contribution for out-of-town accommodation: if an employee has to spend the night out of town due to work requirements, the Company makes a monthly contribution towards their evening meal of 132 euro gross.

Commuting contribution: employees who live more than 60 km away from work (i.e. who have a 120 km round-trip) receive a monthly contribution of 132 euro gross towards their travelling expenses.

Disabled contribution: an annual contribution of 2,300 euro gross is paid to employees for each child with a serious physical or mental handicap that affects their learning ability, ascertained according to Law 104/92.

Healthcare assistance is provided to employees and their families through an internal welfare fund.

The purpose of the Welfare Fund is to help pay for hospital and health care in general – to supplement the national health service – as well as for other reasons, according to the procedures established by the Regulation. The duration of the Welfare Fund is set until 31 December 2050, unless it is extended.

It is inspired by the principle of mutuality and is based in Sondrio, at the Bank's headquarters.

The Fund implements the social purpose of the Bank by the following means:

a) the contributions to be paid by the members of the Fund;
b) the equivalent amounts to be contributed by the Bank;
c) the contribution to be paid by the Bank towards the cost of medical check-ups;
d) income generated by the Fund's assets;
e) any offerings or contributions from institutions and individuals;
f) any cash surpluses, after the ordinary prescription period, in accordance with the National Labour Contract.

Another important element contributing to welfare is the Bank's Recreation Club.

The «Recreation Club of the Banca Popolare di Sondrio Group», with headquarters in Sondrio, at the offices of Banca Popolare di Sondrio, is an apolitical, non-trade union and non-profit association, which aims to promote and organise cultural activities for its members and their families, such as cultural, recreational, sporting and any other activities that involve economic and/or welfare benefits for its members.

Our Recreation Club has a board of eleven members, elected every three years from among the employees and retirees of Banca Popolare di Sondrio Banking Group companies (in the form of voluntary work outside of working hours).

In this perspective, those who join in the Recreation Club's activities must accept the principle that what has been organised is designed to satisfy colleagues who are members and is managed with the «diligence of a good father».

This premise serves to stimulate the right attitude on the part of those who choose to participate in the Club's initiatives.

The initiatives proposed by the Club are intended for its members (employees and retirees); non-members are allowed to attend, providing they have been signed up by members and, normally, if accompanied by them.

Participation in Club events is normally subject to payment of a membership fee; the fee is differentiated between:

- the fee for non-members, which is equal to the cost of the event with the usual discount for Group fees. The Club does not apply any surcharge.
- the fee for members and their families is determined by applying to the full fee (for non-members accompanying members) a reduction that is covered by the contribution paid by the Club. In other words, the difference between the two fees is borne by the Club using the funds deriving from the annual membership fees of the members and the

contribution made by the companies of the Banca Popolare di Sondrio Group.

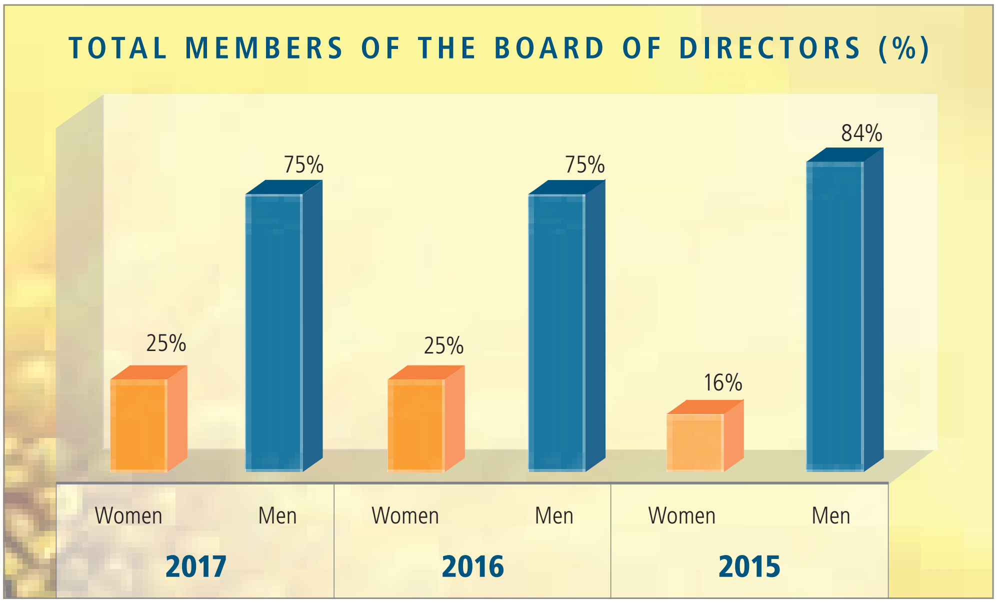
DIVERSITY

The Bank complies with the principle of non-discrimination in access to employment, training and professional promotion and in working conditions.

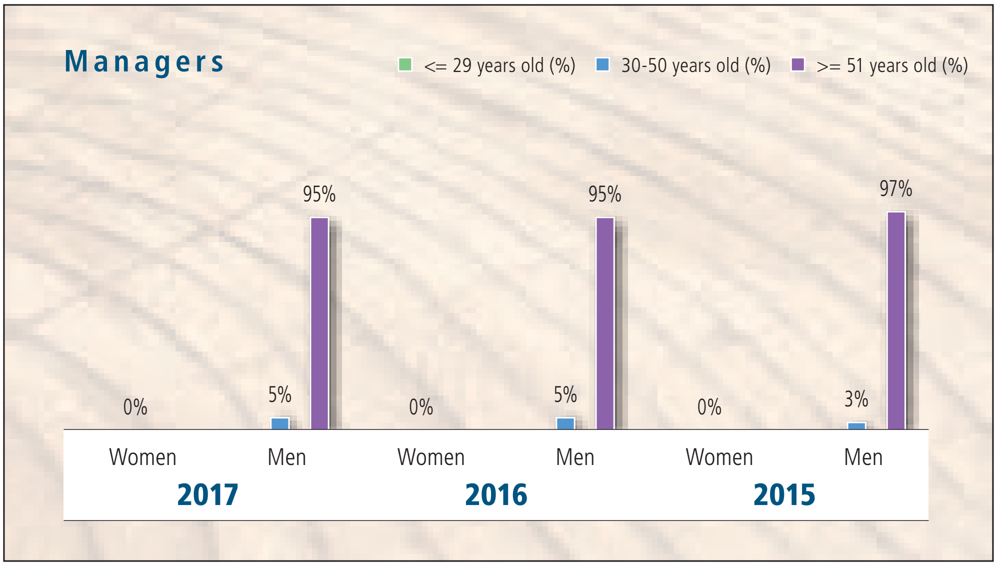
In agreement with the trade union representatives, a specific Committee for Equal Opportunities has been set up with the purpose of:
- identifying suitable measures for the realization of equal opportunities;
- promoting suitable actions to facilitate the reintegration of female workers after maternity leave and to safeguard their professionalism;
- promoting initiatives aimed at removing any behaviour harmful to personal freedoms, including sexual harassment;
- evaluating any reports about direct or indirect discrimination at a work or professional level and making proposals on the matter.

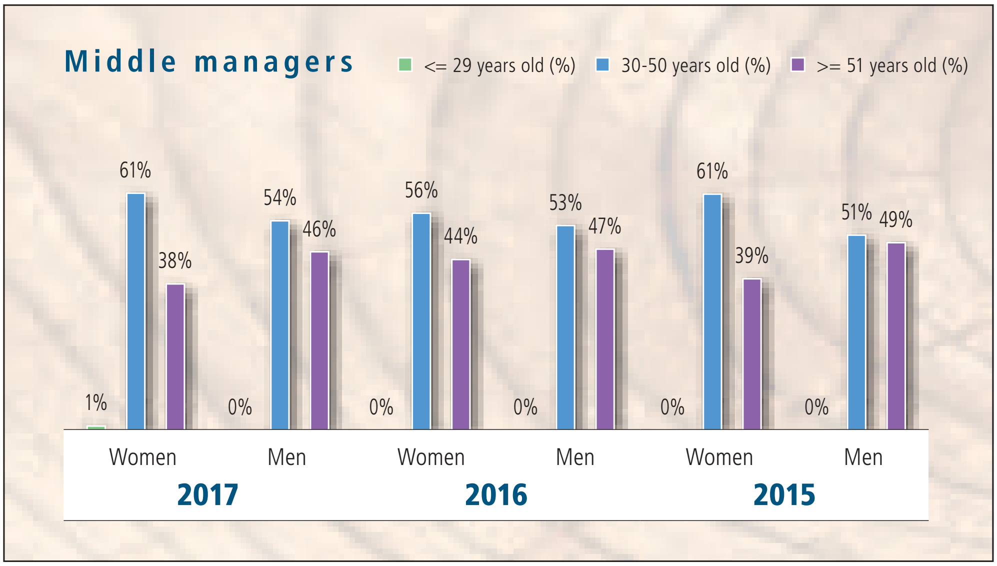
In compliance with the contract, without prejudice to the company's organisational requirements, the Bank grants flexibility or work hour reductions, especially to female staff, to allow them a better balance between personal and family needs and those of the company. Particular attention is also given to managing personnel who are seriously disabled. There is a constant involvement and closeness on the part of the HR Manager, even when returning to work, allowing flexibility in terms of work hours.

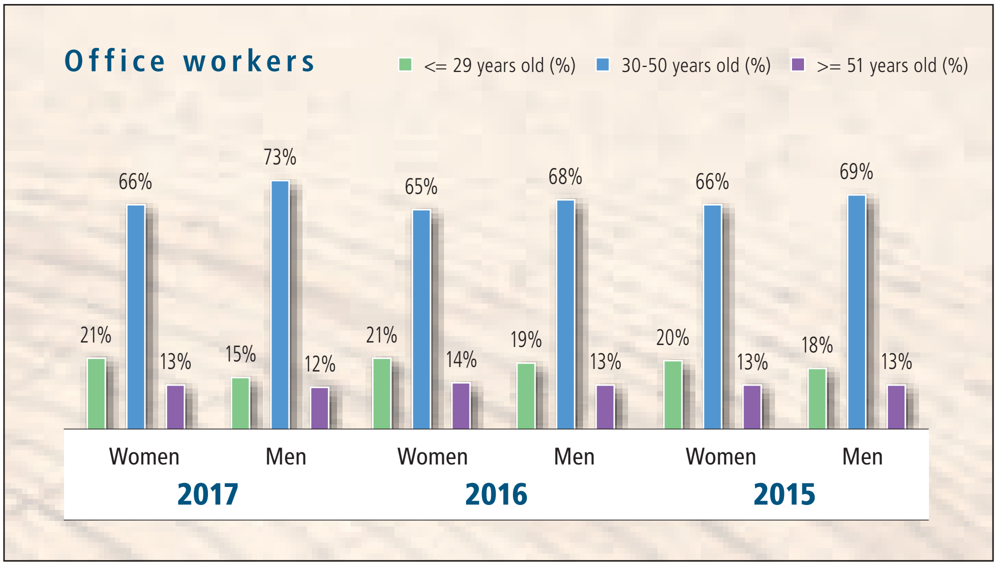
GRI Standard 405-1: Diversity within the governing bodies and staff



Composition of the governing bodies: breakdown by age	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total	2015 Women	2015 Men	2015 Total
<= 29 years old (number)	0	0	0	0	0	0	0	0	0
<= 29 years old (%)	0%	0%	-	0%	0%	-	0%	0%	-
30-50 years old (number)	1	0	1	0	1	1	0	0	0
30-50 years old (%)	5%	0%	-	0%	5%	-	0%	0%	-
>= 51 years old (number)	4	15	19	5	14	19	3	16	19
>= 51 years old (%)	20%	75%	-	25%	70%	-	16%	84%	-







GRI Standard 405-2: Ratio between average male and female basic salary by category and by operational qualification

** The figures do not include Banca di Sondrio (Suisse)*

*** The percentage relative to the managers is not reported given the absence of female managers*

Assuming that the base salary is the minimum, fixed amount paid to the employee for his work (excluding any additional amounts such as overtime or bonus), while remuneration means the basic salary plus any additional amounts paid to the employee, the average basic salary is the ratio between the basic salary and the number of middle managers or employees (by gender) in that particular year less any part-time employees, while the percentage is the ratio between the average female and average male basic salary.

MIDDLE MANAGERS

Middle managers	2017	2016	2015
Average base salary	95.65%	96.34%	93.08%
Average remuneration	88.91%	88.11%	84.75%

OFFICE WORKERS

Office workers	2017	2016	2015
Average base salary	90.70%	89.78%	91.61%
Average remuneration	82.61%	80.35%	82.80%

GRI Standard 406-1: Discriminatory incidents and action taken: no discriminatory incidents were reported.

In order to promote the development of a legality culture and ensure a working environment where employees they can report violations of external regulations without any problem, and thus prevent discriminatory attitudes, the Group has set up an internal system for reporting violations, implementing art. 52-bis of the TUB, which transposes into Italian law the provisions of the «CRD IV» Directive on «whistleblowing».

GRI Standard 401-3: Maternity / Paternity

Maternity/ Paternity	2017			2016			2015		
	Women	Men	**Total**	Women	Men	**Total**	Women	Men	**Total**
Number of employees who have taken maternity or paternity leave	98	8	106	86	5	91	79	3	82
Number of terminations after returning from maternity or paternity leave during the year	0	0	0	0	0	0	2	0	2
Number of terminations after returning from maternity or paternity leave during the previous year	0	0	0	0	0	0	0	0	0
Rate of return to work after maternity or paternity leave	100%	100%	100%	100%	100%	100%	97%	100%	100%
Work position retention rate after maternity or paternity leave	100%	100%	100%	97%	100%	98%	–	–	–

SUSTAINABLE MANAGEMENT OF OUR ENVIRONMENTAL IMPACTS

The theme of environmental sustainability is a process of continuous improvement, which allows the company to significantly reduce its environmental impact through greater sensitivity, proper staff training and information and timely monitoring of consumption, emissions and waste production. The Bank is active in financing activities for greater efficiency and environmental requalification by its customers. As regard its internal energy management system, work is being done to implement a consumption control method in order to optimise systems performance.

The environmental impacts, defined by the EMAS Regulation 761/2001 such as «changes to the environment resulting from the businesses, products and services of an organisation», are divided into:

Direct impacts: the impacts directly related to the production, distribution and organisational processes (consumption of water or energy resources, production of waste and equivalents, emissions of climate-altering gases); with regard to their management, Banca Popolare di Sondrio has laid down a series of objectives/modus operandi:

- Improvement in energy utilisation systems by defining a Group standard that includes:
  - improvement in the energy efficiency of buildings (new and existing ones), through the use of high-performance construction and plant technologies;
  - the use of low-energy lighting systems through LED technologies and low-power hardware/IT equipment.
- Use of renewable energy with low CO2 emissions, through:
  - an increase in the portion of electricity produced from renewable sources;
  - use of district heating, where available, and progressive replacement of heating systems powered by fuels with a higher emission level.
- Reduction of paper consumption by optimising printing processes and greater use of electronic documents
  - Increase in the use of recycled paper.
- Attention to the correct collection and disposal of waste produced by:
  - the maximisation of the portion of waste that can be recycled/reused;

- the extension of separate waste collection for all types of waste produced;
- continuous verification of the correct disposal of non-recyclable or reusable waste.

- Reduction of excesses in the use of water resources.

- Green purchases with lower environmental impact in their life cycle, through:
  - the use of reusable cartridges and toner;
  - the use of ecological and/or recycled paper, or deriving from certified eco-compatible production processes (FSC);
  - the purchase, where possible, of local products and services, in order to minimize the environmental impact of transport/travel.

- Promotion of sustainable urban mobility, through:
  - the use of collective transport systems with a lower environmental impact when travelling between home and work and for work missions;
  - progressive inclusion in the company fleet of vehicles using low or zero emission propulsion systems.

- Management of environmental emergencies, through the implementation of appropriate prevention and protection measures in emergency situations
- Environmental risk assessment.

Indirect impacts: they are the impacts over which the Company may not have total control, but for which it undertakes to adopt a precautionary approach, with the dual purpose of limiting the risks related to commercial operations and profit from new business opportunities in all areas of strategic activity. Specifically, as regards customers, the Group wants to encourage its customers to manage their activities in a sustainable manner, proposing banking products and services aimed at benefiting from new business opportunities and reducing the risks associated with strategic business operations. To achieve this goal, it intends to implement:

- consideration of environmental risk as part of the procedures for assessing creditworthiness.

- promotion of financial instruments and products to improve energy efficiency in the following sectors:
  - business production processes.
  - eco-compatible building;
  - environmental certifications.

- Funding for the purchase of more eco-compatible homes, for the energy redevelopment of buildings/plants and for the installation of systems for the production of energy from renewable sources (photovoltaic, wind, hydroelectric plants).
- Dissemination of specific insurance services for the environmental technology sectors.
- Selection of investment opportunities (private equity), with reference to companies belonging to «sensitive» sectors, through an assessment of regulatory compliance and environmental standards.
- Promotion of investment instruments characterized by a high level of environmental responsibility.

As regard suppliers, our main objectives are:

- to improve the supply chain through a selection process that takes into account ethical and environmental requirements;
- to put in place supply systems that minimise environmental impacts through an overall evaluation of the service offered.

The perimeter of environmental data reporting includes the following companies: Banca Popolare di Sondrio, Banca Popolare di Sondrio (SUISSE) SA, Factorit Spa and Pirovano Stelvio S.p.A. For the three-year period 2015-2016-2017, Banca della Nuova Terra was excluded as it was acquired recently by the Group. Banca Popolare di Sondrio (SUISSE) SA did not provide figures for 2015.

ENERGY CONSUMPTION

The figures relating to energy resources are mainly reported to us by our suppliers on a monthly/quarterly basis.

In addition, we have set up an internal system for recording energy/gas readings on a web-server platform, in collaboration with colleagues from various branches in the area.

Overall, consumption reporting and auditing has led to the identification of the most energy-consuming sites, where it has been possible to concentrate greater plant control and management.

The energy diagnoses performed at the end of 2015, in compliance with Legislative Decree 102/2014, allowed us to identify opportunities for efficiency improvement with interventions on the more complex buildings.

Some of these were implemented according to priorities established by cost/benefit analysis (NPV,IRR).

GRI Standard 302-1: Energy consumption in the Company*

Direct energy consumption

	Unit of measurement	2017	2016	2015
Heating	**GJ**	**78,991**	**66,102**	**61,134**
natural gas	Smc	1,757,446	1,489,107	1,286,769
diesel fuel	l	517,463	417,274	470,081
LPG (liquid propane gas)	l	4,838	1,573	4,050
Electricity consumed	**kWh**	**18,318,688**	**18,329,046**	**19,335,825**
Purchased electricity	kWh	18,074,211	18,087,140	19,093,073
of which from renewable sources (purchased)	kWh	14,552,331	14,052,385	14,939,698
Electricity from renewable sources produced and consumed	kWh	244,477	241,906	242,752
District heating	**kWh**	**1,001,945**	**977,695**	**1,048,178**
Non renewable district heating purchased	kWh	362,644	418,424	486,915
Renewable district heating purchased	kWh	639,301	559,271	561,263
Non-renewable air cooling purchased	kWh	0	0	0
Renewable air cooling purchased	kWh	0	0	0
Total energy consumption	**GJ**	**148,544**	**135,605**	**134,514**

	Unit of measurement	2017	2016	2015
Renewable energy	kWh	15,436,109	14,853,562	15,743,713
% renewable on the total	%	37.4%	39.4%	42.1%

The electricity consumption figure for the years 2016-2017, though conditioned by the seasonal climate, seems to be decreasing compared with the 2015 figure, due to better control over loads/devices. The gas consumption figures include condominium utilities (i.e. so without a specific meter in the name of Banca Popolare di Sondrio), calculated as a percentage of the total condominium expense reported by the administrators, at 54% of the expense (as per benchmark analysis on the past 2015-2016).

	Unit of measurement	2017	2016	2015
Non-renewable fuel consumption – Diesel	l	65,991	74,140	66,952
Non-renewable fuel consumption – Gasoline	l	31,443	27,541	47,784
Total non-renewable fuels (including car park)	**GJ**	**82,359**	**69,639**	**65,054**

** Consumption is derived from fuel expenditure, based on an average pump price published annually by the Ministry of the Economy and Finance. The unit of measurement is the gigajoule.*

EMISSIONS INTO THE ATMOSPHERE

Direct emissions of greenhouse gases coming from combustion heat generators are subjected to periodic checks and combustion tests according to the indications contained in Presidential Decree 74/2013.

Each intervention report is filed in our Ordinary Routine Maintenance procedure.

Since the Group does not have any direct GHG emissions related to the production of goods or services, but only emissions indirectly related to its business activities, that is from air-conditioning and mobility systems, we believe that the environmental risk associated with our business is solely of a reputational nature.

GRI Standard 305: Emissions

Direct emissions (Scope 1)	Unit of measurement	2017	2016	2015
Total direct emissions	**t CO2e**	**5,348.50**	**4,775.80**	**4,443.50**
Heating oil	t CO2e	1,384.90	1,116.80	1,258.10
Diesel for motor vehicles	t CO2e	176.30	198.10	178.90
Petrol	t CO2e	73.80	70.50	112.20
LPG (liquid propane gas)	t CO2e	8.20	2.70	6.90
Natural gas	t CO2e	3,468.30	2,938.70	2,539.40
Fluorinated Greenhouse Gases (F-gas)	t CO2e	237.00	449.00	348.00
Electricity from renewable sources produced and consumed	t CO2e	0.00	0.00	0.00

Average diesel emissions are declining due to a progressive reduction in plants that use this fuel.

Direct emissions (Scope 2)	Unit of measurement	2017	2016	2015
Total indirect emissions – «Location based» method	**t CO2e**	**5,959.60**	**5,956.40**	**6,292.50**
Total electricity purchased (renewable or non-renewable) (national grid average emission factor)	t CO2e	5,659.00	5,663.10	5,978.00
Total district heating purchased (renewable or non-renewable)	t CO2e	300.60	293.30	314.50
Other (specify)	t CO2e			
Total indirect emissions – «Market based» method	**t CO2e**	**1,286.10**	**1,457.10**	**1,496.70**
Non-renewable electricity purchased (residual mix factor)	t CO2e	1,174.60	1,345.60	1,385.20
Electricity purchased from renewable sources (zero emission factor)	t CO2e	0.00	0.00	0.00
Non renewable district heating purchased	t CO2e	111.50	111.50	111.50
Renewable district heating purchased (zero emission factor)	t CO2e	0.00	0.00	0.00

Other indirect emissions (Scope 32)	Unit of measurement	2017	2016	2015
Total other emissions	**t CO2e**	**1,506.00**	**1,537.10**	**1,523.60**
Goods and services purchased – Paper/cardboard and toner	t CO2e	1,005.20	1,037.30	1,036.20
Business trips (public transport)	t CO2e	500.80	499.80	487.40

	Unit of measurement	2017	2016	2015
NOx, SOx, and other significant emissions	t	5.36	4.94	4.90
NOx	t	4.23	3.94	3.80
SOx	t	1.13	1.00	1.10

USED MATERIALS AND PRODUCED WASTE

The amount of paper used by BPS was calculated on the basis of the quantities of material ordered by our central warehouse, as well as on the basis of the quantity of material (envelopes, sheets) given by the company to which we outsourced the printing and delivery of periodical bank statements to customers.

The paper quantities used by Banca Popolare di Sondrio (SUISSE) SA and Factorit are based on average annual estimates.

GRI Standard 301-1: Used materials by weight and volume

Used materials	Unit of measurement	2017	2016	2015
Total weight of used materials	kg	540,553	551,058	525,026
Total FSC certified paper	kg	334,718	373,717	357,155
Total used paper (non-certified)	kg	188,604	163,288	153,328
Toner and cartridges	kg	17,231	14,053	14,543

A/4 paper, including bank statements sent to customers, is the item with the most impact in terms of paper and similar material consumption, on average 83% of total consumption.

	Unit of measurement	2017	2016	2015
Consumption of paper per employee	kg	164.62	170.75	164.78
Toner consumption per employee	kg	5.42	4.47	4.69

The figure for the average number of employees per calendar year refers to the entire Group as consolidated. Only consultants are excluded from the calculation, which in any case do no exceed 5% of the total.

GRI Standard 306-2: Waste

Waste produced, destined for recovery and disposal	Unit of measurement	2017	2016	2015
Total waste produced	**kg**	**434,175**	**400,668**	**464,222**
Of which dangerous	kg	2,104	560	0
Of which non-hazardous waste	kg	432,071	400,108	464,222
Total waste destined for recovery (reuse or recycling)	**kg**	**408,022**	**384,955**	**451,109**
Of which dangerous	kg	0	0	0
Of which non-hazardous waste	kg	408,022	384,955	451,109
Total waste destined for disposal (landfill or waste-to-energy)	**kg**	**26,153**	**15,713**	**13,113**
Of which dangerous	kg	2,104	560	0
Of which non-hazardous waste	kg	24,049	15,153	13,113

The consolidated perimeter is that reported to us by ALFA MACERI, which is the company that provides the waste collection, transport and disposal service.

Solid urban waste (SUW) and recyclable plastic do not appear on the list of total waste produced by BPS, as their collection and disposal is entrusted to the Municipal Companies for the area, which do not normally weigh this type of waste.

Pirovano Stelvio S.p.A., because of its business, affects very heavily the production of SUW and similar waste.

WATER CONSUMPTION

The water utilities have all been registered in our property register, but for the moment the consumption figures are taken from the invoices issued by the managers of the integrated water service.

Average consumption is calculated on the basis of the amounts for invoiced buildings with independent water meters, while those that are part of a condominium are estimated on a parametric basis as there are often no actual consumption figures in these situations. Water consumption from groundwater for technological purposes is omitted because of its low impact on total water consumption.

GRI Standard 303-1: Water taken by source

Volume of water withdrawn	Unit of measurement	2017	2016	2015
Total volume of water withdrawn	mc	267,206	321.,456	358,962
surface waters, including waters from swamps, rivers, lakes and oceans	mc	0	0	0
ground water	mc	0	0	0
rainwater collected directly from the company	mc	0	0	0
waste water from another company	mc	0	0	0
municipal water or other infrastructure supply	mc	267,206	321,456	358,962

The significant reduction in water consumption is attributable to checking the utility records, combined with better control over the average consumption billed.

METHODOLOGICAL NOTE

The Consolidated Non-Financial Report (hereinafter also «NFR») of the Banca Popolare di Sondrio Group was prepared in compliance with Legislative Decree 254/2016 concerning the disclosure of non-financial information of certain large public-interest companies.

The purpose of the NFR is to ensure an understanding of the Group's policies, organisational model, risks and performance indicators and the related results, with particular regard to the social aspects associated with the management of personnel, the environment, the fight against active and passive corruption and respect for human rights.

The environmental issue is not «material» to ensure an understanding of the Group's business, but having a good system of monitoring the related impacts and given that the Decree has put a certain focus on it, we decided to report on it.

The issue of Human Rights, managed through current policies (e.g. UN guidelines, Universal Declaration of Human Rights, Code of Business Ethics) does not form part of the material topics for our Company (more information on this topic can be found at the end of this methodological note).

The process of identifying the relevant topics

In order to identify the most relevant topics, i.e. material ones and therefore strategic for us, we carried out an analysis to understand stakeholders' response to the issues of Legislative Decree 254/2016.

The «material» topics are made up of the aspects that, on the one hand, are considered important by our stakeholders, because they could influence their expectations, actions and decisions, while, on the other hand, they could have a significant impact in economic or environmental terms on the Group's activities.

First of all, through an analysis of the international guidelines, including the publications of the Global Reporting Initiative (GRI), of the Banca Popolare di Sondrio Group's values and of the sustainability reporting of peers, we identified the universe of potentially relevant topics.

Subsequently, the Company's management was involved in a workshop to assess the importance of each issue identified for the Company and for the reference stakeholders. Firstly, considering the Company's point of view and then that of the stakeholders, everyone had to evaluate on a scale from 1 to 5 to what extent a certain issue had to be taken into account as an important part of the activities, strategies and communications.

The results were aggregated and a materiality matrix was developed, which was then shared and validated by the General Manager.

The table below shows our five strategic topics, which ensure the understanding of the business activities, its progress, its results and the impact that it has. These are explained in further detail in the various aspects associated with them. The table also shows the correlation between the areas mentioned in art. 3 paragraph 2 of the Decree 254/2016 and the material topics underlying this NFR.

Strategic material topics	Associated aspects	Areas of Legislative Decree 254/2016
Economic support	Link with the territory	Social aspects
	Credit access	
	Responsible credit	
	Offer of responsible products	
	Collaboration with institutions	
Financial and capital solidity	Economic performance	
	Risk management	
Attention to the customer	Operating innovation	Social aspects
Autonomy and integrity in company conduct	Privacy and data protection	Fight against corruption
	Fairness and transparency	
Personnel enhancement	Corporate identity	Aspects related to personnel management Gender equality Health and safety Dialogue with the social parties Implementation of the conventions of international and supranational organizations

The reporting perimeter and standard

The reporting perimeter coincides with that of the consolidated financial statements, i.e. it includes companies consolidated line-by-line for the financial statements. Servizi Internazionali e Strutture Integrate 2000 S.r.l. became part of the Group in December 2017. This company provides assistance to customers who wish to operate in China (its headquarters are in Milan); this company does not fall within the scope of the NFR because, having no employees and having been acquired at the end of the year, it does not contribute to an understanding of the Group's activities, its performance, its results and the impact that it has.

Any perimeter limitations on specific indicators have been reported and motivated in this document; they are mainly due to the low impact that they have on the total figure and/or because of the lack of a reporting system for this data at some companies. The reporting year to which this report refers is 2017.

The reporting standards adopted by the Banca Popolare di Sondrio Group for its NFR are the GRI Sustainability Reporting Standards, published in 2016 by the GRI – Global Reporting Initiative (GRI Standards), with reference to the selection of GRI Standards. In particular, according to GRI Standard 101: Foundation, paragraph 3, we referred to the disclosures reported in the table below for this document.

GRI STANDARD	GRI Disclosure	Description	Material theme
GRI 102 - General Disclosure	102-1	Name of the organization	
	102-2	Activities, brands, products, and services	
	102-3	Location of headquarters	
	102-4	Location of operations	
	102-5	Ownership and legal form	
	102-6	Markets served	
	102-8	Information on employees and other workers	Personnel enhancement
	102-9	Supply chain	Economic support to the community
	102-15	Key impacts, risks, and opportunities	Financial and capital solidity
	102-16	Values, principles, standards, and norms of behavior	
	102-17	Mechanisms for advice and concerns about ethics	Autonomy and integrity in company conduct
	102-18	Governance structure	
	102-22	Composition of the highest governance body and its committees	
	102-30	Effectiveness of risk management processes	
	102-41	Collective bargaining agreements	Personnel enhancement
	102-47	List of material topics	
	102-50	Reporting period	
GRI 103 - Management Approach 2016	103-1	Explanation of the material topic and its Boundary	
	103-2	The management approach and its components	
GRI 201 - Economic Performance	201-1	Direct economic value generated and distributed	Financial and capital solidity
GRI 204 - Procurement Practices	204-1	Proportion of spending on local suppliers	Economic support to the community
GRI 205 - Anti corruption	205-2	Communication and training about anti-corruption policies and procedures	Autonomy and integrity in company conduct
	205-3	Confirmed incidents of corruption and actions taken	
GRI 206 - Anti-competitive Behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	
GRI 301 - Materials	301-1	Materials used by weight or volume	
GRI 302 - Energy	302-1	Energy consumption within the organization	
GRI 303 - Water	303-1	Water withdrawal by source	
GRI 305 - Emission	305-1	Direct (Scope 1) GHG emissions	
	305-2	Energy indirect (Scope 2) GHG emissions	
	305-3	Other indirect (Scope 3) GHG emissions	
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	

GRI 306 - Effluents	306-2	Waste by type and disposal method	
GRI 401 - Employment	401-1	New employee hires and employee turnover	Personnel enhancement
	401-3	Parental leave	
GRI 403 - Occupational health and safety	403-2 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	
GRI 404 - Training and education	404-1	Average hours of training per year per employee	
GRI 405 - Diversity and equal opportunity	405-1	Diversity of governance bodies and employees	
	405-2	Ratio of basic salary and remuneration of women to men	
GRI 406 - Non discrimination	406-1	Incidents of discrimination and corrective actions taken	
GRI 417 - Marketing and labeling	417-2	Incidents of non-compliance concerning product and service information and labeling	Attention to the customer
	417-3	Incidents of non-compliance concerning marketing communications	
GRI 418 - Customer Privacy	418-1	Substantiated complaints regarding concerning breaches of customer privacy and losses of customer data	Autonomy and integrity in company conduct
G4 FINANCIAL SERVICES SECTOR DISCLOSURES	FS6	Percentage of the portolio for business lines by specif region, size (e.g.. micro/sme/large) and by sector	Attention to the customer
G4 FINANCIAL SERVICES SECTOR DISCLOSURES	FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	Economic support to the community

The reporting process and calculation methodologies

The process of collecting data and information and drafting the NFR is coordinated and managed by the Parent Company, in collaboration with the representatives of the Group structures and companies responsible for the various areas involved in the document drafting process. The following are the main calculation methods used:

- The accident frequency index is the ratio between the total number of injuries and the total number of hours worked, multiplied by 1,000,000
- The severity index is the ratio between the total number of days lost and the total number of workable hours, multiplied by 1,000
- The rate of absenteeism is the ratio between the days of absence during the reporting period and the total number of workable days in the same period
- Direct energy consumption: the conversion factors used are those of the Italian Greenhouse Gas Inventory 1990 – 2015 – National Inventory Report 2017 Annex 6. The gas consumption figures are inclusive of those relating to the condominium utilities (i.e. without a specific Banca Popolare di Sondrio meter), valued as a percentage of the condominium expense

reported by the administration, at 54% of the expenditure (as per benchmark analysis on the past 2015-2016). The consumption figures of the company car fleet have been obtained on the basis of annual fuel used, as per the fuel card registration associated with each vehicle. Consumption is derived from fuel expenditure, based on an average pump price published annually by the MEF.

- **The emission factors** used for the calculation of CO2e (CO2equivalente) emissions reported in this NFR are the following:
  - Direct emissions Scope 1: the calculation of the emissions is done on the basis of coefficients and formulas defined by ABI in the document entitled «Guidelines on the application in the bank of the Global Reporting Initiative (GRI) Environment Indicators, version G4», December 2017 version.
  - Indirect emissions Scope 2: The calculation of CO2 emissions is based on coefficients of the ratio of consumption conversion/CO2, CH4 and NO2 emissions, published by ISPRA and ENEA (according to indications defined by ABI in the document «Guidelines on the application in the bank of the Environment Indicators of Global Reporting Initiative (GRI), version G4», December 2017 version).
  - Other indirect emissions Scope 3: Emission conversion factors for business trips taken from the SKY Scanner and ECO Passenger portals for average travel journeys.
  - NOx, SOx and other significant emissions: Conversion Factors from 2017 SINAnet Report.

Human rights

As established by the Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights, the Banca Popolare di Sondrio Group has a duty to respect, protect and promote human rights and fundamental freedom for all, without distinction of gender, ethnicity, language, religion, age, sexual orientation and gender identity, political and trade union affiliation, origin, different ability or other particular conditions.

In this sense, as defined in the Code of Ethics and in the relevant company regulations (available on the website www.popso.it «Corporate information» section):

- «The Bank undertakes to guarantee working conditions that respect the dignity of the person and that forms of discrimination contrary to the law are not admitted or tolerated. To this end, it requires that acts of psychological violence or attitudes or behaviour that discriminate or harm the person, their beliefs or preferences in internal or external work relationships are not allowed. The Bank insists that there be no mobbing or harassment of any kind in internal or external work relationships. Furthermore, the Bank will not adopt or tolerate any form of retaliation against employees who complain about discrimination or harassment, nor against other workers who report such situations».

- «Any form of abuse of authority or coordination positions is expressly prohibited. Abuse is intended as any behaviour consisting in requesting or inducing to offer, services, personal favours or other benefits detrimental to the other's dignity, professionalism or autonomy».
- «The Bank undertakes to prepare all appropriate measures to prevent risks to health and safety in the workplace, entrusting the related tasks to qualified entities».
- «In full compliance with the provisions of Legislative Decree no. 196/2003 – «Code regarding the protection of personal data» («Privacy Code»), or local laws for foreign companies, the Bank undertakes to protect personal data acquired, stored and processed within the scope of its business in order to avoid any illegal, or even improper, use of such information».
- «Lastly, the Bank undertakes, in the event of assignment of works or services to third parties under contract, or in any case within the ordinary commercial relationships, to demand from its partners compliance with adequate safety standards for workers».
- In order to comply with the provisions of the law on whistleblowing (the reporting of illegal activities in the public administration or in private companies, by the employee who came to know it for work reasons) and therefore to strengthen within the entire corporate structure the culture of fairness and compliance with the rules, the Bank, has created a reporting system where staff (in security and with due confidentiality) may report acts and/or facts that may constitute violations of regulations governing banking activities consistent with specific regulatory provisions.
- The risk/offence of illegal staff recruitment (included among the predicate offences of Law 231), consisting in using, hiring or employing labour, subjecting workers to exploitative conditions and taking advantage of their state of need, is widely supervised and opposed.

Banca Popolare di Sondrio participates since 2004 in the «UN Global Compact» project which involves 8,902 enterprises in 166 countries. Our participation in the project is embodied in a responsible commitment to implement a series of corporate practices in support of universally recognised human rights, such as the dignity of work and the fight against corruption, as well as the protection of the environment.

In 2011, on suggestion of the Internal Supervisory Body, all the suppliers were informed about the adoption of a Code of Ethics and invited to view it and sign the acceptance of the principles contained therein.

From that moment on, all the managing bodies were instructed to include a clause relating to the Code of Ethics in contracts.

INCOME STATEMENT

2017 closed with a net profit of 159.210 million, up by 61.47% on 98.599 million of the previous year. All this in a general economic situation that is improving, characterised, among other things, by the positive performance by financial markets. The increased solidity of the economic outlook and a certain relaxation of geopolitical tensions have driven the rise in share price indices, while spreads on corporate bonds have fallen. Therefore, it was possible to reach results from securities and foreign exchange trading, far higher than in the previous year, and the good performance of net fees and commissions more than offset the downward trend in net interest income

Net interest income increased by 3.30%, coming in at 489.922 million during the year. The increase is due to recognition of the negative interest accrued on the funds received by the Parent Company from the ECB as part of the TLTRO II operations. After deducting this element, the interest margin shows a decline in percentage terms, which gradually decreased during the year, also due to the actions taken to improve the profitability of loans and to limit the cost of funding. The reduction in the cost of funding, albeit high in percentage terms, was not sufficient to offset the reduction in interest income, which was particularly marked for the securities portfolios. Competitive pressure contributed to a further reduction in the margins applied to the average loan. All of this translated into a reduction in interest rate differentials.

Interest income fell by 4.81% to 631.639 million, whereas interest expense came to 141.717 million, down by 25.14%.

Net fee and commission income performed well, coming in at 305.080 million, +4.09%, mainly thanks to the placement of financial products, especially for asset management and insurance products, but also on current accounts and collection and payment services. Fees and commissions from loans and foreign exchange trading have decreased.

Dividends collected amounted to 5.533 million, -23.25%.

The results of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 161.319 million +46.48%, especially for the good results in trading and selling activities. The portfolio of HFT assets showed a net result of 60.429 million, practically doubled compared with the previous year. Gains on the sale of AFS assets and other financial transactions amounted to 95.244 million, +25.30%, as the recomposition of the various portfolios continued during the year, realising the accrued capital gains. The result from assets carried at fair value was 5.761 million, compared with 2.309 million. Net hedging losses came to 0.115 million, compared with net hedging gains of 0.262 million.

Income from banking activities totalled 961.854 million, +8.72%.

Within this aggregate, the weighting of net interest income was 50.94% compared with 53.61%.

Net writedowns/write-backs for impairment came to 274.329 million, with a slight decrease of 1.51%, and was heavily affected by the extraordinary writedown of the units in the Fondo Atlante.

The consolidation of economic growth was reflected in an improvement in credit quality, with a reduction in the flow of new impaired loans. The component of loans to customers comes to 231.732 million, compared with 250.121 million, -7.35%. It should however be stressed that the various activities and processes activated by the Group for the monitoring and control of loans and receivables with customers in the various phases of disbursement and management provides positive feedback. The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has therefore gone down from 0.99% to 0.90%. The impairment adjustments to available-for-sale financial assets increased, reaching 35.801 million, +42.13%, mainly attributable to the 26.022 million write-down of the quotas held in the Atlante Fund as a result of the liquidation of the Banca Popolare Vicenza and Veneto Banca, of which the fund held almost all of the shares. It also includes 3,089 million of charges to help stabilise the Italian banking system, which remain after the intervention of the FITD Voluntary scheme in favour of Cassa di Risparmio di Cesena. The remainder refers to certain shares and other closed-end mutual funds.

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	2017	2016	(+/-)	% change
Net interest income	489,922	474,250	15,672	3.30
Dividends	5,533	7,209	-1,676	-23.25
Net fee and commission income	305,080	293,097	11,983	4.09
Results of financial activities	161,319	110,127	51,192	46.48
Total income	**961,854**	**884,683**	**77,171**	**8.72**
Net adjustments to loans and financial assets	-274,329	-278,545	4,216	-1.51
Net financial income	**687,525**	**606,138**	**81,387**	**13.43**
Personnel expenses	-236,214	-232,172	-4,042	1.74
Other administrative expenses	-277,130	-289,127	11,997	-4.15
Other operating income/expense	63,320	67,978	-4,658	-6.85
Net accruals to provisions for risks and charges	5,344	-2,439	7,783	-319.11
Adjustments to property, equipment and investment property and intangible assets	-36,214	-33,575	-2,639	7.86
Operating costs	**-480,894**	**-489,335**	**8,441**	**-1.72**
Operating profit (loss)	**206,631**	**116,803**	**89,828**	**76.91**
Net gains (losses) on equity investments and other investments	27,049	13,166	13,883	105.45
Profit (loss) before tax	**233,680**	**129,969**	**103,711**	**79.80**
Income taxes	-68,496	-30,094	-38,402	127.61
Profit (loss)	**165,184**	**99,875**	**65,309**	**65.39**
Profit pertaining to minority interests	-5,974	-1,276	-4,698	368.18
Profit attributable to the Parent Company	**159,210**	**98,599**	**60,611**	**61.47**

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement. Personnel expenses and other operating income have been reclassified, netting them off against the proceeds of the post-employment benefits fund of € 8.956 million.

