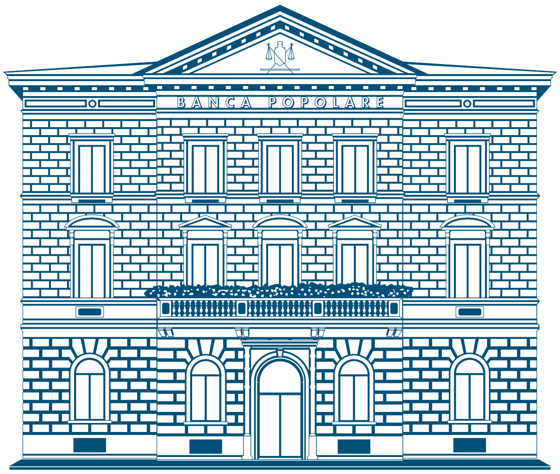
Banca Popolare di Sondrio

150° 1871 2021



ANNUAL REPORT 2020

Banca Popolare di Sondrio

2020 FINANCIAL STATEMENTS

150th YEAR


BANCA POPOLARE

Banca Popolare di Sondrio 150 1871 2021

ORDINARY SHAREHOLDERS' MEETING 11 MAY 2021

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

Sondrio Companies Register no. 00053810149 – Official List of Banks no. 842
Cooperative Societies Register no. A160536
Parent Company of the Banca Popolare di Sondrio Group,
Official List of Banking Groups no. 5696.0 – Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331 – Reserves: € 1.253.388.214
(amounts approved at the shareholders' meeting held on 11 may 2021)

Rating:

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

- Rating given by DBRS Morningstar to Banca Popolare di Sondrio scpa on 16 November 2020:
  - Long-Term Issuer Rating: BBB (low)
  - Short-Term Issuer Rating: R-2 (middle)
  - Trend (outlook): negative
  - Long-Term Deposit Rating: BBB
  - Short-Term Deposit Rating: R-2 (high)

- Rating given by Scope Ratings to Banca Popolare di Sondrio scpa on 31 March 2021:
  - Issuer rating: BBB-
  - Outlook: Stable

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

Chairman	SERENELLA ROSSANO
Acting Auditors	MASSIMO DE BUGLIO LAURA VITALI
Alternate Auditors	ALESSANDRO MELLARINI PAOLO VIDO

ADVISORY COMMITTEE

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

GENERAL MANAGEMENT

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

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

* Members of the Chairman's Committee

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

THE BANKING GROUP IN

BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

OPERATING IN THE SWISS TERRITORY IT HAS 19 OFFICES IN 8 CANTONS, AS WELL AS THE REPRESENTATIVE OFFICE IN VERBIER, THE DIRECT BANKING VIRTUAL BRANCH IN LUGANO AND THE MONACO BRANCH OUTSIDE SWITZERLAND IN THE PRINCIPALITY OF THE SAME NAME.

For more information about all our branches, visit the website:

www.popso.it/filiali-atm

Number of branches in each province

Number of treasuries

IL GRUPPO BANCARIO

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
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 Giacinto Sertorelli 2
Branch no. 3, Ingresso Ospedale Civile - via Stelvio 25
Branch no. 4, piazzale Giovanni Bertacchi 57
Branch no. 5, Galleria Campello 2
TALAMONA via Don Giuseppe Cusini 83/A
TEGLIO piazza Santa Eufemia 2
TEGLIO - **fraz. San Giacomo** - via Nazionale
TIRANO piazza Cavour 20
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 9
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 1
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 116
ZONE via Orti 1

PROVINCE OF COMO
ALBIOLO via Indipendenza 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, via Indipendenza 16
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 BARTOLOMEO VAL CAVARGNA via Fontana 6
SAN NAZZARO VAL CAVARGNA via Don Luigi Gabbani 237
SAN SIRO via Statale 223
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 23
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 - Oneglia - Branch no. 1, via Giuseppe Berio 43
IMPERIA - Porto Maurizio - Branch no. 2, 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 Martiri Patrioti Barziesi 11
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 - Ospedale di Lecco - via dell'Eremo 9/11
LOMAGNA via Milano 24
MANDELLO DEL LARIO* via Strada Statale
MANDELLO DEL LARIO - Branch no. 1, 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

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 26
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
Branch no. 39, *Gruppo AZIMUT - Sportello Interno* - corso Venezia 48
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 Roma 96
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
Head Office, via Dante Alighieri 43
Branch no. 1, via Trieste 33
MACHERIO via Roma 17 Ⓣ
MEDA via Yuri Gagarin - ang. corso della Resistenza
MONZA via Felice Cavallotti 5
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

PROVINCIA DI PADOVA
PADOVA via Ponte Molino 4

PROVINCE OF PARMA
PARMA
Branch no. 1, via Emilia Est 3/A
Branch no. 2, via Antonio Gramsci 28/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 Ⓣ
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 49

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 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
Branch no. 38, *Gruppo AZIMUT - Sportello Interno* - via Flaminia 133
Branch no. 39, *Policlinico Universitario Fondazione Agostino Gemelli IRCCS, largo Agostino Gemelli 8*
ROMA - BibliotecaNazionaleCentrale - vialeCastroPretorio105 Ⓣ
ROMA - Università Foro Italico - piazza Lauro De Bosis 15 Ⓣ

PROVINCE OF SAVONA
ALASSIO via Giuseppe Mazzini 55
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

TEMPORARY BRANCHES
MILANOCITY FIERA - piazzale Carlo Magno - pad. 3 piano quota +7 1
NUOVO POLO FIERISTICO - corso Italia Est
Strada Statale del Sempione 38 - Rho/Pero - tel. 02 45402082

MOBILE BRANCH
Autobanca

DESKS ABROAD C/O EXTERNAL PARTNERS
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** (Hong Kong and Shanghai) - **CZECH REPUBLIC** (Prague) - **DENMARK** (Aarhus) - **DOMINICAN REPUBLIC** (Santo Domingo) - **EGYPT** (Cairo) - **GERMANY** (Frankfurt) - **GREECE** (Athens) - **GUATEMALA** (Guatemala City) - **HUNGARY** (Budapest) - **INDIA** (Mumbai) - **ISRAEL** (Tel Aviv) - **JAPAN** (Tokyo) - **LUXEMBOURG** (Luxembourg) - **MALTA** (Valletta) - **MEXICO** (Mexico City) - **MONGOLIA** (Ulaanbaatar) - **NETHERLANDS** (Amsterdam) - **PERU** (Lima) - **POLAND** (Warsaw) - **PORTUGAL** (Lisbon) - **REPUBLIC OF MOLDOVA** (Chisinau) - **ROMANIA** (Bucharest) - **RUSSIA** (Moscow) - **SERBIA** (Belgrade) - **SINGAPORE** (Singapore) - **SOUTH AFRICA** (Johannesburg) - **SOUTH KOREA** (Seoul) - **SPAIN** (Madrid) - **SWEDEN** (Stockholm) - **THAILAND** (Bangkok) - **TUNISIA** (Tunis) - **TURKEY** (Istanbul) - **UNITED ARAB EMIRATES** (Dubai) - **UNITED KINGDOM** (London) - **UNITED STATES OF AMERICA** (Chicago, Los Angeles and Miami) - **UZBEKISTAN** (Tashkent) - **VIETNAM** (Ho Chi Minh City)

BANCA POPOLARE DI SONDRIO (SUISSE)
OPERATING IN THE SWISS TERRITORY IT HAS 19 OFFICES IN 8 CANTONS, AS WELL AS THE REPRESENTATIVE OFFICE IN VERBIER, THE DIRECT BANKING VIRTUAL BRANCH IN LUGANO AND THE MONACO BRANCH OUTSIDE SWITZERLAND IN THE PRINCIPALITY OF THE SAME NAME.
General Management: Lugano, via Giacomo Luvini 2a
tel. +41 58 855 30 00 - fax +41 58 855 30 15
Head Office: Lugano, via Maggio 1 - tel. +41 58 855 31 00
www.bps-suisse.ch - contact@bps-suisse.ch

FACTORIT SPA
Factoring - working capital solutions, credit risk protection and accounts receivable book-keeping - Branch offices in: Milano, Torino, Padova, Bologna, Roma and a network of foreign correspondents in over 90 countries. Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.
Headquarter: Milano, via Cino del Duca 12
tel. +39 02 58150.1 - fax +39 02 58150.205
www.factorit.it - info@factorit.it

BNT Banca SPA
Personal loans collateralized by the assignment of up to one-fifth of salary or pension and facilities to advance subsidies of the Community Agricultural Policies
Offices in Milano, Palermo, Catania, Caltanissetta, Napoli, Reggio Calabria and Prato. Corner in the branches of the Banca Popolare di Sondrio of La Spezia, Padova, Trento and Vicenza. Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.
Head Office: Roma, via Baldo degli Ubaldi 267
Toll-free number 800-77 00 33
www.bntbanca.it - infobanca@bntbanca.it

PIROVANO STELVIO SPA - The Ski University
Quarto Pirovano Hotel - Stelvio Pass (m 2.760-3.450) - Bormio (SO)
Holiday Apartments • Apartments "Pirovano" - Apartments "Chalet Felse" - Bormio (SO) (CIR: 014009-REC-00017/18) • Apartments "Pirovano - Valdidentro" Isolaccia Valdidentro (SO) (CIR: 014071-CIM-00053/54)
Registered and Administrative Office - Information and Booking Office
via Delle Prese 8 - Sondrio - tel. +39 0342 210 040
www.pirovano.it - info@pirovano.it

"LUIGI CREDARO" LIBRARY
Sondrio, lungo Mallero Armando Diaz 18 - tel. +39 0342 562 270
www.popso.bibliotecacredaro.it - info@popso.bibliotecacredaro.it

Ⓣ Treasury - Updated to 29 March 2021 - *soon to open

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 – Reserves: €1,157,414,409.

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the annual general meeting (AGM) at the head office, Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Thursday, 10 May 2021 and, if necessary, in second calling again at the head office, Piazza Garibaldi 16, Sondrio, at **10.00 a.m. on Tuesday, 11 May 2021**, to discuss and resolve on the following

AGENDA

1) Presentation of the financial statements as of 31 December 2020: 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 2020;
2) Resolutions on compensation matters:
   a) Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;
   b) Approval, pursuant to art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act), of the Report on remuneration policies and the compensation paid;
   c) Approval of the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Compensation Policies of the Banca Popolare di Sondrio Banking Group for 2021;
3) 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 and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;
4) Determination of directors' emoluments;
5) Appointment of five Directors for the three-year period 2021-2023;

6) Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2021-2023; determination of their annual emoluments.

Share capital

The share capital, fully subscribed and paid up, amounts to € 1,360,157,331 and is comprises 453,385,777 ordinary shares. There are 160,101 shareholders with voting rights. The Bank holds 3,650,000 treasury shares.

Attendance at the Meeting

Considering the containment measures imposed by government decree to tackle the emergency caused by the COVID-19 pandemic, having regard for the fundamental principles intended to protect the health of Bank shareholders, employees and senior managers and, therefore, pursuant to art. 106, paragraph 6, of Legislative Decree 18 dated 17 March 2020, and subsequent amendments and additions, entitled persons may participate at the Meeting, without access to the meeting rooms, **solely via the Representative designated pursuant to art. 135-undecies of Legislative Decree 58 dated 24 February 1998**, in the manner described below.

Remote or postal voting procedures will not be used.

The Directors, the Statutory Auditors, the Meeting Secretary, the Representative of the Independent Auditors and the Designated Representative will participate in accordance with the containment measures established by law, including if necessary by the use of remote conferencing systems in compliance with the current instructions in force.

Pursuant to arts. 13, paragraph 2, and 27 of the articles of association, shareholders are entitled to participate in and vote at the Meeting, without access to the meeting rooms and solely in the manner described below, if they have been recorded on the shareholders' register for at least ninety days and have delivered to the head office of the Bank, at least two working days prior to the date of the meeting in first calling, the declaration that the appointed intermediary holding the shares on deposit is required to make to the issuer. In any case, art. 83-sexies, paragraph 4, of Legislative Decree 58/98 (Consolidated Finance Act) applies.

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 just one vote, however many shares are held.

Participation via the Representative designated pursuant to art. 135-undecies CFA

Persons with voting rights that intend to participate in the Meeting must arrange to be represented, free of charge, by the Representative designated pursuant to art, 135-undecies CFA (the «Designated

Representative») by granting a specific proxy containing voting instructions for some or all of the proposed resolutions on the agenda. The proxy will only be effective in relation to the proposed resolutions for which voting instructions were given. The proxy must be granted to the Designated Representative by the end of the 2nd trading day prior to the date of the Meeting, in the manner indicated and using the specific form available from the Bank's website at the link, https://istituzionale.popso.it/en/investor-relations/shareholders-meeting, which also states how those entitled can grant the proxy and also revoke, by the same deadline, the proxy granted and the voting instructions given.

The Designated Representative identified by the Bank is Computershare S.p.A., with offices at via Nizza 262/73, Turin.

Small shareholders can all be represented at the meeting through the Designated Representative who has been given a specific proxy by the person who has legal representation.

Additional agenda items and presentation of new proposed resolutions

In accordance with article 26 of the Articles of Association, one or more Shareholders recorded on the shareholders' register for at least 90 days, holders in total of not less than 2.5% of the share capital, can ask for additional topics to be added to the agenda, or present proposed resolutions on matters already on the agenda, within 10 days of publication of the Notice of Meeting, on the basis and with the timing established in art. 126 bis of Legislative Decree 58/98, Consolidated Finance Act.

Considering the current emergency, applications must be presented in writing, or sent by registered letter with proof of receipt to the head office of Banca Popolare di Sondrio scpa, at piazza Garibaldi 16, Sondrio, or sent by certified e-mail to segreteria@postacertificata.popso.it, indicating in the subject line the wording «2021 Meeting - additional agenda items/proposed resolutions».

The requests should contain an indication of the new topics being proposed or of the motions proposed on matters already on the agenda. Shareholders have to declare the number of shares that they own in total and certify their ownership of this 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 must be submitted, in the manner described above, no later than the deadline for submitting the requested addition.

Any additional agenda items or new proposed resolutions regarding matters already on the agenda will be made known, at least fifteen days prior to the date fixed for the Meeting (i.e. **by 25 April 2021**), in the same ways as those envisaged for the publication of this notice. At the same time, the reports prepared by the parties requesting the additions and/or the new proposed resolutions will be made available to the public, together with any considerations made by the Board of Directors, in the same ways as those envisaged for the Meeting documentation.

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 Legislative Decree 58/98, Consolidated Finance Act.

Even if persons entitled to vote represent less than one-fortieth of the share capital, they may still present proposed resolutions individually and/or make voting declarations on items on the agenda. Given that participation at the Meeting is only allowed via the Designated Representative, these proposals must be presented – having regard for the current emergency – in the manner described above by 20 April 2021. After checking their relevance with respect to the items on the agenda, as well as their proper and complete nature with respect to the applicable regulations, the proposals will be published on the website of the Bank by 25 April 2021, so that those entitled to vote can express themselves in an informed manner, taking account of the new proposals, and therefore allow the Designated Representative to collect any voting instructions in their regard as well.

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 the link https://istituzionale.popso.it/en/investor-relations/shareholders-meeting 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 2021-2023

With reference to paragraph 5) on the agenda for the Shareholders' Meeting – Appointment of five directors for the three-year period 2021-2023 – the following is the text of art. 35 of the articles of association.

""""

Art. 35

Presentation of lists of candidates

The members of the Board of Directors are elected from lists containing as many candidates as the number of directors; on these lists, the candidates are progressively numbered and listed in that order.

The lists must be filed at the registered offices by the deadlines established by current regulations.

The composition of the lists must guarantee the minimum number of independent directors and the gender balance of the elected Board of Directors, in accordance with the principles established by law and the articles of association, having regard, when assigning sequence numbers to candidates, for the election mechanism governed by art. 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.

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 satisfying 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. Shareholders have to declare the number of shares that they own in total and certify their ownership of that interest.

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

""

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

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

It should also be remembered that article 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 the link https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

In this document 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 2021-2023; determination of their annual emoluments.

With reference to the first part of paragraph 6) on the agenda for the Shareholders' Meeting – Appointment of Statutory Auditors and of the Chairman of the Board of Statutory Auditors for the three-year period from 2021 to 2023 – the following is the text of art. 49 of the articles of association.
""""

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 registered offices by the deadlines established by 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.

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 satisfying 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. Shareholders have to declare the number of shares that they own in total and certify their ownership of this 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.»

For the presentation of lists, the shareholders are required to take into account the document «Optimal qualitative and quantitative composition of the Board of Statutory Auditors of Banca Popolare di Sondrio» published on the Company's website at the link https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

In this document the Board of Statutory Auditors 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 Statutory Auditor. 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 Statutory Auditors can take into account the professional skills required to perform the tasks entrusted to the Board.

Sondrio, 30 March 2021

FOR THE BOARD OF DIRECTORS
Chairman
(Francesco Venosta)

The notice of calling was published, as required by law, on the Company's website at the link https://istituzionale.popso.it/en/investor-relations/shareholders-meeting and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 31 March 2021.