Adjustments to other financial transactions amounted to 6.796 million, compared with 3.235 million in the prior year. They related to adjustments to endorsement loans granted. Financial income therefore comes to 687.525 million, +13.43%.

The efforts to improve efficiency are reflected in the trend of operating costs, which amounted to 480.894 million, -1.72%. The ratio of operating costs to income from banking activities, otherwise known as the cost-income ratio, has declined to 50.00%, from 55.31% in the prior year, while the ratio of operating costs to total assets has came to 1.15% from 1.32%.

Looking at costs in more detail, administrative expenses - normalised after excluding the provision for proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense - amounted to 513.344 million, -1.53%; of these, personnel expenses went from 232.172 to 236.214 million, +1.74%, while other administrative expenses declined from 289.127 to 277.130 million, –4.15%, showing a strong decline in the contributions to the Deposit and Resolution Guarantee Fund, which went from 43.911 million to 26.899 million, -38.74%. The increases in consultancy fees, the use of interbank networks and IT costs are significant.

We released part of the provisions for risks and charges which were in excess of 5,344 million with respect to a provision of 2.439 million.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 36.214 million, +7.86%.

Other income, stated after the above mentioned reclassification and net of other operating expenses, amounted to 63.320 million, -6.85%.

The aggregate of gains/losses from equity and other investments amounted to 27.049 million with a good increase on 13.166 million of last year. It includes 3.681 million deriving from the negative consolidation difference after the full consolidation of BNT S.p.A and Servizi Internazionali e Strutture Integrate 2000 S.r.l.

Profit before income taxes therefore totalled 233.680 million, +79.80%. After deducting income taxes of 68.496 million on 30.094 million, and minority interest of 5.974 million, the profit for the year amounted to 159.210 million, +61.47%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 29.31% compared with 23.15% in the previous year.

SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the Parent Company's financial statements for information on events that took place after 31 December 2017.

There is nothing worth noting with regard to Banca Popolare di Sondrio (SUISSE) SA, Factorit S.p.A, Banca della Nuova Terra S.p.A and Sinergia Seconda S.r.l.

In the current situation, where the Italian economy is going through a process of gradual consolidation, driven in particular by domestic demand in the wider context of a more general expansion of the Eurozone and global economies, we believe that the Group can continue to operate with positive economic results.

As for our Group, both the interest margin and commission income are expected to improve in 2018, despite the high competition on the market. In light of the current economic recovery, it is legitimate to expect positive effects on credit quality and on the size of adjustments to the income statement. The performance of international and European financial markets will naturally be able to influence considerably the result of securities trading, while the steps taken to hold down costs will continue by rendering the structure more efficient.

In view of the above, without forgetting the uncertainties linked to the national and international scenario, it is reasonable to assume that this upward trend in corporate profitability should continue.

Sondrio, 23 March 2018

THE BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

CONSOLIDATED BALANCE SHEET

(in thousands of euro)

	ASSET ITEMS		31-12-2017		31-12-2016
10.	CASH AND CASH EQUIVALENTS		**699,379**		**789,612**
20.	FINANCIAL ASSETS HELD FOR TRADING		**691,411**		**1,019,712**
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		**281,139**		**96,303**
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**6,788,037**		**6,644,437**
50.	HELD-TO-MATURITY INVESTMENTS		**4,132,572**		**117,023**
60.	LOANS AND RECEIVABLES WITH BANKS		**1,920,320**		**1,786,732**
70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**25,755,836**		**25,313,464**
100.	EQUITY INVESTMENTS		**217,634**		**208,575**
120.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**327,490**		**320,922**
130.	INTANGIBLE ASSETS		**23,720**		**23,869**
	of which:				
	- goodwill	7,847		7,847	
140.	TAX ASSETS		**435,064**		**489,943**
	a) current	49,618		73,251	
	b) deferred	385,446		416,692	
	b1) of which as per Law 214/2011	336,368		360,592	
160.	OTHER ASSETS		**352,052**		**390,978**
	TOTAL ASSETS		**41,624,654**		**37,201,570**

THE CHAIRMAN
Francesco Venosta

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

EQUITY AND LIABILITY ITEMS			31-12-2017		31-12-2016
10.	DUE TO BANKS		**6,204,835**		**2,504,510**
20.	DUE TO CUSTOMERS		**28,800,925**		**27,702,353**
30.	SECURITIES ISSUED		**2,833,359**		**3,231,782**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**31,259**		**73,016**
60.	HEDGING DERIVATIVES		**22,468**		**38,734**
80.	TAX LIABILITIES		**38,855**		**45,636**
	a) current	2,705		2,963	
	b) deferred	36,150		42,673	
100.	OTHER LIABILITIES		**673,672**		**701,529**
110.	POST-EMPLOYMENT BENEFITS		**45,491**		**44,805**
120.	PROVISIONS FOR RISKS AND CHARGES:		**204,277**		**201,724**
	a) pension and similar obligations	160,799		151,046	
	b) other provisions	43,478		50,678	
140.	VALUATION RESERVES		**28,478**		**27,000**
170.	RESERVES		**1,077,440**		**1,033,417**
180.	SHARE PREMIUM RESERVE		**79,005**		**79,005**
190.	SHARE CAPITAL		**1,360,157**		**1,360,157**
200.	TREASURY SHARES (-)		**(25,370)**		**(25,349)**
210.	MINORITY INTERESTS		**90,593**		**84,652**
220.	PROFIT (LOSS) FOR THE YEAR(+/-)		**159,210**		**98,599**
	TOTAL LIABILITIES AND EQUITY		**41,624,654**		**37,201,570**

The 2016 figures have been restated in order to incorporate the effects of the conclusions reached by the Swiss accounting body, i.e. to account for the fully insured Swiss BVG pension as defined benefit plans rather than as defined contribution plans, as defined by the IAS 19.

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

ITEMS			2017		2016
10.	INTEREST AND SIMILAR INCOME		631,639		663,566
20.	INTEREST AND SIMILAR EXPENSE		(141,717)		(189,316)
30.	**NET INTEREST INCOME**		**489,922**		**474,250**
40.	FEE AND COMMISSION INCOME		324,053		311,875
50.	FEE AND COMMISSION EXPENSE		(18,973)		(18,778)
60.	**NET FEE AND COMMISSION INCOME**		**305,080**		**293,097**
70.	DIVIDENDS AND SIMILAR INCOME		5,533		7,209
80.	NET TRADING INCOME		60,429		31,545
90.	NET HEDGING GAINS (LOSSES)		(115)		262
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF:		95,244		76,011
	b) available-for-sale financial assets	94,795		76,331	
	d) financial liabilities	449		(320)	
110.	NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		5,761		2,309
120.	**TOTAL INCOME**		**961,854**		**884,683**
130.	NET IMPAIRMENT LOSSES ON:		(274,329)		(278,545)
	a) loans and receivables	(231,732)		(250,121)	
	b) available-for-sale financial assets	(35,801)		(25,189)	
	d) other financial transactions	(6,796)		(3,235)	
140.	**NET FINANCIAL INCOME**		**687,525**		**606,138**
170.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**		**687,525**		**606,138**
180.	ADMINISTRATIVE EXPENSES:		(522,300)		(525,961)
	a) personnel expenses	(245,170)		(236,834)	
	b) other administrative expenses	(277,130)		(289,127)	
190.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		5,344		(2,439)
200.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(18,945)		(18,606)
210.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(17,269)		(14,969)
220.	OTHER OPERATING INCOME/EXPENSE		72,276		72,640
230.	**OPERATING COSTS**		**(480,894)**		**(489,335)**
240.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		26,517		12,973
250.	NET RESULT OF FAIR VALUE MEASUREMENTOF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS		515		130
270.	NET GAINS ON SALES OF INVESTMENTS		17		63
280.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**233,680**		**129,969**
290.	INCOME TAXES		(68,496)		(30,094)
300.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**165,184**		**99,875**
320.	**PROFIT (LOSS) FOR THE YEAR**		**165,184**		**99,875**
330.	PROFIT (LOSS) OF THE YEAR OF MINORITY INTERESTS		(5,974)		(1,276)
340.	**PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE PARENT COMPANY**		**159,210**		**98,599**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items/Amounts		2017	2016
10.	**Profit for the year**	**165,184**	**99,875**
	Other income items net of income taxes that will not be reclassified to profit or loss		
40.	Defined-benefit plans	(3,654)	(9,765)
60.	Share of valuation reserves of equity investments valued at net equity	(1)	88
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
100.	Available-for-sale financial assets	5,620	(39,455)
120.	Share of valuation reserves of equity investments valued at net equity	(520)	213
130.	**Total other income items net of income taxes**	**1,445**	**(48,919)**
140.	**Comprehensive income (Item 10+130)**	**166,629**	**50,956**
150.	Consolidated comprehensive income pertaining to minority interests	(5,941)	(1,252)
160.	**Consolidated comprehensive income pertaining to the Parent Bank**	**160,688**	**49,704**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2016	Change in opening balances	Opening balance at 1.1.2017	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	–
c) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	1,073,800	–	1,073,800	72,791	–	(27,492)	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**26,870**	**–**	**26,870**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,349)**	**–**	**(25,349)**	**–**	**–**	**–**	**–**
Profit for the year	**99,875**	**–**	**99,875**	**(72,791)**	**(27,084)**	**–**	**–**
Equity attributable to the group	**2,572,829**	**–**	**2,572,829**	**–**	**(27,084)**	**(27,492)**	**–**
Equity attributable to minority interests	**84,652**	**–**	**84,652**	**–**	**–**	**–**	**–**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2015	Change in opening balances	Opening balance at 1.1.2016	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	–
c) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	965,679	–	965,679	102,696	–	5,425	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**89,310**	**(13,521)**	**75,789**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,322)**	**–**	**(25,322)**	**–**	**–**	**–**	**–**
Profit for the year	**137,500**	**–**	**137,500**	**(102,696)**	**(34,804)**	**–**	**–**
Equity attributable to the group	**2,562,829**	**(13,521)**	**2,549,308**	**–**	**(31,581)**	**5,425**	**–**
Equity attributable to minority interests	**86,623**	**–**	**86,623**	**–**	**(3,223)**	**–**	**–**

The 2016 figures have been restated in order to incorporate the effects of the conclusions reached by the Swiss accounting body, i.e. to account for the fully insured Swiss BVG pension as defined benefit plans rather than as defined contribution plans, as defined by the IAS 19.

Changes during the year								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held	Comprehensive income	**Equity attributable to the group 31.12.2017**	**Equity pertaining to minority interests 31.12.2017**
–	–	–	–	–	–	–	**1,360,157**	**33,579**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	**1,074,211**	**44,888**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**1,445**	**28,478**	**(163)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(21)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,370)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**165,184**	**159,210**	**5,974**
(21)	**–**	**–**	**–**	**–**	**–**	**160,688**	**2,678,920**	**–**
–	**–**	**–**	**–**	**–**	**–**	**5,941**	**–**	**90,593**

Changes during the year								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held	Comprehensive income	**Equity attributable to the group 31.12.2016**	**Equity pertaining to minority interest 31.12.2016**
–	–	–	–	–	–	–	**1,360,157**	**33,579**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	**1,030,188**	**43,612**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**(48,919)**	**27,000**	**(130)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(27)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,349)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**99,875**	**98,599**	**1,276**
(27)	**–**	**–**	**–**	**–**	**–**	**49,704**	**2,572,829**	**–**
–	**–**	**–**	**–**	**–**	**–**	**1,252**	**–**	**84,652**

CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

	31/12/2017	31/12/2016
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**538,558**	**485,281**
- profit for the year (+/-)	159,210	98,599
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	(1,565)	1,418
- net hedging gains (losses) (-/+)	116	(262)
- net impairment losses (+/-)	293,278	295,146
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	36,213	33,575
- provisions for risks and charges and other costs/revenues (+/-)	20,025	55,846
- unpaid taxes and duties (+)	68,495	30,093
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	–	–
- other adjustments (+/-)	(37,214)	(29,134)
2. **Cash generated/absorbed by financial assets**	**(1,161,739)**	**(1,960,806)**
- financial assets held for trading	341,803	851,546
- financial assets at fair value through profit or loss	(189,936)	92
- available-for-sale financial assets	(172,624)	(409,579)
- loans and receivables with banks: sight	(44,882)	125,123
- loans and receivables with banks: other receivables	(121,084)	(919,641)
- loans and receivables with customers	(996,191)	(1,571,633)
- other assets	21,175	(36,714)
3. **Cash generated/absorbed by financial liabilities**	**4,657,284**	**1,544,562**
- due to banks: sight	228,158	212,498
- due to banks: other payables	3,599,972	(19,420)
- due to customers	1,328,731	1,332,983
- securities issued	(382,436)	50,485
- financial liabilities held for trading	(60,736)	7,667
- financial liabilities carried at fair value	–	–
- other liabilities	(56,405)	(39,651)
Net cash generated/absorbed by operating activities	**4,034,103**	**69,037**

	31/12/2017	31/12/2016
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**57,659**	**33,401**
- sales of equity investments	–	–
- dividends collected from equity investments	8,670	5,770
- sales and reimbursements of held-to-maturity investments	46,686	27,453
- sale of property, equipment and investment property	2,303	178
- sale of intangible assets	–	–
- sale of business divisions	–	–
2. **Cash absorbed by**	**(4,097,493)**	**(50,078)**
- purchases of equity investments	–	(7)
- purchases of held-to-maturity investments	(4,051,181)	(18,290)
- purchases of property, equipment and investment property	(28,826)	(15,222)
- purchases of intangible assets	(17,486)	(16,559)
- purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**(4,039,834)**	**(16,677)**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	(21)	(27)
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(26,984)	(34,705)
Net cash generated/absorbed by financing activities	**(27,005)**	**(34,732)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**(32,736)**	**17,628**

Key:

(+) generated (-) absorbed

RECONCILIATION

Line items	31/12/2017	31/12/2016
Cash and cash equivalents at beginning of year	789,612	766,097
Total net cash generated/absorbed in the year	(32,736)	17,628
Cash and cash equivalents: effect of change in exchange rates	(57,497)	5,887
Cash and cash equivalents at end of year	699,379	789,612

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

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

Banca Popolare di Sondrio s.c.p.a. declares that these consolidated financial statements have been prepared in accordance with all the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2017 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

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

The format of the consolidated financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by Legislative Decree 38/2005 and subsequent updates.

Section 2 *Basis of preparation*

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

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations. Considering the structure of deposits based essentially on customer current accounts, repurchase agreements and loans, mainly to retail customers and SMEs which the Group monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the difficulties encountered by sovereign debt securities in the recent past, management is of the opinion that there are no critical areas that could negatively influence the Group's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of

the reclassification is explained together with the reasons for it. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent updates.

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

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

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

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

All of the figures reported in the consolidated financial statements and explanatory notes are shown in thousands of euro.

Section 3 *Scope of consolidation and methodology*

The consolidated financial statements present the economic and financial position at 31.12.2017 of the Banca Popolare di Sondrio banking group, which comprises the Parent Company, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.a., Sinergia Seconda, Banca della Nuova Terra S.p.a., Popso Covered Bond S.r.l. and the entities that are controlled by the Group pursuant to IFRS 10.

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

Name	Location	Type of relationship [1]	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 180,000	100	100
Factorit S.p.a.	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	1	60,000	100	100
Banca della Nuova Terra S.p.a.	Milan	1	31,315	100	100
Pirovano Stelvio S.p.a.**	Sondrio	1	2,064	100	100
Servizi Internazionali e Strutture Integrate 2000 S.r.l**	Milan	1	75	100	100
Immobiliare San Paolo S.r.l.**	Tirano	1	10*	100	100
Immobiliare Borgo Palazzo S.r.l.**	Tirano	1	10*	100	100
Popso Covered Bond S.r.l	Conegliano V.	1	10	60	60

[1] 1 = majority of voting rights at ordinary shareholders' meeting.
4= other form of control

* held by Sinergia Seconda S.r.l.

** equity investments not included in the banking group

In addition, Fondo Immobiliare Centro delle Alpi Real Estate, which is 100% held by the Parent Company, has been consolidated. As defined by IFRS 10, control exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control may therefore be obtained in various ways, including via exposure to risks and rewards, and not just as a consequence of the power to influence financial and operating policies. Compared to the previous year, the line-by-line consolidation also involved Banca della Nuova Terra S.p.a. and Servizi Internazionali e Strutture Integrate 2000 S.r.l., as the Parent Company acquired the full control over the year.

IFRS3 «Business combinations» is the reference standard for the accounting of acquisition transactions in the Group consolidated financial statements. This standard defines a business combination as a transaction or other event in which a buyer acquires control over one or more businesses and consolidates the assets, liabilities and contingent liabilities of the company acquired at their respective fair values as of the acquisition date, including any identifiable intangible assets not recognised in the financial statements of the acquired company. According to this principle, for a correct accounting treatment of the transaction, the business combination must be accounted for on the basis of the so-called «Acquisition Method». On the basis of the Acquisition Method, which refers to the date of acquisition of control, the aggregate price must be allocated (through a process known as «Purchase Price Allocation» or PPA), recognising the assets and liabilities (including contingent liabilities) acquired and assumed at their fair values and minority interests, in addition to identifying any implicit intangible assets previously not accounted for in the financial statements of the acquired company. Any difference between the acquisition price and the fair value (net of the tax effects) of these assets and liabilities, if positive, leads to goodwill to be recorded in the balance sheet; if negative, the impact must be recognised in the income statement as a positive component («badwill»). Please refer to part G of the notes for further details.

The joint venture shown below is valued at equity:

Name	Location	Type of relationship [1]	Share capital (in thousands)	% held	% of votes
Rajna Immobiliare S.r.l	Sondrio	7	20	50	50

[1] 7 = joint control.

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

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

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

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

d) there is an exchange of managers;

e) essential technical information is being provided.

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

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

The ownership percentages are specified in the following table:

Name	Location	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Arca Holding S.p.a.	Milan	50,000	21.137
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi Srgpa	Milan	5,200	19.600
Bormio Golf S.p.a.	Bormio	317	25.237
Lago di Como Gal S.c.r.l.	Canzo	22	28.953
Sofipo S.A.	Lugano	(CHF) 2,000*	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27.000
Sifas S.p.a.	Bolzano	1,209**	21.614

* held by Banca Popolare di Sondrio (Suisse) SA
** held by Pirovano Stelvio S.p.a.

With line-by-line consolidation, the book value of the investments is eliminated against the related equity and all of the assets and liabilities, guarantees, commitments and other memorandum accounts are included, as are the revenues and costs of the subsidiaries.

Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated. The financial statements of these group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the group.

Companies in which the bank does not have an investment, but for which it has received pledged voting shares are not consolidated, because the pledge is designed to protect the loans granted and not to influence the company's operating policies to obtain economic benefits.

The significant evaluations and assumptions adopted to establish the existence of control are also given in paragraph 7 «Equity Investments» in «A.2 Part relating to the main line items in the financial statements».

There are no restrictions concerning Group assets/liabilities referred to in paragraph 13 of IFRS 12.

Translation of financial statements in currencies other than the euro

The financial statements of Banca Popolare di Sondrio (Suisse) SA are translated into euro at the official year-end exchange rate for balance sheet items, while costs and revenues are translated into euro at average exchange rate. Differences arising on translation are booked to reserves.

Section 4 *Subsequent events*

No events have taken place between the reference date for these consolidated financial statements and the date of their approval by the Board of Directors on 23/03/2018 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 5 *Other aspects*

The accounting policies applied during the year under review are consistent with those applied in 2016. The changes resulting from certain EU Regulations that came into force during the year did not have any significant impact on the financial statements.

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

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

The Parent Company and other Group companies defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2017, as required by prevailing accounting standards and relevant regulation.

These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale.

The outcome of this work supports the carrying amount of these items at 31 December 2017. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a reduced growth and high levels of uncertainty about the prospects for recovery, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment which could, as in the previous year, experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2017.

Standards already in force whose application became mandatory from 2017 or subsequent years:

– Commission Regulation (EU) 2017/1986 of 31 October 2017, which adopts IFRS 16 Leases, designed to improve the accounting treatment and reporting of lease contracts. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2019.
– Commission Regulation (EU) 2017/1987 of 31 October 2017, which adopts Clarifications of IFRS 15 «Revenues from contracts with customers». The amendments aim to clarify certain requirements and provide a further transitional facilitation for companies applying the standard. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2018.
– Commission Regulation (EU) 2017/1988 of 3 November 2017 adopting the amendments to IFRS 4 «Joint application of IFRS 9 Financial instruments and IFRS 4 Insurance contracts». The amendments to IFRS 4 aim to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 and the effective date of the new accounting standard on insurance contracts that replaces IFRS 4 (IFRS 17). The financial conglomerates referred to in the definition in Article 2, no. 14 of Directive 2002/87/EC can decide that none of its entities operating in the insurance sector within the meaning of Article 2, no. 8, letter b) of the same directive need to apply IFRS 9 to the consolidated financial statements for the financial years commencing before 1 January 2021, if all of the following conditions are met:
  a) after 29 November 2017, between the insurance sector and the other sectors of the financial conglomerate, no financial instruments other than financial instruments measured at fair value are transferred, for which the changes in fair value are recognised through profit or loss for the year from both the sectors involved in the transfers;
  b) the financial conglomerate indicates in the consolidated financial statements the group insurance entities applying IAS 39;
  c) the additional information required by IFRS 7 is provided separately for the insurance

sector that applies IAS 39 and for the rest of the group that applies IFRS 9. Companies have to apply the Amendments to IFRS 4 from the date of commencement of their first financial year beginning on or after 1 January 2018. However, subject to the above conditions, financial conglomerates can choose to apply the Amendments to IFRS 4 from the start date of their first financial year beginning on or after 1 January 2018.

- Commission Regulation (EU) 2017/1989 of 6 November 2017 adopting Amendments to IAS 12 Income taxes - Recognition of deferred tax assets for unrealised losses. The amendments are intended to clarify how to account for deferred tax assets related to debt instruments measured at fair value. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2017.
- Commission Regulation (EU) 2017/1990 of 6 November 2017 adopting Amendments to IAS 7 Cash Flow Statement -Disclosure Initiative aimed at clarifying IAS 7 to improve information on the financing activities of an entity provided to users of the financial statements. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2017.
- Regulation (EU) no. 1905/2016 dated 22 December 2016 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 15. This applies from 1 January 2018.
- Regulation (EU) 2067/2016 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 9. This applies from 1 January 2018.

IFRS 9: the new accounting standard on financial instruments

The new IFRS 9, issued by the IASB (International Accounting Standard Board) on 24 July 2014 and approved by the European Commission with Regulation 2067/2016, replaces IAS 39, which regulates the classification and measurement of financial instruments, starting from 1 January 2018.

As it's generally known, the global financial crisis had among its various effects the growing conviction that the accounting rules in force at the time were unable to intercept the progressive deterioration of the macroeconomic context, delaying the recognition of bad debts and losses on other financial assets. Against these critical elements, the IASB launched a complex project in 2008 aimed at updating IAS 39, a programme that proceeded gradually in stages, ending with final approval in 2016.

IFRS 9 introduces significant changes in the areas of «classification and measurement», «impairment» and «hedge accounting» of financial instruments.

With regard to the first area, new rules for the classification and measurement of financial instruments are provided through:

- the introduction of the concepts of «Business Model» and «SPPI Test» (Solely Payments of Principal and Interest Test), an assessment aimed at analysing the contractual characteristics of the instruments' cash flows; combining these elements provides guidance on how to classify the assets correctly;
- the identification of three new accounting categories: assets measured at amortised cost, assets measured at fair value and recognised through profit or loss, assets measured at fair value and recognised in equity.

With reference to the impairment model for the quantification of value adjustments on loans valued at amortised cost, the approach to the calculation of write-downs has changed, going from the criterion of «incurred losses» (as required by the previous IAS 39) to «expected losses» (so based on reasonably available prospective information).

Another important change concerns the time horizon for determining the Expected Credit Loss, also linked to identification of the so-called «significant increase in credit risk»: specifically, if the credit quality of an instrument has not undergone a «significant» deterioration with respect to its initial measurement, the new standard requires an estimate of expected losses over a time horizon of only 12 months; if there is «significant» deterioration, or if there is objective evidence of impairment, the calculation has to refer to the entire residual life of the instrument.

This distinction introduces a new model of segmentation of the portfolio of financial instruments into different «stages», based on the credit quality observed from time to time. The instruments are now classifiable in:

- *Stage* 1: this includes the assets that did not show a significant increase in credit risk from the time of their initial recognition or that present a low credit risk at the reference date;
- *Stage* 2: this includes the instruments that showed a significant increase in credit risk since their initial recognition, but that do not present objective evidence of impairment at the reference date;
- *Stage* 3: this includes the assets that show objective evidence of impairment at the reference date.

As regards hedge accounting, the regulatory changes concern the so-called «General Hedge» and are linked to the possibility of adopting the new IFRS 9 or, alternatively, continuing to follow the rules laid down in IAS 39.

In view of the important innovation profiles introduced by IFRS 9, the Group deemed it necessary to activate a specific project for the conversion of the current infrastructures, applications and internal regulations to the new accounting provision. These activities were commenced in 2015, when a «gap analysis» was carried out to identify the possible impacts deriving from the application of the new accounting standard, with regard to both the classification and measurement of financial instruments and the new model of impairment.

In 2016, the Group extended the project with the aim of continuing the impact analyses and launching the configuration phase of the target operating model, completing implementation in line with the entry into force of the new standard. The last steps in the transition to IFRS 9 also led to the updating of the document framework in order to give appropriate formalisation and definition to the new processes and responsibilities and to map the changes that have taken place, including changes to applications.

The project was coordinated jointly by the Administration & General Accounting, Risk Control and Information Systems departments of the Parent Company. Project governance also saw the involvement of top management in specific Steering Committees, that laid down the guidelines for implementation, as well as that of the Control Functions, above all the Validation and Internal Audit Functions.

During 2017 the project was involved by various checks by the European Supervisory Authority. The Group kept the Regulator up-to-date with progress reports on implementation and with feedback on methodological aspects and quantitative impacts.

As a consequence of the various areas of intervention, the Group chose to revise and integrate its information structure, taking advantage of the opportunity created by this change in accounting standard to improve and standardise its application tools, reinforcing IT processes and optimising storage and data processing.

In order to perform timely quality checks of the data, implementations and impact assessments, starting from the second half of 2017 the Group carried out both process and quantitative simulations, constantly monitoring the results, continuously informing Top Management and promoting specific initiatives to train up the employees involved in the new operating procedures.

The formalisation and adjustment of internal regulations for the changes introduced by IFRS 9 was completed in September 2017. Towards the end of last year, several training sessions were held for the personnel concerned.

As regards the classification and measurement of financial instruments, the Group has carried out specific activities related to interpretation of the new accounting standard, identification of the business processes affected and the possible areas of impact. This has made it possible to identify a new structure for the accounting processes and to start designing the target operating model.

As regards impairment techniques, the methods for determining the significant increase in credit risk have been defined for the purpose of correctly allocating the financial instruments within the three stages covered by the new Standard, through the use of synthetic indicators that allow correct measurement of the creditworthiness of the counterparties and an assessment of any deterioration over time. These elements were identified through consolidated internal measurement metrics, and - where necessary - through the use of external parameters, acquiring data from various information sources and adopting risk-based methodologies.

The models for the quantification of the Expected Credit Loss have also been adapted for the purpose of measuring the «lifetime» of loss forecasts (where necessary), as well as for the integration of forward-looking information in the calculation methods, in line with the estimates of the evolution of the macroeconomic context adopted in other key business processes (ICAAP, strategic planning, etc.) and with the forward-looking elements linked to the introduction of the transfer scenarios included in the NPL strategy. The various adjustment activities relied on the current availability of models and historical information held by the Group, making use of these elements if they were deemed compliant with the requirements of the new standard, thereby maintaining alignment with existing practices and processes.

Implementation of the new requirements and the reclassification of financial instruments has implied an increase in adjustments to the total portfolio, with a negative impact on Common Equity Tier 1 (CET1); it also involved recognition of a negative equity reserve estimated at around € 43 million, net of tax.

IFRS 15 «Revenues from contracts with customers»

IFRS 15, published on 28 May 2014, introduces a new model for the recognition of revenues deriving from contracts with customers, and replaces the current standards on the subject, being IAS 18, IAS 11 and the related interpretations. Entities are required to recognise revenues based on the remuneration expected from the products or services provided, which is calculated in five steps: identification of the contract, identification of the individual obligations arising under the contract, determination of the price of the transaction, allocation of the price to each of the individual obligations and recognition of the revenue when control over the product or service is transferred to the customer.

This standard will apply from 1 January 2018.

In 2015 the Group launched a project that continued during 2016, with a view to analysing the main contracts according to the new rules. A series of studies was carried out in 2017 in order to define the approach to the new standard and how to upgrade processes and systems. Responsibility for coordinating the various project activities was given to the Administration & General Accounting department of the Parent Company, which has been supported by other offices and services, including in particular the Sales and Marketing department and the Management Accounting department. The same in-depth analysis was carried out by the respective functions at the subsidiaries.

Starting from the second half of 2017, the areas and methods of intervention on the different topics introduced by the new standard were first defined, those of an organisational and operational nature as well as those concerning regulatory compliance. The main elements concern:

- the allocation of prices for certain transactions or products, including variable components, on one or more performance obligations;
- contracts with performance obligations that are fulfilled «over time» or at a «point in time»;
- revenues on a gross or net basis depending on the role of «principal» or «agent» performed by the entity in the transaction.

The target operating model was therefore defined, with timeliness, phases and activities consistent with the scope of regulatory developments.

In the last few months of 2017, the formalisation and regulatory compliance activity for the changes introduced by the new standard was also carried out.

The First Time Adoption (FTA) phase is currently being finalised during the first few months of 2018, in order to record the effects of the accounting transition to the new IFRS 15.

The impacts of FTA of the new standard are not significant in terms of the effects on book equity; they refer mainly to the recognition of liabilities (approximately € 0.3 million) to represent the effects that certain contractual clauses may have on revenues.

The financial statements are audited by EY S.p.A in accordance with the shareholders' resolution of 29 April 2017 which appointed them as auditors for the nine year period from 2017 to 2025.

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

1. Financial assets held for trading

Classification

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

The embedded instruments comply with the definition of a derivative even after separation, and the hybrid instruments to which they belong are not measured at fair value through the income statement.

Recognition

Assets held for trading are recorded at the settlement date with reference to their fair value, usually represented by the consideration paid, while the transaction costs and revenues are reflected directly in the income statement.

Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

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

If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

If the fair value of equity instruments cannot be determined on a reliable basis, they are stated at cost.

Recognition of components affecting the income statement

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

Interest income and dividends are reported in the income statement under «Interest and similar income» and «Dividends and similar income» respectively.

Derecognition

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

2. Available-for-sale financial assets

Classification

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

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

Recognition

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

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

Accounting policies

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

Variable-yield securities whose fair value cannot be determined reliably are stated at cost. These comprise equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Group operates. These instruments show that equities represent the majority in this portfolio. The fair value of these investments cannot be reliably determined, given that the valuation techniques applied to them would have to make significant use of discretionary, non-market factors.

An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

The rules adopted by the Bank prescribe that an impairment test has to be carried out on variable-yield securities in one of the following cases:

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

Recognition of components affecting the income statement

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

Income and charges deriving from changes in fair value, net of the related deferred tax effect, are recorded in specific equity reserves, known as «Valuation reserves», until the asset is derecognised or its value is impaired; the accumulated gains or losses are released to the income statement at the time of derecognition or the recognition of impairment. Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within equity.

Derecognition

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

3. Held-to-maturity investments

Classification

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

Recognition

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

Any assets booked under the terms of the amendment to IAS 39 regarding the application of fair value, as adopted by the European Union with EC Regulation 1004/2008 of 15/10/2008 are measured at their fair value as of 1 July 2008, providing they were on the books as of 31 October 2008; those booked subsequently are shown at their fair value at the date of reclassification.

Accounting policies

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

Recognition of components affecting the income statement

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

Derecognition

Held-to-maturity investments are derecognised on expiry of the contractual rights over the related financial flows.

4. Receivables

4.1 Cash loans and deposits

Classification

Receivables comprise deposits with banks and loans to customers, made directly or acquired from third parties, which have fixed or determinable payments, not listed on an active market. Receivables also include trade receivables, repo transactions, loans originating from finance leases and securities not listed on an active market that were acquired as a result of subscriptions or private placements, with payment amounts that are known or determinable.

Recognition

Receivables and loans are classified in the receivables portfolio when they are paid out or acquired and cannot be transferred to other portfolios subsequently.

Loans include the advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables assigned to the company and booked in the name of the assigned debtor for which the related risks and benefits have all been substantially transferred to the assignee.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method. Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them.

The initially recorded value includes any transaction costs and revenues directly associated with each loan.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans without a specific repayment date and loans repayable on demand are booked at their historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this value. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount the expected cash flows, even if the loan is later restructured and changes are made to the contractual rate.

Loans are subjected to impairment testing at each reporting date to check for any loss in value due to deterioration in the solvency of borrowers.

For measurement purposes, loans are classified into two macro categories: impaired loans and performing loans. In accordance with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts».

Non-performing loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.

Exposures classified as unlikely-to-pay loans are credit exposures, other than non-performing, for which the Group deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.

Impaired past due and/or overdrawn exposures are exposures, other than non-performing or likely default, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 continuous days and which exceed a set materiality threshold. Impaired past due and/or overdrawn exposures may be determined with reference to the position of the individual debtor or, alternatively, solely for exposures to retail customers, with reference to a single transaction.

Loans may be measured on a detailed or an overall basis. Losses in the value of individual loans are represented by the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

a) value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan;
b) expected timing of recoveries, considering the progress made by recovery procedures;
c) internal rate of return.

Non-performing loans are assessed on either a detailed or an overall basis. The specific analysis of non-performing loans takes the following parameters into account:
a) recoveries forecast by the account managers;
b) expected timing of recoveries based on historical-statistical data;
c) original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

Overall assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:
a) recoveries forecast by the offices concerned;
b) expected timing of recoveries based on historical-statistical data;
c) original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of non-performing loans for which no specific estimate has been made of the loss attributable to each individual relationship. These loans are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Past due/overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters identified by the Supervisory Authorities. They are subject to a detailed assessment attributed to each risk position. In the absence of specific forecasts of the losses attributable to each individual relationship, the assessment takes into account the losses recorded historically in the category of exposures, as well as their technical form, existing guarantees and the ageing of the past due position. The responsible offices prepare appropriate statistical analyses to determine adjusting factors suitable for the loan category concerned.

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

Recognition of components affecting the income statement

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

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

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

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

4.2 Endorsement loans

Classification

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

Recognition and measurement

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

Recognition of components affecting the income statement

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

5. Financial assets at fair value through profit or loss

The portfolio of «Financial assets at fair value through profit or loss» comprises the securities for which the «fair value option» has been applied. The recognition, measurement and derecognition criteria applied are the same as those adopted in relation to financial assets held for trading.

The income elements relating to instruments classified as financial assets at fair value through profit or loss booked to the income statement in the period when they arise to «net gains on financial assets and liabilities at fair value through profit or loss».

6. Hedging transactions

Classification and recognition

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

The hedging of market risks can take two different forms:

a) fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
b) cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

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

Hedging instruments are recorded using the «contract date» method.

Measurement and recognition of components affecting the income statement

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

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

2) hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement.

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

Cash flow hedges are measured and recorded on the following basis:

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

Derecognition

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

7. Equity investments

Classification

The portfolio of equity investments comprises the holdings in subsidiary companies, associated companies and companies under joint control. Control is presumed to exist when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control is therefore deemed to exist in the following circumstances:

a) availability of actual and potential voting rights at a shareholders' meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;
b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;
c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

A company is an associated company if the Group exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

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

Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control.

Recognition

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

Accounting policies

Investments are subsequently valued at equity, determined with reference to the value indicated in the latest approved financial statements.

The initially-recorded value of each equity investment is increased or decreased in proportion to the profit or loss for the year of the company concerned, and is reduced by the amount of any dividends collected. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

The negative differences on initial recognition, the interest in profits or losses for the year, gains and losses on disposal and impairment losses are recorded in the «Net gains (losses) on equity investments» caption of the income statement, except for «Profit (loss) from disposal of subsidiaries» which are recorded under caption «Net gains on sales of investments».

Derecognition

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

8. Property, equipment and investment property

Classification

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

As required by IAS 17, assets held under finance leases are also classified in this caption. In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation.

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and writebacks are recorded in the «Depreciation and net impairment losses on property, equipment and investment property» caption of the income statement.

It is not permitted to book any subsequent recoveries in value.

With regard to buildings held for investment purposes, the net result of their measurement at fair value is recorded separately in the income statement.

Derecognition

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

9. Intangible assets

Classification

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

Intangible assets comprise software and goodwill.

Recognition

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

Goodwill is booked to assets when it derives from a business combination according to the criteria laid down in IFRS 3 as the residual surplus between the overall cost incurred for the operation and the net fair value of the acquired assets and liabilities that constitute businesses or business units.

If the cost incurred is lower than the fair value of the assets and liabilities acquired, the negative difference («badwill») is booked directly to the income statements.

Accounting policies

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

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

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

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable value is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.

Recognition of components affecting the income statement

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

It is not permitted to book any subsequent recoveries in value.

Derecognition

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

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

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

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

11. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes.

Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply.

Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain.

Deferred tax assets determined on the basis of deductible temporary differences are recorded in the financial statements to the extent that they are likely to be recovered; this probability is assessed by carrying out a probability test, based on the ability to continue generating positive taxable income for the Group or, as a result of exercising the Tax Consolidation option, to all member companies.

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

12. Provisions for risks and charges

This caption comprises the following provisions:

a) Provisions for other long-term employee benefits. These are included in «Provisions for risks and charges» based on the valuation of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of post-employment benefits; once again, the actuarial gains and losses deriving from actuarial estimates are treated in accordance with the provisions of the revised version of IAS 19 endorsed by EC Regulation 475 of 5 June 2012, i.e. booked to equity as shown in the statement of comprehensive income. These are:

   1) Parent Company's pension plan. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Parent Company is responsible for any unfunded liabilities.

   2) Actuarial liabilities of Bps (Suisse) SA deriving from supplementary pension costs for its employees.

3) Provision for long-service bonuses. This represents the liability for bonuses to employees who reached a period of service of 30 years. It is recorded under «other provisions».

b) Other provisions. This caption comprises the provision for long-service bonuses mentioned above and provisions recorded for liabilities whose timing and extent cannot be determined, which can be recognised in the financial statements when:

1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
2) it is likely that settlement of the obligation will involve the use of economic resources;
3) a reliable estimate can be made of the amount necessary to settle the obligation.

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

13. Payables and securities issued

Classification

Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the Group's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions and the value of the consideration still to be paid to the assignor in factoring transactions that involve an assignment of receivables with the transfer of the related risks and benefits versus the assignee.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected. The amount initially recorded includes any transaction costs and revenues that are directly related to each liability; this amount does not include the charges made to creditors in order to recover administrative costs.

The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected. Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

Recognition of components affecting the income statement

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

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

Derecognition

Financial liabilities are derecognised when they expire or are settled. Funding liabilities that are subsequently repurchased are eliminated from the financial statements.

14. Financial liabilities held for trading

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

15. Financial liabilities at fair value

The financial statements do not include any financial liabilities at fair value.

16. Currency transactions

Classification

They include all assets and liabilities denominated in currencies other than the Euro.

Recognition

Assets and liabilities denominated in currencies other than the Euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period.

Exchange differences on non-monetary assets defined as available for sale are recorded under valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

17. Termination indemnities

Termination indemnities are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, in order to estimate the amount that will be paid upon termination of the employment relationship and determine the present value of this amount. The actuarial calculations are performed using the projected unit credit method, under which each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out every six months by an independent actuary.

As a result of the reform of supplementary pensions by Decree 252 of 5 December 2005, the termination indemnities accrued up to 31 December 2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee.

This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements.

Gains and losses arising from changes in actuarial assumptions are booked to equity as shown in the statement of comprehensive income.

18. Other information

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives.

Revenues are recorded as received or when collection becomes likely and a reasonable estimate can be made of the amount to be received. In particular, the default interest accrued on doubtful accounts is only credited to the income statement upon collection.

Dividends are recorded upon collection.

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

Covered bonds

On 6 November 2013, the Board of Directors of the Parent Company authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015, under the same contract.

Two additional assignments were carried out in 2016. The first, on 1 February 2016, relating to a total portfolio of € 576 million of performing loans in connection with the issue of a second series of covered bonds totalling € 500 million on 4 April 2016. The second, on 31 October 2016, relating to a portfolio of performing loans totalling € 226 million.

A fifth assignment of performing loans for a total of € 308 million took place in 2017 under the same contract.

Given that the Parent Company maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet.

Interbank Deposit Protection Fund and Voluntary Scheme

In December 2015, the bank joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. In June 2016, the Voluntary Scheme approved an intervention in favour of Cassa di Risparmio di Cesena to be implemented through an increase in capital of 280 million which for BP Sondrio involved an outlay of 4.096 million.

In 2017 the voluntary scheme intervened again with regard to credit institutions in difficulty and on 29 September 2017 a Framework Agreement was signed between Crédit Agricole Cariparma, Voluntary Scheme, Caricesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di S. Miniato which involved the acquisition of the three savings banks by Crédit Agricole Cariparma. The closing of the transaction took place in December and the charge for the bank was 7.768 million, plus the elimination, with a charge of 3.089 million, of the previous intervention for Caricesena, which was posted in 2016 to the AFS portfolio.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

A.3.1 Reclassified financial assets: book value, fair value and the impact on comprehensive income

Type of financial instruments (1)	Portfolio of origin (2)	Portfolio of destination (3)	Net book value as of 31.12.2017 (4)	Fair value at 31.12.2017 (5)	Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
					Valuation (6)	Others (7)	Valuation (8)	Others (9)
A. Debt securities	HFT	HTM	3,817	3,884	23	13	48	13

Income items do not include securities service employees' pension and similar obligations. The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those not transferred.

A.3.3 Transfer of financial assets held for trading

As in the previous year, the Parent Company did not carry out any reclassifications of financial assets. A reclassification was made on the basis of the amendment to IAS 39 approved by EU Regulation 1004 of 15/10/2008. In very particular circumstances, this amendment makes it possible to reclassify certain financial instruments from one portfolio to another. Its purpose is to reduce the volatility in the income statement (or in equity) of financial institutions and companies that apply IAS/IFRS in situations of illiquid markets and/or characterised by prices that do not reflect the realisable value of financial instruments. The table shows the profits and losses that would have been made if the Bank had not taken advantage of this possibility.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

IFRS 13 Fair Value Measurement came into force on 1 January 2013. This standard collects in one document the rules governing the determination of fair value that were previously contained in several accounting standards. IFRS 13 essentially does not change the concept of fair value, but provides new application guidelines and envisages additional disclosures.

The information about fair value required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in a orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument.

With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the CVA (Credit value adjustment) and represents the potential loss associated with the counterparty credit risk, while the DVA (Debit value adjustment) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Level 2 inputs exclude the listed prices used in Level 1 and include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market.

This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Level 3 inputs consist of unobservable inputs for the asset or liability concerned and are used to determine fair value to the extent that significant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The inputs not observable in the marketplace derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

A.4.2 Processes and sensitivity of the measurements

The Parent Bank determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, as envisaged in IAS 39, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options.

The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;

b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;

c) the rate applicable to risk-free monetary assets of similar duration;

d) the risk premium;

e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful.

With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the Group's portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities carried at cost, or through prices of previous transactions, or information from third parties without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

For those Level 3 instruments whose fair value is determined using unobservable quantitative inputs, the economic results are not significantly affected by changes in one or more of the unobservable parameters, such as the credit spreads associated with the counterparties that were used for measurement purposes.

For changes of +/- 1 basis point in the credit spread or changes in other input parameters, the fair value of the financial instruments changes by about € 18 thousand.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets - according to the definition of IAS 39 – for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Group.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used.

A.4.4 Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paras. 91 and 92 of IFRS 13.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

Assets/liabilities carried at fair value on a recurring basis	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	569,323	97,983	24,105	930,387	56,581	32,744
2. Financial assets at fair value through profit or loss	281,139	–	–	96,303	–	–
3. Available-for-sale financial assets	6,632,139	–	155,898	6,470,827	–	173,610
4. Hedging derivatives	–	–	–	–	–	–
5. Property, equipment and investment property	–	–	63,445	–	–	62,930
6. Intangible assets	–	–	–	–	–	–
Total	**7,482,601**	**97,983**	**243,448**	**7,497,517**	**56,581**	**269,284**
1. Financial assets held for trading	–	31,259	–	–	73,016	–
2. Financial liabilities carried at fair value	–	–	–	–	–	–
3. Hedging derivatives	–	22,468	–	–	38,734	–
Total	**–**	**53,727**	**–**	**–**	**111,750**	**–**

During the year there were no transfers of fair value from level 1 to level 3 or from level 2 to level 3.

The impact of the CVA (Credit value adjustment) and the DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because a large part of the exposures are covered by credit support annexes (CSA).

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (Level 3)

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. **Opening balance**	**32,744**	**–**	**173,610**	**–**	**62,930**	**–**
2. **Increases**	**757**	**–**	**31,750**	**–**	**765**	**–**
2.1. Purchases	2	–	22,137	–	–	–
2.2. Income booked to:						
2.2.1. Income statement	566	–	1,354	–	765	–
of which realized gains	428	–	25	–	765	–
2.2.2. Equity	–	–	7,543	–	–	–
2.3. Transfers from other levels	–	–	–	–	–	–
2.4. Other increases	189	–	716	–	–	–
3. **Decreases**	**9,396**	**–**	**49,462**	**–**	**250**	**–**
3.1. Sales	238	–	4,961	–	–	–
3.2. Reimbursements	3,918	–	426	–	–	–
3.3. Losses booked to:						
3.3.1. Income statement	4	–	36,526	–	250	–
- of which realized losses	4	–	35,821	–	250	–
3.3.2. Equity	–	–	231	–	–	–
3.4. Transfers to other levels	5,025	–	–	–	–	–
3.5. Other decreases	211	–	7,318	–	–	–
4. **Closing balance**	**24,105**	**–**	**155,898**	**–**	**63,445**	**–**

A.4.5.3 Changes during the year in financial liabilities carried at fair value (level 3)

There are no financial liabilities carried at a level 3 fair value.

A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a recurring basis	31/12/2017				31/12/2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity investments	4,132,572	4,107,793	–	12,769	117,023	120,742	–	12,286
2. Loans and receivables with banks	1,920,320	–	–	1,920,320	1,786,732	–	–	1,786,732
3. Loans to customers	25,755,836	–	–	26,356,324	26,356,324	–	–	25,941,639
4. Investment property	–	–	–	–	–	–	–	–
5. Non-current assets and disposal groups held for sale	–	–	–	–	–	–	–	–
Total	**31,808,728**	**4,107,793**	**–**	**28,289,413**	**27,217,219**	**120,742**	**–**	**27,740,657**
1. Due to banks	6,204,835	–	–	6,204,835	2,504,510	–	–	2,504,510
2. Customer deposits	28,800,925	–	–	28,800,925	27,702,353	–	–	27,702,353
3. Securities issued	2,833,359	2,509,595	351,488	–	3,231,782	1,505,350	1,754,057	–
4. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–
Total	**37,839,119**	**2,509,595**	**351,488**	**35,005,760**	**33,438,645**	**1,505,350**	**1,754,057**	**30,206,863**

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IAS 39 para. AG. 76 derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally to be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

PART B Information on the consolidated balance sheet
Assets

Section 1 Cash and cash equivalents - line item 10

1.1 Cash and cash equivalents: analysis

	31/12/2017	31/12/2016
a) Cash	122,852	109,014
b) Unrestricted deposits with central banks	576,527	680,598
Total	**699,379**	**789,612**

Section 2 Financial assets held for trading - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2017			31/12/2016		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	374,225	–	24,105	704,983	–	32,740
1.1 Structured securities	2,521	–	24,098	29,448	–	27,507
1.2 Other fixed-yield securities	371,704	–	7	675,535	–	5,233
2. Variable-yield securities	151,871	–	–	146,007	–	4
3. Mutual funds	43,227	–	–	79,397	–	–
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**569,323**	**–**	**24,105**	**930,387**	**–**	**32,744**
B. **Derivatives**						
1. Financial derivatives:	–	97,983	–	–	56,581	–
1.1 for trading	–	97,983	–	–	56,581	–
1.2 connected with the fair value option	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–
2. Credit derivatives:	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–
Total B	**–**	**97,983**	**–**	**–**	**56,581**	**–**
Total (A+B)	**569,323**	**97,983**	**24,105**	**930,387**	**56,581**	**32,744**

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items/Amounts	31/12/2017	31/12/2016
A. **Cash assets**		
1. **Fixed-yield securities**	**398,330**	**737,723**
a) Governments and central banks	218,013	467,176
b) Other public entities	5,185	7,225
c) Banks	129,353	212,691
d) Other issuers	45,779	50,631
2. **Variable-yield securities**	**151,871**	**146,011**
a) Banks	29,125	39,795
b) Other issuers:	122,746	106,216
- insurance companies	10,368	12,920
- financial companies	2,387	2,815
- non-financial companies	109,991	90,481
- other	–	–
3. **Mutual funds**	**43,227**	**79,397**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total A	**593,428**	**963,131**
B. **Derivatives**		
a) Banks	83,661	38,639
b) Customers	14,322	17,942
Total B	**97,983**	**56,581**
Total (A + B)	**691,411**	**1,019,712**

Mutual funds are made up of: equity funds and sicavs for € 35.991 million, bond funds for € 6.883 million and real estate funds for € 0.353 million.

Section 3 *Financial assets at fair value through profit or loss - line item 30*

3.1 Financial assets at fair value through profit or loss - line item 30

	31/12/2017			31/12/2016		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Structured securities	–	–	–	–	–	–
1.2 Other Fixed-yield securities	–	–	–	–	–	–
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**281,139**	**–**	**–**	**96,303**	**–**	**–**
4. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Structured	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total	**281,139**	**–**	**–**	**96,303**	**–**	**–**
Cost	**280,354**	**–**	**–**	**93,993**	**–**	**–**

This portfolio includes all securities, other than those booked to the trading portfolio, which the Parent Company has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.

3.2 Financial assets at fair value through profit or loss: breakdown by debtor/issuer

Items/Amounts	31/12/2017	31/12/2016
1. **Fixed-yield securities**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other issuers	–	–
2. **Variable-yield securities**	**–**	**–**
a) Banks	–	–
b) Other issuers:	–	–
- insurance companies	–	–
- financial companies	–	–
- non-financial companies	–	–
- other	–	–
3. **Mutual funds**	**281,139**	**96,303**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**281,139**	**96,303**

Mutual funds are made up of: bond funds and sicavs for € 220.206 million, funds and sicavs for € 24.710 million, real estate funds for € 0.883 million, flexible funds for € 13.890 million and balanced funds for € 21.450 million.

Section 4 *Available-for-sale financial assets - line item 40*

4.1 Available-for-sale financial assets: breakdown by sector

	31/12/2017			31/12/2016		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**6,632,139**	**-**	**15,259**	**6,294,939**	**-**	**15,302**
1.1 Structured securities	478,090	-	12,972	834,350	-	12,775
1.2 Other Fixed-yield securities	6,154,049	-	2,287	5,460,589	-	2,527
2. **Variable-yield securities**	**-**	**-**	**101,177**	**-**	**-**	**102,268**
2.1 Carried at fair value	-	-	92,959	-	-	91,702
2.2 Carried at cost	-	-	8,218	-	-	10,566
3. **Mutual funds**	**-**	**-**	**39,462**	**175,888**	**-**	**56,040**
4. **Loans**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**6,632,139**	**-**	**155,898**	**6,470,827**	**-**	**173,610**

Given the difficulties in determining a precise fair value, unlisted variable-yield securities are usually retained at cost, as adjusted for possible losses where applicable. An exception was made to this approach with regard to the interests held in Nexi S.p.A, formerly Istituto Centrale delle Banche Popolari Italiane S.p.A and Nexi Payments S.p.A, formerly Cartasì S.p.A. In particular, following the sale in 2015 of the ICBPI Group to a consortium of investment funds by the controlling shareholders, these interests were revalued on the basis of the selling price, which is considered current given the purchase offers proposed during the year.

If a comparison between the cost and net equity of other unlisted equities based on the latest available financial statements identifies impairment losses, we make a write-down in accordance with company policies.

Variable-yield securities include € 0.820 million in profit-sharing transactions pursuant to art. 2549 of the Civil Code relating to the production and exploitation of cinematographic work.

Mutual funds consist of closed-end unlisted equity funds for € 10.714 million, bond funds for € 16.618 million, real estate funds for € 6.018 million and balanced funds for € 6.112 million. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV), adjusted for any subscriptions and redemptions that have taken place between the date of the NAV received and the reporting date.

4.2 Available-for-sale financial assets: breakdown by debtor/issuer

Items/Amounts	31/12/2017	31/12/2016
1. **Fixed-yield securities**	**6,647,398**	**6,310,241**
a) Governments and central banks	6,242,051	6,254,919
b) Other public entities	–	–
c) Banks	347,549	23,283
d) Other issuers	57,798	32,039
2. **Variable-yield securities**	**101,177**	**102,268**
a) Banks	52,472	51,173
b) Other issuers:	48,705	51,095
- insurance companies	–	–
- financial companies	41,330	42,252
- non-financial companies	7,373	8,841
- other	2	2
3. **Mutual funds**	**39,462**	**231,928**
4. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**6,788,037**	**6,644,437**

As stated in IAS/IFRS, assets held for sale are tested to check if there is any objective evidence of a reduction in value in conformity with the Bank's policies adopted. The rules adopted for handling impairment set quantitative and time thresholds beyond which any reduction in the fair value of variable-yield securities entails booking the loss immediately to the income statement.

Section 5 Held-to-maturity investments - line item 50

5.1 Held-to-maturity investments: breakdown by sector

	31/12/2017				31/12/2016			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**4,132,572**	**4,107,793**	**–**	**12,769**	**117,023**	**120,742**	**–**	**12,286**
- Structured	824,833	813,916	–	11,266	12,140	4,194	–	7,948
- Other	3,307,739	3,293,877	–	1,503	104,883	116,548	–	4,338
2. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

In 2008 we transferred securities held for trading to this portfolio for a total par value of € 242.686 million, taking advantage of the amendment issued by IASB on 13/10/2008 and adopted by the European Commission with Regulation 1004/2008 on 15/10/2008.

At present, following reimbursements, the securities still in portfolio amount to € 3.817 million, which if accounted for at fair value at the reporting date would have posted a loss of € 0.067 million.

5.2 Held-to-maturity investments: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2017	31/12/2016
1. **Fixed-yield securities**	**4,132,572**	**117,023**
a) Governments and central banks	4,073,400	25,071
b) Other public entities	–	–
c) Banks	6,856	20,296
d) Other issuers	52,316	71,656
2. **Loans**	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other parties	–	–
Total	**4,132,572**	**117,023**
Total fair value	**4,120,562**	**133,028**

Section 6 *Loans and receivables with banks - line item 60*

6.1 Loans and receivables with banks: breakdown by sector

	31/12/2017				31/12/2016			
	Book	Fair Value			Book	Fair Value		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**1,110,969**	**–**	**–**	**1,110,969**	**955,355**	**–**	**–**	**955,355**
1. Time deposits	–	–	–	–	–	–	–	–
2. Compulsory reserve	1,107,575	–	–	–	952,038	–	–	–
3. Repurchase agreements	–	–	–	–	–	–	–	–
4. Other	3,394	–	–	–	3,317	–	–	–
B. **Loans and receivables with banks**	**809,351**	**–**	**–**	**809,351**	**831,377**	**–**	**–**	**831,377**
1. Loans	809,351	–	–	809,351	831,377	–	–	831,377
1.1 Current accounts and sight deposits	270,303	–	–	–	237,081	–	–	–
1.2 Time deposits	484,696	–	–	–	510,350	–	–	–
1.3 Other Loans:	54,352	–	–	–	83,946	–	–	–
- Repurchase agreements	–	–	–	–	–	–	–	–
- Financial leases	–	–	–	–	–	–	–	–
- Other	54,352	–	–	–	83,946	–	–	–
2. Fixed-yield securities	–	–	–	–	–	–	–	–
2.1 Structured securities	–	–	–	–	–	–	–	–
2.2 Other Fixed-yield securities	–	–	–	–	–	–	–	–
Total	**1,920,320**	**–**	**–**	**1,920,320**	**1,786,732**	**–**	**–**	**1,786,732**

These receivables are not specifically hedged.
Their fair value is equal to their book value as they are short-term loans repayable on demand.

Section 7 *Loans and receivables with customers - line item 70*

7.1 Loans and receivables with customers: breakdown by sector

Type of transaction/ Amounts	31/12/2017						31/12/2016					
	Book value			Fair Value			Book value			Fair Value		
	Not impaired	Impaired		L1	L2	L3	Not impaired	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**23,334,291**	**2,004**	**2,068,758**	**-**	**-**	**26,004,023**	**22,570,929**	**-**	**2,382,390**	**-**	**-**	**25,580,570**
1. Current accounts	3,921,460	1,456	879,864	-	-	-	4,247,591	-	991,283	-	-	-
2. Repurchase agreements	1,221,602	-	-	-	-	-	698,937	-	-	-	-	-
3. Mortgage loans	12,160,884	-	1,033,220	-	-	-	11,599,370	-	1,193,752	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	231,397	-	11,286	-	-	-	212,506	-	12,444	-	-	-
5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	2,260,979	-	10,443	-	-	-	1,814,657	-	18,709	-	-	-
7. Other Loans	3,537,969	548	133,945	-	-	-	3,997,868	-	166,202	-	-	-
Fixed-yield securities	**350,783**	**-**	**-**	**-**	**-**	**352,301**	**360,145**	**-**	**-**	**-**	**-**	**361,069**
8.1 Structured securities	350,783	-	-	-	-	-	360,145	-	-	-	-	-
8.2 Other Fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	**23,685,074**	**2,004**	**2,068,758**	**-**	**-**	**26,356,324**	**22,931,074**	**-**	**2,382,390**	**-**	**-**	**25,941,639**

These receivables are partially specifically hedged.

Reference should be made to Part E «Information on risks and related hedging policies, Section 1, Credit risk» with regard to impaired assets.

Mortgage loans include € 1,470.459 million of residential mortgages, which were the subject of a covered bond transaction.

The covered bond transactions involved the sale to the SPV POPSO Covered Bond s.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers.

Given that the Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

7.2 Loans and receivables with customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2017 Not impaired	31/12/2017 Impaired Purchased	31/12/2017 Impaired Other	31/12/2016 Not impaired	31/12/2016 Impaired Purchased	31/12/2016 Impaired Other
1. **Fixed-yield securities:**	**350,783**	**–**	**–**	**360,145**	**–**	**–**
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	350,783	–	–	360,145	–	–
- non-financial companies	–	–	–	–	–	–
- financial companies	350,783	–	–	360,145	–	–
- insurance companies	–	–	–	–	–	–
- Other	–	–	–	–	–	–
2. **Loans to:**	**23,334,291**	**2,004**	**2,068,758**	**22,570,929**	**–**	**2,382,390**
a) Governments	4,027	–	–	1,716	–	8,039
b) Other public entities	221,312	–	261	80,651	–	125
c) Other parties	23,108,952	2,004	2,068,497	22,488,562	–	2,374,226
- non-financial companies	13,556,283	1,949	1,636,215	13,419,809	–	1,844,479
- financial companies	3,008,656	–	21,916	2,614,561	–	36,419
- insurance companies	5,018	–	–	4,618	–	–
- Other	6,538,995	55	410,366	6,449,574	–	493,328
Total	**23,685,074**	**2,004**	**2,068,758**	**22,931,074**	**–**	**2,382,390**

7.3 Loans and receivables with customers: covered by micro hedges

	31/12/2017	31/12/2016
1. **Loans covered by micro fair-value hedges**	**574,497**	**958,016**
a) interest rate risk	574,497	958,016
b) exchange risk	–	–
c) credit risk	–	–
d) multiple risks	–	–
2. **Loans covered by micro cash-flow hedges**	**–**	**–**
a) interest rate risk	–	–
b) exchange risk	–	–
c) expected transactions	–	–
d) Other hedged assets	–	–
Total	**574,497**	**958,016**

Section 10 *Equity investments - line item 100*

10.1 Equity investments: disclosure

Name	Registered offices of the company	Operational office	Type of relationship	Parent company	% holding	% of vote
A. **Investments in companies under joint control**						
RAJNA IMMOBILIARE S.r.l	Sondrio	Sondrio	7	Banca Popolare di Sondrio SCPA	50.000	50.000
B. **Associated companies**						
ALBA LEASING S.p.A	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.264	19.264
ARCA VITA S.p.A	Verona	Verona	8	Banca Popolare di Sondrio SCPA	14.837	14.837
ARCA HOLDING S.p.A	Milan	Milan	8	Banca Popolare di Sondrio SCPA	21.137	21.137
UNIONE FIDUCIARIA S.p.A	Milan	Milan	8	Banca Popolare di Sondrio SCPA	24.000	24.000
POLIS FONDI SGR	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.600	19.600
SOFIPO SA	Lugano	Lugano	8	Banca Popolare di Sondrio (SUISSE) SA	30.000	30.000
BORMIO GOLF S.p.A	Bormio	Bormio	8	Banca Popolare di Sondrio SCPA	25.237	25.237
LAGO DI COMO GAL SCRL	Canzo	Canzo	8	Banca Popolare di Sondrio SCPA	28.953	28.953
ACQUEDOTTO DELLO STELVIO S.r.l	Bormio	Bormio	8	Pirovano Stelvio S.p.A	27.000	27.000
SIFAS S.p.A	Bormio	Bormio	8	Pirovano Stelvio S.p.A	21.614	21.614

Key
1 = control as per art. 2359 C.C., para. 1, no. 1 (majority of voting rights at ordinary shareholders' meetings).
2 = control as per art. 2359 C.C., para. 1, no. 2 (dominant influence at the ordinary shareholders' meeting).
3 = control as per art. 23 T.U., para. 2, no. 1 (agreements with other shareholders).
4 = other forms of control.
5 = single management as per art. 26.1 of Decree 87/92.
6 = single management as per art. 26 of Decree 87/92.
7 = joint control.
8 = associated company.

10.2 Relevant equity investments: book value, fair value and dividends received

Name	Book value	Fair value	Dividends received
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S.r.l.	411	–	–
B. **Associated companies**			
1. ALBA LEASING S.p.A.	80,254	–	–
2. ARCA VITA S.p.A.	67,620	–	4,172
3. ARCA HOLDING S.p.A.	58,178	–	4,016
4. UNIONE FIDUCIARIA S.p.A.	8,981	–	363
5. POLIS FONDI SGR PA	1,701	–	119
6. SOFIPO SA	–	–	–

The fair value is not shown for companies that are not listed on active markets.

10.3 Relevant equity investments: disclosure

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues
A. **Investments in companies under joint control**						
1. RAJNA IMMOBILIARE S.r.l.	157	–	683	–	18	114
B. **Associated companies**						
1. ALBA LEASING S.p.A.	7	4,933,565	209,554	4,675,888	50,639	95,606
2. ARCA VITA S.p.A.	202,109	9,230,021	117,645	9,074,541	16,844	687,963
3. ARCA HOLDING S.p.A.	2	223,489	175,035	81,624	41,657	362,320
4. UNIONE FIDUCIARIA S.p.A.	7	24,942	65,463	7,500	46,131	39,418
5. POLIS FONDI SGR PA	3	9,803	2,389	971	2,544	5,809
6. SOFIPO SA	–	418	30	21	377	40

The above figures are taken from the most recent financial investments available.

The accounting information presented in the financial statements of associated companies is reconciled below with the carrying amounts of the related equity investments, as required by IFRS 12.

Name	Equity value	Share of equity value	Book value
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S,r,l,	823	411	411
B. **Associated companies**			
1. ALBA LEASING S.p.A.	416,599	80,254	80,254
2. ARCA VITA S.p.A.	455,749	67,620	67,620
3. ARCA HOLDING S.p.A.	275,244	58,178	58,178
4. UNIONE FIDUCIARIA S.p.A.	37,419	8,981	8,981
5. POLIS FONDI SGR PA	8,680	1,701	1,701
6. SOFIPO SA	–	–	–

10.4 Insignificant equity investments: accounting information

Name	Book value of equity investments	Total assets	Total liabilities
Associated companies	486	3,152	850

The above figures are taken from the most recent financial investments available.

Net interest income	Net adjustments to property, equipment and investment property and intangible assets	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Profit (loss) after tax on non-current assets held for sale	Profit (loss) for the year (1)	Other income items net of income taxes (2)	Comprehensive income (3) = (1)+(2)
-	37	52	38	-	38	-	38
64,700	1,191	14,367	9,455	-	9,455	31	9,486
209,232	-	88,925	60,951	-	60,951	(3,661)	57,290
36	(7,665)	85,336	55,948	-	55,948	(38)	55,910
(300)	(3,157)	4,334	2,825	-	2,825	-	2,825
-	(131)	610	362	-	362	159	521
15	-	(649)	(655)	-	(655)	-	(655)

Total revenues	Post-tax profit from continuing operations	Profit (loss) after tax on non-current assets held for sale	Profit (loss) for the year	Other income items net of income taxes	Comprehensive income
2,435	339	-	207	-	207

10.5 Equity investments: changes during the year

	31/12/2017	31/12/2016
A. **Opening balance**	**208,575**	**198,176**
B. **Increases**	**15,228**	**10,981**
B.1 Purchases	–	7
B.2 Write-backs	–	–
B.3 Revaluations	27	25
B.4 Other changes	15,201	10,949
C. **Decreases**	**6,169**	**582**
C.1 Disposals	–	–
C.2 Adjustments	168	–
C.3 Other changes	6,001	582
D. **Closing balance**	**217,634**	**208,575**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(447)**	**(279)**

This item passes from € 208.575 million to € 217.634 million.

Increases are due to the valuation of investments at equity.

Decreases are due to the valuation of investments at equity and to the exclusion of 5.863 million of Banca della Nuova Terra S.p.A and Servizi Internazionali e Strutture Integrate 2000 S.r.l which were fully consolidated.

10.6 Considerations and significant assumptions to determine the existence of joint control or significant influence

The existence of joint control or significant influence is determined as described in Part A – Accounting policies

10.7 - 10.8 Commitments relating to investments in companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing S.p.A granted when this company started up as part of the reorganisation of Banca Italease S.p.A, against which the Parent Company has made a specific risk provision.

Section 12 *Property, equipment and investment property - line item 120*

12.1 Property, equipment and investment property used for business purposes: analysis of assets valued at cost

Assets/Values	31/12/2017	31/12/2016
1. **Owned assets**	**238,244**	**231,172**
a) land	61,036	61,232
b) buildings	157,028	146,851
c) furniture	5,510	6,097
d) IT equipment	2,595	3,547
e) other	12,075	13,445
2. **Assets purchased under finance leases**	**25,801**	**26,820**
a) land	6,803	6,803
b) buildings	18,998	20,017
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
Total	**264,045**	**257,992**

12.4 Investment property: analysis of assets carried at fair value

	31/12/2017			31/12/2016		
Assets/Values	L1	L2	L3	L1	L2	L3
1. **Owned assets**	**–**	**–**	**63,445**	**–**	**–**	**62,930**
a) land	–	–	–	–	–	–
b) buildings	–	–	63,445	–	–	62,930
2. **Assets purchased under finance leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**63,445**	**–**	**–**	**62,930**

These are owned buildings of the Fondo Immobiliare Centro delle Alpi Real Estate, which was fully consolidated.

12.5 Property, equipment and investment property used for business purposes: changes during the year

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	**Total 31/12/2017**
A. **Opening gross amount**	**68,117**	**278,629**	**36,004**	**35,251**	**84,871**	**502,872**
A.1 Total net reductions in value	(82)	(111,761)	(29,907)	(31,704)	(71,426)	(244,880)
A.2 Opening net amount	68,035	166,868	6,097	3,547	13,445	257,992
B. **Increases**	**23**	**20,323**	**1,434**	**833**	**6,560**	**29,173**
B.1 Purchases	23	15,908	1,087	833	6,560	24,411
B.2 Capitalised improvement expenditure	–	4,415	–	–	–	4,415
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	–	–	–	–	–	–
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	–	347	–	–	347
C. **Decreases**	**219**	**11,165**	**2,021**	**1,785**	**7,930**	**23,120**
C.1 Disposals	–	–	20	–	–	20
C.2 Amortisation and depreciation	–	7,838	1,626	1,622	7,860	18,946
C.3 Impairment charges booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	219	1,004	48	163	70	1,504
C.6 Transfer to:	–	–	–	–	–	–
a) investment property	–	–	–	–	–	–
b) assets related to discontinued operations	–	–	–	–	–	–
C.7 Other changes	–	2,323	327	–	–	2,650
D. **Closing net balance**	**67,839**	**176,026**	**5,510**	**2,595**	**12,075**	**264,045**
D.1 Total net reductions in value	(82)	(117,434)	(30,237)	(29,583)	(75,002)	(252,338)
D.2 Closing gross balance	67,921	293,460	35,747	32,178	87,077	516,383
E. **Valuation at cost**	**67,839**	**176,026**	**5,510**	**2,595**	**12,075**	**264,045**

12.6 Investment property: changes during the year

	Total 31/12/2017	
	Land	Buildings
A. **Opening balance**	**–**	**62,930**
B. **Increases**	**–**	**765**
B.1 Purchases	–	–
B.2 Capitalised improvement expenditure	–	–
B.3 Positive changes in fair value	–	765
B.4 Write-backs	–	–
B.5 Exchange gains	–	–
B.6 Transfer of buildings for business purposes	–	–
B.7 Other changes	–	–
C. **Decreases**	**–**	**(250)**
C.1 Disposals	–	–
C.2 Amortisation and depreciation	–	–
C.3 Negative changes in fair value	–	(250)
C.4 Impairment writedowns	–	–
C.5 Exchange losses	–	–
C.6 Transfer of assets to other portfolios	–	–
a) Assets used in business	–	–
b) Non-current assets held for sale and discontinued operations	–	–
C.7 Other changes	–	–
D. **Closing balance**	**–**	**63,445**
E. **Valuation at fair value**	**–**	**63,445**

12.7 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 1.114 million.

Section 13 *Intangible assets - line item 130*

13.1 Intangible assets: breakdown by type

	31/12/2017		31/12/2016	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**7,847**	**–**	**7,847**
A.1.1 Attributable to the banking group	–	7,847	–	7,847
A.1.2 Pertaining to minority interests	–	–	–	–
A.2 **Other intangible assets:**	**15,873**	**–**	**16,022**	**–**
A.2.1 Carried at cost:	15,873	–	16,022	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	15,873	–	16,022	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**15,873**	**7,847**	**16,022**	**7,847**

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years and goodwill for € 7.847 million. The accounting treatment is in accordance with IFRS 3 on business combinations. This standard requires that the acquisition and therefore the first consolidation of the acquired entity has to take place on the date when the purchaser effectively obtains control over the other business.

The above goodwill relates to the acquisition of control of Factorit S.p.A in 2010.

Based on IFRS 3, the allocation took place according to the purchase method, which says that allocation of the identifiable assets and liabilities acquired has to take place with reference to the acquisition date. The difference between the acquisition price and the fair value of the assets and liabilities has to be recognised as goodwill and allocated to the CGU concerned.

It is particularly important to identify as accurately as possible the fair value of the assets and liabilities so that only the residual portion of the purchase cost that cannot be allocated to specific assets or liabilities gets booked as goodwill; for this reason, the standard makes it possible to book goodwill on a provisional basis by the end of the year in which the combination takes place. A definitive value then has to be booked within 12 months of the acquisition date. The Parent Company therefore booked a provisional figure of € 7.847 million, which was the difference between the price paid and the book net equity at the acquisition date, with the possibility of establishing a more accurate fair value for the assets and liabilities within 12 months of the acquisition date.

From a careful review, there were no differences in fair value attributable to assets and liabilities which involved corrections of the values attributed at the time of the acquisition, which meant that there was no need to adjust the value of goodwill booked on a provisional basis.

No impairment of goodwill has been recorded as the tests carried out in accordance with IAS 36, which requires annual impairment testing for goodwill to identify any impairment loss, did not show any loss in value. In this case we have used the Dividend Discount Model (DDM), which assumes that the economic value of a financial intermediary is equal to the sum of the present value of the future cash flows generated in the chosen time horizon of the plan and distributable to shareholders while maintaining an adequate level of capitalisation to ensure future growth and perpetual capitalisation of a dividend considered after the explicit planning period. We assumed a rate of the dividend growth after the explicit planning period of 2% per year and a cost of capital used to discount future dividends of 8.565%. The value in use was approximately € 196 million with an excess of the carrying amount of € 94 million.

13.2 Intangible assets: change during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		Specified	Unspecified	Specified	Unspecified	31/12/2017
A. **Opening gross amount**	**7,847**	**–**	**–**	**158,973**	**–**	**166,820**
A.1 Total net reductions in value	–	–	–	(142,951)	–	(142,951)
A.2 Opening net amount	7,847	–	–	16,022	–	23,869
B. **Increases**	**–**	**–**	**–**	**17,487**	**–**	**17,487**
B.1 Purchases	–	–	–	17,487	–	17,487
B.2 Increases in internally generated intangible assets	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**17,636**	**–**	**17,636**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	17,269	–	17,269
- Amortisation	–	–	–	17,269	–	17,269
- Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
C.4 Transfers to non-current assets held for sale and discontinued operations	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	367	–	367
C.6 Other changes	–	–	–	–	–	–
D. **Closing net balance**	**7,847**	**–**	**–**	**15,873**	**–**	**23,720**
D.1 Total net reductions in value	–	–	–	(160,220)	–	(160,220)
E. **Closing gross amount**	**7,847**	**–**	**–**	**176,093**	**–**	**183,940**
F. **Valuation at cost**	**7,847**	**–**	**–**	**15,873**	**–**	**23,720**

Key
Specified: Specified duration
Unspecified: unspecified duration

Section 14 *Tax assets and liabilities - asset line item 140 and liability line item 80*

14.1 Deferred tax assets: breakdown

	31/12/2017	31/12/2016
- Loan writedowns	336,373	360,597
- Provisions for risks and charges	24,625	20,362
- Deferred chargers	70	-
- Securities and equity investments	856	2,924
- Administrative expenses, amortisation and depreciation	23,522	32,809
Total	**385,446**	**416,692**

The 2016 figures have been restated in order to incorporate the effects of the conclusions reached by the Swiss accounting body, i.e. to account for the fully insured Swiss BVG pension as defined benefit plans rather than as defined contribution plans, as defined by the IAS 19.

14.2 Deferred tax liabilities: breakdown

	31/12/2017	31/12/2016
- Owned and leased buildings	9,490	9,678
- Revaluation of securities and gains	18,666	20,005
- Administrative expenses	–	1,078
- Loans	7,994	11,912
Total	**36,150**	**42,673**

14.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2017	31/12/2016
1. **Opening balance**	**395,551**	**416,014**
2. **Increases**	**12,956**	**8,381**
2.1 Deferred tax assets arising during the year	6,398	8,312
a) relating to prior years	–	244
b) due to changes in accounting policies	–	-
c) write-backs	–	-
d) other	6,398	8,068
2.2 New taxes or increases in tax rates	–	-
2.3 Other increases	6,558	69
3. **Decreases**	**43,103**	**28,844**
3.1 Deferred tax assets eliminated during the year	41,422	28,835
a) reversals	41,422	28,835
b) written down as no longer recoverable	–	-
c) change in accounting policies	–	-
d) other	–	-
3.2 Reduction in tax rates	–	-
3.3 Other decreases	1,681	9
a) Transformation into tax credits as per Law 214/2011	416	-
b) Other	1,265	9
4. **Closing balance**	**365,404**	**395,551**

14.3.1 Change in deferred tax assets as per Law 214/2011 (with contra-entry to the income statement)

	31/12/2017	31/12/2016
1. **Opening amount**	**360,592**	**379,570**
2. **Increases**	**6,558**	**–**
3. **Decreases**	**30,782**	**18,978**
3.1 Reversals	30,366	18,978
3.2 Transformation into tax credits	416	–
a) resulting from operating losses	416	–
b) arising from tax losses	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**336,368**	**360,592**

14.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2017	31/12/2016
1. **Opening balance**	**20,652**	**23,482**
2. **Increases**	**117**	**1,452**
2.1 Deferred tax liabilities arising during the year	115	1,385
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	115	1,385
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	2	67
3. **Decreases**	**5,212**	**4,281**
3.1 Deferred tax liabilities eliminated during the year	4,307	4,234
a) reversals	1,036	498
b) due to changes in accounting policies	–	–
c) other	3,271	3,736
3.2 Reduction in tax rates	–	–
3.3 Other decreases	905	47
4. **Closing balance**	**15,557**	**20,653**

14.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2017	31/12/2016
1. **Opening balance**	**21,143**	**11,332**
2. **Increases**	**2,685**	**10,662**
2.1 Deferred tax assets arising during the year	2,685	5,417
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	2,685	5,417
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	5,245
3. **Decreases**	**3,786**	**851**
3.1 Deferred tax assets eliminated during the year	3,786	851
a) reversals	3,786	851
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**20,042**	**21,143**

This amount relates for € 0.856 million to losses on securities available for sale booked to equity, and for € 18.747 million to actuarial losses recognised in the measurement of long-term employee benefits, i.e. pension fund and termination indemnities booked to equity as provided by IAS 19 Revised, as well as for € 0.439 million to expenses related to the increase in capital of the Parent Company. The 2016 figures have been restated following the accounting of the Swiss BVG pension, as illustrated at the bottom of the previous table 14.1.

14.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2017	31/12/2016
1. **Opening balance**	**22,020**	**40,667**
2. **Increases**	**7,892**	**5,297**
2.1 Deferred tax liabilities arising during the year	7,892	5,297
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	7,892	5,297
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**9,319**	**23,944**
3.1 Deferred tax liabilities eliminated during the year	9,319	23,944
a) reversals	9,319	23,944
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**20,593**	**22,020**

This amount relates to the tax on the gains on securities available for sale booked to equity.

Section 16 *Other assets - line item 160*

16.1 Other assets: breakdown

	31/12/2017	31/12/2016
Advances paid to tax authorities	52,399	47,838
Withholdings on interest due to customers	134	256
Tax credits and related interest	16,254	26,243
Current account cheques drawn on third parties	25,796	26,548
Current account cheques drawn on Group banks	13,352	9,443
Transactions in customers' securities	2,330	50,822
Inventories	15,393	14,163
Costs pertaining to the subsequent year	3,682	2,845
Advances to suppliers	1,161	713
Advances to customers awaiting collections	21,529	21,088
Miscellaneous debits in transit	54,714	46,989
Liquidity of pension fund	13,162	18,976
Accrued expenses not allocated	38,851	38,559
Prepayments not allocated	24,371	17,745
Differences on elimination	1,080	1,770
Residual items	67,844	66,980
Total	**352,052**	**390,978**

Liabilities and equity

Section 1 Due to banks - line item 10

1.1 Deposits from banks: breakdown by type

Type of transaction/Amounts	31/12/2017	31/12/2016
1. **Due to central banks**	**4,631,240**	**1,226,758**
2. **Due to banks**	**1,573,595**	**1,277,752**
2.1 Current accounts and sight deposits	533,523	406,188
2.2 Time deposits	495,910	481,059
2.3 Loans	541,137	387,128
2.3.1 Repurchase agreements	99,959	-
2.3.2 Other	441,178	387,128
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	3,025	3,377
Total	**6,204,835**	**2,504,510**
Fair value - Level 1	**-**	**-**
Fair value - Level 2	**-**	**-**
Fair value - Level 3	**6,204,835**	**2,504,510**
Total Fair value	**6,204,835**	**2,504,510**

These payables are not specifically hedged.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO II): one of € 1.100 million, obtained in June 2016, repayable in June 2020 and a second obtained in March 2017 of € 3.500 million, repayable on 24 March 2021. These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.5 Payables for finance leases

	31/12/2017	31/12/2016
- Payables for finance leases	326	391
Total	**326**	**391**

Section 2 *Due to customers - line item 20*

2.1 Due to customers: breakdown by sector

Type of transaction/Amounts	31/12/2017	31/12/2016
1. **Current accounts and sight deposits**	**26,965,149**	**26,147,739**
2. **Time deposits**	**1,429,251**	**889,312**
3. **Loans**	**367,838**	**627,631**
3.1 Repurchase agreements	356,725	610,237
3.2 Other	11,113	17,394
4. **Payables for commitments to repurchase own equity instruments**	–	–
5. **Other payables**	**38,687**	**37,671**
Total	**28,800,925**	**27,702,353**
Fair value - Level 1	–	–
Fair value - Level 2	–	–
Fair value - Level 3	**28,800,925**	**27,702,353**
Fair value	**28,800,925**	**27,702,353**

These payables are not specifically hedged.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

2.5 Payables for finance leases

	31/12/2017	31/12/2016
- Payables for finance leases	–	2,079
Total	**–**	**2,079**

Section 3 *Securities issued - line item 30*

3.1 Securities issued: breakdown by sector

	31/12/2017				31/12/2016			
	Book	Fair Value			Book	Fair Value		
Type of security/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	2,723,981	2,509,595	242,110	–	3,150,368	1,505,350	1,672,643	–
1.1 structured	163,930	–	163,930	–	188,699	–	188,699	–
1.2 other	2,560,051	2,509,595	78,180	–	2,961,669	1,505,350	1,483,944	–
2. Other securities	109,378	–	109,378	–	81,414	–	81,414	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	109,378	–	109,378	–	81,414	–	81,414	–
Total	**2,833,359**	**2,509,595**	**351,488**	**–**	**3,231,782**	**1,505,350**	**1,754,057**	**–**

The fair value of the «other securities» is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

The level 1 securities relate to covered bonds and almost exclusively subordinated bonds listed on the Hi-mtl market (Trading Multilateral system).

3.2 Details of line item 30 «Securities issued»: subordinated securities

Subordinated securities amount to € 613.210 million and are made up of the loans indicated below:

- loan of € 73.335 million from 23/12/2011 and maturity on 23/12/2018 with a forecast annual repayment of 20% from 23/12/2014. The interest rate commenced at 4.50% and will gradually rise to 6%; the coupon current at year end is 6.00%.
- loan of € 14.877 million from 8/8/2014 and maturity on 8/8/2021 with a forecast annual repayment of 20% from 8/8/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2.50%.
- loan of € 22.525 million from 30/9/2014 and maturity on 30/9/2021 with a forecast annual repayment of 20% from 30/9/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 2.50%.
- loan of € 23.967 million from 29/12/2014 and maturity on 29/12/2021 with a forecast annual repayment of 20% from 29/12/2017. The interest rate commenced at 2.25% and will gradually rise to 4%; the coupon current at year end is 2.50%.
- loan of € 203.093 million from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%
- loan of € 275.413 million from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%.