Note. The figures in this report are in euro.
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 the same amounts expressed in different units.

Banca Popolare di Sondrio 150° 1871 2021

Sondrio Head Office

1871-2021

THE **150th ANNIVERSARY** OF BANCA POPOLARE DI SONDRIO

by Franco Monteforte

2021 marks the 150th anniversary of the foundation of Banca Popolare di Sondrio, an event whose significance goes far beyond the boundaries of our provincial history, not only because, with its 150 years of history, Banca Popolare di Sondrio is today one of the most long-lived Italian cooperative banks, but also because in the course of these 150 years it has grown from a small local bank to one of the largest banking groups in Italy, without ever losing its identity as a local bank.

Such a result can only be explained by the rigorous fidelity to its nature as a "popular" cooperative credit institution, characterised by the high number of members and the close mutual relationship with the territory, both the Valtellina and Valchiavennasco areas in which the bank was born and developed, both nationally and internationally, in which it has extended its business and which is today an integral part of its identity as a "Banking Group in the centre of the Alps".

As Pasquale Saraceno, the great Morbegno economist who was a close collaborator of Vanoni, wrote in 1971 on the occasion of the Institute's 100th anniversary, "*To grasp the real historical reality of the Bank, it is necessary to evaluate the meaning and extent to which the "popular" vocation has been incorporated into the policy implemented by the Institute's management. Indeed, it can be affirmed that in the life of the Bank, the main problem in setting management policy was how to link the institution to the needs of the population by reconciling the social relations of participation with economic credit relationships*".

Nothing better than its history demonstrates this "popular" vocation and this mutualistic bond of the BPS with the shareholders and the territory, inherent to its cooperative form which still makes it one of those "banks with a soul", as Stefano Zamagni defined it in the preface to the "Consolidated Non-Financial Report" attached to the 2019 BPS Financial Statements, today more than ever necessary for the destiny of a territory in the era of globalisation.

The foundation and the early years

When the Banca Popolare di Sondrio was born in 1871, Valtellina was emerging from one of the most serious economic crises in its history and the new Bank immediately became the symbol of the entire province's resilience and desire for rebirth.

Carlo Bressan (1847-1933)

It was in this climate that on 4 March 1871 the Banca Mutua Popolare della Provincia di Sondrio was founded in Sondrio as a joint-stock company "*with the aim of spreading credit for the benefit of agriculture, industry and commerce, extending its enjoyment to the working classes*".

It was 16th Banca Popolare (the first was that of Lodi in 1864) to be born in Italy on the impulse of the great economist and politician Luigi Luzzatti, father of Italian cooperative credit, who in 1865 founded Banca Popolare di Milano.

Fabio Besta (1845-1922)

It was promoted by five citizens of Sondrio: Professor Carlo Bressan, Professor Francesco Romegialli, the industrialist Maffio Rossi, the merchant Pietro Meneghini and the accountant Francesco Villa, who, after having making a public announcement of the initiative, in just one week collected subscriptions for 1600 shares at 50 lire each from over 400 members.

Among these, one name that stood out was that of Fabio Besta, who the following year would be called by Luigi Luzzatti to the Chair of Accountancy at Ca' Foscari in Venice.

The General Meeting of the members of 26 March 1871 then appointed the first Board of Directors and elected as Chairman the twenty-three year old professor Carlo Bressan, a pupil and friend of Luigi Luzzatti, who had been the life and soul of the promoting committee.

With a Royal Decree of 8 April 1871, the new Bank was finally authorised to open its first head office in Piazza Campello in Sondrio and its first branch in Morbegno.

The only bank then present in the province, since 1838, was a branch of the Cassa di Risparmio delle Provincie Lombarde in Sondrio, but which limited its activities only to taking deposits, which it then conveyed to the rest of Lombardy in the form of loans.

The Banca Mutua Popolare della Provincia di Sondrio was therefore the first Valtellinese bank created not only to provide credit to its members, removing them from the usury then particularly widespread, but to allocate people's savings (some of the highest in the Italian provinces) to the development of the local economy.

The deed of incorporation of 4 March 1871

After the devastating crisis that hit Valtellina viticulture in 1850, destroyed first by cryptogams and then by the contraction of markets following the prolonged war climate in Europe (Third War of Independence, Franco-Prussian War), the birth of the Banca Popolare di Sondrio in 1871 coincided with the beginning of a new expansionary cycle of the European economy, which made the need for credit and new investments in the crucial sectors of viticulture and animal husbandry particularly acute in Valtellina.

The new bank responded to this need and in 1873 Chairman Carlo Bressan convinced the shareholders who were wine producers to found the Valtellina Enological Society in Sondrio, while the Morbegno branch financed the first initiatives for the transformation of animal husbandry from an agricultural practice, destined for self-consumption, into a business geared to marketing products and supplying stud animals for lowland farms.

This is how the story of our Bank's extraordinary bond with its territory began. By 1876, at the end of the expansion cycle, it was already a consolidated part of the provincial economy, endowed with financial solidity and social credibility. It was also able to make deposits and savings grow non-stop, far beyond the possibilities of a normal investment, a sign of prudent management and growing trust on the part of the members who ensured the Institute the means to face its future without any worries.

The first set of financial statements

It is thanks to these results that as early as 1882 the Bank was able to start construction of its current head office in Piazza Garibaldi, based on a project by the architect Francesco Polatti, where it would move in September 1883.

That year, by virtue of the new Code of Commerce, the Banca Mutua Popolare della Provincia di Sondrio, was transformed from a joint-stock company into a limited liability cooperative company – those typical characteristics of a cooperative were established by law, such as the limit on share ownership and the per capita vote regardless of the number of shares owned, which its first Statute in 1871 had already freely accepted – definitively assuming the current name of Banca Popolare di Sondrio.

Territorial roots in the province

The Bank's territorial expansion in the province has been based from the start on two criteria: the economic sustainability of the new branches and widespread popular roots that only a local branch allows. To regulate the balance between the two criteria is the general movement of the economy and the local banking market.

After the two offices in Sondrio and Morbegno, the opening of new branches was initially held back by the fact that the expansion cycle of the European economy ran out of steam in 1876, but resumed in the 1980s when the need to intercept the massive flow of emigrant remittances pushed the Bank to expand throughout the province, with the opening of the Tirano branch in 1881, followed in 1886 by those of Bormio and Chiavenna.

The opening of the Grosio branch in 1909 was justified not only by the construction of the new AEM hydroelectric plant, but also as a response to the birth, in 1908, of the Banca Piccolo Credito Valtellinese, which has its stronghold in the Upper Valtellina and which convinced BPS to expand its popular base by opening credit to non-members as well, in 1910.

Similarly, the inflation that followed the First World War, which made the prices of agricultural commodities skyrocket, putting a lot more money in the hands of farmers, caused a surge in deposits which sharpened competition on the local credit market with the birth of the Banca della Valtellina and the arrival of the Banca Agricola di Torino.


Inside the head office of the Banca Popolare di Sondrio at the end of the 19th century

Hence the opening of eight new branches (Delebio in 1919, Sondalo and Ponte in 1923, Teglio, Mazzo, Berbenno and Chiesa Valmalenco in 1924, Grosotto in 1925) with which BPS definitively affirmed its leadership in bank deposits in the province (over 50%), achieving a territorial capillarity that allowed it to guarantee the necessary credit support for the gradual modernisation of local agriculture and crafts in the long phase following the Second World War and the economic boom.

1948 saw the opening of the branch at the Sanatorium Village of Sondalo, where the BPS provided a treasury service to the hospital and banking services to over 2,000 patients. Then, in 1964, a seasonal branch was inaugurated at Passo di Aprica followed in 1970 by the one at Passo dello Stelvio, followed in 1972 by the Livigno branch with which the BPS gave a fundamental boost to the start of the modern tourist industry in the province, the backbone of the provincial economy's full integration into that of Lombardy and the rest of Italy. One hundred years after its foundation, the original mission of the Bank, namely to trigger and support the province's long-term economic development, could therefore be said to have been successfully achieved.

The Interregional Bank

It was precisely this success that made it impossible to postpone any longer what had been the Bank's main problem from the outset, namely the long-standing surplus of deposits to loans which at the end of the 1960s assumed a dimension for which the traditional massive investment in Treasury bills and government bonds was no longer sufficient. What was needed was a wider and more dynamic territorial dimension than the provincial one.


Inside the BPS offices in Milan

Hence the decision to give a new regional structure to the Bank with the opening in 1978 of the Milan office, the largest financial and industrial centre in Italy. A strategic turning point that did not distort the Bank's basic nature because, as the Board of Directors underlined in its Report to the shareholders of that year, BPS "*was born and remains in Valtellina in its most genuine traditions of reliability, enthusiasm and a precise sense of limits*".

This brought about a new phase of expansion which had its most significant stages in the opening of offices in Lecco (1984) and Brescia (1989), culminating in 1990 with the opening of the Rome office which inaugurated its definitive profile in the Italian banking system as the Interregional Bank of Upper Italy and Lazio, ranking it among the top eight cooperative banks in Italy.

Today Bps has 50 branches in the province of Sondrio, 52 in Milan, 153 in the rest of Lombardy, 13 in Liguria, 14 in Piedmont, 1 in Val d'Aosta, 8 in Emilia-Romagna, 8 in Veneto, 6 in Trentino-Alto Adige and 44 in Rome and its province, for a total of 349 branches, to which 134 treasury offices must be added. A process of territorial expansion through which BPS has reaffirmed a model of roots in the territory and adherence to its needs, refined over the years in its province of origin.

The result has been a gradual and constant growth of its business, its assets, customers and its shareholder base, which today has over 164,000 members.

The Banking Group

Since 1995, this process of territorial expansion on a national level has been accompanied by a parallel growth and internationalisation of services, following the increasingly complex and varied needs of a clientèle operating on foreign markets in a transnational logic with a global dimension.


The offices of BPS (SUISSE) in Lugano

Hence not only the organisation of a specific and increasingly strategic International Unit, but also the birth in 1995 of Banca Popolare di Sondrio (Suisse) SA, a bank under Swiss law, entirely controlled by BPS and permeated with its genetic code; this, on the one hand, gives shape to the historical ties between the province of Sondrio and the neighbouring Swiss Confederation, on the other, it projects the physiognomy and dimension reached today by BPS onto the international scene.

Founded as a Bank at the service of the thousands of Italian workers who work in Switzerland, often as cross-border commuters, and of the Italian companies operating in the Confederation, in just over 20 years Banca Popolare di Sondrio (Suisse) has become the bank of the Swiss family for the way in which it interprets their needs and requirements, typical of the territorial-popular network model borrowed from its parent company. In the "banking" country par excellence, it now has all of 19 branches and a representative office in 8 cantons of Switzerland, as well as a branch in the Principality of Monaco and the virtual Direct Banking branch.

With Suisse, BPS has formed the Banca Popolare di Sondrio Banking Group since 1995, which today also includes the subsidiary Factorit Spa, one of the largest Italian factoring companies, specialising in managing and paying advances on trade receivables, and Banca della Nuova Terra, acquired in 2017, which operates in the field of consumer credit.

On-line Banking

The growth and internationalisation of services had their technological basis in the digital revolution and with the creation of the Morani Service Center in Berbenno in Valtellina and the activation in 1995 of the institutional website popso.it and of the SCRIGNO*bps* portal in 1997, this brought about an extraordinary development in banking services through the many e-banking and e-commerce applications. Worth mentioning are SCRIGNO*Internet Banking* which allows you to carry out a wide range of information and banking transactions in complete safety from your own computer, from current accounts to securities deposits, to payments, including utilities, SCRIGNO*app* to manage the main banking operations on the move from your mobile phone, SCRIGNO*Identitel*, the strong authentication tool to generate the OTPs (One Time Passwords) needed to authorise the online operations required, SCRIGNO*TradingOnLine*, to buy or sell shares, warrants, bonds and other financial products, SCRIGNO*Pagofacile* for online payments of utilities, fees, taxes and quotas of all kinds, SCRIGNO*Fattura elettronica* for electronic billing, SCRIGNO*Multibaca* which allows companies to operate with multiple banks, Bancomat Pay and Open Banking, the channel intended to open up to companies and individuals new possibilities of access and integration with the services offered by Third Parties for an operational management of all their movements, also outside of their BPS bank account.

All of these services are characterised not only by absolute security, but also by being particularly user-friendly for customers who are less technically inclined and who need to become familiar with new technologies gradually over time, overcoming any implicit fear. Nonetheless, the full usability of online services by people with disabilities enhances the characteristics of a Cooperative Popular Bank such as BPS, at the basis of which lies the human quality of the bank-customer relationship. Within this relationship, the digital bank remains an alternative that is added, but it never precludes, at any time, the personal and direct relationship with the physical bank, which is always guaranteed by its widespread territorial proximity.

Lastly, particular attention is paid to the use of digital resources through our institutional website popso.it, the online accessibility and usability of BPS's cultural and editorial activities (publications, *Notiziario*, Art Gallery, the Credaro Library, seminars and conferences, the Vilfredo Pareto Fund, the Donegani Museum) and those related to leisure (trekking, cycling, webcam, Pirovano: the University of Skiing), all initiatives linked to the enhancement of the territory, which remains the guiding star of BPS's popular and cooperative banking mission.

Sustainability as an end in itself

150 years after its foundation this mission is based not only on the traditional ethics of responsibility towards all stakeholders, but also on a new ethic of economic, social and environmental sustainability. This is inspired by the awareness that there is no economic and corporate growth without a careful assessment of its impact on society and the environment. All in a "green" perspective of the circular economy, on a human scale, which is today the aim with which BPS reconfirms and renews, wherever it is present, the popular and cooperative bond that unites it to the community of which it is part.

DIRECTORS' REPORT ON OPERATIONS

Shareholders,

As usual, we would like to open the meeting with respect for tradition, remembering our members and customers who have passed away since last year's meeting. We would also like to add a thought for those who, in life, were particularly close to the bank for various reasons.

The first of these is the late Giuseppe Zampatti, born in Vezza d'Oglio (BS) on 28 April 1962, who died on 8 June 2020.

He was hired by the bank on 10 March 1986 for the Sondrio office, being transferred to the Edolo branch at the beginning of August the same year and in March 1987 he was assigned to the Aprica branch, where he remained until 17 April 1988. He then went to Ponte di Legno as deputy branch manager.

On 20 September 1989 he took as manager of the Grosio branch, remaining there until 24 July 1994. The following day he was back in Aprica as branch manager and towards the end of January 2004 he was assigned to the same position at the Berzo Demo branch, which he held until his untimely death. His qualification was that of a Level 2 Middle Manager.

Endowed with good will, he always worked with reliability, diligence and prudence.

On 11 November 2020 Luigi Pier Maria Guanella of Campodolcino, born on 24 May 1958, ended his earthly life.

He joined the bank's staff on 22 June 1992 and was assigned to the Novate Mezzola branch, then on 20 July of the same year he was assigned to the Delebio branch, where he worked until mid-November 1994. He then served at the Colico branch and, from mid-January 1997 until his death, at the Chiavenna branch. His qualification was as an Area 3, Level 2 Employee.

Of him we remember his reliability, the precision with which he carried out the tasks entrusted to him over time and the good work done.

Davide Giulio Bellocchio from Menaggio, born in Gravedona on 27 July 1966, died at the age of 54 on 16 January 2021.

He was a member of staff of this institution since 1 October 1985, working at the Dongo branch for almost two years. He was then assigned to the Morbegno branch for a few months. On 9 December 1987, because of the bank's requirements, he was first transferred to the Colico branch, where he remained until 2 April 1989, and then to the Carlazzo branch. In May 1993 he was assigned to the Como branch, where he remained until his death, holding the position of deputy branch manager with enthusiasm. He was a Level 4 Middle Manager.

Of Bellocchio, a sensitive and attentive person, we remember above all his prudence at work, his technical preparation and intelligent collaboration.

Armando Della Bona, a retired employee, was born in Tirano on 12 March 1932 and passed away on 8 December 2020.

Hired on 7 April 1952, he spent his working life with this bank and for this bank, always being appreciated more and more for his reliability, commitment and realism, virtues that accompanied him in his brilliant career.

After an initial period as a clerk at the Tirano branch, in August 1959 he was transferred to the Ponte in Valtellina branch as manager. In April 1961 he was sent to the Sondalo branch, of which he took over as manager two years later.

From September 1967 to the end of February 1969 he was at head office in Sondrio as Head of the Development Office. He was then transferred to the Tirano branch as the manager, remaining there until 26 April 1981. The next day he began at the Milan office, which he ran with passion and competence until the end of 1988. Incidentally, it is worth remembering that Milan plays a significant part of this Cooperative Bank's history. In fact, our first move outside the province of Sondrio, which took place in 1973, was to the Lombard metropolis with the representation office in Via Santa Maria Fulcorina, which then became a full branch on 6 November 1978. Della Bona, with his intense and intelligent work, contributed a great deal to the development of that office.

On 1 January 1989, he was called to Sondrio to take on the prestigious office of Deputy General Manager, to crown his long and multifaceted experience at a bank. This onerous role ended on 31 March 1997, the day before he went into retirement.

However, his desire to work did not retire. In fact, he continued to collaborate with the bank for several years as a Supervisory and Discount Commissioner and consultant for the Milan office and the Pavia branch.

He was a man of style, calm, kind to everyone and always willing to help. He knew how to remain calm even in complex, tangled situations, which he faced up to with common sense and a will to find a solution. We will remember him with esteem and regret.

On 9 May 2020 the knight accountant Oreste Rasella from Sondrio died, Master of work, retired employee of our bank, born on 9 December 1925.

He joined the staff on 7 July 1952 and was assigned to the Portfolio Office at Head Office.

From mid-May to the end of December 1955 he worked at the Current Accounts Office in Sondrio, before returning to the Portfolio Office.

On 15 March 1958 he was assigned to the Securities Office in Head Office, remaining there until 31 December 1964, after which he moved to the Special Credit Office, subsequently becoming Head of the Loans Department until the end of December 1985, the date of his retirement. He held the title of Central Manager.

His collaboration with our institution continued: as a consultant till the end of December 1994; then as a Supervisory and Discount Commissioner until 2016.

He was a man of another era: straightforward, reliable and down-to-earth; he was a hard worker, careful and scrupulous, he carried out the tasks entrusted to him with intelligence and passion.

We now come to Gianluigi Tassi of Sondrio, another retired employee, born in Tirano on 13 May 1939, who died at the age of 81 on 5 February 2021.

Hired on 1 May 1959 and assigned to Head Office for a couple of years, he was then sent as branch manager to Ponte in Valtellina from July ‘61 to August ‘63; at the Grosotto branch from September ‘63 to January ‘66; to the Chiesa in Valmalenco branch from February ‘66 to January ‘69.

Back in Sondrio at the Business Development Office for a few months, in August 1969 he was transferred to the Bormio branch, taking over the manager’s role and remaining there until May 1972.

He was then recalled to the Business Development Office in Sondrio for a few years and transferred in 1978 to the new and important office in Milan. His task was to make use of his branch experience in the Milanese reality, particularly that acquired in the business development sector: he had to get himself known and, above all, to make known to the companies and the community in general the Popolare di Sondrio’s efficiency, speed and precision at work.

When the internal bank window at AEM-Azienda Energetica Municipale di Milano opened in August 1980, he was assigned to run it, an experience that ended in December of that year, having made it clear in Sondrio that he would be a suitable Head of the Business Development Office, which had expanded in the meantime along with the bank’s growth.

On 31 March 1996 he left the bank to go into retirement. He had the qualification of Executive.

Of Gianluigi Tassi, we remember his friendly character and ease of approach, together with his loyal collaboration – always appreciated – and sense of belonging.

Germano Mastrantonio of Piuro, a part of Prosto, was born on 3 March 1949 and passed away on 30 March 2021. He was therefore 72 years old.

He was hired on 22 May 1978 and assigned to the Chiavenna branch, where he worked continuously until the end of June 2006, when he retired. His qualification was Area 3, Level 3 (deputy office manager).

A kind and reliable person, very attached to his family. We would emphasise his years of loyal service.

Our thoughts now turn to Don Roberto Malgesini, a former collaborator, who died tragically in the fulfilment of his noble mission.

On the morning of 15 September 2020, Don Roberto Malgesini, while loading his car with food for the poor, who he assisted daily, he was inexplicably killed by one of them, a migrant who the priest knew well and had always helped. The murder took place in Como, near the parish of San Rocco, where the priest lived and carried on his ministry.

Born in Morbegno on 14 August 1969, he had a diploma in bookkeeping. In the summer of 1988 he did an internship with us in Sondrio, a prelude to his being hired, which took place in August of the following year, with the Lecco branch as his destination.

A friendly collaborator, always willing to help, sociable and a friend to all. He spent his weekends in Regoledo di Cosio, where he lived with his family and was the prime mover in the parish.

In September 1991 he left the bank to embrace the religious life. In 1998 he was ordained a priest and sent first to Gravedona and then to Lipomo. His aspiration to be a priest on the streets, at the service of society's outcasts, materialised in 2008, the year in which his noble apostolate began in Como, at the church of San Rocco. It was a hard mission, all uphill, but courage never failed him, even when he met obstacles, and it is in the fulfilment of his creed that he found his untimely death.

Among the many initiatives promoted after his death, that of Sergio Mattarella is very significant. On 7 October 2020 the President of the Republic awarded him a posthumous Gold Medal of the Italian Republic for civil merit. On the occasion, among other things, he described Don Malgesini as «a shining example of an extraordinary message of brotherhood and an exceptional Christian commitment at the service of the Church and civil society, pushed to the point of extreme sacrifice»; wise words in harmony with those of Pope Francis, who defined him as a «witness of charity towards the very poor».

Michele Tagliaferri from Bormio, born in Valdisotto on 24 August 1950, passed away on 3 February 2021.

He graduated in medicine and surgery in 1979 from the University of Milan, then worked as a general practitioner in Bormio, retiring in the summer of 2021.

An esteemed professional, he was known for always being available, he was always there in time of need. Jovial, open and sociable, attached to his place of birth, he liked to spend time with anyone he came in contact with, for whatever reason.

Among the positions outside the medical profession, we recall that of Deputy Mayor of Valdisotto in the period of the huge landslide of Monte Coppetto (28 July 1987) which, as is well known, sowed death, destruction and transformation of the territory. He was passionate about sports and contributed to the foundation of Bormio Golf, of which he was president for years.

After his retirement, he took over management of the Villa del Sorriso nursing home in Bormio and continued until his death.

He was «linked» to our institution for various reasons, not least that of being the doctor in charge of our general meetings, a task that he always exercised with the utmost care.

On 25 September 2020, Enrico Guggeri died, having been born in Como on 6 February 1929.

He worked in his home town at a major branch of a bank of which, after a successful career, he became the manager.

He was thoroughly familiar with the world of work and the history of the many businesses in Como and the surrounding area.

He was appreciated and well liked by everyone also for his mild character, in addition to other virtues, such as reliability, competence and confidentiality.

After a period of consultancy for our branch in Como, in February 2004 he was appointed Supervisory and Discount Commissioner, holding this office until 31 May 2016.

We would emphasise Enrico Guggeri's sense of commitment and loyalty, which was always very concrete, together with his abundance of ideas and useful advice, bestowed with full knowledge of the facts; this because he was a man of great experience in many fields.

On 18 August 2020, Cesare Romiti died in Milan, having been born in Rome on 24 June 1923.

He lost his father when he was young, so studied and worked at the same time, and in 1945 he graduated with full marks in economic and commercial sciences.

In 1947 he worked at the BPD-Bombrini Parodi Delfino Group of Colleferro, of which he became finance director.

There was then a series of successes and positions of increasing responsibility. In 1968 he was appointed general manager of Snia Viscosa. Later, he was first general manager and then managing director of Alitalia, the national airline owned by IRI. For a short period he worked at Italstat, after which, in 1974, in the middle of the oil crisis, he joined the Fiat Group, remaining there for a quarter of a century. At the car company of the Agnelli family, Cesare Romiti showed his skill as a shrewd and capable manager. He also held the position of Chairman of Fiat for a couple of years. After leaving this prestigious company, among the many positions held in various bodies, that of Chairman of RCS from 1998 to 2004 deserves mention.

A person of undisputed talent, strong-willed and resolute, but never opportunistic.

He had soft spot for the Popolare di Sondrio, so much so that on 6 July 1990 (when he was Managing Director of Fiat) he held an unforgettable conference at our Fabio Besta room in Sondrio on the theme «Italy's problems and perspectives in international competition». The text was published in the December edition of our *Notiziario* of that year.

At the end of September 2020, Vittorio Mathieu, philosopher, academic and politician, born in Varazze (SV) in December 1923, died in Chivasso (TO).

In 1946 he graduated in theoretical philosophy at the University of Turin with Augusto Guzzo, a Christian spiritualist philosopher. He became Guzzo's assistant and was fascinated by his thoughts.

He dedicated himself to lecturing on the subject matter of his degree. In 1958 he was appointed associate professor and in 1961 full professor at the University of Trieste. From '67 he was full professor of philosophy and then emeritus professor of moral philosophy at the University of Turin.

He also held several other prestigious positions: from 1972 to 1980 member of 8 Committee of the CNR; from 1976 to 1980 first member and then vice president of the Executive Council of UNESCO (Paris). He was also a member of the National Bioethics Committee; he was a member of the *Accademia dei Lincei* and a member of the Prize Committee of the Balzan Foundation.

He was always attentive to sociability, to «public affairs»; he has also devoted time to politics, the noble version, of course.

A man of culture, of thought, he also paid attention to our cultural activity, albeit modest, in particular to our *Notiziario*, to which he contributed articles for over twenty years. We are proud to remember him and are endlessly grateful to him.

On 28 November 2020, Professor Tancredi Bianchi – economist, banker, lecturer and essayist -, born in Caravaggio (BG) on 12 June 1928, died in Bergamo.

Professor Bianchi graduated from the Bocconi University of Milan, in 1959 he became a lecturer in banking and professional technique and in 1964 he obtained the chair in the same discipline. He was a professor at several prestigious universities: the Ca' Foscari University of Venice from 1959 to 1968, La Sapienza of Rome from 1968 to 1979 and then the Bocconi of Milan.

His dynamism was also expressed in his intense commitment to the banking world. Among other things, he was president of the Association of Italian Private Banks (1982-2003), president of the Italian Banking Association (1991-1998) and from 1999 honorary president of both associations.

We gladly remember the esteem he had for our bank, so much so that, having invited him, on 26 March 1999 he came to us in Sondrio with Professor Mario Talamona for a dual conference, arousing widespread interest.

On 12 December 2020, Professor Pinin Brambilla Barcilon, Maestra of Restoration, died in Milan, having been born in Monza in 1925.

The apotheosis of her fame was reached with the recovery, considered by many practically impossible, of Leonardo da Vinci's *Last Supper*, a fresco that adorns the church of Santa Maria delle Grazie in the centre of Milan. The restoration lasted 22 years: from 1977 to 1999. With the return to humanity of this extraordinary masterpiece, the gossip and nastiness that she had to put up with during her work disappeared like snow in the sun. The professionalism, determination and scrupulousness of the Maestra came to the surface in toto and have been repaid, being converted into universal admiration and endless praise.

Since the 1950s, Professor Brambilla restored frescoes, paintings on canvas, paintings on wood, wooden sculptures and furnishings, using innovative methodologies and the collaboration of scientific and research institutes.

Of the many great artists of the past whose works she restored with the skilful mastery of which she was gifted, Giotto, Masolino, Piero Della Francesca, Pollaiolo, Mantegna, Bramante, Caravaggio, Tiziano, Tiepolo and others come to mind.

This is just a little something of the huge amount that she accomplished during her life. It is very good to know that some of our bank's paintings (by Solimena, Procaccini, Grechetto, Luca Giordano…) benefited from her skilful intervention. The works regained their original splendour, which time had somewhat dulled.

For the 500th anniversary of the death of Leonardo da Vinci, Professor Pinin Brambilla Barcilon did us the honour of embellishing our *Notiziario* with a learned contribution on her restoration of the *Last Supper*. Not only. On 21 June 2019 she came to Sondrio to hold a learned conference at the bank on this same topic, adding proof and value, in the best way possible, to the initiatives we had organised for Leonardo's anniversary. We are proud of it. As expected, a large number of people attended the meeting.

After the sad memory of those who are no longer among us, we are led to reflect on death and consequently on life. No day passes without being studded with births and deaths alike. On the subject of life and death, the Lebanese poet Khalil Gibran (1883-1931) wrote among other things: «If you really want to know the spirit of death, open your heart to the body of life. For life and death are one and the same, in the same way that a river is at one with the sea».

With these thoughts, let's close this section and move on.

SUMMARY OF RESULTS

Shareholders,

2020 will go down in history as the year of Covid-19. About a century after the dramatic «Spanish 'flu», the modern world has once again found itself facing a pandemic that has taken advantage of the interconnection that exists between the various parts. Globalisation, which involves an intense circulation of goods and people, no doubt facilitated the rapid spread of the virus.

From a health crisis, we quickly moved to an economic one: the more intense the restrictive measures adopted to protect public health, the more severe the consequences on the economies of individual countries. The recession occurred worldwide with fairly similar intensity in the various areas, while its asymmetry involved certain sectors in particular: tourism, catering, transport, recreational and cultural activities were among the worst hit.

Broadly expansive public policies and the decidedly accommodative action of the monetary authorities have somewhat contained the effects of the crisis on a global level. Indeed, as the pandemic granted a respite with the arrival of summer, many economies showed an unexpected capacity to react.

As in China, the euro area also achieved a marked recovery in production. We also know that on our Continent everything has been called into question by the recurrence of a critical health situation, even if some sectors did prepare adequate strategies for responding to the infection in time, reorganising the methods of production and supply. In any case, by suspending the Stability Pact and launching the Next Generation EU programme, the European Union has made available the tools needed to revive the fortunes of member countries as soon as the pandemic can be contained, if not won, with the help of vaccines.

Italy, the first in Europe to experience the tragedies caused by Covid-19, has shown resilience and a capacity for reaction. And if the historical opportunity offered by the impressive recovery measures taken at EU level is not stupidly wasted, it has a chance to take back its destiny into its own hands, strengthening and modernising the health, economic and productive systems.

The banking sector has fulfilled its duties, not only by contributing to the concrete implementation of the support measures prepared by the public authority, but also by implementing autonomous initiatives in favour of households and the business world.

Our bank has done its part, activating interventions for the benefit of customers and the territories that we serve, both in compliance with important government measures, and in adherence to initiatives promoted at banking system level, and thirdly on a voluntary basis.

Despite an adverse economic situation, where a severe recession was accompanied by widespread uncertainty, the bank was able to make a profit of 75 million, -25.47%; a satisfactory result, thanks to the commitment of our staff, all 2,799 of them, an increase of 29. The profit figure is supported by our financial solidity, reflected in capital ratios that rank us among the top at a national level.

RESULTS IN BRIEF

(in millions of euro)

Balance sheet	31/12/2020	31/12/2019	Change %
Loans to customers	24,097	22,314	7.99
Loans and receivables with customers measured at amortised cost	23,715	22,023	7.68
Loans and receivables with customers measured at fair value through profit or loss	382	291	31.04
Loans and receivables with banks	5,108	2,366	115.88
Financial assets that do not constitute loans	10,541	9,752	8.09
Equity investments	613	620	-1.11
Total assets	45,231	36,780	22.98
Direct funding from customers	32,534	29,684	9.60
Indirect funding from customers	33,052	32,037	3.17
Direct funding from insurance premiums	1,717	1,608	6.82
Customer assets under administration	67,303	63,328	6.28
Other direct and indirect funding	15,400	9,197	67.45
Equity	2,641	2,518	4.89

Income statement	31/12/2020	31/12/2019	Change %
Net interest income	406	386	5.35
Total income*	744	777	-4.28
Profit from continuing operations	112	149	-24.91
Profit for the period	75	101	-25.47

Key ratios (%)		
Cost/income ratio**	56.91	54.79
Net interest income/Total assets	0.90	1.05
Net financial income/Total assets	1.18	1.56
Net interest income/Total income	54.60	49.61
Administrative expenses/Total income**	58.87	55.08
Profit for the year/Total assets	0.17	0.27
Bad loans/Loans and receivables with customers	1.42	2.99
Loans to customers/Direct funding from customers	74.07	75.17

Capital ratios (%)		
CET 1 capital ratio	17.77%	17.68%
Total capital ratio	20.31%	21.19%
Free capital	1,797	1,788

Other information		
Number of employees	2,799	2,770
Number of branches	349	346

* Total income is shown as per the reclassification made in the table commenting on the income statement
** The ratios indicated were calculated using the figures shown in the table commenting on the income statement.


BPS (SUISSE)
Factorit
GRUPPO Banca Popolare di Sondrio


PIROVANO
Popso Covered Bond Srl
Sinergia Seconda Srl
BNT BANCA
Banca della Nuova Terra
Gruppo Banca Popolare di Sondrio
Banca Popolare di Sondrio
150
1871
2021

www.popso.it

The key figures are summarised below.

Total assets came in at 45,231 million, +22.98%. Capital and reserves, including valuation reserves and net profit of the period, amounted to 2,641 million, +4.89%. The CET 1 Ratio is 17.77%, one of the highest in the banking system.

Direct deposits grew by 9.60% to 32,534 million, marked to market, indirect customer deposits total 33,052 million, +3.17% direct funding from insurance premiums increased to 1,717 million, +6.82%, while loans to customers total 24,097 million, +7.99%.

Net interest income was 406 million, +5.35%; net fee and commission income reached 276 million, -1.89%. Total income amounted to 744 million, -4.28%.

The BPS stock, which is listed in the MTA, the screen-based market of the Italian Stock Exchange, closed the year with a considerable increase of +4.36%. There are now 161,870 shareholders.