Section 4 *Financial liabilities held for trading - line item 40*

4.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/ Members of the Group	31/12/2017					31/12/2016				
		Fair Value					Fair Value			
	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Other	–	–	–	–	–	–	–	–	–	–
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivatives**										
1. Financial derivatives	–	–	31,259	–	–	–	–	73,016	–	–
1.1 For trading	–	–	31,259	–	–	–	–	73,016	–	–
1.2 connected with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other–	–	–	–	–	–	–	–	–	–	
Total B	**–**	**–**	**31,259**	**–**	**–**	**–**	**–**	**73,016**	**–**	**–**
Total A+B	**–**	**–**	**31,259**	**–**	**–**	**–**	**–**	**73,016**	**–**	**–**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
VN = Nominal or notional value

Section 6 *Hedging derivatives - line item 60*

6.1 Hedging derivatives: breakdown by type of hedge and by level

underlying	Fair Value 31/12/2017			**Nominal Value**	Fair Value 31/12/2016			**Nominal Value**
	Level 1	Level 2	Level 3	**31/12/2017**	Level 1	Level 2	Level 3	**31/12/2016**
A. **Financial derivatives**	**–**	**22,468**	**–**	**560,747**	**–**	**38,734**	**–**	**922,618**
1) Fair value	–	22,468	–	560,747	–	38,734	–	922,618
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**–**	**22,468**	**–**	**560,747**	**–**	**38,734**	**–**	**922,618**

6.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transaction/ Type of hedge	Fair Value						Financial flows		
	Micro								
	interest rate risk	exchange risk	credit risk	price risk	multiple risk	Macro	Micro	Macro	Foreign investments
1. Available-for-sale financial assets	–	–	–	–	–	–	–	–	–
2. Loans	22,468	–	–	–	–	–	–	–	–
3. Held-to-maturity investments	–	–	–	–	–	–	–	–	–
4. Portfolio	–	–	–	–	–	–	–	–	–
5. Other transactions	–	–	–	–	–	–	–	–	–
Total assets	**22,468**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	–	–	–	–	–	–
2. Portfolio	–	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	–	–	–	–	–	–	–	–	–
2. Portfolio of financial assets and liabilities	–	–	–	–	–	–	–	–	–

Section 8 *Tax Liabilities - line item 80*

The line item amounts to € 38.855 million and relates for € 36.150 million to deferred taxes and for € 2.705 million to current taxes.

As regards the composition and amount of deferred taxes, please read Assets Section 14 of these notes.

The Parent Company's tax years up to 2012 have been closed. For 2012, the Parent Bank received a notice of assessment for not applying VAT on part of the commissions received as a custodian bank for the amount of € 0.220 million plus interest. This matter was raised in prior years and a solution was found in Tax Authority Resolution 97/E of 17 December 2013, which formalised a compromise that subjects part of these commissions to VAT at a flat rate, with no penalties in relation to the prior years covered by assessments. Since the assessment for 2012 took account of the above Resolution and did not require the payment of penalties, the Parent Bank decided to terminate the dispute by paying the amount requested.

Decree Law 59/2016, converted by Law no. 119 of 30/06/2016, introduced the possibility of transforming D.T.A. (Deferred Tax Assets) into tax credits by paying a fee, subject to certain conditions. In 2016, the Parent Company applied to retain this right if necessary in the future; no fee has been paid as the conditions for payment did not apply.

Section 10 *Other liabilities - line item 100*

10.1 Other liabilities: breakdown

	31/12/2017	31/12/2016
Amounts at the disposal of third parties	350,698	323,222
Taxes to be paid on behalf of third parties	48,642	46,934
Taxes to be paid	1,633	2,034
Employee salaries and contributions	18,578	23,448
Suppliers	15,970	15,844
Transit accounts for sundry entities	16,651	2,412
Invoices to be received	15,579	12,118
Credits in transit for financial transactions	4,799	2,490
Value date differentials on portfolio transactions	18,927	27,820
Directors' and statutory auditors' emoluments	1,167	1,070
Loans disbursed to customers to be finalised	5,396	9,543
Miscellaneous credit items being settled	45,239	97,688
Accrued expenses not allocated	12,671	13,022
Deferred income not allocated	15,399	13,272
Allowance for risks on guarantees and commitments	30,152	23,402
Differences on elimination	13,398	6,260
Residual items	58,773	80,950
Total	**673,672**	**701,529**

Section 11 *Post-employment benefits - line item 110*

11.1 Post-employment benefits: change in the year

	2017	2016
A. **Opening balance**	**44,805**	**43,374**
B. **Increases**	**10,273**	**9,573**
B.1 Provisions	7,792	7,809
B.2 Other changes	2,481	1,764
C. **Decreases**	**9,587**	**8,142**
C.1 Payments made	2,389	1,139
C.2 Other changes	7,198	7,003
D. **Closing balance**	**45,491**	**44,805**

Section 12 *Provisions for risks and charges - line item 120*

12.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2017	31/12/2016
1. **Pension and similar obligations**	**160,799**	**151,046**
2. **Other provisions for risks and charges**	**43,478**	**50,678**
2.1 Legal disputes	23,975	30,856
2.2 Personnel expenses	16,627	17,206
2.3 Other	2,876	2,616
Total	**204,277**	**201,724**

At year end, the Group is not exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above. It is reasonable to conclude that there are no contingent liabilities. The figures for the company's pension funds in 2016 have been restated to reflect the effects of the conclusions reached by the Swiss Auditing Chamber's Auditing Practice Committee regarding the accounting of the «Swiss BVG pension» according to IAS 19, which entailed recognition of a liability in 2016.

12.2 Provisions for risks and charges: change in the year

Items/Components	Pension and similar obligations	Other provisions
A. **Opening balance**	**151,046**	**50,678**
B. **Increases**	**16,758**	**18,454**
B.1 Provisions	2,982	18,093
B.2 Changes due to the passage of time	–	–
B.3 Changes due to variations in the discount rate	4,820	–
B.4 Other changes	8,956	361
C. **Decreases**	**7,005**	**25,654**
C.1 Utilisations during the year	3,512	22,030
C.2 Changes due to variations in the discount rate	–	–
C.3 Other changes	3,493	3,624
D. **Closing balance**	**160,799**	**43,478**

12.3 Defined-benefit pension plans

12.3.1. Description of plans

The pension fund of 160.799 million consists of the pension fund for the Parent Company's personnel of 141.659 million and the actuarial liabilities linked to the supplementary pension plan for employees of BPS Suisse SA of 19.140 million.

The Parent Company's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The amount of the pension fund for the Parent Company's personnel is adjusted to take into account the closed group of members formed on 28/4/1993. This closed group comprises 386 employees and 259 pensioners.

Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen. 2,177 employees have joined this fund.

BPS Suisse SA is a member of the BVG collective foundation of Rentenanstalt, which guarantees a professional pension to its employees through Swiss Life.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

12.3.2 Defined-benefit pension plans - Changes in net (assets) liabilities and redemption rights

	2017	**2016**
at 1 January	151,046	136,184
service cost	2,406	2,230
Interest cost	1,967	2,384
actuarial gains/losses	5,449	11,995
payments	(3,512)	(3,405)
other provisions	3,443	1,658
at 31 December	160,799	151,046

12.3.3 Defined-benefit pension plans – Other information

Details of the assets of the Parent Company's pension plan are summarised in the following table:

	31/12/2017	31/12/2016
Fixed-yield securities	87,451	81,256
Variable-yield securities	3,852	2,138
Mutual funds invested in shares	13,502	12,291
Mutual funds invested in property	23,330	16,189
Other assets	13,524	19,000
Total	**141,659**	**130,874**

The amount of the fund increases by € 10.785 million, +8.24%.

Payments of benefits amount to € 3.512 million compared with € 3.405 million. The contributions paid by the employees totalled € 0.233 million (€ 0.239 million in the prior year).

12.3.4 Defined-benefit pension plans – Description of the principal actuarial assumptions

The assumptions adopted in the actuarial calculation are provided separately for the Parent Company and BPS Suisse (SA):

Banca Popolare di Sondrio S.C.p.A

	31/12/2017	31/12/2016
discount rate	1.28%	1.54%
expected increase in salaries	0.50%	0.50%
underlying rate of pension increases	0.825%*	0.97%
annual rate of inflation	1.50%	1.50%

* equalisation rate.

See the Bank's financial statements for an explanation of how the discount rate was chosen.

Banca Popolare di Sondrio (Suisse) SA

	31/12/2017	31/12/2016
discount rate	0.65%	0.60%
expected increase in salaries	0.85%	0.85%
underlying rate of pension increases	–	–
annual rate of inflation	0.85%	0.85%

The discount rate has been chosen according to Swiss high standing corporate bonds with a duration between 15 and 20 years.

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. For this purpose, the base used for the valuation was also used as the base scenario and the two most significant assumptions were increased and decreased, obtaining the results shown below separately for Banca Popolare di Sondrio S.C.p.A and Banca Popolare di Sondrio (Suisse) SA:

Sensitivity

Banca Popolare di Sondrio S.C.p.A

+0.25% change in the discount rate, liability of € 127.171 million
-0.25% change in the discount rate, liability of € 138.744 million
+0.25% increase in the discount rate, liability of € 134.513 million
-0.25% decrease in the discount rate, liability of € 131.057 million

Banca Popolare di Sondrio (Suisse) SA

+0.50% change in the discount rate, liability of € 14.078 million
-0.50% change in the discount rate, liability of € 24.810 million
+0.50 change salary increase rate, liability of € 19.582 million
- 0.50% change salary increase rate, liability of € 18.928 million

12.4 Provisions for risks and charges: other provisions

Items/Amounts	31/12/2017	31/12/2016
Legal disputes	23,975	30,856
Personnel expenses	16,627	17,206
Other provisions	2,876	2,616
Total	**43,478**	**50,678**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The Group makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2017 as the discount rate.

This decrease of € 6.881 million arises from the difference between the provision of the year and the release of provisions set aside in prior years, the provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. It decreases by € 0.579 million, -3.37%.

Other provisions include the provision for charitable donations consisting of an allocation of profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2016 profit, while the reduction of € 0.126 million was a consequence of payments made during the year.

15.2 Share capital - Number of shares of the Parent Bank: change during the year

	Ordinary	Other
A. **Shares in existence at the start of the year**	**453,385,777**	**-**

Section 15 *Group equity - Items 140, 160, 170, 180, 190, 200 and 220*

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, par value € 3 each, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2017.

At the period-end, the Bank held treasury shares with a carrying value of € 25.370 million.

15.2 Share capital - Number of shares of the Parent Bank: change during the year

	Ordinary	Other
A. **Shares in existence at the start of the year**	**453,385,777**	**–**
- fully paid	453,385,777	–
- not fully paid	–	–
A.1 Treasury shares (-)	3,658,792	–
A.2 Shares in circulation: opening balance	449,726,985	–
B. **Increases**	**–**	**–**
B.1 New issues	–	–
- for payment	–	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- others	–	–
- free of charge	–	–
- to employees	–	–
- to directors	–	–
- others	–	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**6,637**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	6,637	–
C.3 Business disposals	–	–
C.4 Other changes	–	–
D. **Shares in circulation: closing balance**	**449,720,348**	**–**
D.1 Treasury shares (+)	3,665,429	–
D.2 Shares in existence at the end of the year	453,385,777	–
- fully paid	453,385,777	–
- not fully paid	–	–

Share premium reserve

It amounts to € 79.005 million, unchanged on last year.

15.4 Profit reserves: other information

Revenue reserves contribute to the capital adequacy of the Group, considering both current and future operations. They amount to € 1,074.211 million and increase by € 44.023 million, + 4.27%. Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to € 35 million (it has been used for € 25.322 million), unchanged compared with the previous year.

There are also Euro 3.229 million of reserves from capital contributions.

Therefore line item 170 «Reserves» amounts to € 1,077.440 million, + 4.26%.

Section 16 *Minority interests - Line item 210*

16.1 Detail of line item 210 «Minority interests»

This line item amounts to € 90.593 million and refers to the subsidiaries Factorit S.p.A and Popso Covered Bond S.r.l. It consists of share capital for € 33.579 million, share premium reserve for € 4.358 million, reserves for € 46.845 million, valuation reserves for € - 0.163 million and profits for € 5.974 million.

16.2 Equity instruments: breakdown and change in the year

There were no issues of financial instruments that contribute to the formation of capital issued by group companies not subject to total control.

Other information

1. Guarantees given and commitments

Operations	31/12/2017	31/12/2016
1) **Financial guarantees:**	**429,476**	**425,222**
a) Banks	13,746	14,963
b) Customers	415,730	410,259
2) **Commercial guarantees:**	**3,127,698**	**3,197,716**
a) Banks	92,571	86,265
b) Customers	3,035,127	3,111,451
3) **Irrevocable commitments to make loans**	**1,343,733**	**1,565,790**
a) Banks	16,659	72,099
i) certain to be called on	2,247	58,552
ii) not certain to be called on	14,412	13,547
b) Customers	1,327,074	1,493,691
i) certain to be called on	381,292	345,483
ii) not certain to be called on	945,782	1,148,208
4) **Commitments underlying credit derivatives: protection sold**	**-**	**-**
5) **Assets lodged to guarantee the commitments of third parties**	**35,345**	**36,706**
6) **Other commitments**	**18,767**	**22,491**
Total	**4,955,019**	**5,247,925**

2. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2017	31/12/2016
1. Financial assets held for trading	146,397	163,123
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	1,926,550	2,350,417
4. Held-to-maturity investments	2,418,148	-
5. Loans and receivables with banks	-	-
6. Loans and receivables with customers	3,378,825	1,003,158
7. Property, equipment and investment property	-	-

Assets held for trading mainly comprise the securities lodged with the ECB (for TLTRO), as well as other residual types of commitments. Assets available for sale comprise the securities sold to customers under repurchase agreements and those lodged with the ECB (for TLTRO), as well as to guarantee the operations of the Swiss subsidiary. Financial assets held to maturity include securities lodged with the ECB (for TLTRO) and securities pledged in tri-party repo transactions. Loans and receivables with customers consist of loans to guarantee funding provided by the Central Bank (ABACO loans) and residential mortgages to guarantee covered bonds.

5. Management and intermediation for third parties

Type of service	Amount
1. **Execution of orders on behalf of customers**	
a) Purchases	609,167
1. settled	607,789
2. not settled	1,378
b) Sales	452,077
1. settled	450,780
2. not settled	1,297
2. **Portfolio management**	
a) Individual	1,776,263
b) Collective	–
3. **Custody and administration of securities**	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,593,966
1. securities issued by consolidated companies	–
2. other securities	1,593,966
b) third-party securities on deposit (excluding portfolio management): other	16,534,278
1. securities issued by consolidated companies	2,434,987
2. other securities	14,099,291
c) Third-party securities on deposit with third parties	18,547,412
d) Own securities on deposit with third parties	11,898,447
4. **Other transactions**	**–**

6. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at 31/12/2017 (f = c-d-e)**	**Net amount at 31/12/2016**
1. Derivatives	69,561	–	69,561	13,384	48,247	7,930	2,125
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2017	**69,561**	**–**	**69,561**	**13,384**	**48,247**	**7,930**	**–**
Total 31/12/2016	**23,617**	**–**	**23,617**	**19,750**	**1,742**	**–**	**2,125**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements».

In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparts, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The net positive fair value at 31/12/2017 that is not correlated with deposits received in guarantee amounts to € 7.930 million. This amount principally derives from the fact that the margin calls on deposits given in guarantee are made weekly.

Given that fair value changes daily, there may be situations intraweek in which fair value is not fully covered or in which the deposits given in guarantee exceed the value of the related derivatives.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

Repurchase agreements indicated are subject to netting agreements governed by Global Master Repurchase Agreements (GMRA). The gross amounts (a) shown in the table relating to repurchase agreements are recorded in item 10 «Due to Banks»; the related financial instruments (d) are represented by the value of the securities involved in the transactions.

7. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets netted in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet		**Net amount a 31/12/2017 (f = c-d-e)**	**Net amount at 31/12/2016**
				Financial instruments (d)	Cash deposits received in guarantee (e)		
1. Derivatives	44,540	–	44,540	13,384	30,174	982	91
2. Repurchase agreements	99,959	–	99,959	99,959	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–
Total 31/12/2017	**144,499**	**–**	**144,499**	**113,343**	**30,174**	**982**	**–**
Total 31/12/2016	**93,066**	**–**	**93,066**	**19,750**	**73,225**	**–**	**91**

PART C Information on the consolidated income statement

Section 1 Interest - line items 10 and 20

1.1 Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2017**	**Total 31/12/2016**
1. Financial assets held for trading	4,635	–	–	4,635	9,753
2. Financial assets at fair value through profit or loss	–	–	–	–	–
3. Available-for-sale financial assets	31,360	–	–	31,360	30,535
4. Held-to-maturity investments	1,771	–	–	1,771	417
5. Loans and receivables with banks	–	7,108	–	7,108	4,160
6. Loans and receivables with customers	1,575	562,271	–	563,846	615,958
7. Hedging derivatives	–	–	–	–	–
8. Other assets	–	–	22,919	22,919	2,743
Total	**39,341**	**569,379**	**22,919**	**631,639**	**663,566**

1.3 Interest and similar income: other information

1.3.1 Interest and similar income on foreign currency assets

Items	**31/12/2017**	**31/12/2016**
Interest and similar income on foreign currency assets	83,162	86,922

1.4 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other liabilities	**Total 31/12/2017**	**Total 31/12/2016**
1. Due to central banks	(89)	–	–	(89)	(894)
2. Due to banks	(6,281)	–	–	(6,281)	(5,209)
3. Due to customers	(53,727)	–	–	(53,727)	(85,601)
4. Securities issued	–	(60,008)	–	(60,008)	(72,983)
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities carried at fair value	–	–	–	–	–
7. Other liabilities and funds	–	–	(9,231)	(9,231)	(6,535)
8. Hedging derivatives	–	–	(12,381)	(12,381)	(18,094)
Total	**(60,097)**	**(60,008)**	**(21,612)**	**(141,717)**	**(189,316)**

1.5 Interest and similar expense: differential on hedging transactions

Items	31/12/2017	31/12/2016
A. Positive differentials on hedging transactions	–	–
B. Negative differentials on hedging transactions	(12,381)	(18,094)
C. **Balance (A-B)**	**(12,381)**	**(18,094)**

1.6 Interest and similar expense: other information

1.6.1 Interest and similar expense on foreign currency liabilities

	31/12/2017	31/12/2016
Interest and similar expense on foreign currency liabilities	(24,141)	(26,368)

1.6.2 Interest expense on finance lease transactions

	31/12/2017	31/12/2016
Interest expense on finance lease transactions	(2)	(11)

Section 2 *Commissions - line items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2017	31/12/2016
a) **guarantees given**	**28,099**	**28,472**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**99,467**	**89,627**
1. trading in financial instruments	8,698	8,741
2. trading in foreign currencies	9,933	10,588
3. portfolio management	10,491	9,404
3.1. individual	10,491	9,404
3.2. collective	–	–
4. custody and administration of securities	7,885	8,060
5. custodian bank	3,001	2,349
6. placement of securities	31,467	25,222
7. order receipt and transmission	10,035	9,489
8. consultancy	92	175
8.1 investments	–	–
8.2 corporate finance	92	175
9. distribution of third-party services	17,865	15,599
9.1 portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2 insurance products	14,331	12,692
9.3 other products	3,534	2,907
d) **collection and payment services**	**72,339**	**70,746**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**22,335**	**21,618**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**34,133**	**29,863**
j) **other services**	**67,680**	**71,549**
Total	**324,053**	**311,875**

The sub-item «other services» is essentially made up of loan commissions and commissions generated by the foreign currency exchange activities.

2.2 Fee and commission expense: breakdown

Services/Amounts	31/12/2017	31/12/2016
a) **guarantees received**	**(423)**	**(388)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(3,943)**	**(3,474)**
1. trading in financial instruments	(1,770)	(1,595)
2. trading in foreign currencies	–	–
3. portfolio management	–	–
3.1 own	–	–
3.2 delegated by third parties	–	–
4. custody and administration of securities	(2,173)	(1,879)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(9,781)**	**(9,599)**
e) **other services**	**(4,826)**	**(5,317)**
Total	**(18,973)**	**(18,778)**

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	31/12/2017		31/12/2016	
Items/Income	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	1,415	247	3,648	490
B. Available-for-sale financial assets	3,529	342	3,049	–
C. Financial assets at fair value through profit or loss	–	–	–	–
D. Equity investments	–	–	22	–
Total	**4,944**	**589**	**6,719**	**490**

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Unrealized gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit (loss) [(A+B)-(C+D)]
1. **Financial assets held for trading**	**23,182**	**44,433**	**(16,647)**	**(849)**	**50,119**
1.1 Fixed-yield securities	1,669	4,118	(118)	(330)	5,339
1.2 Variable-yield securities	339	11,583	(15,201)	(184)	(3,463)
1.3 Mutual funds	669	4,058	(1,215)	(335)	3,177
1.4 Loans	–	–	–	–	–
1.5 Other	20,505	24,674	(113)	–	45,066
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. **Other financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**(7,051)**
4. **Derivatives**	**7,156**	**47,267**	**(5,096)**	**(31,966)**	**17,361**
4.1 Financial derivatives:	7,156	47,267	(5,096)	(31,966)	17,361
- On debt securities and interest rates	6,573	12,415	(4,509)	(12,606)	1,873
- On equities and equity indices	–	31,413	–	(15,976)	15,437
- On currency and gold	–	–	–	–	–
- Other	583	3,439	(587)	(3,384)	51
4.2 Credit derivatives	–	–	–	–	–
Total	**30,338**	**91,700**	**(21,743)**	**(32,815)**	**60,429**

The net trading income passes from € 31.545 million to € 60.429 million.

Trading income on other financial assets is mainly made up of exchange gains. Exchange differences consist almost entirely of fixed-yield securities in US dollars.

This table does not include the result of the securities in the pension fund, which is shown under another item.

Despite being penalized by substantial exchange losses, mainly linked to the depreciation of the US currency, the increase of 91.56% is due to the good performance of trading activities, both in securities and in foreign exchange and derivatives, which was accompanied by a considerable reduction in capital losses.

Section 5 *Net hedging gains (losses) - line item 90*

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31/12/2017	31/12/2016
A. **Income from:**		
A.1 Fair value hedging derivatives	12,421	13,709
A.2 Hedged financial assets (fair value)	–	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Cash-flow hedges	–	–
A.5 Assets and liabilities in foreign currency	–	–
Total income from hedging activities (A)	**12,421**	**13,709**
B. **Charges from:**		
B.1 Derivatives hedging fair value	–	–
B.2 Hedged financial assets (fair value)	(12,536)	(13,447)
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Cash-flow hedges	–	–
B.5 Assets and liabilities in foreign currency	–	–
Total charges from hedging activities (B)	**(12,536)**	**(13,447)**
C. Net hedging gains (losses) (A – B)	(115)	262

Income include € 12,421 million for the valuation at fair value of hedging derivatives, versus a negative valuation of the loans being hedged of € 12.536 million at fair value. The net result of measuring the hedging structure at fair value is a negative balance of € 0.115 million.

Section 6 *Gains (losses) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases - breakdown

	31/12/2017			31/12/2016		
Items/income items	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
Financial assets						
1. **Loans and receivables with banks**	–	–	–	–	–	–
2. **Loans and receivables with customers**	–	–	–	–	–	–
3. **Available-for-sale financial assets**	**100,059**	**(5,264)**	**94,795**	**82,093**	**(5,762)**	**76,331**
3.1 Fixed-yield securities	82,698	(4,179)	78,519	77,642	(4,056)	73,586
3.2 Variable-yield securities	26	(704)	(678)	3,390	(1,706)	1,684
3.3 Mutual funds	17,335	(381)	16,954	1,061	–	1,061
3.4 Loans	–	–	–	–	–	–
4. **Held-to-maturity investments**	–	–	–	–	–	–
Total assets	**100,059**	**(5,264)**	**94,795**	**82,093**	**(5,762)**	**76,331**
Financial liabilities						
1. **Due to banks**	–	–	–	–	–	–
2. **Due to customers**	–	–	–	–	–	–
3. **Securities issued**	**782**	**(333)**	**449**	**891**	**(1,211)**	**(320)**
Total liabilities	**782**	**(333)**	**449**	**891**	**(1,211)**	**(320)**

Section 7 *Net gains on financial assets and liabilities at fair value through profit or loss - line item 110*

7.1 Net gains financial assets/liabilities at fair value through profit or loss: breakdown

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Profit (loss) [(A+B)-(C+D)] **31/12/2017**
1. **Financial assets**	**5,145**	**5,742**	**(1,627)**	**–**	**9,260**
1.1 Fixed-yield securities	–	–	–	–	–
1.2 Variable-yield securities	–	–	–	–	–
1.3 Mutual funds	5,145	5,742	(1,627)	–	9,260
1.4 Loans	–	–	–	–	–
2. **Financial liabilities**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Due to banks	–	–	–	–	–
2.3 Due to customers	–	–	–	–	–
3. **Other financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**(3,499)**
4. **Credit and financial derivatives**	**–**	**–**	**–**	**–**	**–**
Total	**5,145**	**5,742**	**(1,627)**	**–**	**5,761**

Section 8 *Net impairment losses - line item 130*

8.1 Net impairment losses on loans and receivables: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)					
	Specific			Specific		Portfolio		**Total**	**Total**
	Write-offs	Other	Portfolio	A	B	A	B	**31/12/2017**	**31/12/2016**
A. **Loans and receivables with banks**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
B. **Loans and receivables with customers**	**(21,506)**	**(449,533)**	**(30,425)**	**2,424**	**134,055**	**–**	**133,253**	**(231,732)**	**(250,121)**
Purchased impaired loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Loans	–	–	–	–	–	–	–	–	–
- Fixed-yield securities	–	–	–	–	–	–	–	–	–
Other receivables	**(21,506)**	**(449,533)**	**(30,425)**	**2,424**	**134,055**	**–**	**133,253**	**(231,732)**	**(250,121)**
- Loans	(21,506)	(446,307)	(30,306)	2,424	134,055	–	133,253	(228,387)	(245,403)
- Fixed-yield securities	–	(3,226)	(119)	–	–	–	–	(3,345)	(4,718)
C. **Total**	**(21,506)**	**(449,533)**	**(30,425)**	**2,424**	**134,055**	**–**	**133,253**	**(231,732)**	**(250,121)**

Key:
A = interest
B = Other write-backs

8.2 Net impairment losses on available-for-sale financial assets: breakdown

Transactions/Income items	Adjustments (1)		Write-backs (2)		Total	Total
	Specific		Specific			
	Write-offs	Other	A	B	31/12/2017	31/12/2016
A. Debt securities	–	–	–	–	–	–
B. Variable-yield securities	–	(8,900)	–	–	(8,900)	(9,897)
C. Mutual funds	–	(26,901)	–	–	(26,901)	(15,292)
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. **Total**	**–**	**(35,801)**	**–**	**–**	**(35,801)**	**(25,189)**

Key:
A = Interest
B = Other write-backs

Adjustments concern listed and unlisted variable-yield securities and certain mutual funds, which have been subjected to impairment testing given that their equity value is lower than the original cost.

The most significant adjustments concern the shares of the Atlante Fund for € 26.022 million, the investment in Release S.p.A for € 5.502 million and the amount due from the IDPF-voluntary scheme for the intervention in favour of Cassa di Risparmio di Cesena for € 3.089 million.

8.4 Net impairment losses on other financial transactions: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)				Total	Total
	Specific			Specific		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B	31/12/2017	31/12/2016
A. Guarantees given	–	(7,273)	–	–	121	–	356	(6,796)	(3,235)
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to make loans	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	–
E. **Total**	**–**	**(7,273)**	**–**	**–**	**121**	**–**	**356**	**(6,796)**	**(3,235)**

Key:
A = Interest
B = Other write-backs

Section 11 *Administrative expenses - line item 180*

11.1 Personnel expenses: breakdown

Type of expenses/Sectors	31/12/2017	31/12/2016
1) **Employees**	**(242,300)**	**(233,938)**
a) Wages and salaries	(155,392)	(152,494)
b) Social security contributions	(38,336)	(36,814)
c) Termination indemnities	(20)	(17)
d) Pension expenses	(4,621)	(4,388)
e) Provision for employee termination indemnities	(7,740)	(7,809)
f) Provision for pension and similar obligations:	(11,850)	(6,834)
- defined contribution	-	-
- defined benefits	(11,850)	(6,834)
g) Payments to external supplementary pension funds:	(3,636)	(3,523)
- defined contribution	(3,636)	(3,523)
- defined benefits	-	-
h) Costs deriving from payment agreements based on own capital instruments	-	-
i) Other personnel benefits	(20,705)	(22,059)
2) **Other working personnel**	**(411)**	**(592)**
3) **Directors and Statutory auditors**	**(2,459)**	**(2,284)**
4) **Retired personnel**	**-**	**(20)**
Total	**(245,170)**	**(236,834)**

11.2 Average number of employees by category

	31/12/2017	31/12/2016
1) **Employees**	**3,171**	**3,119**
a) Managers	39	36
b) Officials	770	750
c) Other employees	2,362	2,333
2) **Other personnel**	**7**	**10**

	31/12/2017	31/12/2016
- Number of employees at year-end	3,199	3,156
- Other personnel	3	8

11.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2017	31/12/2016
Service cost	2,406	2,230
Interest cost	1,967	2,384
Contributions from employees	(233)	(239)
Reductions and payments	7,710	2,459
Total charge to income statement (A)	**11,850**	**6,834**
Portion of yield from assets servicing the fund (B)	8,956	4,662
Total charge (A-B)	2,894	2,172

The costs have been recorded as personnel expenses and refer to the pension fund for the Parent Company's personnel.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 12.3 of the notes to the financial statements. The cost for the Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations.

An additional provision of € 8.956 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». The amount of € 4.820 million to cover the actuarial loss has not been charged to the income statement, but instead it has been deducted from equity in accordance with IAS 19, as shown in the statement of comprehensive income.

11.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

11.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2017	31/12/2016
Telephone, post and data transmission	(14,728)	(14,885)
Maintenance of property, equipment and investment property	(9,849)	(10,188)
Rent of buildings	(26,859)	(27,524)
Security	(6,530)	(6,448)
Transportation	(3,732)	(3,713)
Professional fees	(34,952)	(30,304)
Office materials	(2,600)	(2,585)
Electricity, heating and water	(5,058)	(5,434)
Advertising and entertainment	(3,953)	(4,065)
Legal	(16,773)	(16,680)
Insurance	(1,765)	(1,973)
Company searches and information	(6,687)	(6,653)
Indirect taxes and dues	(53,167)	(52,579)
Software and hardware rental and maintenance	(17,094)	(15,858)
Data entry by third parties	(2,077)	(1,756)
Cleaning	(5,873)	(5,897)
Membership fees	(1,870)	(2,107)
Services received from third parties	(4,992)	(3,942)
Outsourced activities	(20,634)	(17,807)
Deferred charges	(1,855)	(2,625)
Goods and services for employees	(1,077)	(1,043)
Other	(35,005)	(55,061)
Total	**(277,130)**	**(289,127)**

Other expenses include € 26.899 million comprising the ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

Section 12 Net accruals to provisions for risks and charges - line item 190

12.1 Net accruals to provisions for risks and charges: breakdown

The positive balance of € 5.344 million reflects the excess of amounts used or released from previous year provisions and new provisions for the year.

Section 13 Depreciation and net impairment losses on property, equipment and investment property - line item 200

13.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	**Net result (a+b-c) 31/12/2017**
A. **Property, equipment and investment property**				
A.1 Owned	(17,926)	-	-	(17,926)
- for business purposes	(17,926)	-	-	(17,926)
- for investment purposes	-	-	-	-
A.2 Acquired under finance leases	(1,019)	-	-	(1,019)
- for business purposes	(1,019)	-	-	(1,019)
- for investment purposes	-	-	-	-
Total	**(18,945)**	**-**	**-**	**(18,945)**

Section 14 *Amortisation and net impairment losses on intangible assets - line item 210*

14.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	**Net result (a+b-c) 31/12/2017**
A. **Intangible assets**				
A.1 Owned	(17,269)	–	–	(17,269)
- Internally generated	–	–	–	–
- Other	(17,269)	–	–	(17,269)
A.2 Acquired under finance leases	–	–	–	–
Total	**(17,269)**	**–**	**–**	**(17,269)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year, accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

Section 15 *Other operating income and expense - Line item 220*

15.1 Other operating expenses: breakdown

	31/12/2017	**31/12/2016**
Out-of-period expense	(3,492)	(3,417)
Other	–	(1,502)
Consolidation differences	(3,071)	(766)
Total	**(6,563)**	**(5,685)**

15.2 Other operating income: breakdown

	31/12/2017	**31/12/2016**
Recovery of charges on deposits and overdrafts	348	268
Recovery of expenses	456	837
Rental income from buildings	5,765	5,867
Recovery of taxes	43,136	42,808
Financial income of pension and similar obligations plan	8,956	4,662
Out-of-period income - other	3,528	3,302
Other	16,334	20,103
Consolidation differences	316	478
Total	**78,839**	**78,325**

Section 16 *Net gains (losses) on equity investments - line item 240*

16.1 Net gains (losses) on equity investments: breakdown

Income item/Segments	31/12/2017	31/12/2016
1) **Joint ventures**		
A. **Income**	**19**	**6**
1. Revaluations	19	6
2. Gains on disposal	–	–
3. Writebacks	–	–
4. Other income	–	–
B. **Charges**	**–**	**–**
1. Writedowns	–	–
2. Impairment writedowns	–	–
3. Loss from disposals	–	–
4. Other income	–	–
Profit (loss)	**19**	**6**
2) **Associated companies**		
A. **Income**	**26,855**	**13,418**
1. Revaluations	23,174	13,418
2. Gains on disposal	–	–
3. Writebacks	–	–
4. Other income	3,681	–
B. **Charges**	**(357)**	**(451)**
1. Writedowns	(50)	(451)
2. Impairment writedowns	(168)	–
3. Loss from disposals	–	–
4. Other income	(139)	–
Profit (loss)	**26,498**	**12,967**
Total	**26,517**	**12,973**

The sub-item other income is constituted by the badwill obtained following the acquisition of 100% of Banca della Nuova Terra SpA and Servizi Internazionali e Strutture Integrate 2000 S.r.l.

Section 17 *Net result of fair value measurement of property, equipment and investment property and intangible assets*

17.1 Net result of fair value measurement (or at revalued amount) of property, equipment and investment property and intangible assets: breakdown

Asset/Income item	Revaluations (a)	Writedowns (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Net result (a+b+c) 31/12/2017
A. **Property, equipment and investment property**	**765**	**(250)**	**–**	**–**	**515**
A.1 Owned:	765	(250)	–	–	515
- for business purposes	–	–	–	–	–
- for investment purposes	765	(250)	–	–	515
A.2 Purchased under finance leases	–	–	–	–	–
- for business purposes	–	–	–	–	–
- for investment purposes	–	–	–	–	–
B. **Intangible assets**	**–**	**–**	**–**	**–**	**–**
B.1 Owned	–	–	–	–	–
B.1.1 Internally generated	–	–	–	–	–
B.1.2 other	–	–	–	–	–
B.2 Purchased under finance leases	–	–	–	–	–
Total	**765**	**(250)**	**–**	**–**	**515**

Section 19 *Net gains on sales of investments - line item 270*

19.1 Net gains on sales of investments: breakdown

Income items/Segments	31/12/2017	31/12/2016
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**17**	**63**
- Gains on disposal	17	66
- Losses on disposal	–	(3)
Profit (loss)	**17**	**63**

Section 20 *Income taxes - line item 290*

20.1 Income taxes: breakdown

Income items/Segments	31/12/2017	31/12/2016
1. Current taxes (+/-)	(30,774)	(18,460)
2. Change in prior period income taxes (+/-)	(6,529)	6,000
3. Reduction in current taxes (+)	–	–
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4. Change in deferred tax assets (+/-)	(36,288)	(20,463)
5. Change in deferred tax liabilities (+/-)	5,095	2,829
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(68,496)	(30,094)

This line item comes in at € 68.496 million, up by 127.61%. The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 29.31% compared with 23.15%. The change in current taxes from previous years derives from a reclassification that has no impact on the profit for the year and of previous years.

20.2 Reconciliation between the theoretical and effective tax burden

Income taxes are calculated on the basis of the specific tax legislation in the country where each company is resident.

The total tax charge for the year can be reconciled as follows:

INCOME TAXES	Tax base	Tax
Theoretical tax burden	233,681	(64,387)
Tax credit	–	–
Increases	16,557	(4,608)
Decreases	(176,616)	49,161
Effective tax burden	**73,622**	**(19,834)**

IRAP (REGIONAL BUSINESS TAX)	Tax base	Tax
Theoretical tax burden	215,658	(10,003)
Tax credit	–	–
Increases	90,363	(7,049)
Decreases	(109,734)	6,112
Effective tax burden	**196,287**	**(10,940)**
Total effective tax burden	**–**	**(30,774)**

Section 22 *Profit (loss) of the year of minority interests - line item 330*

22.1 Detail of line item 330 «Profit (loss) of the year of minority interests»

Name of the businesses	31/12/2017	31/12/2016
Equity investments in consolidated companies with significant minority interests		
FACTORIT S.p.A	5,974	1,276
Total	**5,974**	**1,276**

Section 24 *Earnings per share*

24.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2017	**31/12/2016**
number of shares	453,385,777	453,385,777

This is the weighted average used as the denominator in the calculation of basic earnings per share.

24.2 Other information

IAS 33 requires EPS to be reported accordance with the following definitions: «Basic EPS», determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue. «Diluted EPS» is determined by taking into account the dilutive effect of all potential ordinary shares.

Diluted earnings per share was calculated with reference to the number of shares issued for payment at the time of the capital increase.

	31/12/2017	**31/12/2016**
earnings per share	0,351	0,217
diluted eps	0,351	0,217

PART D *Consolidated comprehensive income*

Analytical statement of consolidated comprehensive income

Items/Amounts	31/12/2017 Gross amount	Income taxes	Net amount
10. **Profit for the year**	**–**	**–**	**165,184**
Other items of comprehensive income that will not be reclassified to profit or loss		–	–
20. **Property, equipment and investment property**	**–**	**–**	**–**
30. **Intangible assets**	**–**	**–**	**–**
40. **Defined-benefit plans**	**(5,101)**	**1,447**	**(3,654)**
50. **Non-current assets held for sale and discontinued operations**	**–**	**–**	**–**
60. **Share of valuation reserves of equity investments valued at net equity**	**(1)**	**–**	**(1)**
Other items of comprehensive income that may be reclassified subsequently to profit or loss	**–**	**–**	**–**
70. **Hedges of foreign investments:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
80. **Exchange differences:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
90. **Cash-flow hedges:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
100. **Available-for-sale financial assets:**	**6,262**	**(642)**	**5,620**
a) changes in fair value	36,574	(10,666)	25,908
b) transfer to income statement	(30,312)	10,024	(20,288)
- adjustments for impairment	–	–	–
- gains/losses on disposals	(30,312)	10,024	(20,288)
c) other changes	–	–	–
110. **Non-current assets held for sale and discontinued operations:**	**–**	**–**	**–**
a) changes in fair value	–	–	–
b) transfer to income statement	–	–	–
c) other changes	–	–	–
120. **Share of valuation reserves of equity investments valued at net equity:**	**(717)**	**197**	**(520)**
a) changes in fair value	(717)	197	(520)
b) transfer to income statement	–	–	–
- adjustments for impairment	–	–	–
- gains/losses on disposals	–	–	–
c) other changes	–	–	–
130. **Total other income items**	**443**	**1,002**	**1,445**
140. **Comprehensive income (Item 10+130)**	**–**	**–**	**166,629**
150. **Consolidated comprehensive income pertaining to minority interests**	**–**	**–**	**5,941**
160. **Consolidated comprehensive income attributable to the Parent Company**	**–**	**–**	**160,688**

PART E Information on risks and related hedging policy

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Parent Company's website.

Introduction

The Parent Company has the task of ensuring effective risk management through proper articulation of the roles and responsibilities of key decision-making departments, as well as the integrity and completeness of the Group's system of controls. This principle involves the centralisation of essential choices in terms of risk management, in order to ensure the harmonisation of all systems of risk assessment and control developed within the Group and to implement a risk management policy that is as integrated and consistent as possible.

The strategic guidelines for risk exposure are established by the governing bodies of the Parent Company, evaluating the overall operations of the Group and the actual risks that it runs, based on the specific type of operations and risk profiles of each company. The decisions are supported by mechanisms for monitoring and control inherent in the evolution of the various risks assumed within the perimeter of the Group and their compatibility with respect to the pursuit of sound and prudent management.

The governing bodies of subsidiaries, according to each one's powers, are responsible for implementing the risk management policies defined by the Parent Company in a manner that is consistent with their company's situation, ensuring the functioning of suitable internal control procedures and a constant flow of information to the Parent Company on individual cases of significant risk.

Section 1 *Risks of the Banking Group*

1.1 Credit risk

QUALITATIVE INFORMATION

1. General matters

The Parent Company manages and coordinates the activities of the Swiss subsidiary, thereby ensuring harmonisation of credit policies at group level and a standard approach to risk management.

As outlined in the equivalent section of the notes to the Parent Company's separate financial statement, the lines of strategy that are followed are geared to sustaining local economies, in particular small and medium-sized businesses and households, maintaining low levels of risk and concentration. These policies are applied by the subsidiaries in ways that respect the peculiarities of their counterparties and the particular types of products being offered, as well as the characteristics of the market in question.

2. Credit risk management policies

2.1 Organisational aspects

The process of credit risk management adopted by the Parent Company and the structure set up to implement it are explained in detail in the corresponding section of the notes relating to the Bank.

The organisational structure of the subsidiaries complies with that of the Parent Company, allowing for differences in size and in the area in which they operate.

2.2 Systems for managing, measuring and monitoring

As part of its coordination activities, the Parent Company requires the subsidiaries to apply the control methodology already discussed in detail in the corresponding section of the notes relating to the Bank.

In this regard, it is worth pointing out that the Swiss subsidiary has its own rating system which is applied to customer loans. This system is based entirely on the subjective assessment and discretion of the credit and loans department: this approach involves gathering various set indicators and information of a financial and qualitative nature, depending on the type of customer. The combined evaluation of these elements results in a score, which is used by the person making the final evaluation to assign a rating. This methodology has been analysed by the independent auditors, who consider it appropriate given the scale, complexity and risks involved in the activities performed. Factorit, on the other hand, does not have its own rating system. The company does however make reference to the ratings assigned by the Parent Company to common customers and, for these, can check their risk status and trends at any time.