The companies included in our Banking Group, in primis Banca Popolare di Sondrio (SUISSE) SA, Factorit spa and Banca della Nuova Terra spa, helped us to expand and requalify the commercial offer, with positive economic results.

INTERNATIONAL ASPECTS

Throughout 2020, the pandemic and the international economic cycle have moved in opposite directions: if the first grew, the second fell; as soon as the first slowed down, the second recovered.

In fact, Covid-19 has brought economies around the globe to their knees and if you really want to find an element of optimism in the general collapse, it must be traced to the ability of many production systems to quickly raise their heads as soon as the virus has granted moments of respite. An important sign of vitality, an unexpected attitude to recovery that bodes well for the future, when – as soon as possible, we hope – the pandemic is brought under control.

Let's start from this element of optimism to underline that after the steep drop in the world economy during the spring, the summer saw a decisive recovery in the economic situation of many countries, even if the service sector remained heavily penalised almost everywhere. The statistics for some of the main advanced economies clearly reflect this trend: The United States and Japan respectively posted decreases of 31.4% and 29.2% in the second quarter of the year, before recovering by 33.1% and 22.9% in the following three months. The trends in China and India were significantly different. The Asian giant recorded slow but still significant growth in the second quarter, equal to 3.2%, before rising to 4.9% in the following three months. India, on the other hand, recorded -23.9% at 30 June and another decrease, albeit more contained, -7.5%, at 30 September.

Unfortunately, a new fearsome pandemic wave of the pandemic appeared in the autumn, creating a situation of serious difficulty, also in correlation to the inevitable restrictions introduced to safeguard public health.

All this had a heavy impact on world trade, which, after a robust recovery in the summer, suffered further slowdowns, ending the year with a decline of around 9%.

Inflation also suffered the effects of the severe recession, with price dynamics oriented downwards due to the weakness in aggregate demand.

Stock markets benefited from the expansive monetary policy at a global level, recording strongly positive results at the end of the year in some cases, particularly in the United States and Japan. European markets were the most penalised. Monetary policy has been flanked by important public support programmes, which seem to have put in place adequate resources to give new impetus to support the productive world and, hopefully, also to redirect economic systems according to criteria of innovation and environmental sustainability.

The euro area, which in the meantime has completed Brexit, not without difficulty, avoiding a no-deal UK exit at the last minute, has basically followed the dynamics described above. As the pandemic has spread, the various measures taken to contain it have severely impacted the economy. After the positive summer break, the return of the virus in the autumn again penalised the economic situation. The figures for the main countries in the area reflect this: in the second quarter of the year, the decline in GDP fluctuated between -17.9% in Spain and -9.8% in Germany; in the third quarter, the best of all was France, +18.7%, with Germany last at +8.5%. By the end of the year, an overall decline in GDP in the euro area is estimated at around 7%.

While inflation was around zero at the end of 2020, the European Central Bank constantly worked during the year to guarantee financing conditions that were favourable to the production system, supporting bank credit for businesses and households, and mitigating the impact of the pandemic on the economy and on inflation.

For its part, the European Union has prepared the Recovery Fund, aka Next Generation EU, by which, through funding on the financial markets, 750 billion will be made available, partly through non-refundable grants and partly through loans, to support the recovery of the euro area economy according to some fundamental development guidelines linked to: environmental sustainability, research and innovation, productivity, macroeconomic equity and stability. Three other important intervention tools should not be forgotten: the European Stability Mechanism (ESM), the Emergency Fund of the European Investment Bank (EIB) and the «SURE» (Support to mitigate Unemployment Risks in an Emergency) anti-unemployment plan.

Inevitably, the Swiss economy also suffered severe repercussions from the pandemic, so much so that by the middle of the year, GDP had fallen by 8.6%. However, the significant weight that the pharmaceutical industry plays in the Swiss production structure has undoubtedly helped to reduce the damage. Tourism, catering and transport have been particularly badly hit, like in the rest of the world. There was a significant recovery in the third quarter of the year, around 7%, though it was followed by new difficulties in the autumn. A decline of around 3% in GDP is expected at the end of 2020. In this difficult economic situation, the Swiss National Bank has continued its expansionary monetary policy, with its key rate confirmed at -0.75%.

Euro

In contrast to the previous year, in 2020 the euro appreciated against almost all other major currencies: as much as 9.23% against the US dollar, 3.73% against the Japanese yen, 2.58% against the Chinese renminbi and 5.67% against the British pound, again penalised by Brexit. The slight decline (-0.48%) against the Swiss franc, rather than being attributable to the euro, seems to be attributable to the nature of the Swiss franc as a safe-haven asset, promptly re-proposed in times of coronavirus.

And, contrary to the previous year, the sign of the change versus the dollar this time was consistent with that of the different manoeuvre on official rates: if the Federal Reserve repeated the cut, doubling it in size to 150 basis points, concentrated in the March emergency, to cancel the lower limit for Fed Funds, the ECB, while injecting a large of liquidity, decided that it did not want to turn its main refinancing rate negative, having already been zero for some time.

Thus, after the fibrillations triggered by the outbreak of the pandemic, which, we recall, struck the Old Continent in advance of the New, the exchange rate has embarked on an upward path which, subverting a decline in progress for two years, has finally put it at a value of 1.2271 compared with 1.1234 at the end of 2019.

We like to think that this general strengthening of our common currency reflects not just financial technicalities, but also optimism for Europe, fuelled by a common response to the crisis which, after some initial hesitation, has gradually built itself into something that is more convincing, powerful and supportive.

ITALY’S ECONOMIC SITUATION

In our country too, coronavirus has created not just a human tragedy, but also an economic crisis that is unprecedented in the post-war period.

2020 suffered a recession of close nine percent, a figure obtained by integrating the impact of the second wave of infections, and consequent restrictions, on the V profile which, thanks to the strong summer recovery, characterised the first three quarters.

Staying with the official statistics updated for the first nine months, the loss of output, equal to 9.6%, is mainly attributable to domestic demand, particularly private consumption (-10.5%) and investments (-9.8%), while the foreign channel, while showing a significant contraction, stronger for exports (-16.4%) than for imports (-14.2%), still managed to turn in a trade surplus of 42 billion.

The unemployment rate, which began the year at around 10%, paradoxically showed a significant reabsorption in correspondence with the lockdown, reaching a low of 6.4% in April. This is a phenomenon can be traced back to the fact that there was a sharp drop in the number of job seekers. The figure at the end of the year was 9.1%.

It is the international trend in energy prices that has driven the return of deflation: if, in fact, in the first two months, our harmonised consumer index, though marginally positive, was one point below the euro area average, in the last two months we have come to a perfect alignment at the common value of -0.3%.

The development of an economic policy aimed, on the one hand, to cope with the urgency of the pandemic and, on the other hand, to plan a future of recovery and sustainability, a greener and more digital economy, is also fully inserted into the European context.

In the year under review there was inevitably a marked deterioration in the public finances: according to the estimates published in the Update to the Economic and Financial Document (EFD), the public debt has jumped to 158% of GDP, the deficit to 10.8%.

At the moment, it is just as well that the transnational dimension of the crisis and its response, as well as the monetary accommodation exercised by the European Central Bank, have mitigated the impact on the spread: from the peak in March, well over 250 basis points, it closed at around 110, a figure not only lower than the 160 at the end of 2019, but also at the level, just above 130, to which it had already fallen at the time of the first infection in Codogno.

THE ITALIAN BANKING MARKET

In addition to forecasts of future insolvencies, banks are suffering from tighter and tighter margins.

Faced with a much more accommodating monetary policy than suggested by official rates that have long been anchored to zero, the interest rate spread has fallen again, from 1.35% in December 2019 to 1.14% twelve months later. Even though the cost of funding (from households and non-financial companies) also decreased – from 0.58 to 0.50% – the return achieved on interest-bearing assets contracted more, from 1.93% to 1.64%.

Always crucial, in these dynamics, is the rate on securities, where the ample liquidity currently available is invested: from 0.67% at the end of 2019 it then collapsed to 0.22%, led by the government.

As for the analysis of brokered volumes, the harvest has grown, come on annual basis, of 7.5%, supported by deposits (+ 9.7%) and ballasted instead by bonds returned to decline significantly (-8.37%). Among deposits, the preference for liquidity, typical of times of uncertainty, boosted above all those in current accounts (+14.1%).

In the context of indirect deposits, the administered portion, represented by securities in custody, suffered a 3% decline. In the third quarter, the asset management sector saw banking operators involved in the general increase (+0.5%) in the volumes entrusted to SIMs and SGRs (brokerage houses and asset management companies) as well.

Assogestioni data for mutual investment funds (both Italian and foreign) also testified to an increase in assets, from 1,072 to 1,133 billion: net inflows were close to 24 billion, capital gains around 37.

On the lending side, the annual rate of change of loans to households and non-financial companies – even without recourse to the adjustment for securitisations, which would raise it to 5.5% – stood at 3.7% which reverses the negative trends of previous years, most recently -3.3% in 2019.

The decoupling with the recessionary trend in the economy, attributable to the exceptional public and private support measures put in place to deal with it, is even more evident for loans to businesses, which went from -7% to +5.8%, while the growth of those going to households stopped at 1.6%: the inevitable slowdown in consumer credit, -0.8%, was offset by a recovery in loans for house purchases, from 1.2% to 2.1%. Factors that contributed to a recomposition between short-term subsidies, -20.9%, and those with a duration of over 1 year, +9.5%.

One might think that the artificial rise in bank loans represents the priority channel through which the anti-crisis policies have favoured the retreat of net bad loans – to 1.19% starting from 1.58% of total loans in December 2019 – but this is not the case.

In reality, the aggregate of total loans, which is the denominator of the ratio, has grown very little. There has even been a decrease in «capital and reserves», on which net bad loans also fell from 7.45 to 5.94%. Improvements, in both cases, that are even higher than those of the previous year. The real inconsistency with the economic situation lies precisely in a more marked decline in bad loans (-23.4%), which now opens more than one question about a probable reversal of the trend when the current moratoria begin to expire. From this point of view, the scenario outlined by the ABI is comforting. According to it, the bad loans/total loans ratio will rise again in 2022, but not too much above where it was at the end of 2019, despite the forecast of a GDP that will still be lower than it should have been by about three percentage points.

Another factor that is reassuring is the degree of capitalisation of our banks, which have entered this crisis much stronger than the last time. Conversely, the negative impact of the pandemic on banks' income statements, already structurally weak, has been considerable.

If there is a discrepancy in the sign of individual changes in costs and revenues, those who emphasise the beneficial effect on net interest income of the ECB's subsidised funding also suffer a setback in terms of cost containment, so at best the operating result comes out the same as last year. The profit, already not particularly exciting in 2019, would be at least halved in 2020 due to the return to impairment losses and provisions, also as a result of the renewed sales of NPEs.

THE PROVINCE OF SONDRIO'S ECONOMY

Again this year, we consider it only right to devote extra attention to the province of Sondrio, dedicating a special chapter to the local economy. This preference, if we may say so, is motivated by the fact that the bank was founded in the province's capital one hundred and fifty years ago. The intention was to support local development, a programme pursued with determination even today in all the areas that we serve.

2020 will remain in history as a year of uncertainty and global recession due to the Covid-19 pandemic, which heavily affected the economy and consumption also in Valtellina and Valchiavenna. To get back to normal it will take time and a lot of drive to rise up again.

Having made this necessary premise, let's begin the brief report with the primary sector.

Viticulture in Valtellina is practised mostly in the hilly part of the sunny slopes of the Rhaetian Mountains between Ardenno and Tirano. The vineyard plots cannot be reached by self-propelled mechanical means if not minimally, so the work involves a huge effort, almost the same as in the past. Those who dedicate themselves to it do so not so much for what they can earn, often not very much, but above all for passion and to honour their ancestors who, loyal to their territory, dedicated limitless care and time to it.

Viticulture got off to a good start in the year under review, but a violent hailstorm in July caused grapes to be lost in several strategic vineyards, 30% or more in some areas. Then the abnormally high temperatures at night during the first few weeks of September brought about a multiplication of parasites. The winegrowers shrewdly cleaned the grapes which improved the quality of the product significantly. To all this were added the adverse weather conditions of early October. In any case, 34,490 tons of grapes were delivered to the wineries, of which 22,018 of Valtellina Superiore DOCG (Maroggia, Sassella, Grumello, Inferno and Valtellina Superiore); 4,245 of Rosso di Valtellina DOC; 3,524 of Sforzato di Valtellina DOCG; 4,703 of IGT.

Apple growing has taken on significant economic importance in the province of Sondrio in recent decades. The brown marmorated stink bug, a harmful insect that arrived in the area quite recently, is putting a strain on producers. The competent bodies and persons are taking appropriate action to remedy the situation before it gets out of hand. The warmer than usual climate and constant irrigation of the orchards helped to produce a crop of high quality, with large apples that are tasty and fragrant, and of satisfactory quantity, despite the hailstorm in July, which partially damaged the orchards in Piateda and Tresivio. 14,500 tons of apples were delivered to the Melavì cooperative in Ponte in Valtellina, under whose brand this PGI fruit is marketed. Among the varieties, the best known are Red Delicious, Golden Delicious, Gala, Rockit and Fuji, all much appreciated by the majority of consumers and marketed on a large scale. In this regard, it should be noted that, due to the lockdown, sales contracted considerably compared with previous years.

The cultivation of small fruits has been fully established for the last decade or so, with the American blueberry standing out in particular. Another production, introduced recently into Valtellina, is olive growing, which arouses more and more interest and currently occupies an area of about one hundred hectares. It was good year for olives.

In the province of Sondrio agriculture is carried on by specialized farms, whose owners, men and women, are getting younger and younger: they are taking over from the older generations, or joining them, bringing new energy and a desire to innovate. The breeding of livestock, mostly cattle, but also sheep, goats and horses, contributes a fair amount to the provincial GDP. Fodder production was penalised a bit by the drought. The first cut of hay, called the maggengo because it takes place in May, is the most important, but it was slightly below average. The same could be said for the second and third mowing. In essence, the amount of hay produced in 2020 can be considered «without praise or blaim». The quality was excellent. As for fodder maize, the year was partially compromised by the destructive hailstorm in July.

The good weather of the first few months of the year favoured the early growth of grass in the mountains, so work on the mountain pastures could be anticipated by about ten days. The return to the valley of the cattle began in the second half of September, due to adverse weather conditions. In any case, the cattle stayed on the 48 pastures filled for longer than usual. The production of milk and derivatives was positive.

Of the many local cheeses, the most renowned are Valtellina Casera DOP, a semi-fat cheese produced in the valley all year round and widely marketed, and Bitto DOP, made with whole milk, with the characteristic intense aroma of high mountain spaces, with a sweet and delicate flavour, produced on the mountain pastures during the summer. The Consortium for the Protection of Valtellina Casera and Bitto reports that 240,000 fire-branded wheels of Valtellina Casera were produced in 2020, 25% more than the previous year (the maximum quantity produced so far), and over 20,700 wheels of Bitto.

Beekeeping in the province of Sondrio is carried on by numerous small businesses. The anomalous heat at the beginning of the year favoured early blooms on the valley floor, but of short duration, which is why the production of honey on the plain was concentrated in a short time. The opposite is true for the hills and the mountains, where bees found favourable situations also from the point of view of the flowers that they could «visit» and how long the flowering lasted. As always, the quality of the honey produced is high.

In the province of Sondrio, medium, small and very small businesses are the backbone of the economy and the makers of the secondary sector. 2020 started with optimism, but the arrival of Coronavirus blew everything.

The industrial sector suffered a real collapse in the first and second quarters, with production dropping by 11% and 10.3% respectively; foreign orders were down by 9.4% and 10.2%; domestic demand by 4.5% and 5.4%. The figures for the third quarter, in conjunction with the summer truce of Covid-19, improved a little: production -7%, foreign orders -5.6%, domestic orders -0.7%. The resurgence of the infection after the summer has dragged the entire sector down.

A quick mention of Bresaola, the typical local air-dried, salted beef that boasts the PGI brand, which is produced by several certified companies in the province. This product has also suffered a severe blow in sales, both locally and outside the province due to the long closures of hotels, inns, holiday farms, etc., and because of the partial stop on exports.

The construction sector, which for better or for worse influences numerous related industries, after the initial block on construction sites due to the virus, has since recovered, also because the government incentives, such as the «Superbonus 110%» for certain types of extraordinary maintenance work, met with great interest.

The crisis has also hit crafts, a sector that has already been in trouble for some time. Around 4,200 people are involved in the crafts sector in the province of Sondrio, but in 2020 more people abandoned it than joined it. In the first part of the year there were significant reductions: -8.1% in production, -9.4% in turnover, -8.5% in domestic orders, -15.8% in foreign demand. Manufacturing industry suffered a real débâcle in the second quarter (turnover -19.3%, domestic demand -18%, foreign orders +2.8%, the only positive note). In the following quarter, when there was a lull in the infection, the situation was a little less bad: production -2.6%, domestic orders -1.5%; foreign orders +0.2%. Then everything got worse again.

Now we come to the service sector, which includes commerce and tourism.