2.3 Credit risk mitigation techniques

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to adopt credit risk mitigation techniques able to ensure efficient management and prudent valuation of the guarantees obtained.

This risk is controlled by the subsidiary Banca Popolare di Sondrio (SUISSE) SA by means of monitoring tools that are substantially similar to those of the Parent Company, as described in the corresponding Section in the explanatory notes. Note that lending with mortgage backing or financial collateral is a long-standing practice in Switzerland: in confirmation, more than 80% of loans to customers are guaranteed by mortgages, almost exclusively on residential property.

As regards Factorit's operations, on the other hand, particular tools for mitigating the risk assumed by the factor can be found in the techniques used to consolidate the transfer of risk versus the assigned debtor and in fragmenting it over the series of other persons or entities, a typical approach in operations of this kind. The shorter average maturity and, therefore, faster turnover of factoring loans with respect to normal banking transactions ensures a certain flexibility in the recovery of the resources invested.

2.4 Impaired financial assets

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their loans classification criteria and management methods into line with those of the Parent Company, as explained in the corresponding section of the notes on the Bank.

Impaired loans have never been acquired from third parties.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired	Past due exposures, not impaired	Other non-impaired exposures	**Total 31/12/2017**
1. Available-for-sale financial assets	–	317	–	–	6,647,081	6,647,398
2. Held-to-maturity investments	–	–	–	–	4,132,572	4,132,572
3. Loans and receivables with banks	–	–	–	2	1,920,318	1,920,320
4. Loans and receivables with customers	779,652	1,161,445	129,661	395,455	23,289,623	25,755,836
5. Financial assets at fair value through profit or loss	–	–	–	–	–	–
6. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2017	**779,652**	**1,161,762**	**129,661**	**395,457**	**35,989,594**	**38,456,126**
Total 31/12/2016	**767,900**	**1,323,550**	**291,897**	**519,589**	**30,624,524**	**33,527,460**

The word exposures is understood as excluding equities and mutual funds.

The table below shows the analysis of the ageing of past due amounts by portfolio with reference to non-impaired financial assets, in line with IFRS 7 (paragraph 37, letter a).

	Past due exposures, not impaired				
Portfolio/quality	Past due up to 3 months	Past due from 3 to 6 months	Past due from 6 to 12 months	Past due for over 1 year	Other exposures not past due
3. Loans and receivables with banks	2	–	–	–	1,920,318
4. Loans and receivables with customers	324,314	40,092	25,825	5,224	23,289,623
Total	**324,316**	**40,092**	**25,825**	**5,224**	**25,209,941**

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

	Impaired assets			Not impaired assets			
Portfolio/quality	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	**Total net exposure**
1. Available-for-sale financial assets	317	–	317	6,647,081	–	6,647,081	6,647,398
2. Held-to-maturity investments	–	–	–	4,132,572	–	4,132,572	4,132,572
3. Loans and receivables with banks	–	–	–	1,920,320	–	1,920,320	1,920,320
4. Loans and receivables with customers	4,224,880	(2,154,122)	2,070,758	23,810,267	(125,189)	23,685,078	25,755,836
5. Financial assets at fair value through profit or loss	–	–	–	–	–	–	–
6. Financial assets being sold	–	–	–	–	–	–	–
Total 31/12/2017	**4,225,197**	**(2,154,122)**	**2,071,075**	**36,510,240**	**(125,189)**	**36,385,051**	**38,456,126**
Total 31/12/2016	**4,426,848**	**(2,043,501)**	**2,383,347**	**31,284,004**	**(139,891)**	**31,144,113**	**33,527,460**

With reference to financial assets at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial write-offs recorded over the years in relation to the above portfolios total € 170.033 million, reflecting the non-performing loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» presents the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the other financial assets.

	Assets obviously of poor quality		Other assets
Portfolio/quality	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	5	106	496,202
2. Hedging derivatives	–	–	–
Total 31/12/2017	**5**	**106**	**496,202**
Total 31/12/2016	**14**	**322**	**793,982**

A.1.3 Banking Group - Cash and off-balance sheet exposures to banks: gross and net values and past due bands

	Gross exposure							
	Impaired assets							
Type of exposure/Amounts	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**								
a) Non-performing loans	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
c) Impaired past due exposures	–	–	–	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
d) Not impaired past due exposures	–	–	–	–	2	–	–	2
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
e) Other not impaired exposure	–	–	–	–	2,395,076	–	–	2,395,076
- of which: exposures subject to forbearance	–	–	–	–	–	–	–	–
Total A	**–**	**–**	**–**	**–**	**2,395,078**	**–**	**–**	**2,395,078**
B. **Off-balance sheet exposures**								
a) Impaired	–	–	–	–	–	–	–	–
b) Not impaired	–	–	–	–	206,639	–	–	206,639
Total B	**–**	**–**	**–**	**–**	**206,639**	**–**	**–**	**206,639**
Total (A+B)	**–**	**–**	**–**	**–**	**2,601,717**	**–**	**–**	**2,601,717**

Cash exposures include the loans and receivables with banks, shown under item 60, as well as other financial assets consisting of bank securities included in items 20, 30, 40, 50 of assets, excluding variable-yield securities. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

A.1.4 Banking Group - Cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
A. **Opening gross exposure**	**–**	**639**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–
B. **Increases**	**–**	**528**	**–**
B.1 transfers from performing loans	–	–	–
B.2 transfers from other categories of impaired exposure	–	–	–
B.3 other increases	–	528	–
C. **Decreases**	**–**	**1,167**	**–**
C.1 transfers to performing loans	–	–	–
C.2 write-offs	–	–	–
C.3 collections	–	1,167	–
C.4 proceeds from disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposure	–	–	–
C.7 other decreases	–	–	–
D. **Closing gross exposure**	**–**	**–**	**–**
- of which: sold but not eliminated from the balance sheet	–	–	–

A.1.6 Banking group - Cash and off-balance sheet exposures to customers: gross and net values and past due bands

Type of exposure/Amounts	Gross exposure – Impaired assets – Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
A. **Cash exposures**								
a) Non-performing loans	2,873	9,642	34,753	2,254,119	–	(1,521,735)	–	779,652
- of which: exposures subject to forbearance	47	693	2,932	114,133	–	(69,661)	–	48,144
b) Unlikely-to-pay loans	711,502	67,885	192,262	797,258	–	(607,145)	–	1,161,762
- of which: exposures subject to forbearance	316,035	25,114	44,038	134,893	–	(165,080)	–	355,000
c) Impaired past due exposures	65,076	17,858	43,692	28,277	–	(25,242)	–	129,661
- of which: exposures subject to forbearance	3,349	3,138	10,101	2,855	–	(3,033)	–	16,410
d) Not impaired past due exposures	–	–	–	–	398,134	–	(2,679)	395,455
- of which: exposures subject to forbearance	–	–	–	–	60,064	–	(403)	59,661
e) Other not impaired exposure	–	–	–	–	34,106,318	–	(122,510)	33,983,808
- of which: exposures subject to forbearance	–	–	–	–	576,685	–	(3,841)	572,844
Total A	**779,451**	**95,385**	**270,707**	**3,079,654**	**34,504,452**	**(2,154,122)**	**(125,189)**	**36,450,338**
B. **Off-balance sheet exposures**								
a) Impaired	84,008	–	–	–	–	(25,186)	–	58,822
b) Not impaired	–	–	–	–	4,792,507	–	(4,966)	4,787,541
Total B	**84,008**	**–**	**–**	**–**	**4,792,507**	**(25,186)**	**(4,966)**	**4,846,363**
Total (A+B)	**863,459**	**95,385**	**270,707**	**3,079,654**	**39,296,959**	**(2,179,308)**	**(130,155)**	**41,296,701**

Cash exposures include the customer loans shown in item 70 as well as other financial assets represented by non-bank securities included in items 20, 30, 40, 50 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.7 Banking Group - Cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
A. **Opening gross exposure**	**2,099,717**	**1,987,835**	**338,658**
- of which: sold but not eliminated from the balance sheet	34	3,240	2,833
B. **Increases**	**503,671**	**567,511**	**98,026**
B.1 transfers from performing loans	52,432	266,208	85,254
B.2 transfers from other categories of impaired exposure	390,594	130,762	395
B.3 other increases	60,645	170,541	12,377
C. **Decreases**	**302,001**	**786,439**	**281,781**
C.1 transfers to performing loans	887	132,092	71,972
C.2 write-offs	164,498	8,942	–
C.3 collections	135,267	144,114	13,917
C.4 proceeds from disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposure	31	366,081	155,640
C.7 other decreases	1,318	135,210	40,252
D. **Closing gross exposure**	**2,301,387**	**1,768,907**	**154,903**
- of which: sold but not eliminated from the balance sheet	–	6,455	1,766

A.1.7bis Banking Group - Cash exposures to customers: dynamics of exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: impaired	Exposures subject to forbearance: not impaired
A. **Opening gross exposure**	**556,911**	**453,871**
- of which: sold but not eliminated from the balance sheet	–	–
B. **Increases**	**264,601**	**415,870**
B.1 transfers from performing loans not subject to forbearance	46,938	251,689
B.2 transfers from performing loans subject to forbearance	40,461	–
B.3 transfers from loans subject to forbearance and impaired	–	47,084
B.4 other increases	177,202	117,097
C. **Decreases**	**164,184**	**232,992**
C.1 transfers to performing loans not subject to forbearance	–	74,817
C.2 transfers to performing loans subject to forbearance	50,879	–
C.3 transfers to loans subject to forbearance and impaired	–	40,461
C.4 write-offs	8,624	–
C.5 collections	61,190	71,346
C.6 proceeds from disposals	–	–
C.7 losses on disposal	–	–
C.8 other decreases	43,491	46,368
D. **Closing gross exposure**	**657,328**	**636,749**
- of which: sold but not eliminated from the balance sheet	1,278	19,368

A.1.8 Banking group - Cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans		Unlikely-to-pay loans		Past due exposures, impaired	
	Total	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance	**Total**	of which: exposures subject to forbearance
A. **Total opening adjustments**	**1,331,817**	**40,887**	**664,924**	**141,267**	**46,761**	**3,644**
- of which: sold but not eliminated from the balance sheet	7	–	500	–	357	–
B. **Increases**	**404,804**	**34,522**	**232,867**	**57,915**	**15,171**	**644**
B.1 adjustments	73,849	24,026	90,035	54,946	4,196	377
B.2 losses on disposal	–	–	–	–	–	–
B.3 transfers from other categories of impaired exposure	150,398	10,496	18,900	2,969	58	–
B.4 other increases	180,557	–	123,932	–	10,917	267
C. **Decreases**	**214,886**	**5,748**	**290,646**	**34,102**	**36,690**	**1,255**
C.1 write-backs on valuation	30,836	5,012	52,697	7,579	1,807	285
C.2 write-backs due to collections	18,241	735	12,729	5,151	2,099	48
C.3 gains on disposal	–	–	–	–	–	–
C.4 write-offs	164,497	1	8,943	8,622	–	–
C.5 transfers to other categories of impaired exposure	6	–	146,890	10,905	22,460	881
C.6 other decreases	1,306	–	69,387	1,845	10,324	41
D. **Total closing adjustments**	**1,521,735**	**69,661**	**607,145**	**165,080**	**25,242**	**3,033**
- of which: sold but not eliminated from the balance sheet	–	–	921	110	274	16

A.2 Classification of exposures based on external and internal ratings

A.2.1 Banking Group - Distribution of cash loans and off-balance sheet items by external rating class

	External rating classes							Total
Exposure	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	31/12/2017
A. **Cash exposure**	**9,264,154**	**949,235**	**2,769,978**	**479,538**	**12,889**	**5,294**	**25,797,788**	**39,278,876**
B. **Derivatives**	**-**	**13,203**	**1,039**	**237**	**-**	**-**	**83,504**	**97,983**
B.1 Financial derivatives	–	13,203	1,039	237	–	–	83,504	97,983
B.2 Credit derivatives	–	–	–	–	–	–	–	-
C. **Guarantees given**	**12,568**	**24,070**	**46,464**	**4,080**	**2,505**	**-**	**3,485,127**	**3,574,814**
D. **Commitments to make loans**	**7,843**	**53,193**	**46,831**	**32,690**	**19**	**283**	**1,239,346**	**1,380,205**
E. **Other**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**9,284,565**	**1,039,701**	**2,864,312**	**516,545**	**15,413**	**5,577**	**30,605,765**	**44,331,878**

The distribution of exposures other than those in variable-yield securities is reported by classes that reflect the long-term rating assigned to them by leading international agencies, as stored in the Group's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	From AAA to AAL	From AH to AL	From BBBH to BBBL	From BBH to BBL	From BH to BL	CCC
StanFromrd &Poor's Rating Services	From AAA to AA-	From A+ to A-	From BBB+ to BBB-	From BB+ to BB	From B+ to B-	from CCC+ down
FitchRatings	From AAA to AA-	From A+ to A-	From BBB+ to BBB-	From BB+ to BB-	From B+ to B-	from CCC+ down

A.2.2 Banking Group - Distribution of cash loans and off-balance sheet items by internal rating class

Tables analysing the distribution of the cash and «off-balance sheet» exposures of Banca Popolare di Sondrio by internal rating class are presented in the corresponding section of the notes to the financial statements of the Parent Company.

Banca Popolare di Sondrio (Suisse) SA has its own customer rating system, which only applies to customer loans. This system splits the loan book into 11 different risk categories. The first category identifies customers with the lowest risk, while the categories from R6 to R8 indicate various levels of insolvency, depending on how serious it is.

BANCA POPOLARE DI SONDRIO (SUISSE) - CUSTOMERS - Exposure	R1	R2	R3	R3G	R4
A. **Cash exposures**	**–**	**–**	**496,792**	**509,775**	**1,926,226**
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**
B.1 Financial derivatives	–	–	–	–	–
B.2 Credit derivatives	–	–	–	–	–
C. **Guarantees given**	**–**	**–**	**1,862**	**1,011**	**40,738**
D. **Commitments to make loans**	**–**	**–**	**805**	**1,575**	**16,699**
E. **Other**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**499,459**	**512,361**	**1,983,663**

Note that the Bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

Internal rating classes							
R4G	R5	R6	R6G	R7	R8	Unrated	**Total 31/12/2017**
290,902	**83,001**	**27,297**	**17,519**	**8,715**	**45**	**912**	**3,361,184**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
5,614	**50**	**–**	**–**	**–**	**–**	**74,175**	**123,450**
3,387	**6**	**–**	**–**	**–**	**–**	**20,873**	**43,345**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
299,903	**83,057**	**27,297**	**17,519**	**8,715**	**45**	**95,960**	**3,527,979**

A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in columns «guarantees» refer to the actual value of the collateral (so-called «fair value»), which can be much higher than the amount guaranteed: this means that the real value of the guarantees may exceed that shown in the table.

A.3.1 Banking group - Guaranteed cash exposure to banks

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**43,264**	**–**	**–**	**–**	**–**
1.1 fully guaranteed	37,681	–	–	–	–
- of which: impaired	–	–	–	–	–
1.2 partially guaranteed	5,583	–	–	–	–
- of which: impaired	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**16,574**	**–**	**–**	**1,653**	**410**
2.1 fully guaranteed	16,354	–	–	1,653	353
- of which: impaired	–	–	–	–	–
2.2 partially guaranteed	220	–	–	–	57
- of which: impaired	–	–	–	–	–

A.3.2 Banking group - Guaranteed cash exposure to customers

		Secured guarantees (1)			
	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**17,014,382**	**11,916,608**	**–**	**1,795,846**	**263,699**
1.1. fully guaranteed	16,235,643	11,912,310	–	1,697,836	225,368
- of which: impaired	1,782,372	1,562,378	–	13,133	3,622
1.2. partially guaranteed	778,739	4,298	–	98,010	38,331
- of which: impaired	77,815	3,949	–	10,842	1,577
2. **Guaranteed off-balance sheet exposures:**	**1,305,732**	**104,656**	**–**	**66,389**	**90,745**
2.1. fully guaranteed	1,193,150	104,656	–	59,311	74,184
- of which: impaired	19,392	1,958	–	1,634	2,980
2.2. partially guaranteed	112,582	–	–	7,078	16,561
- of which: impaired	2,388	–	–	354	76

Personal guarantees (2)										
Credit derivatives										
	Other derivatives				Guarantees given					
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2017**
–	**–**	**–**	**–**	**–**	**3,104**	**–**	**35,514**	**–**	**38,618**
–	–	–	–	–	3,104	–	34,577	–	37,681
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	937	–	937
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**14,397**	**–**	**81**	**–**	**16,541**
–	–	–	–	–	14,267	–	81	–	16,354
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	130	–	–	–	187
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Credit derivatives									
	Other derivatives				Guarantees given				
CLN	Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	**Total 31/12/2017**
–	**–**	**–**	**–**	**–**	**77,916**	**58,186**	**76,657**	**2,548,874**	**16,737,786**
–	–	–	–	–	37,886	47,592	68,896	2,185,117	16,175,005
–	–	–	–	–	2,802	2,531	45	180,760	1,765,271
–	–	–	–	–	40,030	10,594	7,761	363,757	562,781
–	–	–	–	–	1,789	737	467	44,677	64,038
–	**–**	**–**	**–**	**–**	**6,391**	**211**	**109,909**	**861,400**	**1,239,701**
–	–	–	–	–	2,665	43	105,752	823,862	1,170,473
–	–	–	–	–	–	–	–	12,441	19,013
–	–	–	–	–	3,726	168	4,157	37,538	69,228
–	–	–	–	–	–	–	–	1,726	2,156

B. Distribution and concentration of exposure

Preparation of this section has excluded the exposures reported in tables A.1.3. and A.1.6., exposures to counterparty risk relating to loans of securities or goods, granted or received.

B.1 Banking group - Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

	Government			Other public entities		
Exposures/Counterparties	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. **Cash exposures**						
A.1 Non-performing loans	–	–	–	–	–	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	258	140	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.3 Past due exposures, impaired	–	–	–	4	–	–
- of which exposures subject to forbearance	–	–	–	–	–	–
A.4 Not impaired exposures	10,537,492	–	–	226,497	–	308
- of which exposures subject to forbearance	–	–	–	–	–	–
Total A	**10,537,492**	**–**	**–**	**226,759**	**140**	**308**
B. **Off-balance sheet exposures**						
B.1 Non-performing loans	–	–	–	–	–	–
B.2 Unlikely-to-pay loans	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–
B.4 Not impaired exposures	20,426	–	2	28,056	–	37
Total B	**20,426**	**–**	**2**	**28,056**	**–**	**37**
Total (A+B) 31/12/2017	**10,557,918**	**–**	**2**	**254,815**	**140**	**345**
Total (A+B) 31/12/2016	**6,819,908**	**4,661**	**–**	**114,811**	**12**	**122**

Financial companies			Insurance companies			Non-financial companies			Other parties		
Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustmento
7,529	47,593	–	–	–	–	624,434	1,261,814	–	147,689	212,329	–
605	6,069	–	–	–	–	43,283	60,412	–	4,256	3,180	–
14,085	10,984	–	–	–	–	945,789	515,007	–	201,629	81,015	–
2,847	4,550	–	–	–	–	308,504	148,082	–	43,649	12,448	–
302	40	–	–	–	–	68,256	13,958	–	61,099	11,244	–
–	–	–	–	–	–	10,721	2,168	–	5,689	865	–
3,425,659	–	22,099	11,299	–	18	13,639,320	–	85,105	6,538,995	–	17,658
1,943	–	19	–	–	–	461,997	–	3,465	168,565	–	760
3,447,575	**58,617**	**22,099**	**11,299**	**–**	**18**	**15,277,799**	**1,790,779**	**85,105**	**6,949,412**	**304,588**	**17,658**
–	–	–	–	17	–	5,032	12,737	–	205	355	–
837	115	–	18	12	–	46,816	11,706	–	899	239	–
222	–	–	–	–	–	3,660	4	–	1,133	1	–
349,242	–	112	3,399	–	4	4,084,806	–	4,438	320,369	–	373
350,301	**115**	**112**	**3,417**	**29**	**4**	**4,140,314**	**24,447**	**4,438**	**322,606**	**595**	**373**
3,797,876	**58,732**	**22,211**	**14,716**	**29**	**22**	**19,418,113**	**1,815,226**	**89,543**	**7,272,018**	**305,183**	**18,031**
3,691,946	**63,703**	**16,790**	**16,311**	**17**	**19**	**19,451,072**	**1,723,706**	**116,642**	**7,273,902**	**269,436**	**11,688**

B.2 Banking group - Territorial distribution of cash and off-balance sheet exposures to customers (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposures**				
A.1 Non-performing loans	773,268	1,470,811	6,010	46,331
A.2 Unlikely-to-pay loans	1,150,117	603,169	11,642	3,976
A.3 Past due exposures, impaired	83,396	16,861	46,255	8,378
A.4 Not impaired exposures	28,601,186	118,002	5,507,896	6,274
Total A	**30,607,967**	**2,208,843**	**5,571,803**	**64,959**
B. **Off-balance sheet exposures**				
B.1 Non-performing loans	5,237	13,109	–	–
B.2 Unlikely-to-pay loans	48,571	12,072	–	–
B.3 Other impaired assets	5,015	5	–	–
B.4 Not impaired exposures	4,160,059	4,320	623,828	642
Total B	**4,218,882**	**29,506**	**623,828**	**642**
Total A+B 31/12/2017	**34,826,849**	**2,238,349**	**6,195,631**	**65,601**
Total A+B 31/12/2016	**32,097,393**	**2,135,824**	**5,138,803**	**66,482**

B.3 Banking group - Territorial distribution of cash and off-balance sheet exposures to banks (book value)

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposures**				
A.1 Non-performing loans	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Past due exposures, impaired	–	–	–	–
A.4 Not impaired exposures	2,019,591	–	306,074	–
Total A	**2,019,591**	**–**	**306,074**	**–**
B. **Off-balance sheet exposures**				
B.1 Non-performing loans	–	–	–	–
B.2 Unlikely-to-pay loans	–	–	–	–
B.3 Other impaired assets	–	–	–	–
B.4 Not impaired exposures	50,019	–	152,182	–
Total B	**50,019**	**–**	**152,182**	**–**
Total A+B 31/12/2017	**2,069,610**	**–**	**458,256**	**–**
Total A+B 31/12/2016	**1,755,069**	**–**	**358,660**	**–**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
374	760	–	3,810	–	24
3	1	–	–	(1)	–
4	1	4	1	2	1
153,731	185	63,025	155	53,424	572
154,112	**947**	**63,029**	**3,966**	**53,425**	**597**
–	–	–	–	–	–
–	–	–	–	(1)	–
–	–	–	–	–	–
1,739	2	187	–	1,728	2
1,739	**2**	**187**	**–**	**1,727**	**2**
155,851	**949**	**63,216**	**3,966**	**55,152**	**599**
49,379	**414**	**28,291**	**4,021**	**54,082**	**54**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
53,567	–	13,583	–	2,263	–
53,567	**–**	**13,583**	**–**	**2,263**	**–**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1,411	–	1,290	–	1,737	–
1,411	**–**	**1,290**	**–**	**1,737**	**–**
54,978	**–**	**14,873**	**–**	**4,000**	**–**
44,156	**–**	**38,521**	**–**	**3,301**	**–**

B.4 Significant risks

	31/12/2017	31/12/2016
Number of positions	12	11
Exposure	16,653,500	12,973,341
Risk position	2,950,903	3,608,205

The exposure limit of 10% of own funds - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

The above positions include the Republic of Italy (nominal exposure, 9,130 million; risk position, 11 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione e Garanzia - Clearing House (nominal exposure, 1,636 million; risk position, 0 million), principally in relation to lending and funding repo transactions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

C. Securitisation transactions

C.1 Securitisation transactions

QUANTITATIVE INFORMATION

C.2 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	Cash exposure					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv S.r.l 15.05.2014/08.02.2042	–	–	–	–	–	–
Mortgage loans	52,793	16,381	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045	–	–	–	–	–	–
Lease contracts	297,991	1,043	–	–	–	–

C.3 Banking group – Non-consolidated special purpose vehicle for securitisation

Names	Registered offices of the company	Consolidation	Loans
Alba 6 Spv S.r.l	Conegliano (TV)	NO	402,405
Bnt Portfolio Spv S.r.l	Conegliano (TV)	NO	235,992

C.4 Non-consolidated special purpose vehicle for securitisation

The SPV Alba 6 Spv S.r.l and BNT Portfolio Spv S.r.l have not been consolidated as there are not the requirements of IFRS 10.

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Assets		Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior
–	16,773	299,038	–	76,166
–	13,784	326,090	–	–

D. Information about structured entities (other than securitisation vehicles)

Starting from 2014, following the entry into force of IFRS 10 on the subject of control, Fondo Centro delle Alpi Real Estate is fully consolidated since the relevant conditions were met.

No situations arose during the year that would have required the disclosures envisaged in IFRS 12, paras. 14-17 and 26-27.

E. Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

E.1 Banking group – Financial assets sold and not eliminated from the balance sheet: book value and full value

	Financial assets held for trading			Financial assets at fair value through profit or loss			Available-for-sale financial assets		
Technical forms/Portfolio	A	B	C	A	B	C	A	B	C
A. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**355,482**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	355,482	–	–
2. Variable-yield securities	–	–	–	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total 31/12/2017	**–**	**–**	**–**	**–**	**–**	**–**	**355,482**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–
Total 31/12/2016	**–**	**–**	**–**	**–**	**–**	**–**	**610,161**	**–**	**–**
of which: impaired	–	–	–	–	–	–	–	–	–

Key:

A = financial assets sold and recognised in full (book value)
B = financial assets sold and recognised in part (book value)
C = financial assets sold and recognised in part (full value)

These are securities sold under repurchase agreements.

E.2 Banking group - Financial liabilities associated with assets sold and not eliminated from the balance sheet: book value

Liabilities/Portfolio of assets	Financial assets held for trading	Financial assets at fair value through profit or loss	Available -for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	**Total 31/12/2017**
1. **Due to customers**	**–**	**–**	**356,725**	**–**	**–**	**–**	356,725
a) for assets recognised in full	–	–	356,725	–	–	–	356,725
b) for assets recognised in part	–	–	–	–	–	–	–
2. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**99,959**	**99,959**
a) for assets recognised in full	–	–	–	–	–	99,959	99,959
b) for assets recognised in part	–	–	–	–	–	–	–
3. **Securities issued**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) for assets recognised in full	–	–	–	–	–	–	–
b) for assets recognised in part	–	–	–	–	–	–	–
Total 31/12/2017	**–**	**–**	**356,725**	**–**	**–**	**99,959**	**456,684**
Total 31/12/2016	**–**	**–**	**610,237**	**–**	**–**	**–**	**610,237**

Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			**Total**	**Total**
A	B	C	A	B	C	A	B	C	**31/12/2017**	**31/12/2016**
–	**–**	**–**	**–**	**–**	**–**	**129,129**	**–**	**–**	**484,611**	**610,161**
–	–	–	–	–	–	129,129	–	–	484,611	610,161
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**129,129**	**–**	**–**	**484,611**	**–**
–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**610,161**
–	–	–	–	–	–	–	–	–	–	–

E.3 Banking group - Disposals with recourse limited solely to the assets sold: fair value

Technical forms/Portfolio	Financial assets held for trading		Financial assets at fair value through profit or loss		Available-for-sale financial assets	
	A	B	A	B	A	B
A. **Cash assets**	**–**	**–**	**–**	**–**	**355,482**	**–**
1. Fixed-yield securities	–	–	–	–	355,482	–
2. Variable-yield securities	–	–	–	–	–	–
3. Mutual funds	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
Total assets	**–**	**–**	**–**	**–**	**355,482**	**–**
C. **Associated liabilities**	**–**	**–**	**–**	**–**	**(356,725)**	**–**
1. Due to customers	–	–	–	–	(356,725)	–
2. Due to banks	–	–	–	–	–	–
3. Securities issued	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**(356,725)**	**–**
Net value 31/12/2017	**–**	**–**	**–**	**–**	**(1,243)**	**–**
Net value 31/12/2016	**–**	**–**	**–**	**–**	**(76)**	**–**

Key:

A = financial assets sold and recognised in full
B = financial assets sold and recognised in part

E.4. Covered bond operations

On 6 November 2013, the Board of Directors of the Parent Company authorised a covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015, under the same contract.

Two additional assignments were carried out in 2016. The first, on 1 February 2016, relating to a total portfolio of € 576 million of performing loans in connection with the issue of a second series of covered bonds totalling € 500 million on 4 April 2016. The second, on 1 November 2016, relating to a portfolio of performing loans totalling € 226 million.

A fifth assignment of performing loans for a total of € 307 million took place in 2017 under the same contract.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted with subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as assignments without recourse pursuant to IAS 39. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue including equipping the Parent Company with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;

Held-to-maturity investments (fair value)		Loans and receivables with banks (fair value)		Loans and receivables with customers (fair value)		Total	
A	B	A	B	A	B	31/12/2017	31/12/2016
–	**–**	**–**	**–**	**129,129**	**–**	**484,611**	**610,161**
–	–	–	–	129,129	–	484,611	610,161
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**129,129**	**–**	**484,611**	**610,161**
–	**–**	**–**	**–**	**(99,959)**	**–**	**(456,684)**	**(610,237)**
–	–	–	–	–	–	(356,725)	–
–	–	–	–	(99,959)	–	(99,959)	–
–	–	–	–	–	–	–	
–	**–**	**–**	**–**	**(99,959)**	**–**	**(456,684)**	**(610,237)**
–	**–**	**–**	**–**	**29,170**	**–**	**27,927**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**(76)**

- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparts involved for various reasons, BDO Italia S.p.A, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bonds issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, Popso Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 1
ISIN Code:	IT0005039711
Issue date	05/08/2014
Maturity Date	05/08/2019
Extended maturity	05/08/2020
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	1,375%
Annual	Coupon
Applicable law	Italian

Series and Class	Series 2
ISIN Code:	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0,750%
Annual	Coupon
Applicable law	Italian

1.2 Banking group - Market risk

1.2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

Factorit s.p.a., Sinergia Seconda S.r.l. and Banca della Nuova Terra s.p.a. are not exposed to rate and price risk inherent to the trading portfolio, whereas Popso Covered Bond s.r.l., which is consolidated synthetically with the Parent Company, is included in the analysis carried out for the separate financial statements.

The interest rate risk deriving from Banca Popolare di Sondrio (Suisse) SA's trading portfolio relates to investments in fixed-yield securities and forward contracts on exchange rates.

The first ones are for both investment purposes - the positions are held until their natural maturity - and trading purposes in a strict sense.

The portfolio mainly comprises prime fixed-yield securities with a definite life.

The price risk deriving from the Swiss subsidiary's trading portfolio relates to investments in variable-yield securities of prime issuers, above all, in mutual funds managed by the Group (Popso (Suisse) Investment Fund Sicav).

B. Management and measurement of interest rate risk and price risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

At a consolidated level, the VaR measurement is done by the Parent Company's Financial and Operational Risk Office on the basis of data provided by Banca Popolare di Sondrio (Suisse) SA, offsetting any intercompany balances.

The approach adopted for analysing the sensitivity to interest rate risk and to price risk essentially reflect the internal model used by the Parent Company to calculate Value at Risk (VaR), as described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers, in addition to the financial instruments exposed to price risk included in the Parent Company's trading portfolio for supervisory purposes: as for interest rate risk, fixed-yield securities and forward contracts on exchange rates of the subsidiary; as for price risk, the variable-yield securities and mutual funds of the subsidiary, excluding the equity investment and the variable-yield security classified as «available-for-sale financial assets», included in the bank book. The price risk on foreign currency mutual funds also includes exchange risk.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

With regard to the measurement of interest-rate risk, the VaR methodology described above also takes account of the results obtained at a consolidated level by the internal Asset & Liability Management (ALM) model described in the corresponding section of the notes to the financial statements of the Parent Company and of the individual companies comprised in the Banking Group.

In this regard, the following year-end data relates solely to the fixed-yield securities held in the trading portfolio for supervisory purposes, lending and funding repo transactions (with underlying fixed-yield securities held in the trading portfolio for supervisory purposes), forward exchange-rate contracts, interest-rate options and interest-rate swaps held in the Parent Bank's trading portfolio, as well as the forward exchange-rate contracts of Banca Popolare di Sondrio (SUISSE) SA.

The effect of a change in interest rates of +200 basis points over twelve months on the future interest margin – the difference between the future interest income and the future interest expense – would be 28.933 million, whereas a change in interest rates of -200 basis points would decrease the interest margin by 4.381 million euro.

The effect of an instantaneous change in interest rates by +200 basis points on equity – the difference between the present value of assets and liabilities - would be a loss of 13.372 million, whereas a change in interest rates by -200 basis would result in a profit of 5.242 million euro.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**1,321,389**	**80,922**	**6**	**45,780**	**54,274**	**–**	**–**
1.1 Fixed-yield securities	–	99,787	80,922	6	45,780	54,274	–	–
- with early repayment option	–	–	–	–	–	2,514	–	–
- other	–	99,787	80,922	6	45,780	51,760	–	–
1.2 Other assets	–	1,221,602	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**5,369,051**	**979,282**	**426,033**	**987,163**	**884,966**	**244,070**	**–**
3.1 With underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	5,369,051	979,282	426,033	987,163	884,966	244,070	–
- Options	–	7,541	16,822	17,617	215,371	266,316	240,942	
+ Long positions	–	3,778	8,426	8,811	107,685	133,158	120,471	–
+ Short positions	–	3,763	8,396	8,806	107,686	133,158	120,471	–
- Other derivatives	–	5,361,510	962,460	408,416	771,792	618,650	3,128	–
+ Long positions	–	3,081,056	730,107	341,371	385,426	309,325	1,564	–
+ Short positions	–	2,280,454	232,353	67,045	386,366	309,325	1,564	–

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**10,028**	**4,173**	**86,791**	**15,139**	**463**	**–**	**–**
1.1 Fixed-yield securities	–	10,028	4,173	86,791	15,139	463	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	10,028	4,173	86,791	15,139	463	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**2,975,593**	**808,870**	**448,518**	**32,636**	**–**	**–**	**–**
3.1 With underlying security	–	330	208	–	–	–	–	–
- Options	–	330	208	–	–	–	–	–
+ Long positions	–	165	104	–	–	–	–	–
+ Short positions	–	165	104	–	–	–	–	–
- Other derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	2,975,266	808,662	488,518	32,636	–	–	–
- Options	–	6,143	14,499	11,433	–	–	–	–
+ Long positions	–	3,072	7,251	5,726	–	–	–	–
+ Short positions	–	3,071	7,248	5,707	–	–	–	–
- Other derivatives	–	2,969,123	794,163	477,085	32,636	–	–	–
+ Long positions	–	1,100,438	162,739	104,306	16,796	–	–	–
+ Short positions	–	1,868,685	631,424	372,779	15,840	–	–	–

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	ITALY	UNITED STATES	UNITED KINGDOM	JAPAN	GERMANY	OTHER COUNTRIES	
A. **Variable-yield securities**							
- long positions	120,543	–	–	–	9,427	21,900	–
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of year

	(in thousands of euro)
1. **Cash assets**	**695**
1.1 Fixed-yield securities	618
1.2 Other assets	259
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**78**
3.1 With underlying security	–
- Options (on variable-yield securities)	–
+ Long positions	–
+ Short positions	–
- Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying security	78
- Options	–
+ Long positions	3
+ Short positions	4
- Other derivatives	78
+ Long positions	1,007
+ Short positions	994
Total interest rate risk	**699**
A. **Variable-yield securities**	**2,714**
- long positions	2,714
- short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**–**
- long positions	–
- short positions	–
C. **Other derivatives on variable-yield securities**	**–**
- long positions	–
- short positions	–
D. **Derivatives on stock indices**	**–**
- long positions	–
- short positions	–
Total Price risk transactions table 2	**2,714**
MUTUAL FUNDS	**297**
Forward contracts on other instruments (goods)	**–**
- long positions	194
- short positions	194
Options on other instruments (goods)	**–**
- long positions	–
- short positions	–
Total Price risk	**2,900**
Total Interest rate risk and price risk	**3,148**

Interest-rate risk

Information on average, minimum and maximum VaR is provided below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	1,565
minimum	422
maximum	3,110

With regard to the distribution of VaR during the year, the average interest rate VaR for each of the twelve months in 2017 is shown below.

January	2,292
February	2,821
March	2,323
April	2,102
May	2,135
June	1,777
July	1,600
August	1,024
September	916
October	788
November	576
December	501

With reference to fixed-yield securities forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 1 out of 253 observations, the number of days on which theoretical losses exceeded VaR was 2 out of 253 observations.

The following are the figures taken from the ALM procedure.

Effects of a change in interest rates by +/-200 basis points over a twelve-month period on the future interest margin. The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

	Change in interest margin				
in thousands of euro	**31/12/2017**				**31/12/2016**
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	28,933	20,493	9,782	29,540	26,060
negative parallel shift	- 4,381	- 3,911	- 6,829	- 2,556	- 1,257
flat rotary shift	53,874	23,599	- 52,803	53,874	43,588
steep rotary shift	- 8,041	- 5,793	- 12,596	- 2,547	- 1,295
short-term positive shift	55,896	37,396	18,597	55,896	45,068
short-term negative shift	- 8,400	- 9,237	- 26,977	- 2,545	- 1,295
long-term positive shift	1,991	1,069	316	1,991	196
long-term negative shift	- 356	- 3,921	- 23,613	- 313	- 190
medium-term positive shift	4,004	2,733	1,367	4,004	2,426
medium-term negative shift	- 713	- 3,335	- 17,706	- 617	- 368
worst-case scenario	- 8,400	- 9,237	- 52,803	- 2,556	- 1,295

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

Equity is understood as being the difference between the present value assets and liabilities items.

	Change in interest margin				
in thousands of euro	**31/12/2017**				**31/12/2016**
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	- 13,372	- 22,402	- 29,804	- 13,372	- 28,379
negative parallel shift	5,242	7,924	5,242	11,562	4,775
flat rotary shift	- 17,359	- 12,081	- 33,573	60,012	- 34,071
steep rotary shift	7,532	7,391	3,059	10,031	4,761
short-term positive shift	- 21,360	- 34,429	- 44,749	- 21,360	- 43,386
short-term negative shift	7,634	14,427	7,211	40,381	4,776
long-term positive shift	- 4,772	- 8,298	- 12,286	- 4,772	- 10,656
long-term negative shift	2,947	12,999	2,678	53,324	4,107
medium-term positive shift	- 9,130	- 16,114	- 22,837	- 9,130	- 20,485
medium-term negative shift	3,049	10,726	2,812	38,619	4,155
worst-case scenario	- 21,360	- 34,429	- 44,749	- 21,360	- 43,386

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(in thousands of euro)
average	3,066
minimum	2,115
maximum	4,336

With regard to the distribution of VaR during the year, the average VaR for each month in 2017 is presented below.

January	2,735
February	3,999
March	3,619
April	3,293
May	3,328
June	3,530
July	3,106
August	2,664
September	2,673
October	2,353
November	2,709
December	2,805

With reference to variable-yield securities and mutual funds forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 2 out of 253 observations, the number of days on which theoretical losses exceeded VaR was 2 out of 253 observations.

1.2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

For Factorit S.p.A, interest rate risk is caused by the different times and methods used in repricing the interest rate on assets and liabilities. The presence of diversified fluctuations in interest rates leads to a variation in the expected interest margin, as well as a change in the present value of the assets and liabilities; this in turn alters the economic value of the items at risk. Note that the characteristics of Factorit's assets and liabilities mean that the impact of a change in market rates on the present value of its assets and liabilities is quite marginal. The high level of rotation of the loans and receivables and the fact that the funding is exclusively short-term, which ensure frequent repricings very close to each other, make it possible to maintain lending and funding terms in line with current market conditions.

Banca della Nuova Terra s.p.a. is exposed to modest interest rate risk, given its current limited operations.

Sinergia Seconda S.r.l. is not exposed to interest rate risk, whereas Popso Covered Bond s.r.l., which is consolidated synthetically with the Parent Company, is included in the analysis carried out for the separate financial statements.

The principal sources of interest rate risk for Banca Popolare di Sondrio (SUISSE) SA are fixed-interest mortgage loans and sight deposits, but with appropriate modelling of the maturities.

At Group level, interest-rate risk is measured and controlled using a strategic internal Asset & Liability Management (ALM) model that is applied by the Parent Bank with reference to an integrated database containing consolidated information.

As discussed in the corresponding section of the notes to the financial statements of the Parent Company, the internal processes for the management and control of interest-rate risk at a consolidated level are based on a system of thresholds, as defined in the context of the Risk Appetite Framework. The exposure to interest rate risk on the banking book measured by the first indicator is monitored through the attribution of a value limit to the percentage ratio between the amount of capital needed to cover the risk obtained through Sensitivity Analysis in Full Evaluation, at inertial conditions, with simulation of a parallel movement of the reference curves equal to +/- 200 basis points and the total of own funds. The exposure to interest rate risk, on banking and trading portfolios, measured by the second indicator is monitored by attributing a value limit to the percentage ratio between the maximum potential reduction in net interest income over a time horizon of one year obtained through Repricing Analysis, under static conditions with constant volumes, simulating a parallel movement of the reference curves of +/- 200 basis points and the expected interest margin over the same period.

Monitoring of these indicators is done monthly.

The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

As for price risk, the Parent Company assesses the price risk exposure (measurement of VaR) of the subsidiary using information provided by the Planning and Control Department and by the subsidiary itself.

The measurement and control of price risk essentially involves application of the Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

Limited to financial assets classified as «available-for-sale financial assets» and «financial assets at fair value through profit or loss», net of those servicing pensions and similar obligations of employees and real estate funds, there is also a process of internal control and management of interest rate risk and price risk similar to that detailed in the corresponding section of the Parent Company's notes. In addition to the positions held by the Parent Company, there is the equity owned by the Swiss subsidiary classified as «available-for-sale financial assets».

With regard to the monitoring of investments, the model used covers the equity investments of the Parent Company, excluding investments in Banca Popolare di Sondrio (SUISSE) SA, Factorit s.p.a., Popso Covered Bond s.r.l. and Sinergia Seconda s.r.l.; in addition, this includes the variable-yield security held by the Swiss subsidiary and classified as «equity investments», as well as the two variable-yield securities belonging to Sinergia Seconda S.r.l., also classified under «equity investments».

B. Fair value hedges

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

Significant loans with similar characteristics granted by the subsidiary Banca Popolare di Sondrio (SUISSE) SA are normally hedged against rate risk by arranging interest-rate swaps (IRS) via the Parent Company.

C. Cash flow hedges

The Group has not arranged any cash-flow hedges.

QUANTITATIVE INFORMATION

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**–**	**242,267**	**397,452**	**70,587**	**351,735**	**45,804**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	242,267	397,452	70,587	351,735	45,804	–	–
Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	242,267	397,452	70,587	351,735	45,804	–	–
+ Long positions	–	195,950	357,972	–	–	–	–	–
+ Short positions	–	46,317	39,480	70,587	351,735	45,804	–	–
4. **Other off-balance sheet transactions**	**6,362**	**5,118**	**914**	**329**	**–**	**–**	**–**	**–**
+ Long positions	2,335	2,783	914	329	–	–	–	–
+ Short positions	4,027	2,335	–	–	–	–	–	–

2. Bank book: internal models and other methodologies for the analysis of sensitivity

Interest-rate risk

The following information is taken from the ALM procedures of the Parent Company.

Effects of a change in interest rates by +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

In thousands of euro	Change in interest margin				
	31/12/2017				31/12/2016
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	1,382	8,054	- 46,899	48,938	- 40,927
negative parallel shift	4,464	1,366	- 5,761	6,733	- 7,032
flat rotary shift	4,494	- 15,445	- 96,663	87,126	- 85,993
steep rotary shift	8,433	1,991	- 13,699	16,674	- 14,837
short-term positive shift	6,229	14,970	- 100,155	98,356	- 89,016
short-term negative shift	8,733	- 7,413	- 39,095	13,091	- 15,679
long-term positive shift	1,752	2,412	716	4,778	951
long-term negative shift	195	- 11,947	- 75,046	388	- 753
medium-term positive shift	3,441	4,568	- 419	9,720	1,607
medium-term negative shift	491	- 7,262	- 46,039	818	- 1,288
worst-case scenario	195	- 15,445	- 100,155	388	- 89,016

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

Equity is understood as being the difference between the present value assets and liabilities items.

in thousands of euro	Change in interest margin				
	31/12/2017				31/12/2016
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	- 4,772	- 13,103	- 227,919	147,478	- 155,126
negative parallel shift	- 149,607	- 1,160	- 177,339	230,104	208,150
flat rotary shift	- 112,487	- 21,996	- 153,088	208,118	- 3,322
steep rotary shift	- 163,664	26,705	- 187,612	186,410	172,956
short-term positive shift	- 81,427	- 25,654	- 289,766	166,961	- 164,801
short-term negative shift	- 220,810	- 24,117	- 365,691	324,183	307,142
long-term positive shift	104,441	29,921	- 134,065	157,853	- 112,394
long-term negative shift	- 105,025	- 91,143	- 375,695	48,317	39,279
medium-term positive shift	253,663	156,443	- 107,525	374,240	- 54,998
medium-term negative shift	- 150,321	- 38,681	- 204,315	152,182	138,350
worst-case scenario	- 220,810	- 91,143	- 375,695	48,317	- 164,801

With respect to fixed-yield securities classified as «available-for-sale financial assets», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	21,311
minimum	10,186
maximum	32,349

With regard to the distribution of VaR during the year, the average VaR for each month in 2017 is presented below.

January	21,729
February	25,378
March	21,626
April	22,851
May	23,003
June	25,366
July	27,537
August	20,061
September	17,041
October	17,360
November	18,901
December	14,728

The values shown above coincide with the information provided in the Parent Company's notes, as the contribution of the subsidiaries is zero.

Price risk

With reference to the closing date, we report above all the VaR figures of variable-yield securities (shares and mutual funds) classified as «available-for-sale financial assets» or «financial assets at fair value through profit or loss», net of any investments servicing pensions and similar obligations of employees and real estate funds, as well as the figure for investments.

Value at Risk (VaR), end of year

	(in thousands of euro)
Variable-yield securities	1,652
Mutual funds.	1,119
Total AFS and CFV	**2,378**
Equity investments	**3,410**

Information on average, minimum and maximum VaR in the AFS and CFV portfolio is provided below.

Price Value at Risk (VaR)

	(in thousands of euro)
average	2,876
minimum	1,736
maximum	3,865

With regard to the distribution of VaR during the year, the average VaR for each month in 2017 is presented below.

January	3,454
February	3,284
March	3,125
April	2,941
May	3,435
June	3,060
July	3,042
August	2,887
September	2,653
October	1,891
November	2,333
December	2,433

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

Exchange risk is marginal for Factorit s.p.a., given the company's policy of systematic hedging of foreign currency amounts. This risk exists principally, though for limited volumes, in the case of: fee and interest income not offset by interest expense in a currency other than the euro; guarantees in foreign currencies versus operations in euro. Sinergia Seconda S.r.l. and Popso Covered Bond s.r.l. are not exposed to exchange rate risk, as they have no assets or liabilities in foreign currency.

Except with regard to securities held in the trading portfolio, Banca Popolare di Sondrio (Suisse) SA enters into currency transactions to satisfy customer requirements and to cover transitory treasury mismatches.

The measurement and control of exchange risk - with reference to the situation at year end - essentially involves application of the Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to exchange risk included in the Parent Company's investment book and all assets and liabilities in foreign currency (excluding gold), on and off the balance sheet, pertaining to the subsidiaries, which are shown on table 1 below, excluding mutual funds in foreign currency, whose exchange risk is included in price risk.

Any intercompany transactions are eliminated.

The forward contracts on exchange rates and variable-yield securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

B. Hedging of exchange risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

The activities of the subsidiary are consistent with those of the Parent Company.

The subsidiary's Exchange Office administers the positions and matches the exchange risk in the interbank market, while maintaining residual exposures within the limits established in the internal regulations.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. **Financial assets**	**766,870**	**72,608**	**10,588**	**3,601,922**	**18,357**	**62,419**
A.1 Fixed-yield securities	110,017	–	–	6,838	–	–
A.2 Variable-yield securities	44,296	–	–	3,807	–	–
A.3 Loans to banks	288,514	70,809	6,049	7,955	13,588	62,413
A.4 Loans to customers	324,043	1,799	4,539	3,583,322	4,769	6
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**4,123**	**1,350**	**218**	**622,719**	**166**	**1,306**
C. **Financial liabilities**	**858,666**	**79,218**	**6,792**	**2,167,233**	**23,661**	**69,284**
C.1 Due to banks	284,391	9,498	2,719	508,623	5,752	5,956
C.2 Due to customers	574,275	69,720	4,073	1,610,059	17,909	63,328
C.3 Fixed-yield securities	–	–	–	48,551	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**373**	**1,865**	**642**	**202,687**	**–**	**–**
E. **Financial derivatives**	**1,992,965**	**267,755**	**62,356**	**1,792,822**	**7,243**	**191,940**
- Options	31,226	1,388	–	–	–	–
+ Long positions	15,625	694	–	–	–	–
+ Short positions	15,601	694	–	–	–	–
- Other	1,961,739	266,367	62,356	1,792,822	7,243	191,940
+ Long positions	1,082,203	136,624	29,119	34,401	6,260	100,403
+ Short positions	879,536	129,743	33,237	1,758,421	983	91,537
Total assets	**1,868,821**	**211,276**	**39,925**	**4,259,042**	**24,783**	**164,128**
Total liabilities	**1,754,176**	**211,520**	**40,671**	**4,128,341**	**24,644**	**160,821**
Net balance (+/-)	**(114,645)**	**244**	**746**	**(130,701)**	**(139)**	**(3,307)**

2. Internal models and other methodologies for the analysis of sensitivity

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities	861
Variable-yield securities	63
Net balance between other assets and liabilities	12,752
Financial derivatives	10,778
- Options	–
+ Long positions	120
+ Short positions	120
- Other derivatives	10,778
+ Long positions	9,312
+ Short positions	15,895
Total transactions table 1	**2,498**
- Interest Rate Swap	146
+ Long positions	3,613
+ Short positions	3,758
Total	**2,362**
Details of the principal currencies	
US Dollars	908
Sterling	41
Japanese Yen	10
Swiss Francs	1,888
Canadian Dollars	1
Other currencies	4
Total	**2,362**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(in thousands of euro)
average	2,347
minimum	912
maximum	4,353

With regard to the distribution of VaR during the year, the average VaR for each month in 2017 is presented below.

January	1,586
February	1,428
March	1,397
April	1,560
May	2,438
June	2,115
July	2,241
August	3,781
September	3,107
October	2,931
November	2,864
December	2,435

1.2.4 Derivative instruments

A. Financial derivatives

A.1 Trading portfolio for supervisory purposes: notional amounts at period end and average amounts

	Total 31/12/2017		Total 31/12/2016	
Underlying assets /Type of derivative	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. **Fixed-yield securities and interest rates**	**2,213,345**	**–**	**2,338,532**	**–**
a) Options	24,366	–	24,947	–
b) Swap	2,188,979	–	2,313,585	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**11**	**–**
a) Options	–	–	11	–
b) Swap	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	**3,995,174**	**–**	**4,384,629**	**–**
a) Options	65,741	–	62,882	–
b) Swap	–	–	–	–
c) Forwards	3,929,433	–	4,321,747	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**17,095**	**–**	**26,882**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**6,225,614**	**–**	**6,750,054**	**–**

A.2 Bank book: notional amounts at period end and averages

A.2.1 For hedging

	Total 31/12/2017		Total 31/12/2016	
Underlying assets /Type of derivative	Over the counter	Central Counterparties	Over the counter	Central Counterparties
1. **Fixed-yield securities and interest rates**	**560,747**	**–**	**922,618**	**–**
a) Options	–	–	–	–
b) Swap	560,747	–	922,618	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. **Variable-yield securities and stock indicies**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Swap	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. **Currency and gold**	–	–	–	–
a) Options	–	–	–	–
b) Swap	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. **Commodities**	**–**	**–**	**–**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**
Total	**560,747**	**–**	**922,618**	**–**

A.3 Financial derivatives: gross positive fair value - breakdown by product

Portfolio/Type of derivatives	POSITIVE FAIR VALUE			
	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**97,984**	**–**	**56,581**	**–**
a) Options	1,297	–	1,236	–
b) Interest rate swaps	12,297	–	20,136	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forward	83,473	–	33,707	–
f) Futures	–	–	–	–
g) Other	917	–	1,502	–
B. **Bank book - for hedging purposes**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. **Bank book - other derivatives**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**97,984**	**–**	**56,581**	**–**

A.4 Financial derivatives: gross negative fair value - breakdown by product

Portfolio/Type of derivatives	NEGATIVE FAIR VALUE			
	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
A. **Trading portfolio for supervisory purposes**	**31,259**	**–**	**73,016**	**–**
a) Options	1,219	–	1,157	–
b) Interest rate swap	12,853	–	20,489	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	16,291	–	49,894	–
f) Futures	–	–	–	–
g) Other	896	–	1,476	–
B. **Bank book - for hedging purposes**	**22,468**	**–**	**38,734**	**–**
a) Options	–	–	–	–
b) Interest rate swap	22,468	–	38,734	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. **Bank book - other derivatives**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity Swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**53,727**	**–**	**111,750**	**–**

A.5 Over the Counter financial derivatives - trading portfolio for supervisory purposes: notional values, gross positive and negative fair value by counterparty - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. **Fixed-yield securities and interest rates**							
- notional value	–	–	2,081,672	92	–	126,187	5,394
- positive fair value	–	–	6,321	6	–	5,977	59
- negative fair value	–	–	12,865	–	–	7	42
- future exposure	–	–	12,925	–	–	269	1
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3. **Currency and gold**							
- notional value	308,513	–	3,042,956	85,159	1,716	432,130	124,700
- positive fair value	–	–	76,666	2,088	–	4,950	999
- negative fair value	3,128	–	10,674	1,665	33	780	1,169
- future exposure	3,085	–	30,930	1,308	17	4,327	1,228
4. **Other assets**							
- notional value	–	–	8,548	–	–	8,547	–
- positive fair value	–	–	676	–	–	241	–
- negative fair value	–	–	238	–	–	658	–
- future exposure	–	–	858	–	–	858	–

A.7 OTC financial derivatives - bank book: notional values, gross positive and negative fair values for counterparties - contracts which are not part of settlement agreements

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. **Fixed-yield securities and interest rates**							
- notional value	–	–	560,747	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	22,468	–	–	–	–
- future exposure	–	–	2,446	–	–	–	–
2. **Variable-yield securities and stock indices**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
3. **Currency and gold**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–
4. **Other assets**							
- notional value	–	–	–	–	–	–	–
- positive fair value	–	–	–	–	–	–	–
- negative fair value	–	–	–	–	–	–	–
- future exposure	–	–	–	–	–	–	–

A.9 Residual life of OTC financial derivatives: notional values

Underlyings/residual value	Within 12 months	1 to 5 years	Over 5 years	**Total**
A. **Trading portfolio for supervisory purposes**	**4,009,472**	**1,277,441**	**938,701**	**6,225,614**
A.1 Financial derivatives on fixed-yield securities and interest rates	29,201	1,245,443	938,701	2,213,345
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
A.3 Financial derivatives on exchange rates and gold	3,963,481	31,693	–	3,995,174
A.4 Financial derivatives on other instruments	16,790	305	–	17,095
B. **Bank book**	**156,384**	**351,735**	**52,628**	**560,747**
B.1 Financial derivatives on fixed-yield securities and interest rates	156,384	351,735	52,628	560,747
B.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
B.3 Financial derivatives on exchange rates and gold	–	–	–	–
B.4 Financial derivatives on other instruments	–	–	–	–
Total 31/12/2017	**4,165,856**	**1,629,176**	**991,329**	**6,786,361**
Total 31/12/2016	**4,856,329**	**1,734,714**	**1,081,630**	**7,672,673**

1.3 Banking group - Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

The Group's overall strategy for managing liquidity risk, with its low propensity for risk, consists of giving priority to matching assets and liabilities, taking a prudent approach, while at the same time pursuing reasonable levels of profitability.

The coverage of expected liquidity requirements is checked and monitored on a continuous basis and timely action is taken in the markets to ensure the appropriate availability of funds.

In this context, the Parent Company acts as the subsidiary's counterparty of choice in the raising of funds and in the investment of any cash surpluses.

The Parent Company daily monitors such risk at consolidated level.

The subsidiaries control this type of risk by using adequate monitoring tools according to the type of operations that they carry on; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority.

We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5 of the Parent Company's financial statements, complies with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**5,197,946**	**1,464,100**	**741,246**	**1,252,651**	**1,498,127**	**1,033,418**	**1,643,593**	**14,352,744**	**6,738,445**	**1,107,892**
A.1 Government securities	–	–	1,836	2,475	10,470	7,900	111,037	8,051,528	2,194,000	-
A.2 Other fixed-yield securities	238	–	5,048	328	2,733	6,915	3,312	386,038	591,644	317
A.3 Mutual funds	394,042	–	–	–	–	–	–	–	–	-
A.4 Loans	4,803,666	1,464,100	734,362	1,249,848	1,484,924	1,018,603	1,529,244	5,915,178	3,952,801	1,107,575
- Banks	220,246	594	263	12,958	15,297	4,618	100,200	–	–	1,107,575
- Customers	4,583,420	1,463,506	734,099	1,236,890	1,469,627	1,013,985	1,429,044	5,915,178	3,952,801	-
Mutual funds	**25,474,637**	**377,825**	**1,745,795**	**78,406**	**1,141,326**	**121,282**	**503,223**	**6,358,026**	**651,854**	**-**
B.1 Deposits and current accounts	25,338,934	22,511	1,745,334	76,376	1,111,945	100,377	46,188	3,755	–	-
- Banks	424,658	19,660	1,719,848	63,199	150,545	–	–	–	–	-
- Customers	24,914,276	2,851	25,486	13,177	961,400	100,377	46,188	3,755	–	-
B.2 Fixed-yield securities	107,687	44	81	1,580	17,825	18,560	343,016	1,701,482	617,437	-
B.3 Other liabilities	28,016	355,270	380	450	11,556	2,345	114,019	4,652,789	34,417	-
Off-balance sheet transactions	**341,607**	**244,626**	**741,965**	**492,821**	**1,330,181**	**878,660**	**443,479**	**83,333**	**89,605**	**-**
C.1 Financial derivatives with exchange of capital	–	236,513	727,587	393,017	1,253,439	726,735	415,753	28,501	–	-
- Long positions	–	178,071	395,890	312,009	819,616	612,259	345,042	13,780	–	-
- Short positions	–	58,442	331,697	81,008	433,823	114,476	70,711	14,721	–	-
C.2 Financial derivatives without exchange of capital	26,118	–	–	–	–	–	–	–	–	-
- Long positions	12,791	–	–	–	–	–	–	–	–	-
- Short positions	13,327	–	–	–	–	–	–	–	–	-
C.3 Deposits and loans to be received										
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-
C.4 Irrevocable commitments to make loans	315,489	8,113	14,378	99,804	76,742	151,925	27,726	54,832	89,605	
- Long positions	4	–	–	56,326	27	91,650	8,518	51,358	89,605	-
- Short positions	315,485	8,113	14,378	43,478	76,715	60,275	19,208	3,474	–	-
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	-
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	-
C.7 Financial derivatives with exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-
C.8 Financial derivatives without exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-

Line item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «sight» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Group for financial statement purposes. Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**300,293**	**399,308**	**73,786**	**123,141**	**318,683**	**312,463**	**397,088**	**1,600,904**	**1,009,913**	**-**
A.1 Government securities	–	–	–	2,817	5,019	–	83,695	9,495	463	-
A.2 Other Fixed-yield securities	–	–	–	2,505	–	4,173	3,819	5,644	–	-
A.3 Mutual funds	39,701	–	–	–	–	–	–	–	–	-
A.4 Loans	260,592	399,308	73,786	117,819	313,664	308,290	309,574	1,585,765	1,009,450	-
- Banks	93,803	306,416	25,618	6,848	7,836	1,883	4,068	–	3,088	-
- Customers	166,789	92,892	48,168	110,971	305,828	306,407	305,506	1,585,765	1,006,362	-
Cash liabilities	**2,340,074**	**62,582**	**130,959**	**82,017**	**118,613**	**65,876**	**83,118**	**71,416**	**250,194**	**-**
B.1 Deposits and current accounts	2,340,042	62,582	130,831	81,927	117,626	60,024	59,753	53,593	249,924	-
- Banks	241,900	18,904	126,812	51,804	57,680	16,603	–	53,336	249,924	-
- Customers	2,098,142	43,678	4,019	30,123	59,946	43,421	59,753	257	–	-
B.2 Fixed-yield securities	32	–	128	90	987	5,852	23,365	17,823	270	-
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	-
Off-balance sheet transactions	**9,451**	**299,062**	**748,348**	**580,524**	**1,360,675**	**813,340**	**493,737**	**32,636**	**–**	**-**
C.1 Financial derivatives with exchange of capital	–	298,678	747,539	576,377	1,353,001	808,661	488,728	32,636	–	-
- Long positions	–	89,676	343,276	177,459	493,264	169,989	110,137	16,796	–	-
- Short positions	–	209,002	404,263	398,918	859,737	638,672	378,591	15,840	–	-
C.2 Financial derivatives without exchange of capital	972	–	388	612	1299	3445	4680	–	–	-
- Long positions	489	–	–	–	–	–	–	–	–	-
- Short positions	483	–	388	612	1,299	3,445	4,680	–	–	-
C.3 Deposits and loans to be received	2,335	–	–	584	1,501	–	–	–	–	-
- Long positions	2,335	–	–	–	–	–	–	–	–	-
- Short positions	–	–	250	584	1,501	–	–	–	–	-
C.4 Irrevocable commitments to make loans	6,144	384	421	2,951	4,874	1,234	329	–	–	-
- Long positions	–	–	13	123	2,646	914	329	–	–	-
- Short positions	6,144	384	408	2,828	2,228	320	–	–	–	-
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	-
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	-
C.7 Financial derivatives with exchange of capital										
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-
C.8 Financial derivatives without exchange of capitale										
- Long positions	–	–	–	–	–	–	–	–	–	-
- Short positions	–	–	–	–	–	–	–	–	–	-

1.4 Banking group - Operational risks

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes; the scope of operational risk includes legal risk and IT risk, but excludes strategic and reputational risks.

«Section 4 – Operating risks» in the separate financial statements of Banca Popolare di Sondrio explains the system for managing operational risk, including the recognition and valuation of losses, the measurement and monitoring of the risk exposure, identification and guidance for mitigation actions to prevent and avoid risks. This system is also applied by the various subsidiaries.

QUANTITATIVE INFORMATION

The most significant impact in absolute terms is losses in connection with violations of regulatory provisions and/or the adoption of improper commercial and market practices, mainly in the form of prudent provisions set aside for legal disputes.

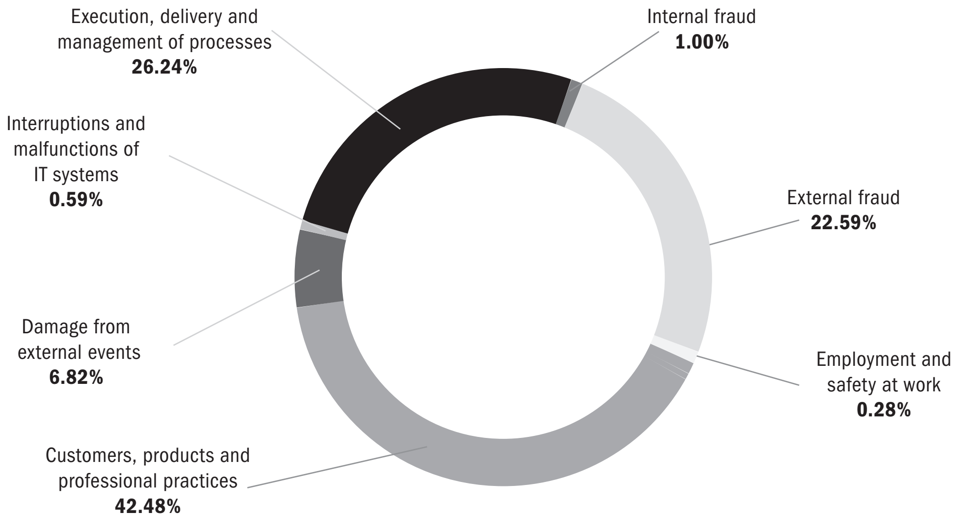
Also included in operational losses are errors in the performance of daily activities, in particular in the execution of payments and counter operations, as well as events of an external nature, such as bank robberies, cloning of debit cards, forging cheques and fraudulent payment orders, which are normally mitigated by taking out suitable insurance.

The following chart shows the operational losses identified by the Parent Company over the past five years (2013 – 2017) at Group level as part of the Loss Data Collection process, using the regulatory classification for operational risk events (First level event type):

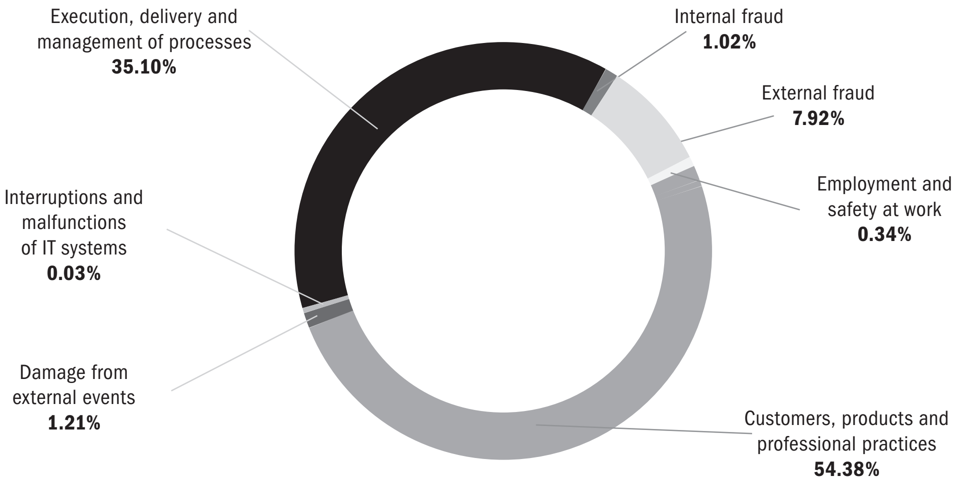
- Internal fraud – Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.
- External fraud – Events of fraud, embezzlement or circumvention of the law by external/third parties to obtain personal benefits that involve damage to the Bank.
- Employment and safety at work – Events attributable to acts that do not comply with the law or agreements on employment, health and safety at work.
- Customers, products and professional practices - Events due to non-compliance/negligence in the application of laws, codes, rules of conduct and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models.
- Damage from external events - Events involving damage or destruction of property due to accidents, natural disasters or other vandalism.
- Operational interruptions and system malfunctions - Events due to interruptions or malfunctions of the Bank's IT systems (hardware/software).
- Execution, delivery and management of processes - Events due to errors, shortages and unintentional delays in the execution of daily operations, in the management of processes and relationships with counterparties other than customers (e.g. commercial counterparties, suppliers of goods and services).

Banca Popolare di Sondrio Banking Group – Sources of operational losses (from 01/01/2012 – 31/12/2017)

Number of operational loss events - breakdown by Event Type



Impact of the events of operational losses - Breakdown by Event Type



1.5 Banking group - Sovereign risk

Information on exposure to sovereign debt

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

In this regard, the overall exposure of the bank at 31/12/2017 amounted to € 11,438 million and was structured as follows:

a) Government securities: € 10,525 million;

b) Securities of other issuers: € 58 million;

c) Loans to government departments: € 4 million;

d) Loans to local governments: € 64 million;

e) Loans to state-owned or local government-owned enterprises: € 639 million;

f) Loans to other public administrations and miscellaneous entities: € 148 million.

PART F Information on consolidated equity

Section 1 Consolidated capital

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for the Group to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects its reputation.

The need for adequate capital has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery.

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the Group to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

The crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit S.p.A with a view to providing specialist tools in support of the real economy. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

The responsibilities that the bank has towards its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

ESMA (European Securities and Markets Authority) with document 725/2012 of 12 November, noting that the market value of many listed companies was less than their book value because of the current economic situation, recommended that they should carry out impairment tests as required by IAS 36. The Parent Company decided to carry out a second-level impairment test applied to the entire corporate structure rather than the individual asset by comparing the recoverable amount of the Group with the book value of shareholders' equity at 31/12/2017. The method used to estimate the recoverable amount is the Dividend Discount Model (DDM), which assumes that the value of the Group is equal to the sum of the dividends distributed to the shareholders over a chosen planning horizon (2017-2021), while maintaining an adequate level of capitalisation for expected future development and assuming a rate of the dividend growth after the explicit planning period of 2% per year and a cost of capital used to discount future dividends of 8.29%. The test carried out by the Corporate Finance Department in conjunction with the Planning and Control Department showed that the Group was worth more than its consolidated equity.

The Group's value in use amounted to € 3,972 million, with a surplus over its consolidated equity of € 1,293 million.

B. QUANTITATIVE INFORMATION

The component parts and size of the Parent Company's capital and equity are described in Part B, Sections 15 and 16 of these notes to the financial statements.

B.1 Consolidated equity: breakdown by type of business

Equity items	Banking group	Insurance companies	Other businesses	Consolidated eliminations and adjustments	Total
1. **Share capital**	**1,393,736**	**–**	**–**	**–**	**1,393,736**
2. **Share premium reserve**	**83,363**	**–**	**–**	**–**	**83,363**
3. **Reserves**	**1,103,301**	**–**	**1,994**	**18,989**	**1,124,284**
4. **Equity instruments**	**–**	**–**	**–**	**–**	**–**
5. **(Treasury shares)**	**(25,370)**	**–**	**–**	**–**	**(25,370)**
6. **Valuation reserve:**	**24,168**	**–**	**192**	**3,956**	**28,316**
- Available-for-sale financial assets	79,104	–	–	–	79,104
- Property, equipment and investment property	–	–	–	–	–
- Intangible assets	–	–	–	–	–
- Hedges of foreign investments	–	–	–	–	–
- Cash-flow hedges	–	–	–	–	–
- Exchange differences	–	–	–	–	–
- Non-current assets held for sale and discontinued operations	–	–	–	–	–
- Actuarial profits (losses) on defined-benefit plans	(54,936)	–	–	–	(54,936)
- Share of valuation reserves of equity investments valued at net equity	–	–	–	3,956	3,956
- Special revaluation regulations	–	–	192	–	192
7. **Profit (loss) of the year (+/-) of the Group and of minority interests**	**146,765**	**–**	**431**	**17,988**	**165,184**
Total	**2,725,963**	**–**	**2,617**	**40,933**	**2,769,513**

B.2 Valuation reserves for available-for-sale financial assets: breakdown

Assets/Values	Total 31/12/2017 Positive	Total 31/12/2017 Negative reserve	Total 31/12/2016 Positive	Total 31/12/2016 Negative reserve
1. Fixed-yield securities	27,927	(1,552)	20,848	(5,869)
2. Variable-yield securities	50,987	–	45,896	–
3. Mutual funds	1,923	(181)	12,659	(50)
4. Loans	–	–	–	–
Total	**80,837**	**(1,733)**	**79,403**	**(5,919)**

B.3 Valuation reserves for available-for-sale financial assets: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
1. **Opening balance**	**14,979**	**45,896**	**12,609**	**–**
2. **Positive changes**	**26,307**	**5,091**	**1,269**	**–**
2.1 Increases in fair value	21,421	5,091	1,246	–
2.2 Release to the income statement of negative reserves	4,886	–	23	–
- from impairment	–	–	–	–
- from disposals	4,886	–	23	–
2.3 Other changes	–	–	–	–
3. **Negative changes**	**14,911**	**–**	**12,136**	**–**
3.1 Reductions in fair value	1,695	–	154	–
3.2 Impairment writedowns	–	–	–	–
3.3 Transfer to income statement from positive reserves : from disposals	13,216	–	11,982	–
3.4 Other changes	–	–	–	–
4. **Closing balance**	**26,375**	**50,987**	**1,742**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans has a negative balance of € 54.936 million.

This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 Capital and capital adequacy ratios

2.1 Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36 EU (CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

While the CRR Regulation is directly applicable in national law, the CRD IV Directive was implemented by Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to Own Funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the EU instructions.

2.2 Bank own funds

QUALITATIVE INFORMATION

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds comprise:

- Tier 1 Capital;
- Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:

- Common Equity Tier 1 - CET1;
- Additional Tier 1 – AT1.

The Tier 1 capital (CET1) is made up of the following positive and negative components:

- Share capital;
- Share premium reserve;
- Retained earnings;
- Negative valuation reserves - OCI;
- Other reserves;
- Previous CET 1 instruments subject to transitional instructions (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

Additional Tier 1 capital (AT1) consists of the following positive and negative components:

- Equity instruments and related premiums;
- Previous AT1 instruments subject to transitional instructions (grandfathering);
- Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:

- Equity instruments, subordinated loans and related premiums;
- Positive measurement reserves - OCI;
- Previous T2 instruments subject to transitional instructions (grandfathering);
- Deductions.

The supervisory regulations envisaged a transition period, still in progress, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

Following the entry into force of the ECB Regulation, since October 2016, larger banks have to include in or deduct from CET 1, respectively, gains and losses arising from exposures to EU central governments classified as AFS according to the following percentages: 80% for 2017 and 100% from 2018. The amounts that remain after application of these percentages (i.e. 20% for 2017) should not be counted for the purposes of calculating Own Funds, continuing to be subjected to sterilisation: under the transitional arrangements laid down in CRR, in fact, the national arrangements already in force on 31 December 2013 still apply.

QUANTITATIVE INFORMATION

	31/12/2017	31/12/2016
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,644,205**	**2,575,072**
Of which: CET1 instruments subject to transitional instructions		
B.1 **Prudential filters of CET1 (+/-)**		
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,644,205**	**2,575,072**
D. **Elements to be deducted from CET1**	**23,711**	**23,862**
E. **Transitional instructions - Impact on CET1 (+/-), including minority interest subject to transitional instructions**	**17,012**	**16,834**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,637,506**	**2,568,044**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions**	**8,758**	**9,808**
of which: AT1 instruments subject to transitional instructions		
H. **Elements to be deducted from AT1**		
I. **Transitional instructions – Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions**	**- 1,752**	**- 3,923**
L. **Total Additional Tier 1 - AT1 (G - H +/- I)**	**7,006**	**5,885**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions**	**445,237**	**487,226**
Of which: T2 instruments subject to transitional instructions	11,677	13,077
N. **Elements to be deducted from T2**	**21,365**	**14,316**
O. **Transitional instructions – Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional instructions**	**37,888**	**97,826**
P. **Total Tier 2 - T2 (M - N +/- O)**	**461,760**	**570,736**
Q. **Total Own funds (F + L + P)**	**3,106,272**	**3,144,665**

The composition of own funds takes account of the profit for the period, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

2.3 Capital adequacy

QUALITATIVE INFORMATION

The Basel 3 regulations establish the following minimum ratios for banking groups:

- CET 1 ratio of 4.50%;
- Tier 1 ratio of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions are provided for:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; currently this is not being implemented in Italy but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;
- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significance may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;

– Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which on a fully phased basis (January 2019) shall be as follows:

– CET 1 ratio of 7%;
– Tier 1 ratio of 8.5%;
– Total Capital Ratio of 10.5%.

These coefficients are lower in 2017 and 2018, during the transition phase.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

The European Central Bank used its powers and in December 2016 communicated the Supervisory Board's decision concerning the minimum capital requirements to be maintained at a consolidated level in 2017:

– a minimum requirement of Common Equity Tier 1 ratio of 7.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.25%), and an additional Second Pillar requirement (1.50%);
– a minimum requirement of total capital ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.25%) and an additional Second Pillar requirement (1.50%).

Indeed, on the basis of the evidence collected as part of the Supervisory Review and Evaluation Process (SREP), it is up to the ECB to set the capital ratios and/or cash ratios for each intermediary under its direct supervision, as well as an indication of further qualitative and quantitative considerations and recommendations: similar activities are also carried out by the Bank of Italy for the smaller banks that are under its direct supervision.

On 28 December 2017 the European Central Bank sent the bank the decision of the Supervisory Board with respect to the new minimum ratios to be applied with effect from 1 January, for the year 2018. The new minimum capital levels required of our Banking Group are:

– a minimum requirement of Common Equity Tier 1 ratio of 8.375%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.875%), and an additional Second Pillar requirement (2%);
– a minimum requirement of total capital ratio of 11.875%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.875%) and an additional Second Pillar requirement (2%).

While the first two items of each index shown above are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

At 31 December 2017, the Group expressed the following coefficients:

– CET 1 Capital ratio 11.60%;
– Tier 1 Capital ratio 11.63%;
– Total Capital ratio 13.66%.

The leverage ratio required by Basel 3, calculated as the ratio of Tier 1 to total on- and off-balance sheet assets, is 5.77% applying the transitional criteria in force for 2017 and 5.74% under the definitive criteria.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts 31/12/2017	Unweighted amounts 31/12/2016	Weighted amounts/requirements 31/12/2017	Weighted amounts/requirements 31/12/2016
A. **Assets at risk**				
A.1 Credit and counterparty risk	–	–	–	–
1. Standardised approach	41,699,814	37,523,992	19,972,641	20,249,883
2. Approach based on internal ratings	–	–	–	–
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	350,784	360,145	311,964	315,447
B. **Capital adequacy requirements**				
B.1 Credit and counterparty risk	–	–	1,622,768	1,645,226
B.2 Loan adjustment risk	–	–	2,088	1,789
B.3 Regulation risks	–	–	–	–
B.4 Market risks	–	–	–	–
1. Standard methodology	–	–	55,228	63,827
2. Internal models	–	–	–	–
3. Concentration risk	–	–	–	–
B.5 Operational risk				
1. Basic method	–	–	138,930	145,773
2. Standardised approach	–	–	–	–
3. Advanced method	–	–	–	–
B.6 Other calculation elements	–	–	–	–
B.7 Other precautionary requirements	–	–	1,819,014	1,856,615
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets	–	–	22,737,670	23,207,691
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)	–	–	11.60	11.07
C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	–	–	11.63	11.09
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)	–	–	13.66	13.55

PART G Operations of business divisions

Section 1 Operations realised during the year

1.1 Business combination: Purchase of Banca della Nuova Terra S.p.A.

Description of the transaction

The acquisition by the Parent Company Banca Popolare di Sondrio S.C.p.A of the majority holding of Banca della Nuova Terra S.p.A, equal to 100% of the capital, previously held at 19.609%, took effect on 8 September 2017.

The amount recognized for the acquisition amounted to Euro 19.515 million.

The relevant figures relating to the business combination are shown below. (in thousands of euro).

Name	Date of the transaction (a)	Cost of the transaction	Holding acquired (b)	Total revenues (c)	Profit/loss of the Company (d)
Banca della Nuova Terra S.p.a.	08/09/2017	19,151	80.391%	37	(1,988)

Key:
(a) Date of control acquisition.
(b) Percentage of holding with voting rights at Ordinary Shareholders' Meeting.
(c) Total income (line item 120 of the income statement) at 31 December 2016.
(d) Profit/loss of the subsidiary at 31 December 2016.

Accounting for the transaction

IFRS3 «Business combinations» is the reference standard for the accounting of acquisition of Banca della Nuova Terra S.p.a. in the consolidated financial statements of the Banca Popolare di Sondrio Group. This standard defines a business combination as a transaction or other event in which a buyer acquires control over one or more businesses and consolidates the assets, liabilities and contingent liabilities of the company acquired at their respective fair values as of the acquisition date, including any identifiable intangible assets not recognised in the financial statements of the acquired company.

According to IFRS3, all business combination must be accounted for on the basis of the Acquisition Method. The application of this method requires four steps:

- Identification of the purchaser;
- Determination of the acquisition date;
- Identification and measurement of acquired assets, liabilities assumed and minority interests;
- Identification and measurement of goodwill and realized profit.

IFRS3 requires that at the acquisition date, the buyer identifies, the assets acquired, the liabilities assumed and the minority interests separately from goodwill.

This standard requires that the acquisition has to take place on the date when the purchaser effectively obtains control over the business acquired.

In the case in question, the date of the acquisition is 8 September 2017.

At the acquisition date, the buyer must recognise, classify and measure the assets, liabilities and minority interests acquired as part of the business combination, separately from goodwill.

On that date, the buyer must identify goodwill as the difference between the total amount reported in the following point (a) and the amount indicated in point (b).

a) The sum of:
   - Paid consideration expressed at fair value;
   - Value of minority interests;
   - Fair value of the investment already held by the purchaser in the case of business combinations carried out in stages;

b) The net fair value of the identifiable assets acquired and the identifiable liabilities assumed.

As mentioned previously, accounting for the business combination requires the measurement of the assets acquired and the liabilities assumed (to the extent that they can be identified) at their respective fair values, including potential liabilities and any identifiable intangible assets not recognised in the financial statements of the acquired company. What remains after this allocation has to be recorded as goodwill, which represents a payment made by the buyer in anticipation of future economic benefits deriving from assets that cannot be identified individually and recorded separately.

Having identified 8 September 2017 as the reference date of the transaction, the net fair value of the assets acquired was considered equal to the subsidiary's net worth at 30 September 2017, as an updated accounting situation closer to the acquisition date.

Furthermore, considering that Banca della Nuova Terra was not operational at that date, there were no significant accounting events that could change the balance sheet and income statement between the acquisition date and 30 September 2017.

The following table shows the calculation in accordance with IFRS 3 which identifies the negative goodwill generated by the acquisition of Banca della Nuova Terra.

Identification of goodwill

(in thousands of Euro)	
Acquired equity investment	80.391%
Acquisition consideration	19,515
Fair value of the investment already held	4,939
Fair value of the net assets acquired	(28,093)
Negative goodwill (or «badwill»)	**(3,639)**

In any case, IFRS 3 allows that the definitive accounting of the business combination can be carried out within twelve months from the acquisition date. Specifically, paragraph 45 of IFRS 3 provides that in the event that «at the end of the year in which a business combination takes place, the initial accounting of the combination is incomplete, the purchaser still has to recognise in its financial statements provisional figures for the elements whose accounting is incomplete. During the evaluation period, the purchaser must recognize additional assets or liabilities. During the evaluation period, the buyer must also recognize additional assets or liabilities. However, the valuation period must not last for more than one year from the date of acquisition».

Given the nature and type of assets and liabilities acquired, the Banca Popolare di Sondrio Group believes that it does not use this option granted by accounting standard IFRS 3.

The difference between the amount paid for the acquisition of control over Banca della Nuova Terra, the fair value of the investment already held and the value of its equity was therefore considered badwill for a total of Euro 3.693 million, booked to line item 240 of the Income Statement «net gains (losses) on equity investments».

1.2 Business combinations: Acquisition of Servizi Internazionali e Strutture Integrate 2000 S.r.l.

Description of the transaction

The acquisition by the parent company Banca Popolare di Sondrio S.C.p.A of the majority shareholding in Servizi Internazionali e Strutture Integrate 2000 S.r.l., equal to 100% of the capital took effect on 18 December 2017. The previous holding was 33.33%.

The total consideration recognised for the purchase of 66.67% of the capital amounted to 149.224 thousand euro.

The relevant figures relating to the business combination are shown below (in thousands of euro).

Name	Date of the transaction (a)	Cost of the transaction	Holding acquired (b)	Total revenues (c)	Profit/loss of the Company (d)
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	18/12/2017	149	66.67%	470	(6)

Key:
(a) Date of control acquisition.
(b) Percentage of holding with voting rights at Ordinary Shareholders' Meeting.
(c) Total income (line item 120 of the income statement) at 31 December 2016.
(d) Profit/loss of the subsidiary at 31 December 2016.