Commerce was already suffering in last few years, also because online purchases are by now an increasingly growing, unstoppable reality, with which we have to deal. On top of this came the profound crisis caused by the pandemic in 2020: a decrease of 5.6% and 11.5% in the first and second quarter respectively, an increase of 4.5% in the third, due to the brief truce of the virus, and a total collapse in the fourth. Consumption was also unsatisfactory during the Christmas holidays and at the end of the year.

As for tourism, 2020 started well enough – with Livigno +18%, Bormio +15% – but it was abruptly interrupted at the end of February with practically all bookings being cancelled. The summer season took its revenge, but without foreigners for obvious reasons. The good weather in July and August favoured the arrival of many tourists who, eager to savour the freedom temporarily lost due to the block on travel, literally filled the tourist resorts. And there was a classic «sold out» in mid-August. Among other things, holidaymakers brought a wave of joy and fuelled the hope of returning to normality. However, the coronavirus interval lasted only the space of a morning.

As regards our roads, it is nice to say that, after a long gestation period, the executive plan for the Tirano ring road was approved in December. This ring-road has been long-awaited and is important also in view of the 2026 Winter Olympics, when Bormio, at the centre of the world's attention, must be easily accessible.

* * *

Shareholders,

After briefly recalling the main events of 2020 and tracing a picture of the reality in which we operate, let's move on to illustrate the operations and results of Banca Popolare di Sondrio in its 150th year.

TERRITORIAL EXPANSION

Even in 2020, which also saw the introduction of important restrictions on access to branches to protect employees and customers from the Covid-19 pandemic, we did not stop strengthening and rationalising our commercial network.

It is an integral part of our way of being a bank to offer services to the territories through branches, guaranteeing each one an assistance in which concrete proximity is expressed in personalised interventions. All this, without forgetting the complementarity of on-line banking in a multichannel perspective, both for those who use basic banking products and for those looking for highly qualified support, which our units are able to guarantee with the precious support of the central offices.

Easy access to specialist services is ensured by a «short supply chain», which gives the opportunity to relate immediately to figures capable of responding with competence and experience to the most demanding individuals and companies engaged every day on national and international markets. For us it is a distinctive element, which is based at an organisational level on the interaction between the territory and the branches and in the immediate relationship that the latter can establish with the central services, with our subsidiaries and all those with whom we have partnership relationships.

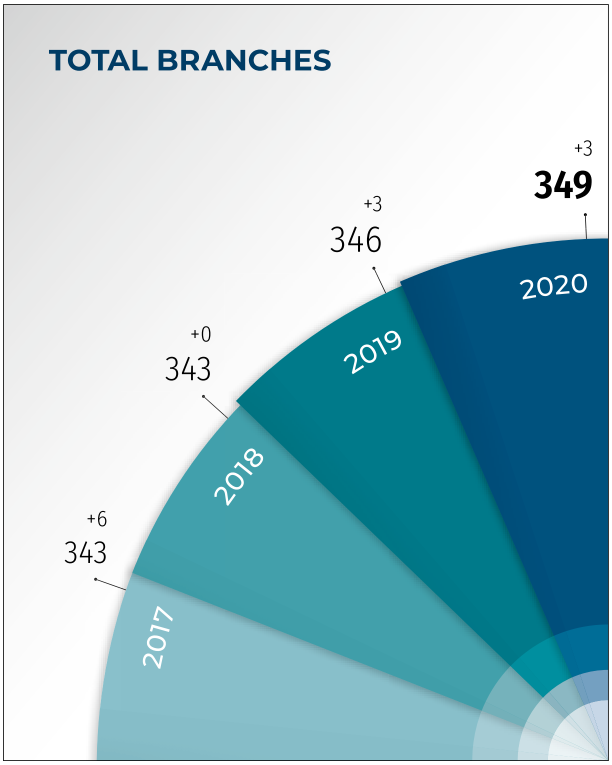
On the other hand, the pandemic, which broke out in early 2020 and is still dramatically underway, has acted as a powerful accelerator to increase efforts to ensure full accessibility to our services not only through the physical channel, but also through the electronic one. The results obtained have undoubtedly been positive. With the Scrigno app, customers really have «the bank in their pocket», being able to access a plurality of products and functions capable of covering every need. A world in constant evolution, which integrates and enhances the traditional network. In fact, experiencing the digital evolution in full is also an opportunity for us to focus our commitment on the most qualifying areas of the relationship with counterparties, making the branches the place where our colleagues are called upon to exercise the role of customer relationship manager.

The evolution underway in the banking market – multi-channelling is only one aspect – requires everyone to question consolidated tasks and functions, to guarantee tools, professionalism and skills capable of satisfying customer needs promptly, together with fairness and transparency. It is up to the customer to choose the means by which they interact with the bank, knowing that in any case they can count on a high-quality response.

As a territorial bank, in 2020 we took care to consolidate the network, expanding our presence in Emilia Romagna, Liguria and Lazio. With the new agencies in Parma, Imperia and Rome, the number of branches has increased to 349, in addition to the 134 branches specialised above all in the provision of treasury and cash services to entities and institutions.

Thanks to the no. 2 branch in Parma we have extended our services to the important capital of Emilia. The Capital of Culture 2020, member of the Unesco network of creative cities thanks to its gastronomy that can count on products that are appreciated all over the world (parmigiano reggiano, prosciutto and culatello), Parma, with its 200 thousand inhabitants, constitutes a centre of considerable importance.

A city of art, with a historic centre in which masterpieces such as the Duomo and the Baptistery stand out, it also boasts the presence of the local, highly prestigious university that was founded in the 11th century. Parma is at the top of an agri-food district of world importance, in which a very tight and effective interpenetration has been achieved between agriculture and industry. The numerous companies operating in mechanical engineering should also be mentioned. Overall, it is a strong, diversified economy, attentive to global economic dynamics and projected towards innovation.



Also in Imperia, the capital of the province of the same name and the centre of almost 43,000 residents, we have doubled our branches and are now active in both nuclei which make up the city, distinct and separated by the River Impero: Oneglia and Porto Maurizio.

The first, to the east, is the largest part of the town and extends over the alluvial plain of the river and sees the greatest concentration of productive activities. 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. Here, in via Giuseppe Berio, in the immediate vicinity of Piazza Dante, our town branch has been operating since last December. A second branch, on the other hand, continues to look after Porto Maurizio, located to the west, on a promontory overlooking the sea and characterised by the layout of a typical Ligurian coastal town. Porto San Maurizio has good tourist and commercial facilities, including a dynamic port.

The new no. 39 branch of Rome allows us to offer our services inside the Agostino Gemelli IRCCS University Hospital. It was inaugurated in 1964 and is, among other things, the seat of the Faculty of Medicine and Surgery of the Catholic University of the Sacred Heart.

With over 5,000 employees and more than 1,500 beds, it is the largest hospital in Italy and one of the largest private hospitals in Europe. It is the point of reference for paediatric emergencies not only for Rome and its province, but also for the surrounding region and beyond. It operates within the Italian National Health System and its functions are not limited to hospital-type activities, but also include scientific research in the medical-biological field, teaching of medical and nursing disciplines, and permanent training of health personnel.

Lastly, 542 ATMs contribute to our local presence, 1 less than the previous year.

TERRITORIAL EXPANSION

PARMA

Branch 2

via Antonio Gramsci 28/A

IMPERIA ONEGLIA

Branch 1

via Giuseppe Berio 43

ROMA

Branch 39

largo Agostino Gemelli 8

FUNDING

To understand the doubts and apprehensions that have been gripping savers for some time now, it is enough to reflect on what was for many a safe haven for investments, at least until a few years ago: government bonds. For a long time they represented the ideal choice for those who wanted to stay away from the risks of the stock market and were satisfied with the reduced, but more secure, earnings guaranteed by so-called «fixed income securities».

The problem is that fixed income no longer exists today. Or rather, it exists, but in the negative, as a large proportion of government bonds now have almost zero or even negative yields. Savers, now more than ever in search of security, have therefore been left without a fundamental point of reference for their investment decisions. This explains the preference for liquidity, indeed in some respects this choice is obligatory.

This is same liquidity with which the monetary authorities flooded the world markets in order to keep away the spectre of a financial crisis. A liquidity that, inevitably, cannot find adequate remuneration, given that it is superabundant.

The question remains as to when a fundamental asset such as savings can continue to be penalised. This, without forgetting that the increased propensity of households to expand their liquid reserves, despite the decline in income that they suffer, continues to be bolstered by fears about the future. A sort of forced savings, an effect of the health and economic crisis that has been going on for some time, in the face of which many people postpone spending decisions for better times. An understandable reaction, which goes hand in hand with that of the many companies that have suspended new investment decisions, but which risks forcing the recession into a tailspin.

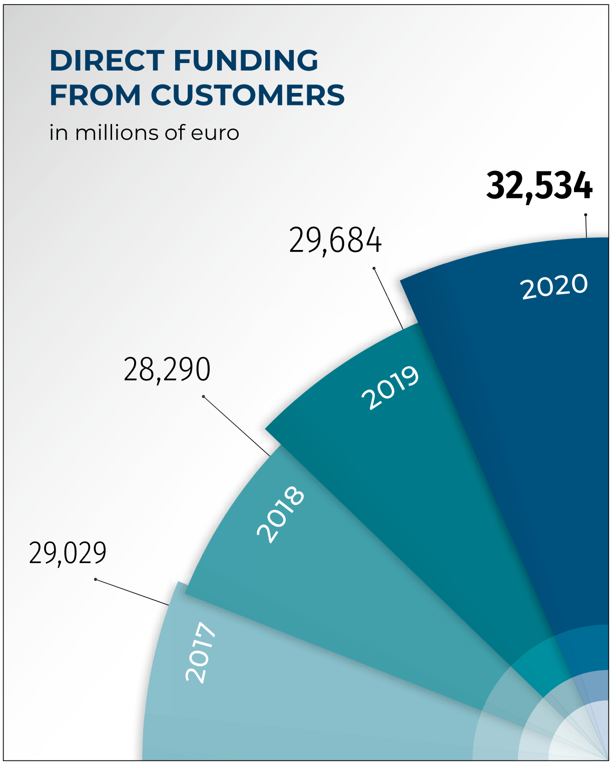
A very complex and problematic situation, in which our bank has aimed to offer itself to savers and customers as an institution capable of making available an adequate and competitive offer and above all to act as a reliable and safe counterparty. This, thanks also to the reconfirmed solidity highlighted by the various balance sheet ratios. The results obtained have undoubtedly been positive.

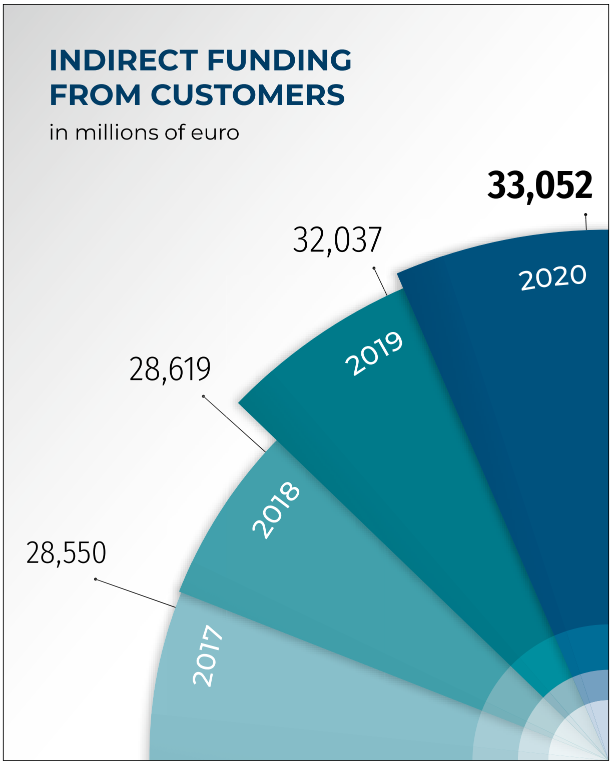
Direct funding, made up of liability line items 10b «due to customers» and 10c «debt securities in issue», total 32,534 million, +9.60%.

Marked to market, indirect funding from customers totals 33,052 million, +3.17%, due in particular to the positive performance of financial markets. Direct funding from insurance premiums increased to 1,717 million (+6.82%).

Total funding from customers therefore amounts to 67,303 million, +6.28%.

Deposits received from banks amounted to 8,859 million, down from 3,456 million. This exposure is mainly linked to long-term refinancing operations with the European Central Bank totalling 8,068 million, as explained in the chapter on «Treasury and trading operations». The securities





DIRECT FUNDING FROM CUSTOMERS

(thousands of euro)	31/12/2020	%	31/12/2019	%	Change %
Savings deposits	363,556	1.12	368,616	1.24	-1.37
Certificates of deposit	471	–	1,391	–	-66.14
Bonds	2,658,514	8.17	2,691,044	9.07	-1.21
Repo transactions	55,422	0.17	509,383	1.72	-89.12
Bank drafts and similar	149,595	0.46	91,419	0.31	63.64
Current accounts	28,034,924	86.17	24,429,011	82.30	14.76
Time deposit accounts	491,941	1.51	945,335	3.18	-47.96
Current accounts in foreign currency	585,592	1.80	431,964	1.46	35.57
Lease liabilities	193,634	0.60	215,362	0.72	-10.09
Total	**32,533,649**	**100.00**	**29,683,525**	**100.00**	**9.60**

TOTAL FUNDING

(thousands of euro)	31/12/2020	%	31/12/2019	%	Change %
Total direct funding from customers	32,533,649	39.33	29,683,525	40.93	9.60
Total indirect funding from customers	33,052,277	39.97	32,036,526	44.17	3.17
Total direct funding from insurance premiums	1,717,184	2.08	1,607,591	2.22	6.82
Total	**67,303,110**	**81.38**	**63,327,642**	**87.32**	**6.28**
Due to banks	8,858,608	10.71	3,456,147	4.77	156.31
Indirect funding from banks	6,541,248	7.91	5,740,763	7.91	13.94
Grand total	**82,702,966**	**100.00**	**72,524,552**	**100.00**	**14.03**

under administration lodged by banks have increased from 5,741 to 6,541 million, +13.94%.

Total funding from customers and banks therefore amounts to 82,703 million, +14.03%.

The table of «Direct funding from customers» shows the various elements using different criteria and in greater detail than table 1.2 in Section 1 Part B – Liabilities of the notes to the financial statements.

Considering the individual components, current accounts in euro and foreign currency rose to 28,620 million, +15.12%, and make up 87.97% of all direct funding. Bonds have declined by 1.21%, to 2,659 million. Time deposit accounts have fallen to 492 million, -47.96%. Repo transactions have decreased from 509 to 55 million, -89.12%. Savings deposits have fallen slightly by 1.37% to 363.5 million. Certificates of deposit are essentially stable at 0.5 million, confirming their marginal status. Bank drafts amounted to 150 million, +63.64%. Lastly, the line item representing lease liabilities, deriving from the method of recognition specified in IFRS 16, amounts to 194 million, -10.09%.

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

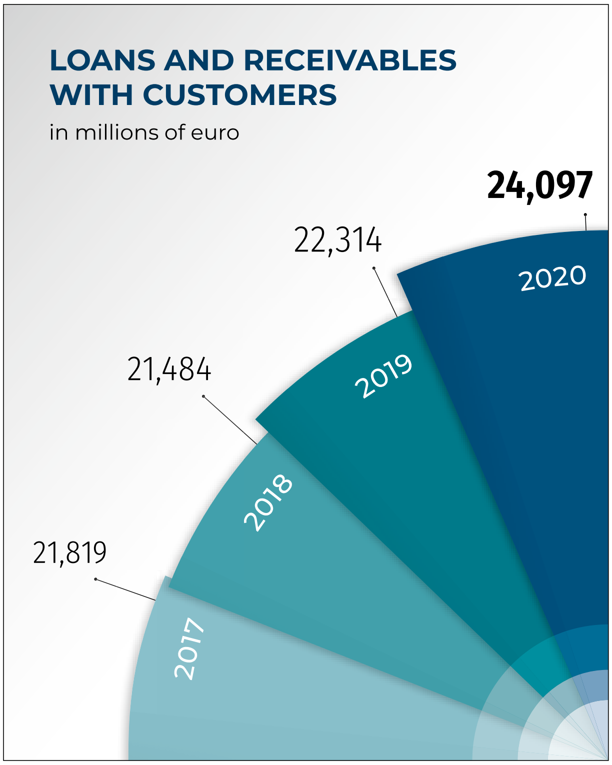
LOANS TO CUSTOMERS

The economic trend worldwide and within the European Union has been largely conditioned by the pandemic, which is still ongoing. After having strongly reduced the production cycle and international trade in the spring, Covid-19 granted a break in the summer, but its harmful effects have returned to be felt as new measures and restrictions have been introduced to protect the public health.

LOANS TO CUSTOMERS

(thousands of euro)	31/12/2020	%	31/12/2019	%	Change %
Current accounts	3,125,666	12.97	3,985,016	17.86	-21.56%
Foreign currency loans	608,137	2.52	742,258	3.33	-18.07%
Advances	379,927	1.58	410,737	1.84	-7.50%
Advances subject to collection	190,531	0.79	239,783	1.07	-20.54%
Discounted portfolio	2,906	0.01	4,738	0.02	-38.67%
Artisan loans	66,463	0.28	59,767	0.27	11.20%
Agricultural loans	10,561	0.04	21,079	0.09	-49.90%
Personal loans	240,958	1.00	257,344	1.15	-6.37%
Other unsecured loans	11,129,005	46.18	7,650,441	34.29	45.47%
Mortgage loans	7,225,929	29.99	6,971,118	31.24	3.66%
Bad loans	342,053	1.42	666,629	2.99	-48.69%
Repo transactions	67,273	0.28	1,099,082	4.93	-93.88%
Fixed-yield securities	707,971	2.94	206,022	0.92	243.64%
Total	**24,097,380**	**100.00**	**22,314,014**	**100.00**	**7.99%**

Italy has shared this difficult situation. After a better-than-expected recovery in the third quarter, the second wave led to new slowdowns that again hit the service sector the hardest.



In a very problematic context, rich more than anything else in uncertainties and risks, our bank, together with the companies of the Group, promptly activated, from March last year, a series of interventions for the benefit of the customers and territories that we serve. This was both in compliance with the government measures introduced mainly by the «Cura Italia» Decree and the Liquidity Decree, and in compliance with initiatives promoted by ABI at banking system level. And some were on a voluntary basis for the benefit of certain categories and types of contractual relationships, mostly not having the characteristics to access the first two facilitations mentioned.

The main initiatives include the granting of moratoria/suspensions on loans granted for the benefit of households and businesses: starting from March and up to 31 December, a total of almost 24,000 loans were granted for a residual debt of over 4,600 million, mostly attributable to the Cura Italia decree in support of SMEs (60% of the residual debt) and to households (17% of the residual debt). Also worth noting is the immediate activation, in order to meet the liquidity needs consequent to the limits on business operations imposed by the Authorities, of short-term personal loans and loans and temporary cash lines to replace unused self-liquidating credit lines, as well as that of loans and rescheduling of payments relating to sector contributions for professionals enrolled in pension funds affiliated with the bank. Joining the agreement to regulate the granting of advances of amounts owed by INPS to workers laid off temporarily as a result of the health emergency should also be mentioned. Subsequently, with the introduction of the Liquidity Decree in April, all of the types of financing were activated for the benefit of companies envisaged by article 13 (Central Guarantee Fund for SMEs) and by art. 1 (SACE). Particular emphasis is placed on the substantial numbers relating to the loans referred to in art. 13: as a whole, at 31 December, there were about 20,000 proposals approved for a total of over 2,101 million, including loans fully guaranteed by the Government for an amount up to 30,000 euro (15,400 cases for a total of 309 million), also issued through Confidi, mainly for the province of Sondrio, and ISMEA. An analysis was also carried out to identify the economic sectors most affected by the crisis, with in-depth analyses at the level of credit portfolio area by area, as well as assessments relating to the quality of the Bank's loan portfolio and the ability of customers to meet the commitments arising from their financial liabilities in a context of uncertainty like the present one. In addition, the bank has always continued to provide ordinary credit to support the financial needs of businesses and households, reflecting ongoing attention and proximity to its area of origin, even more so in the critical situation that the whole country is going through.

Loans to customers, as shown in the table below, constitute a restatement of the balances reported in the balance sheet and consist solely of loans, with the exclusion of securities, except for those that do not constitute a financial investment because of their nature. They are equal to the sum of the loans included in line item «40. financial assets measured at amortised cost – b) loans and receivables with customers» and line item «20. financial assets measured at fair value through profit or loss – c) other financial assets mandatorily measured at fair value».

Overall, loans to customers total 24,097 million, +7.99%.

NON-PERFORMING AND PERFORMING LOANS TO CUSTOMERS

(thousands of euro)		31/12/2020	31/12/2019	(+/-)	Change %
Non-performing loans	Gross exposure	2,184,712	3,606,701	-1,421,989	-39.43%
	Adjustments	1,152,795	2,090,802	-938,007	-44.86%
	Net exposure	**1,031,917**	**1,515,899**	**-483,982**	**-31.93%**
– Bad loans	Gross exposure	1,050,424	2,236,777	-1,186,353	-53.04%
	Adjustments	708,371	1,570,148	-861,777	-54.89%
	Net exposure	**342,053**	**666,629**	**-324,576**	**-48.69%**
– Unlikely-to-pay loans	Gross exposure	1,117,241	1,339,512	-222,270	-16.59%
	Adjustments	442,047	517,380	-75,333	-14.56%
	Net exposure	**675,195**	**822,132**	**-146,937**	**-17.87%**
– Past due and/or overdrawn exposures	Gross exposure	17,047	30,412	-13,365	-43.95%
	Adjustments	2,378	3,274	-896	-27.38%
	Net exposure	**14,670**	**27,138**	**-12,468**	**-45.94%**
Performing loans	Gross exposure	23,248,195	20,913,540	2,334,653	11.16%
	Adjustments	182,732	115,425	67,306	58.31%
	Net exposure	**23,065,463**	**20,798,115**	**2,267,347**	**10.90%**
Total loans and receivables with customers	Gross exposure	25,432,907	24,520,241	912,664	3.72%
	Adjustments	1,335,527	2,206,227	-870,700	-39.47%
	Net exposure	**24,097,380**	**22,314,014**	**1,783,365**	**7.99%**

The various types have contributed to total customer loans to a different extent.

The principal line item consists of unsecured loans that, following an increase of 45.47% to 11,129 million, now represent 46.18% of total lending. In turn, mortgage loans total 7,226 million, +3.66%, representing 29.99% of the total. This last item includes loans assigned but not derecognised in relation to the issue of covered bonds. These loans were not derecognised because the requirements of IAS 39 were not met. Current accounts are 21.56% lower at 3,126 million. Foreign currency loans total 608 million, -18.07%. Advances with recourse also decline to 191 million, -20.54%, as did other advances, -7.50% to 380 million, and personal loans, -6.37% to 241 million. Repo transactions, which act as a temporary investment of liquidity with institutional counterparties, fell drastically from 1,099 to 67 million, -93.88%. Debt securities amount to 708 million, +243.64%, and relate to customer loan securitisations carried out by Banca della Nuova Terra spa, a subsidiary, and by Alba Leasing spa, an affiliate, also including the securities issued, as part of the sale of NPLs by the SPV Diana and POP NPLS 2020 held by the bank.

The ratio of loans to direct funding from customers has fallen to 74.07%, from 75.17%.

Total net non-performing loans – comprising bad loans, unlikely-to-pay loans, past due and/or overdrawn exposures – have fallen to 1,032 million from 1,516 million, -31.93%, and now represent 4.28% of loans to customers compared with 6.79% at the end of 2019. The significant contraction is largely due to the two sales of NPLs during the year, but also reflects the positive effects of the policy of strengthening the corporate structures responsible for the disbursement, management and monitoring of credit.

Total adjustments of non-performing loans amount to 1,153 million, representing 52.77% of the gross amount, compared with 57.97% at the end of the prior year and 55.76% at the end of 2018. Gross non-performing loans have decreased from 3,607 to 2,185 million, -39.43%, partially thanks to the write-offs. The table provides an overview of non-performing and performing loans, with comparative amounts at 31 December 2019.

Net bad loans, after writedowns, total 342 million, -48.69%, or 1.42% of total loans to customer, compared with 2.99% at 31 December 2019. It is an important result that brings us back to the same level as the system as a whole, after years when the bank was at a higher level. This is the result of the derisking mentioned previously. To cover estimated losses on bad loans, adjustments fallen to 709 million, -54.89% compared with the comparative figure, providing coverage of 67.44%, compared with 70.20%. This coverage is among the highest in the banking system.

Considering the amounts written off against bad loans that are still tracked by the Bank in view of possible future recoveries, the coverage of such loans amounts to 85.16%.

Unlikely-to-pay loans are credit exposures, other than bad loans, for which it is deemed improbable that the obligor will pay its credit obligations in full without recourse by the Bank to such measures as the enforcement of guarantees. They have decreased to 675 million, -17.87%, or 2.80% of total loans to customers, compared with 3.68% previously, while the related adjustments amount to 442 million, -14.56%, with an improvement in coverage to 39.57% from 38.62%. The reduction in total provisions is linked to the transfer to bad loans of positions that already had a high level of coverage and to the closure of transactions of a significant amount.

Non-performing past due exposures and/or overdrawn accounts, other than non-performing loans or unlikely-to-pay loans, which, at the reporting date, have remained past due and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 15 million, -45.94%, and represent 0.06% of the total compared with 0.12% at the end of 2019.

Performing loans amounted to 23,065 million, +10.90%, with adjustments of 183 million, corresponding to 0.79%, compared with 0.55% of the previous year.

Total adjustments therefore amount to 1,335 million, -39.47%.

TREASURY AND TRADING OPERATIONS

Stockmarkets

In 2020, the stock markets moved in a context of extraordinary uncertainty caused by the outbreak of the Covid-19 pandemic. Despite everything, the year closed with positive results, except in Europe.

In particular, the first quarter was hit by profound upheavals. Stock market crashed by more than 30%, accompanied by a surge in volatility. The gravity of the situation induced governments to intervene with rapid and incisive measures to support the economy, launching extraordinary stimulus plans. In Europe, the suspension clause of the Stability Pact was activated and member countries have been granted ample flexibility in the management of public spending. In addition, a plan was approved in favour of the countries most affected by the pandemic which provides for the establishment of a recovery fund of 750 billion, in the form of non-refundable grants and loans. This manoeuvre supports the various national relaunch programmes and the safety net linked to three other instruments: the European Stability Mechanism (ESM), the Emergency Fund of the European Investment Bank (EIB) and the «SURE» (Support to mitigate Unemployment Risks in an Emergency) anti-unemployment plan.

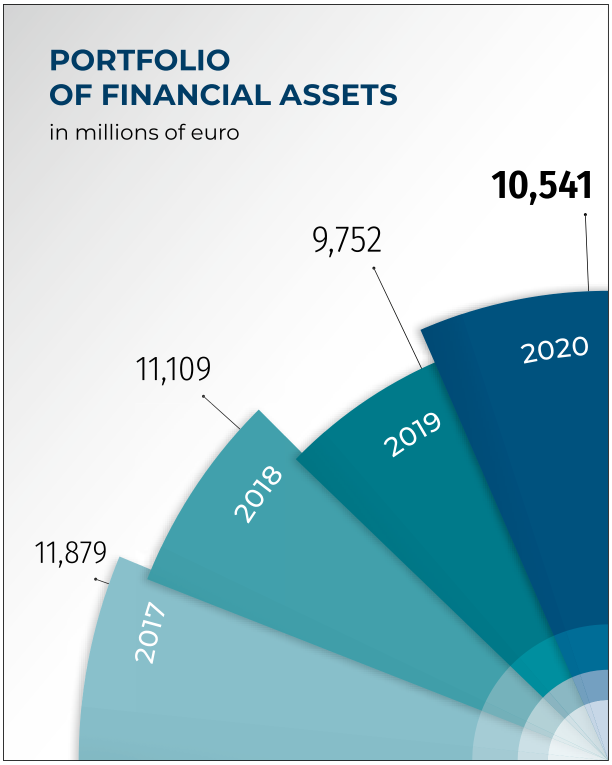
On the monetary policy front, all central banks managed the emergency by strengthening their expansionary stance.

This kick-started a recovery in equity markets, helped by initial progress in containing the pandemic. Wall Street hit new all-time highs towards the end of the year with the S&P 500 up 16.26%. Worth noting is the extraordinary performance of the Nasdaq index which, with an amazing +43.64%, testifies to the growing interest of investors in the technology sector.

The situation in Europe was less positive, where the main stock exchanges failed to recover the levels at the end of 2019 (with the exception of Frankfurt at +3.55%): the Euro Stoxx 50 index closed the year at -5.14%; there were heavier losses in Milan (-5.42%), Paris (-7.14%) and Madrid (-15.45%). Compared with other areas in the world, the collapse of production during the first wave of the pandemic and the gruelling negotiations about Brexit had an impact. London also recorded a decline of 14.34%.

In Japan, the stock market rose by 16.0%. The so-called emerging nations and, in particular, the Asian ones were driven by the recovery of the Chinese economy (which was able to react relatively quickly to the health crisis) and by the signing of the historic RCEP (Regional Comprehensive Economic Partnership) agreement, the largest free trade agreement in the world involving 15 nations in the Asian area (including China, Japan and Australia), 2.5 billion people and 30% of world GDP. In summary, the MSCI Emerging Markets local index rose by 16.64% in 2020.

International bond markets were also affected by the events relating to the health emergency and, in this context, record levels were reached. In the first phase of the pandemic, the uncertainties and panic of investors translated into a flight to quality, which mainly rewarded fixed income securities in the United States and Germany; subsequently, the powerful monetary stimuli implemented by central banks reinforced the tendency for interest rates to fall. The US Federal Reserve cut official rates on two occasions by a total of 150 basis points, substantially zeroing the Fed Funds rate (now in the 0-0.25% range), and announced a series of expansionary measures. Short-term yields collapsed to around 0.10% and 10-year Treasuries fell from close to 2% at the end of 2019 to 0.40% in March, before returning close to 1% at the end of the year.



In the Eurozone, the ECB maintained the same level of official rates, already at historic lows, expanded Quantitative Easing and introduced and subsequently strengthened the Pandemic Emergency Purchase Programme (PEPP); this was accompanied by the announcement of new longer-term refinancing operations to banks. The German yield curve fell on all maturities into negative territory and the yield on 10-year Bunds reached a low in March at around -0.90%, closing December at around -0.60%. The peripheral countries of the Eurozone first suffered from the fear of a marked deterioration in public finances due to the pandemic, but they then benefited above all from the safety net created by the governments and central banks.

In Italy, yields showed a gradual return from the most acute phase of tension when 10-year bonds exceeded 3%. At the end of 2020, the Italian curve fell into negative territory until the 5-year maturity and the 10-year BTP rate closed at around 0.54%, down by 87 basis points from the levels at the end of 2019. The 10-year BTP-Bund spread also improved; after reaching a high of over 300 cents at the peak of the emergency, it contracted at the end of the year to around 110 bps.

The operations of the corporate treasury department were characterised by an increase in the use of the Deposit Facility at the ECB, an instrument without risk and remunerated at -0.50%. Operations on the money market were intense despite the decline in the interbank market compared with the previous year. Operations on the e-MID market ceased from 31 December 2019. The volume of repurchase agreements on the MMF (Money Market Facility) market, which benefits from the guarantee of the Compensation and Guarantee Fund, has more than doubled, with a strong prevalence of funding operations at particularly profitable rates.

The net interbank position was 3,751 million negative at 31 December 2020, compared with 1,090 million negative at the end of 2019. Cash and liquid assets total 4,263 million, compared with 1,153 million. At year end, there were three T-LTRO III outstanding with the ECB totalling 8,068 million. The first operation was launched with 1,600 million on 18 December 2019, expiring on 21 December 2022 and with the option of quarterly early repayment starting from September 2021. The second one was completed on 25 March 2020 for the amount of 2,100 million with expiry on 29 March 2023 and the option of early repayment from September 2021. The third, of 4,368 million, began on 24 June 2020 and expires on 28 June 2023, with an early repayment option from September 2021. So, without these T-LTRO III operations, the balance would have been positive for 4,317 million.

Throughout the year, the daily liquidity position reflected substantial deposits with the ECB. The exposure to liquidity risk is monitored both in the short term, taking a 3-month view every day, and over the long term with a monthly check. The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are higher than the established minimums. The stock of high-quality financial assets eligible for the ECB was substantial at all times.

At 31 December 2020 the portfolios of financial assets represented by securities and derivatives amounted to a total of 10,541 million, up by 8.09%, after the decrease of 12.22% that characterised the comparative year. The increase follows from the need to allocate part of the abundant liquidity enjoyed by the bank during the year, especially after recourse to the ECB's T-LTRO III refinancing operations. The purchases, made above all in the second quarter, concerned government bonds and corporate bonds mainly allocated to the HTC portfolio. The following table summarises the various amounts involved and the percentage changes.

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

(thousands of euro)	31/12/2020	31/12/2019	Change %
Financial assets held for trading	169,743	225,786	-24.82
of which, derivatives	38,940	43,481	-10.44
Other financial assets mandatorily measured at fair value	687,371	428,417	60.44
Financial assets valued at fair value through other comprehensive income	2,617,073	2,590,618	1.02
Financial assets measured at amortised cost	7,066,538	6,507,311	8.59
Total	**10,540,725**	**9,752,132**	**8.09**

As in the past, the portfolio mostly comprises domestic government securities, despite the substantial sales of, in particular, securities near to maturity. The year featured a sharp increase in the overall trading volumes compared to the previous period. The expansionary policy adopted by the ECB has lowered yields on public debt to all-time lows, with negative or zero yields at the short end. The duration of the portfolio is approximately three years and eight months, a slight increase compared with the previous year.