Accounting for the transaction

The reference standard for the accounting treatment of the acquisition of International Services and Integrated Structures 2000 S.r.l in the Consolidated Financial Statements of the Banca Popolare di Sondrio Group is IFRS 3 - Business Combinations, as reported in the previous paragraph concerning the acquisition of Banca della Nuova Terra S.p.A.

Having identified 18 December 2017 as the reference date of the transaction, the net fair value of the assets acquired was considered equal to the subsidiary's net worth at 31 December 2017, as an updated accounting situation closer to the acquisition date.

Also considering that Servizi Internazionali e Strutture Integrate 2000 did not give rise to significant accounting events that could change the balance sheet and income statement between the acquisition date and 31 December 2017.

The following table shows the calculation in accordance with IFRS 3 which identifies the (negative) goodwill generated by the acquisition of Servizi Internazionali e Strutture Integrate 2000.

Identification of goodwill

(in thousands of Euro)	
Acquired equity investment	66.67%
Acquisition consideration	149
Fair value of the investment already held	32
Fair value of the net assets acquired	(223)
Negative goodwill (or «badwill»)	**(42)**

However, IFRS 3 allows the definitive accounting of a business combination to be completed within twelve months of the acquisition date, as reported in the previous paragraph. Given the nature and type of assets and liabilities acquired, the Banca Popolare di Sondrio Group has decided not to make use of the option granted by the standard.

The difference between the amount paid for the acquisition of control over Servizi Internazionali e Strutture Integrate 2000, the fair value of the investment already held and the value of its equity was therefore considered badwill for a total of Euro 42 thousand, booked to line item 240 of the Income Statement «net gains (losses) on equity investments».

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in office	Expiry of office	Emoluments for the office held in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	Chairman	1/1/2017-31/12/2017	31/12/2018	250	-	-	66
STOPPANI LINO ENRICO	Deputy Chairman	1/1/2017-31/12/2017	31/12/2019	136	-	-	16
PEDRANZINI MARIO ALBERTO (*)	Director	1/1/2017-31/12/2017	31/12/2019	151	-	-	124
BIGLIOLI PAOLO	Director	1/1/2017-31/12/2017	31/12/2019	46	-	-	-
CORRADINI CECILIA	Director	1/1/2017-31/12/2017	31/12/2019	44	-	-	-
CREDARO LORETTA	Director	1/1/2017-31/12/2017	31/12/2017	51	-	-	-
FALCK FEDERICO	Director	1/1/2017-31/12/2017	31/12/2018	45	-	-	-
FERRARI ATTILIO PIERO	Director	1/1/2017-31/12/2017	31/12/2017	47	-	-	-
FONTANA GIUSEPPE	Director	1/1/2017-31/12/2017	31/12/2017	43	-	-	-
GALBUSERA CRISTINA	Director	1/1/2017-31/12/2017	31/12/2018	48	-	-	-
PROPERSI ADRIANO	Director	1/1/2017-31/12/2017	31/12/2017	48	-	-	-
RAINOLDI ANNALISA	Director	1/1/2017-31/12/2017	31/12/2019	45	-	-	-
ROSSI SERENELLA	Director	1/1/2017-31/12/2017	31/12/2018	46	-	-	-
SOZZANI RENATO	Director	1/1/2017-31/12/2017	31/12/2017	76	-	-	3
TRIACCA DOMENICO	Director	1/1/2017-31/12/2017	31/12/2018	54	-	-	2
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	1/1/2017-31/12/2017	31/12/2017	95	-	-	8
DEPPERU DONATELLA	Auditor	1/1/2017-31/12/2017	31/12/2017	79	-	-	18
VITALI MARIO	Auditor	1/1/2017-31/12/2017	31/12/2017	75	-	-	8
MORELLI DANIELE	Alternate auditor	1/1/2017-31/12/2017	31/12/2017	-	-	-	2
PEDRANZINI MARIO ALBERTO (*)	General Manager	1/1/2017-31/12/2017	-	-	89	80	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		1/1/2017-31/12/2017	-	-	52	187	913

(*) also Managing Director

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the Parent Company has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 2.657 million have been paid. The column «Emoluments for the office held in Banca Popolare di Sondrio includes € 0.083 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Parent Company adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Group such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Group just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	1,070	5,860	20	28	–	1,467
Statutory auditors	293	221	6	2	–	–
Management	18	1,233	–	6	–	–
Family members	3,218	13,719	54	63	275	10,158
Subsidiaries	2,872,406	242,736	18,806	15,983	933,359	11,089
Associated companies	603,061	338,203	2,202	354	49,056	7,153
Other related parties	207,979	81,070	2,465	84	7,196	32,875

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.A and Banca della Nuova Terra S.p.A, while loans to associated companies relate for € 591 million to Alba Leasing S.p.A; assets with other related parties include loans of € 86 million granted to the affiliate Release S.p.A.

PART L *Segment information*

Segment information has been prepared in compliance with IFRS 8, the introduction of which did not involve significant changes in the identification of operating segments or in management reporting methods compared with IAS 14.

Given that the Group's benefits and risks are significantly influenced by differences in the various products and services and only marginally by the territorial distribution of the sales network, the primary segment comprises the Bank's business activities while the secondary segment relates to the geographical areas concerned.

Each sub-segment has been identified based on the nature of the products and services offered and on the type of customer concerned, so that the related risk profile and profitability are sufficiently similar.

Even though this classification reflects the lines of business envisaged under the Standardised Approach for calculating the minimum capital requirement for operational risk, it is based substantially on internal practice for the subdivision of activities used to apply corporate policies and to evaluate their results.

Geographical information is based on the distribution of branches throughout Italy and Switzerland.

A. Primary format

A.1 Distribution by business segment: income statement

The following sub-segments are discussed:

- *Enterprises*: these comprise «non-financial companies» and «family»; the figures shown here relate to credit and loans, deposits, leasing and payment services. Revenues from currency transactions with resident and non-resident customers are also significant to this sub-segment.
- *Individuals and other customers*: these comprise «consumer households», «public administrations», «finance companies» and «non-profit organisations»; the results reported derive from routine transactions with these customers, including the taking of deposits, intermediation in savings transactions, the granting of long-term loans and consumer credit, the provision of collection and payment services, the issue of credit and debit cards and other ancillary functions.
- *Securities*: this sub-segment comprises the results of transactions with customers involving direct trading in, the acceptance of instructions, the placement of financial instruments, insurance and pension productions, and the management of portfolios.
- *Central functions*: this sub-segment reports the results deriving from the management of portfolio own securities and equity investments, currency transactions on own account, and treasury management activities. In addition, it includes certain residual activities not classified elsewhere since the revenues earned are not significant.

The following tables show the pre-tax results of the above sub-segments for 2017 and 2016.

Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment.

This aspect is managed by using a multiple internal transfer rate (»treasury pool»), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the «central functions» sub-segment.

Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The «reconciliation» column is used for the tie-in to the financial statements.

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2017**
Interest income	376,830	301,639	–	164,939	843,408	-211,769	631,639
Interest expense	-76,764	-151,646	–	-125,076	-353,486	211,769	-141,717
Net interest income	**300,066**	**149,993**	**–**	**39,863**	**489,922**	**–**	**489,922**
Fee and commission income	149,745	75,835	88,168	11,513	325,261	-1,208	324,053
Fee and commission expense	-6,340	-7,412	-5,148	35	-18,865	-108	-18,973
Dividends and similar income	–	–	–	5,533	5,533	–	5,533
Net trading income	–	–	–	59,460	59,460	969	60,429
Net hedging gains (losses)	–	872	–	-987	-115	–	-115
Gains/losses from sales or repurchases	–	–	–	95,244	95,244	–	95,244
Net gains on financial assets and liabilities at fair value through profit or loss	–	–	–	5,761	5,761	–	5,761
Total income	**443,471**	**219,288**	**83,020**	**216,422**	**962,201**	**-347**	**961,854**
Adjustments to the net value of financial assets	-207,300	-31,227	–	-35,802	-274,329	–	-274,329
Net financial income	**236,171**	**188,061**	**83,020**	**180,620**	**687,872**	**-347**	**687,525**
Administrative expenses	-132,972	-164,305	-54,751	-117,196	-469,224	-53,076	-522,300
Provisions for risks and charges	1,902	2,120	–	1,322	5,344	–	5,344
Depreciation and net impairment losses on property, equipment and investment property	-4,634	-6,888	-2,277	-5,146	-18,945	–	-18,945
Amortisation and net impairment losses on intangible assets	-4,608	-7,003	-2,338	-3,320	-17,269	–	-17,269
Other operating income/expense	9,171	6,103	-344	3,923	18,853	53,423	72,276
Net gains (losses) on equity investments	–	–	–	26,517	26,517	–	26,517
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	515	515	–	515
Net gains on sales of investments	–	–	–	17	17	–	17
Gross profit	**105,030**	**18,088**	**23,310**	**87,252**	**233,680**	**–**	**233,680**

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2016**
Interest income	419,888	340,395	–	170,085	930,368	-266,802	663,566
Interest expense	-98,839	-207,754	–	-149,525	-456,118	266,802	-189,316
Net interest income	**321,049**	**132,641**	**–**	**20,560**	**474,250**	**–**	**474,250**
Fee and commission income	150,406	72,800	78,369	11,362	312,937	-1,062	311,875
Fee and commission expense	-6,867	-7,092	-4,685	392	-18,252	-526	-18,778
Dividends and similar income	–	–	–	7,209	7,209	–	7,209
Net trading income	–	–	–	30,225	30,225	1,320	31,545
Net hedging gains (losses)	–	1,616	–	-1,354	262	–	262
Gains/losses from sales or repurchases	–	–	–	76,011	76,011	–	76,011
Net gains on financial assets and liabilities at fair value through profit or loss	–	–	–	2,309	2,309	–	2,309
Total income	**464,588**	**199,965**	**73,684**	**146,714**	**884,951**	**-268**	**884,683**
Adjustments to the net value of financial assets	-214,006	-39,350	–	-25,189	-278,545	–	-278,545
Net financial income	**250,582**	**160,615**	**73,684**	**121,525**	**606,406**	**-268**	**606,138**
Administrative expenses	-131,835	-157,993	-54,781	-133,025	-477,634	-48,327	-525,961
Provisions for risks and charges	-3,838	2,416	–	-1,017	-2,439	–	-2,439
Depreciation and net impairment losses on property, equipment and investment property	-4,660	-6,687	-2,243	-5,016	-18,606	–	-18,606
Amortisation and net impairment losses on intangible assets	-4,338	-5,993	-1,968	-2,670	-14,969	–	-14,969
Other operating income/expense	10,432	6,803	-164	6,974	24,045	48,595	72,640
Net gains (losses) on equity investments	–	–	–	12,973	12,973	–	12,973
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	130	130	–	130
Net gains on sales of investments	–	–	–	63	63	–	63
Gross profit	**116,343**	**-839**	**14,528**	**-63**	**129,969**	**–**	**129,969**

The 2016 figures have been adjusted for comparison purposes.

A.2 Distribution by business segment: balance sheet

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total 31/12/2017**
Financial assets	16,637,584	10,918,372	–	12,230,993	39,786,949
Other assets	–	–	–	1,486,495	1,486,495
Property, equipment and investment property	57,683	80,740	25,909	163,158	327,490
Intangible assets	4,508	6,306	2,023	10,883	23,720
Financial liabilities	8,548,227	23,095,912	–	6,248,707	37,892,846
Other liabilities	38,014	5,669	–	668,844	712,527
Provisions	71,232	96,875	25,147	56,514	249,768
Guarantees given	3,161,032	325,170	–	106,317	3,592,519
Commitments	1,186,122	131,476	28,240	16,662	1,362,500

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total 31/12/2016**
Financial assets	16,194,497	10,784,230	–	8,207,519	35,186,246
Other assets	–	–	–	1,670,533	1,670,533
Property, equipment and investment property	55,387	77,067	25,400	163,068	320,922
Intangible assets	4,625	6,402	2,103	10,739	23,869
Financial liabilities	7,369,111	23,566,630	–	2,614,654	33,550,395
Other liabilities	28,053	6,851	–	712,261	747,165
Provisions	71,428	94,807	23,641	56,653	246,529
Guarantees given	3,160,368	398,047	–	101,229	3,659,644
Commitments	1,017,207	460,034	38,941	72,099	1,588,281

The 2016 figures have been adjusted for comparison purposes.

Summary discussion of results

The results of the various sub-segments are discussed below.

Enterprises: Factorit made an appreciable contribution, with a positive result in this area of € 18,303 thousand, a considerable increase on the previous year (+269.6%) due to significantly lower adjustments to financial assets and the improvement in spreads on lending.

This segment contributes 44.9% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 16,638 million and € 8,548 million respectively.

Net adjustments for the impairment of financial assets represent 46.7% of total income, while administrative expenses absorb 30.0%.

Comparison with the prior year shows a significant contraction in the segment result (-11.313 thousand euro), due essentially to the significant contraction in the adjustments to Factorit's financial assets; this partly offset the Parent Company's contribution, which saw a decline of 24,514 thousand euro, mainly attributable to a combination of the following factors:

- a significant reduction in net interest income (-7.93%), due to a marked contraction in funding spreads, where volumes are considerable, not offset by a slight improvement in deposits spreads, which show more limited volumes;
- a slight decrease in fee and commission income (-0.8%), due in particular to the contraction in the contribution from loan commissions;
- considerable increase in impairment adjustments to financial assets (+2.9%), mainly due to higher provisions and losses on loans and receivables, not offset by a better result on the part of the out-of-period income and write-backs;
- substantial stability in administrative expenses (+0.7%, of which other costs +2.5%, personnel costs -1.4%);
- important increase in provisions for risks and charges, which show positive amounts in 2017, whereas they were negative in 2016 (+175.9%).

Individuals and other customers: the Swiss subsidiary has made a significant contribution, with a positive result in this area of € 30,151 thousend, although lower on the previous year (-6.9%), mainly due to an appreciable decline in fee and commission income.

This segment contributes 7.7% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 10,918 million and € 23,096 million respectively.

Net adjustments for the impairment of financial assets represent 14.2% of the total income, while administrative expenses absorb 74.9%.

Comparison with the prior year shows a significant improvement in the segment result, influenced by Factorit's good trend, which more than offset the contraction in the Swiss subsidiary and, above all, the Parent Company, where there has been an increase of 14,726 thousand euro, mainly attributable to a combination of the following factors:

- a significant increase in net interest income (+18.2%), due to the significant improvement in funding spreads, where there are the largest volumes, and an increase, albeit minor, in lending spreads, where volumes are much lower;
- a good growth in fee and commission income (+7.7%), due in particular to current account fees, collection and payment services and credit card fees;
- a marked reduction in impairment adjustments to financial assets (-5.7%), due to significantly lower provisions and loan losses and a significant increase in write-backs;
- a significant increase in administrative expenses (+4.3%, of which other costs +6.2%, personnel expenses +2.3%);
- a significant decrease in provisions for risks and charges (-33.1%).

Securities: the contribution made by the Swiss subsidiary, € 774 thousand, is lower than the previous year (-8.3%), mainly due to a significant decline in commission flows and to an increase in adjustments to intangible assets not offset by a reduction in administrative expenses.

This segment contributes 10.0% of overall results.

Administrative expenses absorb 65.9% of total income.

Comparison with the prior year shows a significant increase in the segment result (+60.4%), mainly because of the Parent Company's contribution with a rise of 8,852 thousand euro, attributable above all to a combination of following factors:

- significant increase in commission flows (+15.9%), due to the marked increase in the results achieved by investment funds, asset management scheme, insurance products, acceptance of instructions and custodian bank business;
- a slight increase in administrative expenses (+1.0%, of which other costs +1.4%, personnel expenses +0.6%).

Central functions: this segment's contribution to the overall result is 37.3%.

The Swiss subsidiary and Factorit made a significant contribution of € -20,042 thousand in total, an improvement on last year (+15.6%).

The result rose considerably on the previous year. This outcome was significantly influenced by the contribution made by the Parent Company, where a growth of 377.2% was essentially due to the capital gains made on securities in portfolio and to the revaluation of available-for-sale financial assets, both due to an increase in the return of the own security portfolio. The improvement in net interest income was also significant, due to the TRLTRO II negative interest expense which was included in interest income, amplifying the positive trend. The decrease in administrative expenses is also significant, mainly due to lower extraordinary contributions paid to the Resolution Fund.

B. Secondary format

The following information refers to the location of branches.

An alternative analysis, based on the residence of counterparties, does not give significantly different results.

Branches are aggregated into two geographical areas, «Northern Italy» and «Central Italy», since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same.

In particular, in the North, the volume of business is principally generated by «non-financial companies» and «consumer households and family businesses», while in Central Italy the «public administrations» are especially significant.

There are differences between the Parent Company and the Swiss subsidiary regarding the types of customer served, the products and services provided, and commercial and operational policies adopted. Accordingly, the analysis includes the «Swiss» area as well as the domestic market.

B.1 Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2017**
Interest income	705,748	77,300	62,088	845,136	-213,497	631,639
Interest expense	-279,773	-54,226	-22,236	-356,235	214,518	-141,717
Net interest income	**425,975**	**23,074**	**39,852**	**488,901**	**1,021**	**489,922**
Fee and commission income	252,763	49,380	24,326	326,469	-2,416	324,053
Fee and commission expense	-10,653	-6,929	-2,573	-20,155	1,182	-18,973
Dividends and similar income	18,648	–	13	18,661	-13,128	5,533
Net trading income	36,968	–	20,385	57,353	3,076	60,429
Net hedging gains (losses)	–	–	872	872	-987	-115
Gains/losses from sales or repurchases	95,244	–	–	95,244	–	95,244
Net gains on financial assets and liabilities at fair value through profit or loss	4,247	–	–	4,247	1,514	5,761
Total income	**823,192**	**65,525**	**82,875**	**971,592**	**-9,738**	**961,854**
Adjustments to the net value of financial assets	-253,359	-20,989	19	-274,329	–	-274,329
Net financial income	**569,833**	**44,536**	**82,894**	**697,263**	**-9,738**	**687,525**
Administrative expenses	-370,998	-41,376	-60,993	-473,367	-48,933	-522,300
Provisions for risks and charges	3,952	199	1,193	5,344	–	5,344
Depreciation and net impairment losses on property, equipment and investment property	-14,961	-1,391	-2,593	-18,945	–	-18,945
Amortisation and net impairment losses on intangible assets	-12,801	-1,367	-3,101	-17,269	–	-17,269
Other operating income/expense	22,203	3,278	621	26,102	46,174	72,276
Net gains (losses) on equity investments	-595	–	–	-595	27,112	26,517
Net result of fair value measurement of property, equipment and investment property and intangible assets	515	–	–	515	–	515
Net gains on sales of investments	17	–	–	17	–	17
Gross profit	**197,165**	**3,879**	**18,021**	**219,065**	**14,615**	**233,680**

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2016**
Interest income	777,083	91,619	63,774	932,476	-268,910	663,566
Interest expense	-358,717	-73,073	-27,729	-459,519	270,203	-189,316
Net interest income	**418,366**	**18,546**	**36,045**	**472,957**	**1,293**	**474,250**
Fee and commission income	236,754	52,240	25,343	314,337	-2,462	311,875
Fee and commission expense	-10,135	-7,307	-2,292	-19,734	956	-18,778
Dividends and similar income	18,214	–	10	18,224	-11,015	7,209
Net trading income	11,252	–	19,206	30,458	1,087	31,545
Net hedging gains (losses)	–	–	1,616	1,616	-1,354	262
Gains/losses from sales or repurchases	76,011	–	–	76,011	–	76,011
Net gains on financial assets and liabilities at fair value through profit or loss	4,307	–	–	4,307	-1,998	2,309
Total income	**754,769**	**63,479**	**79,928**	**898,176**	**-13,493**	**884,683**
Adjustments to the net value of financial assets	-271,577	-7,592	624	-278,545	–	-278,545
Net financial income	**483,192**	**55,887**	**80,552**	**619,631**	**-13,493**	**606,138**
Administrative expenses	-379,184	-41,895	-60,628	-481,707	-44,254	-525,961
Provisions for risks and charges	1,767	-3,189	-1,017	-2,439	–	-2,439
Depreciation and net impairment losses on property, equipment and investment property	-14,821	-1,380	-2,405	-18,606	–	-18,606
Amortisation and net impairment losses on intangible assets	-12,184	-1,307	-1,478	-14,969	–	-14,969
Other operating income/expense	24,372	3,579	529	28,480	44,160	72,640
Net gains (losses) on equity investments	-1,655	–	–	-1,655	14,628	12,973
Net result of fair value measurement of property, equipment and investment property and intangible assets	130	–	–	130	–	130
Net gains on sales of investments	63	–	–	63	–	63
Gross profit	**101,680**	**11,695**	**15,553**	**128,928**	**1,041**	**129,969**

The 2016 figures have been adjusted for comparison purposes.

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2017**
Financial assets	33,389,698	2,653,453	3,743,798	39,786,949
Other assets	863,772	–	622,723	1,486,495
Property, equipment and investment property	294,431	17,833	15,226	327,490
Intangible assets	21,152	1,394	1,174	23,720
Financial liabilities	25,287,579	8,563,119	4,042,148	37,892,846
Other liabilities	679,442	9,490	23,595	712,527
Provisions	204,200	24,079	21,489	249,768
Guarantees given	2,809,581	641,780	141,158	3,592,519
Commitments	986,468	350,093	25,939	1,362,500

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2016**
Financial assets	28,251,215	2,976,628	3,958,403	35,186,246
Other assets	943,693	–	726,840	1,670,533
Property, equipment and investment property	283,615	16,629	20,678	320,922
Intangible assets	20,864	1,392	1,613	23,869
Financial liabilities	21,016,052	8,187,958	4,346,385	33,550,395
Other liabilities	710,572	8,210	28,383	747,165
Provisions	199,443	23,120	23,966	246,529
Guarantees given	2,895,580	602,602	161,462	3,659,644
Commitments	1,249,834	307,621	30,826	1,588,281

The 2016 figures have been adjusted for comparison purposes.

Disclosure of information State by State pursuant to Circular 285 of 17 December 2013 on «Supervisory instructions for banks» 4th update of 17 June 2014

This information is available (in Italian) in the Corporate Information section of the website www.popso.it.

Certification pursuant to para. 5 of art. 154-bis of Decree 58/98 on the consolidated financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Financial Reporting Officer of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Decree 58 of 24 February 1998, confirm:

– the adequacy in relation to the characteristics of the company and

– the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements for the period 1 January 2017 / 31 December 2017

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the "Internal Control - Integrated Framework (CoSO)", issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the consolidated financial statements at 31 December 2017:

– have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;

– agree with the balances on the books of account and the accounting entries;

– are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the scope of consolidation.

The directors' report on operations includes a reliable analysis of the progress and performance, the situation of the Bank and the consolidated companies together with a description of the main risks and uncertainties to which they are subjected.

Sondrio, 22 March 2018

The Managing Director
Mario Alberto Pedranzini

The Financial Reporting Officer
Maurizio Bertoletti

Banca Popolare di Sondrio S.C.p.A.

Consolidated financial statements at December 31, 2017

Independent auditor’s report in accordance with Article 14 of Legislative Decree n. 39, dated January 27, 2010, and Article 10 of EU Regulation n. 537/2014

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Independent auditor's report in accordance with Article 14 of Legislative Decree n. 39, dated January 27, 2010 and Article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Sondrio S.C.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Banca Popolare di Sondrio Group (the "Group"), which comprise the balance sheet at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued for implementing Article 9 of Legislative Decree n. 38, dated February 28, 2005 and Article 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent from Banca Popolare di Sondrio S.C.p.A. (the "Bank" or the "Parent Company") in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The consolidated financial statements of the Group at December 31, 2016 were audited by another auditor who issued an unqualified opinion on March 27, 2017.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matter:

Key Audit Matter	Audit Response
Classification and evaluation of loans to customers	
Loans to customers, the amount of which is shown in item 70 of the balance sheet, represent, at December 31, 2017, 62% of total assets. The process of classifying loans to customers in the various risk categories and measuring them is relevant for the audit, both, because the value of loans is significant for the financial statements as a whole and because the value of the related impairment losses are determined by the directors through the use of estimates that have a high degree of subjectivity. Among these, the following are particularly important: the identification of objective evidence of impairment of the loans, the recoverable value of the collateral acquired, the determination of expected cash flows and their timing of collection. Furthermore, as regards to the statistical evaluations: the definition of homogeneous loan categories in terms of credit risk, the determination of the probability of default ("PD") and the related estimated loss (Loss Given Default - "LGD"), based on historical data observation for each risk class. Information on the classification and measurement of loans to customers is provided by the directors within Part A of the notes to the financial statements.	In relation to these aspects, our audit procedures included, among other: • an understanding of the policies, processes and controls implemented by the Group in relation to the classification and measurement of loans to customers and the performance of compliance procedures on the controls considered key, including those relating to IT; • execution of substantive procedures aimed at verifying the correct classification and measurement of credit positions; • understanding, also through the support of our *risk management* and information systems expert, of the methodology used in relation to statistical evaluations and the reasonableness of the assumptions adopted as well as the performing of test of controls and substantive procedures, aimed at the analysis of the completeness of the historical databases used for the determination of the parameters of PD and LGD, relevant for the purpose of determining the impairment losses; • comparative analysis of the portfolio of loans to customers and the related coverage levels, and analysis of the most significant deviations; • analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing Article 9 of Legislative Decree n. 38, dated February 28, 2005 and Article 43 of Legislative Decree n. 136, dated August 18, 2015, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The board of statutory auditors ("*Collegio Sindacale*") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional Information Pursuant to Article 10 of EU Regulation n. 537/14

The shareholders of Banca Popolare di Sondrio S.C.p.A., in the general meeting held on April 29, 2017, appointed us to perform the audit of the consolidated financial statements of each year from the year ending December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services, referred to Article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the board of statutory auditors (*Collegio Sindacale*) in their capacity as audit committee, prepared in accordance with Article 11 of the EU Regulation n. 537/2014.

Report on Compliance with Other Legal and Regulatory Requirements

Opinion pursuant to Article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of Article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Banca Popolare di Sondrio Group at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by Article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of the Banca Popolare di Sondrio Group at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Banca Popolare di Sondrio Group at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by Article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement Pursuant to Article 4 of Consob Regulation Implementing Legislative Decree n. 254, dated December 30, 2016

The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by directors.

Pursuant to Article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information is subject to a separate compliance report signed by us.

Milan, April 5, 2018

EY S.p.A.
Signed by: Davide Lisi, partner

This report has been translated into the English language solely for the convenience of international readers.

Banca Popolare di Sondrio S.C.p.A.

Consolidated financial statements at 31 December 2017

Independent auditor’s report on the consolidated disclosure of non-financial information in accordance with Article 3, par. 10, of Legislative Decree n. 254/2016 and with Article 5 of Consob Regulation adopted with resolution n. 20267

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Independent auditor's report on the consolidated disclosure of non-financial information in accordance with Article 3, par. 10, of Legislative Decree n. 254/2016 and with Article 5 of Consob Regulation adopted with resolution n. 20267
(Translation from the original Italian text)

To the Board of Directors of
Banca Popolare di Sondrio S.C.p.A.

We have performed a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree December 30, 2016, n. 254 (hereinafter, the "Decree") and Article 5 of Consob Regulation adopted with Resolution n. 20267, on the consolidated disclosure of non-financial information of Banca Popolare di Sondrio S.C.p.A. (hereinafter, the "Company") and its subsidiaries (hereinafter, together with the Company, the "Group" or the "Banca Popolare di Sondrio Group") for the year ended December 31, 2017 in accordance with article 4 of the Decree, presented in the specific section of the Consolidated Director's report on operation as at December 31, 2017 and approved by the Board of Directors on March 23, 2018 (hereinafter, the "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

The directors are responsible for the preparation of the DNF in accordance with the requirements of Articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standard", defined in 2016 by GRI - Global Reporting Initiative (hereinafter, the "GRI Standards"), with reference to the selection of GRI Standards, indicated in paragraph "Methodological Note" of the DNF, identified by the directors as the reporting standard.

The directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary to allow the preparation of the DNF free from material misstatements caused by fraud or not intentional behaviors or events.

The directors are also responsible for identifying the contents of the DNF within the matters mentioned in Article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance and results and the related impacts.

The directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

Auditor's Independence and Quality Control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence,

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Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

Auditor's Responsibility

It is our responsibility, on the basis of the procedures performed, to express a conclusion on the compliance of the DNF with the requirements of the Decree and the GRI Standards, with reference to the selection of GRI Standards indicated in paragraph "Methodological Note" of the DNF. Our work has been performed in accordance with "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter, "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires planning and execution of work to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of the work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would have been identified in a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with Company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics for the activities and characteristics of the Group reported in the DNF, to assess the reasonableness of the selection process applied in accordance with the provisions of Article 3 of the Decree and considering the reporting standard applied;
2. analysis and evaluation of the criteria used for identifying the consolidated entities, to evaluate their compliance with the provisions of the Decree;
3. comparison of the economic and financial data and information included in the DNF with those included in the Group's consolidated financial statements;
4. understanding of the following aspects:
    - Group's management and organization business model, with reference to the management of the topics indicated in Article 3 of the Decree;
    - policies adopted by the Group related to the matters indicated in Article 3 of the Decree, results achieved and related key performance indicators;
    - main risks, generated or suffered related to the matters indicated in Article 3 of the Decree.

    With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 5. a) below;
5. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.
    In particular, we have conducted interviews and discussions with the management of the Company and of the subsidiaries Factorit S.p.A. and Banca Popolare di Sondrio (SUISSE) SA and performed limited documentary evidence procedures, to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

Furthermore, for significant information, considering the Group activities and characteristics, we carried out the following procedures:

- at Group central level:
  a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries with Company's management and acquired supporting documentation to verify its consistency with the available evidence;
  b) with reference to the quantitative information included in the DNF, we performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- at the level of certain Group companies (Factorit S.p.A. and Banca Popolare di Sondrio (SUISSE) SA), selected based on their operations and their contribution to the performance indicators at consolidated level, we acquired evidence about the proper application of the procedures and calculation methods used for the identified indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Banca Popolare di Sondrio Group for the year ended December 31, 2017 has not been prepared, in all material aspects, in accordance with the requirements of Articles 3 and 4 of the Decree and the GRI Standards, refers to the selection of GRI Standards indicated in paragraph "Methodological Note" of the DNF.

Other Information

No procedures have been performed on the comparative information presented in the DNF for the year ended December 31, 2016.

Milan, April 5, 2018

EY S.p.A.

Signed by: Davide Lisi, partner

This report has been translated into the English language solely for the convenience of international readers.

EXTRAORDINARY PART

Point 1) on the agenda: Proposal to amend articles 6 and 39 of the Articles of Association. Related and consequent resolutions.

Report of the Board of Directors of Banca Popolare di Sondrio società cooperativa per azioni prepared pursuant to article 125-ter of Legislative Decree 58 of 24 February 1998, and subsequent amendments, and article 72 and table 3 of the 3rd attachment to the Regulation adopted by Consob Resolution no. 11971 of 14 May 1999 and subsequent amendments (Issuers' Regulation)

Shareholders,

with this Report (the «Report»), prepared pursuant to articles 125-ter of Legislative Decree 58 of 24 February 1998 (TUF), and 72 and table 3 of the attachment 3A to the Issuers' Regulation, we wish to provide an explanation of the proposed amendments to the Articles of Association of Banca Popolare di Sondrio società cooperativa per azioni («BPS» or the «Bank») that the Board of Directors of the Bank intends to submit for your approval.

* * *

1. Reasons for the proposed amendments to the Articles of Association

The proposed amendments to the Articles of Association that are submitted for the approval of the Shareholders refer to articles 6 and 39 of BPS's Articles of Association.

* * *

(a) Proposal to eliminate the par value of BPS shares and consequent modification of article 6 of the Articles of Association

With reference to the proposal to amend the first paragraph of article 6 of the Articles of Association, concerning the elimination of the shares' par value, we would point out that article 2346 of the Italian Civil Code, referred to in the fifth paragraph of article 2525 of the Italian Civil Code on cooperatives, recognises the possibility of issuing shares without a par value.

In the interests of greater clarity, it should also be noted that the par value, which can only be eliminated through an amendment to the Articles of Association, is distinct from the equity value of the shares (which is obtained by dividing the company's net equity by the number of shares), and from their market value (expressed by the prices posted on regulated markets).

Article 2346 of the Italian Civil Code permits the issue of shares with only an implicit value, resulting from the ratio between the total amount of the share capital and the number of shares outstanding (the so-called «implicit book par value»). In this case, the Articles of Association no longer contain any indication of the par value of the individual shares and do not have to be continually amended whenever there are transactions involving a change in the shares' par value.

It is therefore an intervention with a view to organisational simplification and, consequently, greater flexibility for the Bank.

This makes it possible to carry out operations on the share capital without having to carry out any operation on the shares. In fact, in the absence of a par value, a change in the amount of share capital can simply result in a corresponding change in the book par value of the existing shares.

A further advantage of eliminating the shares' par value is the possibility of issuing new shares in the context of an increase in share capital for payment, even with an «implicit» value that is lower than the previous book par value. In the absence of a par value, the Bank is free to decide on the number of new shares into which to split the issue, asking for each share, by way of capital, a sum that may be equal, higher or lower than the previous book par value.

It is only right to specify that this does not in any way diminish the extent to which the Bank's share capital is protected. In fact, new shares have to be issued for a total amount not exceeding the value of the contributions made for the issue (article 2346, fifth paragraph, of the Italian Civil Code).

Moreover, also in consideration of the provision of article 29, second paragraph, of Legislative Decree 385 of 1 September 1993 (the Consolidated Banking Act or «CBA»), the proposed elimination of the par value expressed by the shares envisages that under no circumstances will the implicit book par value be less than Euro 2.00.

In light of the above, it is proposed to modify the Articles of Association by removing any mention of the share's par value, providing that the implicit book par value cannot under any circumstances be lower than 2.00 euro. In the future, therefore, the rules that refer to the par value of the shares will have to be applied having regard to their number in relation to the total number of shares issued (article 2346, paragraph 3, of the Italian Civil Code).

* * *

(b) Proposal to give the Board of Directors a mandate to increase the share capital, also excluding or limiting option rights pursuant to art. 2441, fourth paragraph, first sentence, and fifth paragraph of the Italian Civil Code and amendment of article 6 of the Articles of Association

<u>With reference to the new fourth paragraph of article 6 of the Articles of Association</u>, concerning the issue of new shares by the Bank without any

interruption of trading in the related ordinary shares on regulated markets, it should be noted that the current text of the Bank's Articles of Association gives exclusive competence to the Extraordinary Shareholders' Meeting to resolve on the issue of new shares, without any interruption of trading in the Bank's ordinary shares on regulated markets.

Without prejudice to this competence of the Shareholders' Meeting, it is proposed to modify article 6 of the Articles of Association, giving the Shareholders' Meeting the chance to delegate to the Board of Directors, pursuant to article 2443 of the Italian Civil Code, the power to issue new shares as part of an increase in capital, also excluding or limiting option rights pursuant to article 2441, paragraphs 4, first sentence, and 5, of the Italian Civil Code.

* * *

(c) Proposal to allow contributions in kind and in the form of receivables and consequent amendment of article 6 of the Articles of Association

With regard to article 6 of the Articles of Association concerning share capital generally and any changes to it, article 2342, first paragraph, of the Italian Civil Code says that contributions can only be made in cash, unless the Articles of Association provide otherwise. In order to have more flexibility, we would like to propose to the Shareholders' Meeting a new clause that takes advantage of article 2342 of the Italian Civil Code on capital contributions to allow an increase in capital to be subscribed also by making contributions in kind or receivables. To this end, we propose amending the Articles of Association by adding a new clause – a fifth paragraph to be precise – envisaging this possibility.

* * *

(d) Proposal to conduct board meetings in audio/video conference and to change the procedures for convening the administrative body and consequent amendments to article 39 of the Articles of Association

With reference to article 39 of the Articles of Association on meetings of the Board of Directors, at present the Bank's Articles of Association do not allow the Directors to meet by video/audio conference and/or other electronic means so that members of the Board of Directors can take part in meetings even if they are not physically present.

Without prejudice to Directors' participation in person at board meetings, we would like to propose adding a new paragraph to article 39, a fourth paragraph to be precise, on the possibility of attending board meetings by means of an audio/video connection made available as the need arises, accompanying this innovation with appropriate safeguards to ensure that the proceedings, the debate and the minute-taking are also performed correctly.

We would also like to propose some minor changes to the way that board meetings are convened.

* * *

2. Current and proposed texts of the Articles of Association, with an explanation of the amendments.

The Articles of Association are shown below with evidence of the proposed changes compared with the current text.

Current text	Proposed amendment
Art. 6. **Share capital** **Procedure for variation** **Price of shares** Share capital is variable and is represented by the total number of registered shares, nominal value Euro 3.00 (three Euros) each. The issue of shares, which in principle is without limit, may be decided upon in the following ways: 1 - routinely by the Board of Directors; 2 - exceptionally, by a resolution adopted at an Extraordinary Shareholders' Meeting in accordance with the provisions of article 2441 of the Italian Civil Code. So long as the shares are quoted on a regulated market, the issue of new shares can only take place by a resolution of the Extraordinary Shareholders' Meeting.	**Art. 6.** **Share capital** **Procedure for variation** **Price of shares** Share capital is variable and is represented by registered shares, **without** nominal value ~~Euro 3.00 (three Euros) each~~. The issue of shares, which in principle is without limit, may be decided upon in the following ways: 1 - routinely by the Board of Directors; 2 - exceptionally, by a resolution adopted at an Extraordinary Shareholders' Meeting in accordance with the provisions of article 2441 of the Italian Civil Code. So long as the shares are quoted on a regulated market, the issue of new shares can only take place by a resolution of the Extraordinary Shareholders' Meeting. **The Extraordinary Shareholders' Meeting can give the Board of Directors a Mandate pursuant to art. 2443 of the Italian Civil Code to increase the share capital, also excluding and/or limiting option rights pursuant to art. 2441, fourth paragraph, first sentence, and of fifth paragraph, of the Italian Civil**

	Code. The share capital can also be increased with contributions in kind and receivables.
	Comment In the first paragraph, elimination of the par value of the shares is a consequence of the fact that, under current civil law (article 2346, paragraph 2 of the Italian Civil Code), it is no longer an element that has to be indicated in the articles of association. The new fourth paragraph envisages that the issue of new shares can be delegated by the Shareholders' Meeting to the Board of Directors in the context of increases in capital, also with the exclusion or limitation of option rights pursuant to article 2441, paragraphs 4, first sentence, and 5, of the Italian Civil Code. The introduction of the new fifth paragraph, implementing the option foreseen in article 2342 of the Italian Civil Code, gives the Bank the possibility to increase its capital also by means of contributions in kind and/ or receivables.
Art. 39 **Meetings of the Board of Directors** The Board of Directors normally meets once every two months and on an extraordinary basis whenever deemed necessary by the Chairman. Additionally, the Board meets if a reasoned request is presented in writing to the Chairman of the Board of Directors by at least one third of the Directors; in this case the meeting must be held within fifteen days of the request unless the nature of matters to be discussed requires more time. Meetings are called by a notice sent by the Chairman or a person deputizing for him, to the domicile of each director and the serving statutory auditors, at least five days prior to the date set for the meeting. This notice period may be waived in urgent cases	**Art. 39** **Meetings of the Board of Directors** The Board of Directors normally meets once every two months and on an extraordinary basis whenever deemed necessary by the Chairman. Additionally, the Board meets if a reasoned request is presented in writing to the Chairman of the Board of Directors by at least one third of the Directors; in this case the meeting must be held within fifteen days of the request unless the nature of matters to be discussed requires more time. Meetings are called by a notice sent by the Chairman or a person deputizing for him, with any suitable means to the domicile of each director and the serving statutory auditors, at least five days prior to the date set for the meeting. This notice period may

and the meeting may be called by telex, telefax or by telephone. The Board of Statutory Auditors may call a meeting of the Board of Directors and so can the Executive Committee based on the provisions of the law. The General Manager attends the meetings of the Board of Directors as per the provisions of article 56.	be waived in urgent cases and the meeting may be called twenty four hours before, or the minimum period allowed by the urgency of the circumstances. The Board of Statutory Auditors may call a meeting of the Board of Directors and so can the Executive Committee based on the provisions of the law. The General Manager attends the meetings of the Board of Directors as per the provisions of article 56. **If expressly provided for in the notice of calling, meetings can also be held by teleconference, videoconference or similar electronic means, providing it is possible to identify all of the participants without a shadow of doubt and they are able to take part in the meeting and view, receive or transmit documents, assuming that the proceedings are held in such a way that does not conflict with the need to keep correct and complete minutes. When required, the notice of calling also specifies the places where it is possible to take part in the meeting through a remote connection. If any of these methods are used, it has to be mentioned in the minutes. In this case, meetings are understood as being held in the place where the chairman and the secretary are located.**
	Comment With the addition of the last paragraph, remote participation in board meetings through electronic means is expressly allowed, if indicated in the notice of calling and subject to certain conditions that guarantee an open debate, fair conduct of meetings and the taking of proper minutes. In the second paragraph, the technical procedures for convening board meetings are also reviewed and modernised.

* * *

3. Withdrawal: the proposed amendments would not give shareholders a right to withdraw

Pursuant to article 72, paragraph 1, of the Issuers' Regulation and as indicated in table 3 of attachment 3A to it, it should be noted that the proposed amendments to articles 6 and 39 of the Bank's Articles of Association do not give a right of withdrawal under article 2437 of the Italian Civil Code.

* * *

4. Authorisations

The proposed statutory amendments are subject to authorisation by the Supervisory Authority pursuant to articles 56 and 61 of the CBA.