Financial assets held for trading

The trading portfolio, while still with insignificant volumes, as in previous years, recorded a certain amount of movement, generating a negative trading result largely on equities and ETFs. This portfolio totals 170 million, down 24.82% from 226 million previously.

(thousands of euro)	31/12/2020	31/12/2019	Change %
Floating-rate Italian government securities	–	17,590	-100.00
Fixed-rate Italian government securities	25,440	65,108	-60.93
Variable-yield securities	66,970	57,212	17.06
Mutual funds	38,393	42,395	-9.44
Net book value of derivative contracts	38,940	43,481	-10.44
Total	**169,743**	**225,786**	**-24.82**

The composition of the trading portfolio is simple and transparent. Sales of financial assets have continued, with government securities falling to 25 million from 83 million in the prior year (-69.24%) and now representing 14.99% of the portfolio compared with 36.63%; the stock of equities has increased to 67 million, +17.06%. Despite the recoveries in financial markets from the second quarter, the net of capital gains and losses was still negative.

Other financial assets mandatorily measured at fair value

The financial assets measured at fair value have increased by 60.44% to 687 million from 428 million previously. Funds and Sicavs of various kinds in euro increased sharply and are now equal to 95.27% of the portfolio. Purchases were mainly of short-term funds managed by Arca SGR and Etica SGR.

(thousands of euro)	31/12/2020	31/12/2019	Change %
Other bonds	3,857	6,207	-37.86
Mutual funds in euro	654,866	393,122	66.58
Mutual funds in foreign currency (USD)	28,648	29,088	-1.51
Total	**687,371**	**428,417**	**60.44**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS) totalled 2,617 million, +1.02%. Sales of short-term Italian government bonds at negative yields continued during the year, against an increase in those with longer maturities. Spanish government bonds, on the other hand, were increased with a view to diversification. Bonds were increased mainly due to the purchase of corporate securities, mainly of financial companies. Overall, Italian government bonds rose slightly to a total of 1,471 million, compared with 1,436 million; they still represent the main component (56.21%), with diversification represented by fixed-income Spanish government securities totalling 480 million. In accordance with established operational practices, this portfolio contains part of the invested liquidity in order to contain, if only partially, the impact on the income statement of the volatility always found in the financial markets. Against a slight increase in Italian government bonds of 2.46%, foreign government bonds have increased by 57.47%. The bank bond component was also reduced by 41.64%, while the corporate component reached 54.89%; variable-yield securities also rose by 16.24%. During the year, the residual portion of the Nexi spa shares held was sold, generating a capital gain of 32.610 million (accrual for the year 5.890 million) which, in accordance with IFRS 9, was booked to reserves. The entire investment in Release Spa was also sold, after it had already been completely written down during the year for 9.194 million with a negative effect on reserves.

(thousands of euro)	31/12/2020	31/12/2019	Change %
Floating-rate Italian government securities	1,039,429	650,637	59.76
Fixed-rate Italian government securities	431,999	785,471	-45.00
Foreign government securities	479,828	304,715	57.47
Bank bonds	372,950	639,045	-41.64
Other bonds	191,925	123,909	54.89
Variable-yield securities	100,942	86,841	16.24
Total	**2,617,073**	**2,590,618**	**1.02**

Financial assets measured at amortised cost

The securities measured at amortised cost comprise part of the financial assets measured at amortised cost (HTC) and total 7,067 million, compared with 6,507 million, +8.59%. The increase continued, following that recorded in the comparative period as part of the reallocation of portfolios. During the year, floating-rate Italian government bonds rose by 30.45%, while those at fixed rates fell by 9.06%, without major changes overall. The number of foreign government bonds also rose, +17.43%, with French government bonds substantially unchanged, while there was an increase in Spanish ones. Corporate bonds, high-rated covered bonds, senior preferred and non-preferred and subordinated Tier 2 bank issues were subscribed mainly on the primary market, +11.67%. Some sales were made, within the limits of the accounting policies, which resulted in gains in the income statement in partial compensation of the losses incurred in the trading sector. The securities in this segment have an overall duration of about 3 and a half years.

(thousands of euro)	31/12/2020	31/12/2019	Change %
LOANS AND RECEIVABLES WITH BANKS	**536,485**	**480,402**	**11.67**
Italian bank bonds	378,270	324,241	16.66
Foreign bank bonds	158,215	156,161	1.32
LOANS AND RECEIVABLES WITH CUSTOMERS	**6,530,053**	**6,026,909**	**8.35**
Floating-rate Italian government securities	1,054,114	808,060	30.45
Fixed-rate Italian government securities	3,286,480	3,613,891	-9.06
Foreign government securities	1,687,063	1,436,621	17.43
Other public administration bonds	107,397	93,266	15.15
Other bonds	394,999	75,071	426.17
Total	**7,066,538**	**6,507,311**	**8.59**

Asset management

During the year under review, the dynamics of the asset management industry were also conditioned by the trend in the Covid-19 pandemic and its path substantially followed that of the financial markets.

After a difficult first quarter, a gradual recovery began, which pushed volumes towards new all-time highs.

Investors' preference for foreign products was also confirmed in 2020 and, by type of asset class, there was a tendency to go for equity and balanced funds.

The assets managed in various forms by the bank total 5,431 million, +2.06%, of which 4,160 million, +2.54%, relates to mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; assets managed by the Bank total 1,271 million, +0.54%.

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 relate to our subsidiaries.

At 31 December 2020, equity investments amounted to 613 million, a decrease of 7 million, -1.11%.

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

Despite the general difficulties caused by the pandemic, which also hit Switzerland hard, streamlined operational management and the quality of the internal organisation made it possible to expand the volumes handled and, thanks to effective control of risks and careful monitoring of costs, to significantly increase the profit, which rose to CHF 20 million, +20%.

There was a satisfactory increase in the aggregates. Customer deposits total CHF 5,140 million (+3%), with direct deposits of CHF 3,255 million (+5%) and indirect deposits of CHF 1,885 million, practically unchanged.

Loans to customers rose to CHF 4,809 million (+7%), of which CHF 4,288 million (+7%) with mortgage guarantees almost entirely secured on residential property.

Expansion saw the opening of a new branch in Vevey, in the Canton of Vaud, reaching a total of 20 branches located in 8 Swiss Cantons and in the Principality of Monaco, in addition to the representative office in Verbier and the Direct Banking virtual unit.

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

In a year profoundly marked by the Covid-19 pandemic, in line with its objectives and with the approved development plan, the subsidiary's activities focused, above all, on increasing turnover and loans, without lose sight of credit quality and the profitability of the managed portfolio.

From a commercial point of view, the action was carried out by targeting larger corporate customers operating in sectors less affected by the restrictions introduced to combat the Covid-19 pandemic; 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). The commercial activity therefore benefited from investments in distribution capacity, specialisation of the offer and technology, which made it possible, especially during periods of generalised closure of production activities, to maintain a constant relationship with customers, even remotely.

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 5.22% share of turnover.

The year, its 42nd, closed with a profit of 7.9 million, an increase compared with 2019 thanks to the increase in loans and the ability to deal effectively with the complexity of the pandemic situation.

Banca della Nuova Terra spa – BNT spa (100%). This «product-specific» bank focuses on the granting of loans backed by the assignment of one-fifth of salary (CQS) or pension (CQP) and the fulfilment of payment instructions (DEL), while also continuing its traditional activity of making advances to farmers against their grants from the Common Agricultural Policy (CAP Advances). This last type of activity, the CAP advance, was temporarily interrupted in 2020 due to Agea's different way of managing community contributions to farmers, much faster and leaner than in the past.

The subsidiary's activities therefore concentrated on increasing operations in the salary-backed loan sector. A sector that in 2020 suffered an overall decline in volumes financed at national level, as was the case for all consumer credit, due to the health crisis. In this complicated context, BNT, in positive contrast, continued to grow, with a significant increase in the volume of loans disbursed to employees and pensioners, from 55 million net disbursed in 2019 to 62 million net disbursed in 2020.

The improvement in the processes and procedures underlying the placement of products continued unceasingly, which still takes place mainly through the bank's branch network and the activation of an ever-increasing and qualified series of agreements with public bodies, private companies and insurance partners of high standing to support the business.

Alongside the BPS branch network, BNT now supports 13 administrative offices that serve part of the national territory not covered by the Parent Company's network, ensuring a presence especially in the southern regions that traditionally use salary-backed loans, especially in the segments of government employees and pensioners. A lot has also been invested in the digitisation of processes. This made it possible, during construction, to activate advanced methods of distance selling, managing to serve the market well, even during the most acute phase of the pandemic.

The project, which is currently being implemented, aims to create an operator that stands out for its operational efficiency, transparency, ethics and product quality until it becomes a reference player at national level in the sector of salary-backed loans and consumer credit, in support of the financial needs of employees, pensioners and households.

BNT closed the year with growth and a profit of 1.7 million.

Pirovano Stelvio Spa (100%). Company operating in the hotel sector at the Stelvio Pass and in Bormio with the management of holiday homes.

In addition to its core business, Pirovano Stelvio Spa primarily supports the practice of summer skiing and mountain education in all its aspects. It is more than ever engaged in activities aimed at enhancing and learning about the history and beauty of the Stelvio National Park, including the events that took place at high altitudes during the First World War.

Due to the situation created following the coronavirus pandemic and the various measures that have been introduced to contain its spread, 2020 resulted in a decrease in visits of around 65%, compared with the 2019 season, while, again for the same reason, short rental stays for tourist purposes decreased by about 32%.

The commitment that the subsidiary Pirovano Stelvio dedicated to the organisation of the various events, mostly of a sporting nature, traditionally held during the summer season has also been cancelled, due to the strict bans imposed to combat the spread of Covid-19.

Sinergia Seconda srl (100%). This is a real estate company. The subsidiary mainly carried out functions related to the real estate needs of Banca Popolare di Sondrio and its Banking Group. During the year, it intensified its operations, acquiring real estate assets as part of the management of the Parent Company non-performing loans and disposing of others coming from similar transactions, completed in previous years, for which interested parties have been identified.

The banking properties held by Sinergia Seconda Srl are rented, on market terms and conditions, to members of the Banking Group. Based on contractual agreements, Sinergia Seconda srl also manages and maintains the units rented for other purposes.

The company's core business turned in a positive result in 2020 as well.

However, the result shown in the financial statements is negative due to the impairment losses suffered on the equity investments that the company holds in Immobiliare Borgo Palazzo srl and Immobiliare San Paolo srl, which management decided to make for prudential reasons, with the aim of realigning the carrying amounts of some of the properties they have acquired over the years to current market values, taking into account the wide variations recorded in these years of crisis in the sector.

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

As part of the programme for the issue of covered bonds implemented by the bank in compliance with current regulations, the objective of this vehicle company is to purchase blocks of construction and mortgage loans from banks, which are held as fully-separate assets with respect to those owned by the company.

To the extent of its responsibilities, the company manages the assets concerned as a safeguard for subscribers of the securities issued.

Its results should close around break even.

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

It owns a portion of a condominium in central Sondrio. From 1 January 2020, the entire property has been rented to two tenants.

The company's results are positive.

As explained in the press release of 26 February 2020 and in the paragraph «Significant subsequent events» in the financial statements for 2019, in agreement with the Higher Supervisory Bodies and considering the failure to fulfil the conditions precedent of a regulatory nature, the bank decided not to go ahead with the acquisition of a controlling interest in Farbanca S.p.a., having regard to the need to give priority to the derisking initiatives currently in progress and to the strengthening of the internal oversight structures.

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. Also by the Supervisory Provisions for Banks, issued by the Bank of Italy with Circular no. 285/2013 and subsequent amendments, third part, chapter 11, Risk activities and conflicts of interest towards related parties.

Among other things, both regulations provide for the approval and publication of internal regulations, available on the company's website at https://istituzionale.popso.it/en/governance/corporate-governance-reports.

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 13.50% of total loans to customers and banks and financial assets and 0.70% 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 2020, the Bank's corporate bodies decided the following transactions of greatest significance:

– Release spa, associated company; renewal of lines of credit totalling € 92,000,000 repayable on demand; resolution of 7/2/2020;
– Banca della Nuova Terra spa, subsidiary; grant of a credit line in the finance area of € 320,000,000 expiring on 21/12/2022; renewal of lines of credit totalling € 6,000 repayable on demand; resolution of 27/2/2020;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of currency conversion facilities of € 1,600,000,000; renewal of lines of credit totalling € 620,916,197 repayable on demand; resolutions of 29/5/2020;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; granting of an overdraft facility of € 81,000 repayable on 1/10/2020; resolution of 9/7/2020;
– Factorit spa, subsidiary; revolving facility for guarantees in favour of residents of up to € 20,000,000 repayable on demand; renewal of lines of credit totalling € 3,020,101,500 repayable on demand; resolution of 1/10/2020;
– Factorit spa, subsidiary; revolving facility for guarantees in favour of residents of up to € 45,000,000 repayable on demand; resolution of 1/12/2020;
– Alba Leasing spa, associated company; renewal of lines of credit totalling € 439,028,948 repayable on demand; resolution of 1/12/2020.

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 2020 balance sheet or results with regard to the related-party transactions carried out during 2019; in any case none were atypical, unusual or not on market terms.

In relation with the Consob Communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the 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 2020 and in the current year, no positions or transactions deriving from atypical or unusual operations have arisen. According to Consob Circular 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 at the link https://istituzionale.popso.it/en/governance/corporate-governance-reports. This document reports, among other things, the fact that the Bank has not adopted the Code of Conduct approved by the Committee for Corporate Governance.

INTERNATIONAL UNIT

As is well known, the economic and social events of the year under review were influenced, if not largely determined, by the pandemic still in progress.

Some observers have pointed out that economic globalisation, characterised by increasingly intense trade exchanges and the accentuated mobility of people, has favoured the spread of the virus, so much so that the difficulties and problems that first manifested at the local level then had global consequences. Initiated in the Far East, the pandemic wave has in fact spread like a circle on water, rapidly crossing seas and oceans, until it reached the main world economic areas in an increasingly disruptive way.

International trade has obviously been affected. However, if we want to draw a lesson from what has happened, it must be said that only stronger international cooperation will be able to give a decisive push to solve the serious health problems that we now have, these are in turn linked to the issues of sustainable development, able to bring benefits also to the many countries still excluded from economic and social progress.

Careful assessments must also be made on delicate and important issues such as our dependence on third countries for the production of indispensable drugs or medical instruments. Similarly, many companies will be asked to question the risks associated with global value chains that are perhaps too long. However, we are convinced that the Coronavirus must not be an excuse for us to live separately again, but rather an opportunity to join forces, so as to pursue common interests more vigorously and effectively.

The professionalism of our collaborators, thanks to the experience gained over the years on foreign markets, the ability to provide each interlocutor with personalized answers, the availability of qualified products and the capillarity of the relationships established with banking and financial partners all over the world have allowed us to become a point of reference for companies called upon to face, on the one hand, the inevitable and significant contraction in international trade, and on the other, the expansion of the risks generated by imponderable events that are difficult to foresee.

In a general context that is very problematic, our bank has carried out support activities for companies in the internationalisation sector, also with a training proposal aimed at increasing specific skills on foreign trade techniques. The pandemic did not stop these initiatives: thanks to WebEx Events, a new IT tool, events were organised online, which was much appreciated by customers. Two courses in particular concerned e-commerce, a reality that has been growing rapidly for some time and that has shown a real explosion with the lockdown.

The cycle of country presentations has continued in collaboration with the Italian Chambers of Commerce Abroad, in the same way that we have created two incoming events for foreign buyers, again in a web environment.

The presence of our institute, as a reference associate, in the European Group of Economic Interest (EGEI) Coopération Bancaire pour l'Europe (CBE) based in Brussels has allowed us to offer diversified services to customers interested in projects, tenders and programmes on European funding. With a view to satisfying further the needs of firms, CBE introduced numerous innovations during the year and updated its catalogue of products. It has also further developed an autonomous and significant activity on European tenders in collaboration with numerous counterparties, with good results.

The correspondent banking sector was able to carry out important missions abroad at the beginning of 2020, before the health emergency blocked travel. The pandemic was the stimulus to redesign the role of this important function, which played a valuable role in support of the operational offices, creating numerous business opportunities. It managed 1,657 agency relationships with as many banks in 162 countries and facilitated the start of new relationships with qualified institutions; it optimised the management of foreign payment and collection flows; it led operations with multilateral development banks to use their credit guarantees issued by foreign credit institutions or to guarantee our deposits to foreign counterparties.

For its part, the representative office in Shanghai has offered customers a point of support and reference for business in China. The office provides Italian companies with various services to accompany customers in the Chinese market, assisting them in starting new business relationships with local counterparties, in consolidating existing collaborations, in visiting or participating in local trade fairs and events and in managing relations with the Authorities. Despite the particularly complex period experienced first in China and then in Italy due to the pandemic, our assistance to customers operating in that important market has never stopped.