* * *

5. Resolution proposed to the Extraordinary Shareholders' Meeting

In light of the above, the Board of Directors of Banca Popolare di Sondrio società cooperativa per azioni, submits the following proposal to the Extraordinary Shareholders' Meeting:

«The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio società cooperativa per azioni, having taken note of the Board of Directors' Report on the proposed amendments to the Articles of Association and the proposals made in it, subject to obtaining the required legal authorisations,

HEREBY RESOLVES

A. to amend articles 6 and 39 of the Articles of Association, approving these amendments according to the text shown in the Report for the reasons explained in it;

B. to grant the Board of Directors, and for it to the Chairman and the Managing Director, jointly or severally, within the limits of the law, all possible powers to do anything that is necessary to implement and fully execute this resolution, with each and every power necessary and appropriate for this purpose, none excluded and excepted, including to make changes to this resolution, as well as additions or elimination of a non-substantial nature necessary for registration in the Companies Register, including any changes that may be necessary or opportune for technical-juridical reasons or requested by the competent Authorities, declaring as of now such action to be valid and ratified».

Sondrio, 25 March 2018

THE BOARD OF DIRECTORS

Point 2) on the agenda: Proposal to give the Board of Directors a mandate pursuant to art. 2443 of the Italian Civil Code to increase the share capital for payment, on one or more occasions, excluding option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, for a total maximum amount of Euro 40 million, including any share premium, through the issue of ordinary shares to be paid up by means of a contribution in kind. Furthermore, in exercising the mandate within twelve months of the date of the shareholders' resolution and in accordance with the limits indicated above, from time to time, the Board of Directors shall have the fullest right to establish methods, terms and conditions of the increase in capital, including the issue price, any share premium on the shares to be issued and their dividend and voting rights. Consequent amendments to article 6 of the Articles of Association. Related and consequent resolutions.

Report of the Board of Directors of Banca Popolare di Sondrio società cooperativa per azioni prepared pursuant to article 125-ter of Legislative Decree 58 of 24 February 1998, and subsequent amendments, and article 70 of the Regulation adopted with Consob Resolution no. 11971 of 14 May 1999 and subsequent amendments and integrations

Shareholders,

the Board of Directors of Banca Popolare di Sondrio società cooperativa per azioni («BPS» or the «Company») has convened the Ordinary and Extraordinary Shareholders' Meeting for 27 April 2018 at 10 a.m. in Sondrio at the registered office, piazza Garibaldi no. 16, on first call and, if necessary, on 28 April 2018 at 10.30 a.m. in Bormio (So), at the Centro Polifunzionale Pentagono, via Alessandro Manzoni no. 22, on second call, to discuss and resolve on the following Agenda of the extraordinary part:

1. Proposal to amend articles 6 and 39 of the Articles of Association. Related and consequent resolutions.
2. Proposal to give the Board of Directors a mandate pursuant to art. 2443 of the Italian Civil Code to increase the share capital for payment, on one or more occasions, excluding option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, for a total maximum amount of Euro 40,000,000.00 (forty million), including any share premium, through the issue of ordinary shares to be paid up by means of a contribution in kind. Furthermore, in exercising the mandate within twelve months of the date of the shareholders' resolution and in accordance with the limits indicated above, from time to time, the Board of Directors shall have the fullest right to establish methods, terms and conditions of the increase in capital, including the issue price, any share premium on the shares to be issued and their dividend and voting rights. Consequent amendments to Article 6 of the Articles of Association. Related and consequent resolutions.

This report («**Report**»), prepared pursuant to article 125-ter of Legislative Decree 58 of 24 February 1998 and subsequent amendments (the Consolidated Finance Act or «CFA»), article 70 of the Regulations adopted by Consob resolution no. 11971 of 14 May 1999, as amended and integrated, («**Issuers' Regulation**»), and according to Attachment 3A, table 2 of the Issuers' Regulations, as well as in compliance with article 2441, sixth paragraph of the Italian Civil Code, sets out the reasons of these proposals relating to point 2) on the agenda of the extraordinary session and the reasons for the contribution in kind. As regard the proposed amendments to the Articles of Association, indicated in point 1) of the Agenda for the Extraordinary Part of the Meeting, please refer to the specific report that was prepared pursuant to articles 125-ter of the CFA and 72 of the Issuers' Regulation, made available to the public in the manner and terms established by law and made available on the BPS website (http://www.popso.it/assemblea2018).

In particular, the Board of Directors has convened an Extraordinary Shareholders' Meeting to submit for your approval the proposal to give the Board a mandate under article 2443 of the Italian Civil Code, to be exercised in one or more occasions, within a period of twelve months from the date of the Shareholders' resolution (the «**Mandate**»), to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, for a maximum of 40 million euro, including any share premium, by issuing ordinary shares with the same characteristics as those outstanding at the issue date to be paid up through a contribution in kind («**Increase in Share Capital**»).

Within the limits of the overall amount of this Mandate, the Board of Directors will have the widest possible powers to establish, shortly before each issue, from time to time and in compliance with the limits indicated above, the methods, terms and conditions of the transaction, including the number of shares and issue price, any share premium and their dividend and voting rights, in accordance with the methods described in paragraph 4 below of this Report.

As detailed in the following paragraph, on 14 October 2017 BPS signed a non-binding letter of intent together with Fondazione Cassa di Risparmio di Cento, the controlling shareholder of Cassa di Risparmio di Cento S.p.A. («**CRC**»), in which it holds approximately 67% of the share capital, to look into the possibility of BPS acquiring a majority interest in the share capital of Cassa di Risparmio di Cento S.p.A. (the «**Potential Transaction**»).

At the date of this Report, BPS and Fondazione Cassa di Risparmio di Cento are at an advanced stage of negotiating binding agreements concerning the Potential Transaction and, if the parties find an agreement of mutual satisfaction on all the terms and conditions of the Potential Transaction, these binding agreements could be signed in the next few weeks. If the contractual documentation is finalised before the Shareholders' Meeting, BPS will issue a specific press release to give the market more detailed information on the economic and contractual terms agreed between the Parties.

The proposal to give the Board of Directors a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, is to service the Potential Transaction, as specified in the following paragraph and, if the Mandate is approved by the Extraordinary Shareholders' Meeting of BPS, it would still be subject to BPS and Fondazione Cassa di Risparmio di Cento coming to a binding agreement that establishes the terms and conditions.

Moreover, carrying out the Mandate will in any case be subject to the competent Authorities issuing the authorisations and/or clearances required by applicable law (for to which reference is made to paragraph 5) below of this Report).

* * *

1. Explanation of the Potential Transaction and reasons for/destination of the Increase in Capital

1.1. Explanation of the Potential Transaction and reasons for/destination of the Increase in Capital

The proposal to give the Board of Directors a Mandate to increase the share capital excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code forms part of a broader plan that includes the acquisition of the controlling interest in CRC by Banca Popolare di Sondrio from Fondazione Cassa di Risparmio di Cento (i.e. the «Potential Transaction»).

CRC is a credit institute founded in 1844 that has been operating in the Cento area for more than 150 years; today CRC serves its customers through a network of 47 branches in the provinces of Ferrara, Bologna, Ravenna and Modena.

At 31 December 2017, CRC's share capital is held as follows: 67.08% is held directly and indirectly by the Foundation, a long-standing majority shareholder (through Holding CR Cento SpA, wholly owned by Fondazione Cassa di Risparmio di Cento, which together with CR Cento Holding is also defined as the «Foundation»), while the other 32.92% is held by approximately 10,000 minority shareholders. CRC shares are circulated widely among the public pursuant to article 2-bis of the Issuers' Regulation and are traded on the Hi-MTF multilateral trading system.

The Potential Transaction, in the terms currently under negotiation between BPS and the Foundation, is divided into two phases.

In the first phase, it is expected that BPS will acquire 51% of CRC from the Foundation, by contributing in kind to BPS the CRC shares in exchange for BPS shares on the basis of an exchange ratio (which, as explained below, will be subject to the checks envisaged by article 2441 of the Italian Civil

Code and article 158 of the CFA, in the event the Mandate is exercised) and, to a lesser extent, by means of a purchase paid for in cash.

In the event that the negotiations currently in progress have a positive outcome, in valuing the CRC shares, the Board of Directors will comply with the valuation criteria usually used, both in Italy and internationally, for determining the value of the economic capital of companies that operate in the banking sector, also for the consequent determination of the number of shares to be issued to serve the Increase in Capital in Kind.

In the second phase, the purchase offer would be extended, with technical procedures that BPS will define, to the rest of the CRC shares which, at the end of the first phase of the Potential Transaction, will continue to be held by the Foundation (about 16% of CRC's share capital) and to the shares held by the minority shareholders; this should lead to BPS increasing its shareholding in CRC to 67% and, potentially, up to 100%.

The proposal to give the Board of Directors a Mandate to increase the share capital, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code is therefore to service the share exchange, at the terms and conditions that ought to be agreed by BPS and the Foundation, between the CRC shares that would be contributed in kind to BPS by the Foundation (the «**Contribution in Kind**») and the BPS shares which would be reserved for subscription by the Foundation, subject to execution of the Contribution in Kind. Once the first phase of the Potential Transaction has been carried out, BPS will by right acquire control over CRC pursuant to article 2359, first paragraph, no. 1, of the Italian Civil Code.

It remains understood, moreover, that the Mandate to increase the share capital, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, can only be exercised by BPS's Board of Directors subject to the competent Supervisory Authorities issuing the authorisations required by law, including above all, for BPS, authorisation from the European Central Bank to acquire control over CRC pursuant to article 19 of Legislative Decree 385 of 1 September 1993 («CBA») and approval from the Italian Competition Authority.

The Potential Transaction is motivated by the BPS's belief that the acquisition could generate significant value for BPS and its shareholders. If carried out, the Potential Transaction would represent an opportunity for growth through the activation of additional revenue synergies, on the one hand, and benefits in terms of central services, on the other, with economies of scale at Group level.

This initiative would also offer BPS the opportunity to consolidate its presence in Emilia Romagna (where it is already present, albeit with limited coverage, in the provinces of Bologna, Parma, Piacenza), a region with a solid industrial and agricultural economy, which is in line with the Bank's development strategy.

2. Analysis of the composition of short- and long-term net financial debt

If completed, the Potential Transaction will not have any impact on the BPS Group's financial indebtedness.

3. Underwriting or placement consortia and any other forms of placement envisaged, their composition and the methods and terms of their intervention

Since it is a Mandate to increase the share capital to service a contribution in kind, there are no underwriting or placement consortia or other forms of placement.

4. Terms and conditions of the Increase in Capital, including the criteria for determining the issue price of the new shares, to be approved in exercising the Mandate. In particular: exclusion of the option rights

In line with the considerations made previously in paragraph 1.1 of this Report, we propose to the Shareholders to grant the Board of Directors a Mandate pursuant to article 2443 of the Italian Civil Code, which may be exercised on one or more occasions within the twelve-month period from the date of the shareholders' resolution, to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, by issuing ordinary shares with the same characteristics as those outstanding at the date of issue (and, therefore, in the event of a future transformation, of shares in joint-stock companies) to be offered to the Foundation for the purpose of making the Contribution in Kind, it being understood that the maximum amount of the Increase in Capital in total, including any share premium, will be 40 million euro. Furthermore, in exercising the Mandate and subject to the limits mentioned above, the Board of Directors will have the widest possible powers to establish methods, terms and conditions of the transaction, including the issue price, any share premium on the shares to be issued and their dividend and voting rights. It is therefore specified that, without prejudice to the maximum amount of Euro 40 million mentioned above, the actual size of the Increase in Capital will be decided by the Board of Directors in exercise of the Mandate, to the extent strictly necessary (a reasonable amount less than the maximum) to meet the need to hand over the newly issued securities in exchange for the contribution of CRC shares.

The Mandate to the Board of Directors is an appropriate instrument to guarantee greater flexibility in order to carry out the Potential Transaction and to determine terms and conditions for an Increase in Capital to service the Contribution in Kind as soon as the conditions laid down in the contract are fulfilled (including the authorisations required by law). In fact, finalisation of binding agreements for the Potential Transaction and fulfilment of the conditions could take several months, a period that cannot be determined with any precision right now; so the Board of Directors' Mandate would allow them to adapt the executive decisions regarding the Increase in Capital to the final terms and conditions of the Potential Transaction. It is also worth noting that convening the Shareholders' Meeting in advance of the definitive agreements between BPS and the Foundation is motivated by the reasonable expectation that these negotiations will have a positive outcome and by the fact that it is opportune to submit the Mandate proposal to a Shareholders' Meeting that has already been called to resolve on other matters, without having to convene one specially for this occasion, which would save money for the Bank and for its shareholders.

Article 2441, sixth paragraph, of the Italian Civil Code provides that, if option rights are excluded, the issue price of the shares is to be determined on the basis of the Company's net worth (equity), also taking into account the trend in stock prices during the last six months if they are listed on regulated markets. Moreover, given that these are indicative parameters, it is worth remembering that, if option rights are excluded, the regulatory reference to net worth has to be understood in a way that does not necessarily coincide with just the book figure. Instead, reference has to be made to the company's economic value which has to be determined taking market parameters into consideration as well. In accordance with the above and subject to the Shareholders' Meeting's approval of the proposed elimination of the par value of the shares (for which see the separate explanatory report made available to shareholders in the manner established by law), without prejudice to any share premium that may be established by the Board of Directors, the subscription price of the new shares may also be lower than the previous book par value.

On 25 March 2018, taking into account the regulatory provision just mentioned previously, the Board of Directors decided that the maximum amount of the Mandate to service the first phase of the Potential Transaction, including any share premium, was to be 40 million euro.

The Mandate proposal must be understood as being subject to the approval by the Shareholders' Meeting of the following proposed amendments to the Articles of Association (as explained in the separate report mentioned in the introduction to which express reference is made) and to registration of the related Shareholders' resolutions in the relevant Companies Register: (i) giving the Board of Directors a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital, also excluding or limiting option rights pursuant to article 2441, fourth paragraph, first sentence and fifth paragraph, of the Italian Civil Code; (ii) possibility of increasing the share capital by means of a contribution in kind and receivables and (iii) elimination of the par value of the shares.

Also for the reasons described above, it was considered opportune that the Mandate should be exercised by the Board of Directors within twelve months from the date of the shareholders' resolution rather than within five years, which is the legal deadline. If agreement is reached with the Foundation on the contractual documentation concerning the Potential Transaction and subject to obtaining the required authorisations, we envisage that the Board of Directors will make use of the Mandate to implement the Potential Transaction by the end of the current year.

The Board of Directors will have the power to establish the methods, terms and conditions of the share issue. The resolutions to increase the share capital pursuant to article 2443 of the Italian Civil Code, excluding option rights pursuant to article 2441, fourth paragraph, first sentence of the Italian Civil Code will therefore have to establish: (i) the exact amount of the Increase in Capital to service the Contribution in Kind; (ii) the exact number of BPS shares to be offered in exchange for the CRC shares involved in the Contribution in Kind; (iii) the issue price of the shares in compliance with the procedures and criteria provided for by the law applicable from time to time, taking into account the exchange ratio between the BPS shares and the CRC shares involved in the Contribution in Kind, and (iv) the portion of the issue price of the shares offered to be accounted for as capital and the portion, if any, to be accounted for as a share premium.

At the time of exercising the Mandate for the Increase in Capital to service the Contribution in Kind, the Board of Directors will inform the Board of Statutory Auditors and the Independent Auditors of the criteria used to determine the price of the newly issued shares and their number. EY S.p.A., the Independent Auditors, will then issue their opinion on the fairness of the issue price of the BPS shares to be offered in exchange for the CRC shares involved in the Contribution in Kind, pursuant to article 2441, sixth paragraph, of the Italian Civil Code and article 158 of the CFA.

Furthermore, with regard to this last aspect, pursuant to the applicable legal provisions contained in the Italian Civil Code for contributions in kind, note that the value of the shares for the Contribution in Kind must be the subject of a specific appraisal by a expert designated by the Court pursuant to article 2343 of the Italian Civil Code or pursuant to article 2343-ter of the Italian Civil Code.

The opinion of the Independent Auditors appointed to audit the accounts pursuant to articles 2441, sixth paragraph, of the Italian Civil Code and 158 of the CFA and the expert report pursuant to article 2343 or 2343-ter of the Italian Civil Code and any other document required pursuant to the provisions of law and regulations in connection with the Potential Transaction will be made available according to the terms and in the forms provided for in current legislation.

5. Authorisations of the competent authorities

The Increase in Capital explained in this Report is subject to authorisation by the competent Authorities. The European Central Bank and the Bank of Italy will be required to issue their approval of the amendment to BPS's Articles of Association relating to the Mandate pursuant to articles 56 and 61 of the CBA.

The Potential Transaction is, among other things, subject to the following authorisations:

(i) authorisation by the European Central Bank pursuant to Article 19 of the CBA;

(ii) authorisation by the Antitrust Authority pursuant to article 16, fourth paragraph of Law 287 of 10 October 1990.
And, as regards the Foundation,

(iii) authorisation by the Ministry of the Economy and Finance to full transfer by the Foundation of its investment in CRC, in one or more tranches.

6. Shareholders who have expressed their willingness to subscribe

As of the date of this Report, the Company has not received any expressions of interest or willingness to subscribe the newly issued shares which, in any case, will be reserved to the transferor in line with what has been explained in the preceding paragraphs, since it is a Mandate to increase the share capital, excluding option rights.

7. Expected period for execution of the increase in capital

In exercising the Mandate, the Board of Directors will establish the period of execution of the transaction.

Subject to obtaining the required authorisations, it is envisaged that, if the Mandate is granted, the Board of Directors will use it soon to commence the Potential Transaction, which may also take place before the end of the current year.

In any case, adequate and punctual information will be given to the market regarding the expected timing for execution of the Potential Transaction explained in this Report.

8. Date of dividend and voting rights of the new shares

The BPS ordinary shares that will be issued following the exercise of the Mandate and reserved for subscription to the transferor for the Contribution in Kind will be admitted to trading on the Screen-Traded Market (MTA) and will have the same dividend and voting rights as the BPS ordinary shares outstanding on the issue date.

9. Economic and financial effects of the Potential Transaction, effects on the unit value of the shares and dilution

9.1 BPS and CRC: performance in 2017

In the exercise of the Mandate, the market will be informed of the economic effects of the Potential Transaction explained in this Report.

Having said this, the following are the comments and the main consolidated economic and financial metrics of the BPS Group and CRC for the year ended 31 December 2017, already communicated to the public on 8 February and 23 March 2018 (BPS) and 13 February 2018 (CRC). The figures below must therefore be considered preliminary, given that they still have to be approved by the respective Shareholders' Meetings and then published.

In 2017, the BPS Group recorded a significant increase in profitability compared with the previous periods, with a net profit of 159.210 million euro, an increase of 61.47% on the prior year. This excellent result is mainly due to the BPS Group's ability to operate with a high level of operating efficiency (Cost/Income ratio of 50.0%) and with better risk management, which has reduced the cost of credit by up to 90 bps.

These results have made it possible to consolidate the capital growth and strengthening of the BPS Group, which has a CET1 ratio of 11.60%, well above the regulatory requirements, and equity of € 2,679 million.

The asset management sector has also boosted its development. The Bank, also through its subsidiary SUISSE, has supported its customers with a wide range of quality products, enriched also by the new products introduced by Arca Sgr.

As far as credit quality is concerned, the BPS Group has posted a reduction in its «gross NPL ratio» (the ratio between gross impaired loans and total gross customer loans), which decreased from 16.10% to 15.07%, and an increase in its level of NPL coverage, which went from 46.17% to 50.99%.

CRC, on the other hand, closed 2017 with a net profit of € 9.453 million, bringing its equity to over € 200 million and improving its capital ratios. In fact, CRC's CET1 ratio rose to 13.52%, a considerable increase compared with 12.41% the previous year, confirming that it still has a large surplus over the SREP coefficient, 6.25%, indicated by the Bank of Italy.

Total funding amounted to € 4,202 million, down on the previous year, while indirect funding rose by € 2,066 million, confirming CRC as a reliable interlocutor for the protection of customer savings. With regard to impaired loans, CRC has shown some improvements, reducing both its gross NPL ratio, which went from 13.5% in 2016 to 12.3% in 2017, and its net NPL ratio, which went from 9.5% to 7.8%, following an increase in its coverage ratio (after write-offs) from 54.8% at the end of 2016 to 60.4%.

9.2 BPS: Outlook for operations

With regard to the outlook for operations, BPS expects to further consolidate the process of growth and strengthening of its capital that has been underway for a number of years. Both interest and commission income are expected to improve, despite the high level of competition in the market.

In light of the current economic recovery, it is legitimate to expect positive effects on credit quality and on the amount of adjustments charged to the income statement.

The performance of international and European financial markets will naturally be able to influence considerably the result of securities trading, while the steps taken to hold down costs will continue by rendering the structure more efficient. In view of the above, without forgetting the uncertainties linked to the national and international scenario, which could create tensions on financial markets, it is reasonable to assume that this upward trend in corporate profitability should continue.

With regard to the NPL strategy, BPS today believes that the acquisition of control of CRC, if carried out, should not generate significant impacts on the Group, also considering the small size of the transaction: the CRC's assets amount to about 7% of the BPS Group's assets.

However, we would emphasise that BPS's NPL strategy is still being finalised and will be discussed with the supervisor in the coming months.

9.3 Dilutive effects of the Increase in Capital

Given that this is a Mandate pursuant to article 2443 of the Italian Civil Code, as the issue price and the number of ordinary shares to be issued will only be determined at the time that the Mandate is exercised by the Board of Directors, it is not possible at this moment in time to provide indications or to make an estimate regarding any dilutive effects.

* * *

The current text of article 6 of the Articles of Association is shown below, together with a comparative column with the proposed amendments (shown in bold). The table also includes the amendments explained in the separate report of the administrative body referred to in the introduction, in paragraphs 1, 4 and 5. The amendment to the Articles of Association related to the proposal Mandate to be given to the Board of Directors is contained in the sixth and final paragraph of article 6.

Current text	Proposed amendment
Art. 6. **Share capital** **Procedure for variation** **Price of shares** Share capital is variable and is represented by the total number of registered shares, nominal value Euro 3.00 (three Euros) each. The issue of shares, which in principle is without limit, may be decided upon in the following ways: 1 - routinely by the Board of Directors; 2 - exceptionally, by a resolution adopted at an Extraordinary Shareholders' Meeting in accordance with the provisions of article 2441 of the Italian Civil Code.	**Art. 6.** **Share capital** **Procedure for variation** **Price of shares** Share capital is variable and is represented by registered shares, **without** nominal value ~~Euro 3.00 (three Euros) each~~. The issue of shares, which in principle is without limit, may be decided upon in the following ways: 1 - routinely by the Board of Directors; 2 - exceptionally, by a resolution adopted at an Extraordinary Shareholders' Meeting in accordance with the provisions of article 2441 of the Italian Civil Code.

So long as the shares are quoted on a regulated market, the issue of new shares can only take place by a resolution of the Extraordinary Shareholders' Meeting.	So long as the shares are quoted on a regulated market, the issue of new shares can only take place by a resolution of the Extraordinary Shareholders' Meeting. **The Extraordinary Shareholders' Meeting can give the Board of Directors a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital, also excluding or limiting option rights pursuant to the fourth paragraph, first sentence, and the fifth paragraph of article 2441 of the Italian Civil Code.** **The share capital can also be increased by means of contributions in kind and receivables.** **The Extraordinary Shareholders' Meeting of [•] April 2018 resolved to give the Board of Directors – by resolution minuted in deed [•], repertoire [•], registered in Sondrio on [•] at no. [•] series [•] – a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence of the Italian Civil Code, on one or more occasions, for a maximum of € 40,000,000.00 (forty million euro), including any share premium, by issuing ordinary shares with the same characteristics as those outstanding at the issue date and for the maximum number set by the Board of Directors depending on their issue price, to be paid up by means of a contribution in kind of investments in banks, as identified in the Board of Directors' report prepared for the meeting of [•] April 2018, subject to the authorisations required by law. This Mandate may be exercised within 12 (twelve) months from the date of the shareholders' resolution, with the broadest possible powers for the Board of Directors to establish, from time to time, in compliance with the procedures and criteria established by**

	the legislation applicable at the time, methods, terms and conditions of the resolution or resolutions to increase the share capital, among which the dividend and voting rights, the issue price of the shares (and the parameters to determine it at the time of execution) and the calculation of the part to be booked to share capital and the amount to be booked to share premium, it being understood, in any case, that the Board of Directors will determine the issue price, including the possible share premium of the new shares to be issued.

10. Withdrawal

The proposal to amend article 6 of the Articles of Association referred to in this Report does not give a right of withdrawal under article 2437 of the Italian Civil Code to shareholders who have not contributed to the resolutions referred to in this Report.

11. Resolution proposed to the Extraordinary Shareholders' Meeting

In light of the above, the Board of Directors intends to submit to the Extraordinary Shareholders' Meeting the following resolution proposal relating to the second item on the agenda for the extraordinary part:

«*The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio società cooperativa per azioni:*

– *having examined the Board of Directors' report and the proposals made,*

hereby resolves

1. *to give the Board of Directors a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, on one or more occasions, for a maximum of € 40,000,000.00 (forty million euro), including any share premium, by issuing ordinary shares with the same characteristics as those outstanding at the issue date (and, therefore, in the event of their future transformation into shares of joint-stock companies) and for the maximum number set by the Board of Directors depending on their issue price, to be paid up by means of a contribution in kind of investments in banks, as identified in the Board of Directors' report prepared for the meeting of [•] April 2018, subject to the authorisations required by law;*

2. *to establish that the shares of Banca Popolare di Sondrio società cooperativa per azioni that will be issued as part of the increase in capital involved in this Mandate will be subscribed and paid up by means of a contribution of the investments in banks mentioned in point 1) to Banca Popolare di Sondrio società cooperativa per azioni;*

3. *to grant the Board of Directors the power to establish, in the exercise of the aforementioned Mandate and in compliance with the applicable laws and regulations: (i) the amount of the share capital increase to be resolved within the overall limits set in the previous point 1); (ii) the number of shares of Banca Popolare di Sondrio società cooperativa per azioni to be offered in exchange for the investments to be transferred in kind to the share capital of Banca Popolare di Sondrio società cooperativa per azioni; (iii) the issue price of the new shares and the related share premium pursuant to article 2441, sixth paragraph of the Italian Civil Code, taking into account the exchange ratio between the shares of Banca Popolare di Sondrio società cooperativa per azioni and the shares involved in the contribution in kind and (iv) any other term or condition of the mandated increase in capital within the limits set by the applicable regulations and by this Mandate resolution;*

4. *to amend article 6 of the Articles of Association accordingly by inserting a new sixth paragraph with the following content: «The Extraordinary Shareholders' Meeting of [•] April 2018 resolved to give the Board of Directors – by a resolution minuted in deed [•], repertoire [•], registered in Sondrio on [•] at no. [•] series [•] – a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, on one or more occasions, for a maximum of € 40,000,000.00 (forty million euro), including any share premium, by issuing ordinary shares with the same characteristics as those outstanding at the issue date and for the maximum number set by the Board of Directors depending on their issue price, to be paid up by means of a contribution in kind of investments in banks, as identified in the Board of Directors' report prepared for the meeting of [•] April 2018, subject to the authorisations required by law. This Mandate may be exercised within 12 (twelve) months from the date of the shareholders' resolution, with the broadest possible powers for the Board of Directors to establish, from time to time, in compliance with the procedures and criteria established by the legislation applicable at the time, methods, terms and conditions of the resolution or resolutions to increase the share capital, among which the dividend and voting rights, the issue price of the shares (and the parameters to determine it at the time of execution) and the calculation of the part to be booked to share capital and the amount to be booked to share premium, it being understood, in any case, that the Board of Directors will determine the issue price, including the possible share premium of the new shares to be issued».*

5. *to grant the Board of Directors, and for it to the Chairman and the Managing Director, jointly or severally, within the limits of the law, all possible powers* *to do anything that is necessary to implement and fully execute this resolution, with each and every power necessary and appropriate for this purpose, none excluded and excepted, including to make changes to this resolution, as well as additions or elimination of a non-substantial nature necessary for registration in the Companies Register, including any changes that may be necessary or opportune for technical-juridical reasons or requested by the competent Authorities, declaring as of now such action to be valid and ratified».*

Sondrio, 25 March 2018

The Board of Directors

RESOLUTIONS OF THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS’ MEETING

of 28 April 2018 (at second calling)

AGENDA

Ordinary part

1) *Presentation of the financial statements as of 31 December 2017: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions; presentation of the consolidated financial statements as of 31 December 2017;*
2) *Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;*
3) *Approval of the Remuneration Report, as per art. 123-ter of Decree 58/98 (Consolidated Finance Act);*
4) *Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;*
5) *Determination of directors' emoluments;*
6) *Appointment of five Directors for the three-year period 2018-2020;*
7) *Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2018-2020; determination of their annual emoluments.*

Extraordinary part

1) *Proposal to amend articles 6 and 39 of the Articles of Association. Related and consequent resolutions.*
2) *Proposal to give the Board of Directors a mandate pursuant to art. 2443 of the Italian Civil Code to increase the share capital for payment, on one or more occasions, with exclusion of option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, for a total maximum amount of Euro 40 million, including any share premium, through the issue of ordinary shares to be paid up by means of a contribution in kind. Furthermore, in exercising the mandate within twelve months of the date of the shareholders' resolution and in accordance with the limits indicated above, from time to time, the Board of Directors shall have the fullest right to establish methods, terms and conditions of the increase in capital, including the issue price, any share premium on the shares to be issued and their dividend and voting rights.*
   Consequent amendments to article 6 of the Articles of Association. Related and consequent resolutions.

For the ordinary part

Point 1) on the agenda

Having heard the directors' report on operations for 2017 and the proposed allocation of the profit for the year, having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors, having taken as read the balance sheet, income statement and explanatory notes, as well as the financial statements of the subsidiaries, the Meeting,

approved:

– the directors' report on operations;
– the financial statements at 31 December 2017, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 118,400,102. The Shareholders' Meeting also approved the allocation of profit for the year of € 118,400,102 as proposed by the Board of Directors in accordance with current legislation and the articles of association and, in particular, resolved:

a) to allocate:		
– 10% to the legal reserve	€	11,840,010.20
– 30% to the statutory reserve	€	35,520,030.60
b) to pay a dividend of € 0.07 to each of the 453,385,777 shares in circulation at 31/12/2017 with dividend rights as from 1/1/2017, transferring to the statutory reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of	€	31,737,004.39
c) to allocate the residual profit:		
– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	39,203,056.81

In accordance with the Stock Exchange calendar, the dividend was paid from 23 May 2018, going ex-coupon (no. 40) on 21 May 2018.

Point 2) on the agenda

The Meeting approved the document «Compensation Policies of the Banca Popolare di Sondrio Banking Group» and information on how these compensation policies were implemented in 2017.

Point 3) on the agenda

The Shareholders' Meeting approved the first Section of the Remuneration Report, as per art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act).

Point 4) on the agenda

The Meeting set at Euro 30,000,000 – shown in the financial statements under «Reserves» – as the amount made available to the Board of Directors to make purchases of the Bank's own shares in accordance with art. 21 of the Articles of Association, within the limit of this amount and whatever part of it is made available by subsequent sales of the shares purchased; all as part of an activity that is compliant with current regulations and designed in particular to facilitate circulation of the shares.

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

Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2018 financial statements. Purchases have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned «Reserve» of Euro 30,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 2% of the shares making up the share capital. Sales have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned «Reserve» of Euro 30,000,000.

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

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

The Meeting authorised the Board of Directors to use, up to a maximum total amount of Euro 454,000, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2018 Compensation Plan based on financial instruments during the life of that plan.

The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

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

Point 5) on the agenda

The Meeting set the remuneration of the directors in accordance with the current «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

Point 6) on the agenda

The Meeting appointed the following as members of the Board of Directors for the three-year period 2018-2020: Alessandro Carretta, Loretta Credaro, Donatella Depperu, Attilio Piero Ferrari, Adriano Propersi.

Point 7) on the agenda

The Meeting appointed the following as members of the Board of Statutory Auditors for the period 2018-2020: Piergiuseppe Forni (Chairman), Laura Vitali and Luca Zoani (Auditors), and Daniele Morelli and Bruno Garbellini (Alternate Auditors), establishing their annual fee for the entire three-year period.

For the extraordinary part

Point 1) on the agenda

The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio società cooperativa per azioni, having taken note of the Board of Directors' Report on the proposed amendments to the Articles of Association and the proposals made in it, subject to obtaining the required legal authorisations,

resolved:

A. to amend articles 6 and 39 of the Articles of Association, approving these amendments according to the text shown in the Report for the reasons explained in it;
B. to grant the Board of Directors, and for it to the Chairman and the Managing Director, jointly or severally, within the limits of the law, all possible powers to do anything that is necessary to implement and fully execute this resolution, with each and every power necessary and appropriate for this purpose, none excluded and excepted, including to make changes to this resolution, as well as additions or elimination of a non-substantial nature necessary for registration in the Companies Register, including any changes that may be necessary or opportune for technical-juridical reasons or requested by the competent Authorities, declaring as of now such action to be valid and ratified

Point 2) on the agenda

The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio:
- società cooperativa per azioni:
– having examined the Board of Directors' report and the proposals made,

resolved:

1. *to give the Board of Directors a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, on one or more occasions, for a maximum of Euro 40,000,000.00 (forty million euro), including any share premium, by issuing ordinary shares with the same characteristics as those outstanding at the issue date (and, therefore, in the event of their future transformation into shares of joint-stock companies) and for the maximum number set by the*

Board of Directors depending on their issue price, to be paid up by means of a contribution in kind of investments in banks, as identified in the Board of Directors' report prepared for the meeting of [•] April 2018, subject to the authorisations required by law;

2. *to establish that the shares of Banca Popolare di Sondrio società cooperativa per azioni that will be issued as part of the increase in capital involved in this Mandate will be subscribed and paid up by means of a contribution of the investments in banks mentioned in point 1) to Banca Popolare di Sondrio società cooperativa per azioni;*
3. *to grant the Board of Directors the power to establish, in the exercise of the aforementioned Mandate and in compliance with the applicable laws and regulations: (i) the amount of the share capital increase to be resolved within the overall limits set in the previous point 1); (ii) the number of shares of Banca Popolare di Sondrio società cooperativa per azioni to be offered in exchange for the investments to be transferred in kind to the share capital of Banca Popolare di Sondrio società cooperativa per azioni; (iii) the issue price of the new shares and the related share premium pursuant to article 2441, sixth paragraph of the Italian Civil Code, taking into account the exchange ratio between the shares of Banca Popolare di Sondrio società cooperativa per azioni and the shares involved in the contribution in kind and (iv) any other term or condition of the mandated increase in capital within the limits set by the applicable regulations and by this Mandate resolution;*
4. *to amend article 6 of the Articles of Association accordingly by inserting a new sixth paragraph with the following content:*
   «The Extraordinary Shareholders' Meeting of [•] April 2018 resolved to give the Board of Directors - by a resolution minuted in deed [•], repertoire [•], registered in Sondrio on [•] at no. [•] series [•] - a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, on one or more occasions, for a maximum of Euro 40,000,000.00 (forty million euro), including any share premium, by issuing ordinary shares with the same characteristics as those outstanding at the issue date and for the maximum number set by the Board of Directors depending on their issue price, to be paid up by means of a contribution in kind of investments in banks, as identified in the Board of Directors' report prepared for the meeting of [•] April 2018, subject to the authorisations required by law.
   This Mandate may be exercised within 12 (twelve) months from the date of the shareholders' resolution, with the broadest possible powers for the Board of Directors to establish, from time to time, in compliance with the procedures and criteria established by the legislation applicable at the time, methods, terms and conditions of the resolution or resolutions to increase the share capital, among which the dividend and voting rights, the issue price of the shares (and the parameters to determine it at the time of execution) and the calculation of the part to be booked to share capital and the amount to be booked to share premium, it being understood, in any case, that the

Board of Directors will determine the issue price, including the possible share premium of the new shares to be issued».

5. *to grant the Board of Directors, and for it to the Chairman and the Managing Director, jointly or severally, within the limits of the law, all possible powers to do anything that is necessary to implement and fully execute this resolution, with each and every power necessary and appropriate for this purpose, none excluded and excepted, including to make changes to this resolution, as well as additions or elimination of a non-substantial nature necessary for registration in the Companies Register, including any changes that may be necessary or opportune for technical-juridical reasons or requested by the competent Authorities, declaring as of now such action to be valid and ratified.*

THE BANK'S GROWTH SINCE ITS FOUNDATION, KEY FINANCIAL DATA

Year	Financial investments euro	Customer loans euro	Fiduciary funds euro	Equity (capital & reserves) euro	Profit for the year euro	Dividend euro
1871	26	93	37	47	1	0.001
1875	109	675	569	181	21	0.002
1880	46	1,024	777	360	33	0.002
1885	213	1,431	1,161	410	42	0.002
1890	459	1,805	1,646	457	49	0.002
1895	840	1,380	1,631	453	36	0.002
1900	860	1,627	1,987	465	43	0.002
1905	940	2,330	2,834	504	53	0.002
1910	1,460	3,717	4,738	563	68	0.003
1915	2,425	3,399	5,178	658	59	0.002
1920	7,906	9,100	22,320	1,232	186	0.005
1925	9,114	35,692	39,924	2,303	523	0.006
1930	12,899	43,587	54,759	3,230	561	0.006
1935	21,402	30,912	53,190	3,543	339	0.004
1940	24,397	32,808	57,064	3,091	312	0.002
1945	112,239	101,840	191,619	6,491	817	0.002
1950	608,460	892,440	1,359,864	50,496	10,834	0.041
1955	1,413,363	2,372,139	3,573,499	262,122	25,998	0.124
1960	3,474,898	5,864,314	9,124,181	495,960	45,997	0.150
1965	6,564,058	9,861,955	18,238,851	670,265	60,044	0.170
1970	11,228,709	21,140,462	34,440,002	1,577,469	86,800	0.196
1975	49,247,998	46,458,454	103,136,018	4,940,413	336,351	0.284
1980	248,877,713	135,350,391	386,128,259	44,618,760	2,298,768	0.620
1981	303,227,605	149,856,755	435,958,220	70,294,839	3,543,126	0.878
1982	434,505,499	168,991,589	564,440,308	93,988,765	5,876,973	0.930
1983	551,731,767	201,889,280	722,876,267	105,498,725	9,795,722	1.394
1984	657,323,707	244,311,938	885,640,690	117,286,747	11,754,271	1.911
1985	669,773,787	327,572,423	985,454,131	123,347,208	13,332,058	2.582
1986	854,978,708	381,346,894	1,108,118,326	129,106,270	13,582,958	2.169
1987	954,429,924	407,643,937	1,205,007,005	134,486,897	13,588,657	2.169
1988	950,465,324	510,164,638	1,285,408,512	139,730,318	13,665,548	2.272
1989	958,277,398	634,760,956	1,431,120,712	145,100,954	13,984,014	2.324
1990	919,261,388	819,877,375	1,567,539,101	170,006,961	14,919,668	1.653
1991	886,480,827	1,014,385,379	1,708,284,250	192,743,654	16,018,859	1.653
1992	1,162,262,510	1,202,265,949	2,151,786,340	198,979,714	16,304,997	1.704
1993	1,675,065,908	1,441,158,530	2,862,510,529	250,913,662	17,860,906	1.136
1994	1,438,251,891	1,701,208,296	2,922,731,483	258,100,923	16,976,601	1.136
1995	1,828,374,994	1,903,530,111	3,401,567,857	335,480,368	18,688,353	0.413
1996	1,817,497,737	2,120,842,006	3,590,238,215	345,127,951	20,685,619	0.439
1997	1,730,940,393	2,485,706,688	3,844,781,082	353,507,281	20,796,084	0.439
1998	2,005,202,039	2,990,333,100	4,343,203,973	535,162,454	24,784,724	0.196
1999	1,993,529,114	3,724,763,745	5,058,960,710	557,555,696	30,555,532	0.232
2000	2,043,141,602	4,443,945,484	5,829,901,035	576,036,331	38,428,768	0.300
2001	2,618,137,267	5,579,546,805	7,374,954,358	731,304,438	46,064,525	0.180
2002	3,218,789,508	6,246,734,925	8,626,473,276	752,369,741	46,703,800	0.190
2003	2,827,584,863	7,117,211,453	9,139,503,657	773,957,639	60,117,119	0.230
2004	3,492,730,224	8,078,424,234	10,498,481,204	1,031,391,991	73,210,556	0.170
2005	4,029,597,013	9,197,849,967	11,928,279,967	1,119,500,111	85,178,406	0.190
2006	4,216,404,673	10,560,504,042	13,316,179,364	1,231,012,722	107,113,135	0.230
2007	5,174,395,815	12,402,268,867	15,844,113,698	1,592,235,650	130,823,404	0.220
2008	5,260,646,663	14,936,103,083	18,469,073,506	1,492,021,195	13,735,247	0.030
2009	4,794,397,579	16,711,080,589	19,779,755,056	1,683,715,881	190,674,454	0.330
2010	5,063,550,816	18,247,861,145	21,243,136,724	1,722,830,035	133,319,754	0.210
2011	5,742,516,051	20,606,382,386	24,261,565,885	1,676,472,699	57,283,707	0.090
2012	7,098,208,844	22,3 90,051,929	27,490,789,964	1,711,323,846	25,822,369	0.033
2013	8,696,206,457	20,843,577,225	27,752,052,266	1,773,767,299	48,831,672	0.050
2014	11,078,365,152	20,535,826,086	29,329,977,518	2,221,418,922	97,552,111	0.060
2015	10,945,940,157	20,021,406,321	28,704,284,801	2,334,513,952	100,064,082	0.070
2016	11,185,303,807	21,331,910,550	30,252,182,840	2,334,785,742	80,047,620	0.060
2017	15,201,247,408	21,819,028,458	34,664,943,911	2,426,948,619	118,400,102	0.070

The figures for the years prior to 1993 have not been adjusted for consistency with those of subsequent years, which have been classified differently in accordance with Decree 87/92.

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FSC® C013814

Layout:

GRAFICA MARCASSOLI S.r.l

Printing and binding:

CASTELLI POLIGRAFICHE S.p.A