The International Unit has always been attentive to the quality of the services provided. For this reason, since the end of the '90s it has activated a quality management and governance system certified according to the ISO 9001:2015 standard. Five certifications are held at present, covering various operational areas.

The International Unit is the corporate contact for the Global Compact, the United Nations' initiative to promote corporate social responsibility at a global level.

We were among the first in Italy to sign this commitment back in 2004; today 12,084 companies in 157 countries are part of it. As is well known, the Global Compact intends to be a stimulus to the world of business and non-governmental organisations to align their strategies and activities with fundamental principles in terms of human rights, work, environment and the fight against corruption.

Our bank immediately took a commitment, submitting its voluntary membership to the New York office, which was then renewed every year by sending a Communication on Progress, which explains the progress made by the company in implementing the principles and the directors' commitment to uphold the social, ethical and environmental values that have always been intrinsic to our nature as a «cooperative bank». Since 2017, the official communication sent to New York, instead of a «stand alone» document, now consists of the company's Non-Financial Report, accompanied by a declaration of «continuous support» from our Chairman.

We renewed our adhesion to the United Nations Global Compact as a «signatory», a profile which distinguishes those realities that are mainly engaged on a national level. As founding members of the Italian Network, we attended the meeting held in Milan in May to elect the members of the Board of Directors.

COMMERCIAL SERVICES AND PROJECTS

It is a matter of pride that, in a year marked by the serious difficulties that Covid-19 has caused, also for the conduct of our business, we have been able to present new products and services. In an objectively difficult economic situation, efforts have in fact increased to meet the needs of counterparties and offer convenient and competitive solutions. With this in mind, great attention was paid to facilitating customers in accessing the support initiatives put in place by the Authorities to overcome the economic difficulties caused by the pandemic. Simple, user-friendly solutions, a tangible sign of that brand of «proximity to the territory» that characterises our bank.

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

Covid-19 has largely influenced the methods of using banking services, both digital and physical. The restrictions placed on access to branches have naturally led to a wider use of the digital bank for information and payment operations, as well as for interaction with the branches. The bank has responded to the new needs by creating solutions to facilitate remote relationships with customers. Contact functions have been strengthened via SCRIGNO Internet Banking with the reference branches; an initiative was also launched, on an experimental basis, to allow virtual meetings on the digital channel through audio-video conferences.

Solutions were therefore implemented to manage dossiers remotely and, among these, we recall the possibility, through a specific digital procedure, of requesting the suspension of instalment payments on home-purchase loans because of the Covid-19 emergency. Furthermore, to facilitate contact with customers, we have activated a specific chatbot, a virtual assistant on the Scrigno portal, which made it possible to significantly reduce waiting times despite an increase in traffic.

SCRIGNOapp

At the same time, substantial investment has of course been dedicated to IT security. The new SCRIGNO app IdentiTel has been improved with the introduction of Push IdentiTel notifications. In a nutshell, when the customer has to authorise an operation, they receive a notification on their smartphone (previously enabled) and after verifying the data made visible in a secure way by the app, authorise it with biometrics (or by keying in a PIN code).

Still on the security front, the 3D Secure solution was updated at the end of the year, which involved payment card holders. Given the entry into force of the European Payment Systems Directive (so-called «PSD2») from 1 January 2021, the need was introduced to provide for so-called «Strong Customer Authentication» (SCA) of online transactions carried out with cards.

SoPOP current account

In the difficult pandemic context, the bank took prompt action to offer concrete support to households in difficulty. It is in this spirit that it adhered to the Agreement between the Italian Banking Association and the social partners to anticipate income integration treatments to workers made redundant by the Covid-19 emergency, creating an ad hoc solution without any costs for the customer. At the same time, it has kept up its efforts on the commercial front, innovating its catalogue with a keen eye on the changing dynamics of the new context. This is how the «SoPOP» online current account took shape, designed for university students and still usable once they have started working; in addition, operations were activated for the purchase of tax credits related to building redevelopment and energy efficiency measures, as envisaged by the Relaunch Decree. Customers interested in ceding their tax credit are given the possibility, among other things, to finance the works with loans designed for this purpose.

Arca Fondi Sgr

News and updates covered the various services developed for investors. Arca Fondi Sgr has enriched and updated its range with several new funds: «Arca 2025 Multi-Strategy Prudente I, II, III, IV», «Arca Opportunità Sostenibili 2025 I, II, III, IV», and the new ESG (Environmental, Social and Governance) fund known as «Arca Green Leaders».

Arca Vita

As regards Arca Vita's insurance investment products, the basket of external funds present in the «Ingegno» and «Cromìa» multi-class solutions was expanded with the introduction of new UCITS/Sicavs of prestigious international management houses. Again in the field of bancassurance, the increased sensitivity to health issues, exacerbated by the health emergency, found an answer in the «ACuore» health policy.

Arca Assicurazioni

As part of a line of products dedicated to the world of health, Arca Assicurazioni has introduced coverage to protect from Covid-19, such as a daily allowance if found positive from a tampon, flat-rate compensation following hospitalisation in intensive care and a video medical consultation. The supplementary pension proposal has been updated with Arca FUTURA, an innovative method of offering the Arca Previdenza pension fund aimed at minors through the sale of Smart Boxes over the counter.

Nexi

In the e-money sector, the company introduced the new Nexi Debit debit cards which, in addition to being inserted in major digital wallets, are delivered to customers at the time of the request at the branch and activated immediately. The attention paid to the evolution of customers' requirements in the end led to the enrichment of the functions present in Nexi credit cards: the Easy Shopping service has introduced the «Multi-shopping» method, which allows you to combine various expenses and then ask to pay in instalments.

www.popso.it

Since 1995, the popso.it portal has confirmed itself as a much appreciated showcase of the company's commercial offering. It gives customers access to all information on the products and services offered in a simple and intuitive way. In addition, the institute has other significant initiatives on the network, including the portal www.popsoimmobili.it, a showcase of properties for sale by the bank and by third parties.

RISK MANAGEMENT

The health emergency that has plagued us for over a year reminds us how fragile our economic and social systems can prove to be when faced by a global systemic shock of such a magnitude. The necessary restart from the recessive abyss will depend on the speed at which vaccination coverage will be implemented and can only go hand in hand with structural actions to increase resilience and sustainability. In this respect, the years to come could represent a turning point: we have an opportunity to overcome this difficult phase thanks to the affirmation of new lifestyles and more sustainable development models.

Coming to the banking context, the pandemic was the event that inevitably marked the trends of the last twelve months and conditioned future prospects, testing the resilience of the entire system. Uncertainty was the element that characterised this unprecedented shock; Social restrictions were quickly implemented to limit the virulence of the contagion, counterbalanced by robust economic, fiscal and monetary support policies, but the scenarios remain highly uncertain.

Our institute has also been able to react to the serious and unpredictable pandemic situation, demonstrating adequate operational capabilities to face unexpected challenges. This is the distinctive character of the Popolare di Sondrio and this year marks the 150th anniversary of its foundation.

However, it is widely believed that the crisis unleashed by Covid-19 has not yet fully affected banks' financial statements. The growth in non-performing loans has been limited by measures to support the liquidity of companies and households (moratoria and public guarantees on loans), by those to reintegrate personal income and business activities and by the expansive monetary policy decisions of central banks. According to market estimates, once the effects of these provisions run out, the repercussions on debtors could be significant, especially in certain sectors that have been hit worse by the restrictive measures; however, as of today it is difficult to predict the exact extent of this phenomenon: much will depend on the intensity of the economic recovery, in turn correlated to the action of factors such as the trend of the pandemic, the effectiveness of vaccination treatments, the vitality of the productive fabric and Italy's ability to fully exploit Next Generation EU.

Climate issues and, more generally, «sustainability» issues are, in the opinion of many, one of the most important problems that humanity has to face, and as such cannot leave the banking industry indifferent. To cope with the risks – but also the opportunities – associated with the transition to a «sustainable economy», intermediaries are called upon to do their part by increasing internal awareness and transparency towards the outside, by providing adequate organisational and control systems and adopting innovative methods of analysis to determine the impact on portfolios and business strategies, also in the long term.

The transformations induced by the development of technologies represent another huge challenge, but also an important opportunity. The digitisation of the financial sector (FinTech) makes it possible to optimise internal processes, reducing costs and increasing productivity and competitiveness; it also makes it possible to improve what we offer with innovative and more efficient products and services, and new delivery methods. Trends observed during the lockdowns, such as the accelerated path of digitisation, a more massive use of online channels on the part of customers and the spread of remote working are destined to continue and even intensify in the future. Our bank is also facing change by ensuring correct management of the risks and threats associated with these phenomena.

Despite some lightening by the Supervisory Authorities, risk management and control activities continued unabated, indeed at a faster pace given the emergency. The outbreak of the pandemic has led to inevitable changes in the methods and instruments of monitoring, affecting methodological structures, models and reporting systems. The ability to carry out analyses and simulations was then refined to determine in perspective the capital and risk impacts of possible scenarios, making it easier and more timely to identify any countermeasures.

Credit and counterparty risks

Despite the complexities of the situation, we succeeded in completing two transactions for the sale of large packages of non-performing loans which led to a significant easing of thestock of lower quality exposures, giving the bank the opportunity to look at these unhappy times with a bit more serenity.

In addition to these extraordinary initiatives, the programme of medium-term interventions on NPLs continues with rigour, in line with the strategies of derisking and improvement of the overall quality of assets. The guidelines for action include a wide range of operational levers aimed, on the one hand, at stemming the inflows of new NPLs and, on the other, reducing the volumes in portfolio. The effectiveness of the measures implemented so far can be seen in the significant improvement in the indicators of credit quality in the last year.

The ordinary credit risk monitoring activity was necessarily intensified given the emergency situation. A dedicated internal task force has been set up to manage the urgency, in charge of supporting the territorial network in discerning the situations of temporary financial difficulty that the individuals and companies affected by the crisis are experiencing – therefore deserving of a liquidity support to get back on top – from more structural problems that would risk turning out to be wearisome to resolve in the medium to long term. For the occasion, daily monitoring of the financial support measures adopted by the Bank in response to the pandemic was also instituted, accompanied by constant observation of how the market and the various sectors of the economy were evolving, all with a view to producing constantly updated estimates of the impacts of this difficult situation on business.

Various other initiatives have favoured proactive management of the risks that have become acute with the emergency and have made it possible to keep under constant observation the effects of the pandemic on the orderly management of the company while having to cope with the many changes in the regulatory framework that are taking place and the evolutions of the sanitary situation. This phase of extreme uncertainty has coincided with the introduction of new European criteria for the identification of bank loans in a state of default. During 2020, complex activities to prepare and adapt to the new rules were completed, requiring profound interventions on organisational processes, statistical models and IT infrastructures.

The new provisions, more stringent than the previous ones in terms of the classification of NPLs, encourage banks to adopt proactive policies towards their problematic debtors. In this regard, the Bank has launched a wide-ranging campaign to contain the impact on risk deriving from the implementation of the new EU concept of default.

To this has to be added the need for a 100% write-down of non-performing loans envisaged by so-called «calendar provisioning», according to an approach that aims to prevent new accumulations of NPL loans not backed by suitable provisions by means of adjustments related to the length of time they have spent in the category of non-performing. Also of primary importance is the action plan to strengthen the processes of loan disbursement, monitoring and management to comply with the provisions contained in the «Guidelines relating to the granting and monitoring of credit» dictated by the European Banking Authority.

The new prudential rules on default, which became fully operational at the beginning of this year, also required the start of a recalibration of the credit risk parameters calculated by the internal models recognised at the regulatory level for the purpose of using the Advanced Internal Rating Based (AIRB) approach to calculate the minimum capital requirements. Being substantial in scope, the adjustments induced by the change in definition have, as usual, been subject to targeted technical investigations by the Supervisor, after which a specific authorisation is awaited for actual implementation. Further, more physiological, activities to refine the models are being completed; others are still on the way to allow us to align ourselves with regulatory changes soon to be in force on internal rating systems.

Market risks

The difficulties linked to the spread of the pandemic did not spare even the area of market risk management, with results impacting on the results of securities trading operations, especially in the first part of the year. Exposure to risk was kept under careful observation on a daily basis, as always, but further strengthened because of the exceptional nature of the period.

Value at Risk (VaR), statistical parameters of potential loss which quantify the uncertainty that affects the value of financial assets as market conditions change, have been systematically verified by comparing them with an articulated structure of internal limits, configured in such a way as to understand the risk profile of financial investment portfolios both in aggregate terms and in their more granular determinants, so as to try to contain their erosive impacts on profit and equity within the defined ceilings.

As usual, these analyses concerned, in different ways given the different characteristics and purposes of the assets held, the set of instruments held for trading purpose (the «trading book») and other financial assets, not intended to be traded for speculative purposes, that are in the so-called «banking book», in turn categorised on the basis of the valuation method used for accounting purposes (fair value or amortised cost). Since Italian government securities continue to represent the main asset, albeit with reduced weighting as a result of the diversification policy adopted, the Bank continues to pay great attention to the dynamics of the so-called «Italy risk» posed by domestic public debt instruments.

The sudden explosion of the pandemic in February 2020 and the heavy repercussions on international stock market trends that followed, accentuated by a context of marked uncertainty on the economic consequences of the contagion at national and global level, inevitably influenced the trends in risk indicators, sensitive to volatility peaks on the markets and the devaluation of securities in portfolio. Subsequently, there was a progressive re-absorption of the risk exposure parameters, as well as of the amount of capital losses accumulated in the initial period of the crisis.

The fact that the extreme scenarios of a historical nature, normally used for stress analyses on the VaR of portfolios, turned out to be less severe than the shocks actually observed on financial markets in times of greater turbulence, gives an idea of the extraordinary nature of this phase. More reassuring news about the availability of vaccines, as well as the strictly political and economic policy developments, have helped to calm the situation between the end of last year to today.

Despite the pandemic, developments in risk monitoring techniques and systems have not come to an end. In addition to the adoption from the beginning of 2020 of a so-called «historical» VaR calculation method instead of the previous «parametric» model, further innovations were introduced this year to measure with a different approach the riskiness of securities valued at amortised cost, instruments which, given that they have to be held to maturity according to theHeld to Collect (HTC) accounting model, are less affected by changes in value caused by market fluctuations.

Interest-rate risk

Monitoring of the risk caused by fluctuations in interest rates relies on monthly analyses of the sensitivity of certain categories of assets and liabilities to unexpected changes in market rates («value approach» or «economic value perspective») and the sensitivity of the income generated by them («margin approach» and «perspective of current profits») supplemented, if necessary, by targeted impact studies. The quantitative methods applied allow the bank to detect specific risk exposure metrics, both of an operational and regulatory nature, quantified on multiple rate evolution scenarios, which are compared with an organic system of limits and pre-alert thresholds.

Even in a year marred by the pandemic, the progress made in the methodological and risk calculation systems in question can be considered significant, with a view to ever-increasing alignment with the expectations of good practice established by the Supervisory Guidelines.

The parameters on which the behavioural models of «on-demand items» are based – models that aim to quantify the persistence of the mass of assets and liabilities on deposit with no maturity and their elasticity in adapting to movements in market rates – were recalibrated through the use of more sophisticated statistical techniques, as well as for the inclusion of more extensive samples of historical data. With the update, it is now to have an enriched information base that allows us, through model simulations, to gather increasingly robust interpretative elements on the conduct of depositors as interest conditions vary.

Also important are the interventions in relation to the so-called «pre-payment» aimed at representing the repayment profile of medium/long-term loans, taking into account the phenomena of early termination of credit relationships, partial pre-payment and renegotiation of the types and levels of interest rates applied. Further improvements concern the methodological treatment of securities indexed to Italian and European inflation present in the portfolio and of fixed-rate transactions in the approaches to measurement based on the income impact, as well as the integration of the management monitoring perimeter with data on the financial characteristics of components linked to the loan book.

Liquidity risk

No particular impact of Covid-19 on the Group’s liquidity profiles, whether short-term or structural. The management of available reserves and investment portfolios is focused, applying logic that ensures the integrated management of assets and liabilities, on medium/long-term objectives and seeks to preserve financial stability even under scenarios that are particularly unfavourable.

The measurement of liquidity risk is founded on a long-established range of indicators, calculated over different analytical time horizons, that are used to control the principal risk factors from an operational standpoint, as well as to comply with precise regulatory obligations; the latter include, in particular, the quantification of the LCR (Liquidity Coverage Ratio) every month and the NSFR (Net Stable Funding Ratio) every quarter, as well as the monthly provision of additional liquidity monitoring metrics to the Supervisor in a predetermined reporting format.

With regard to the short-term (so-called «operational») liquidity situation, specific measurements ensure daily monitoring of the cash flow dynamics typical of treasury operations, as well as the availability of call reserves consisting of funds deposited with central banks and the proceeds potentially obtainable from the disposal of assets held. In addition, the impact of various stress scenarios on current operational liquidity is determined every month; these scenarios were subjected to targeted adjustments during the year under review, also with the enrichment of more specific simulation techniques, in line with the indications provided by the Authorities.

Medium/long-term (structural) liquidity is monitored every month to ensure that the harmonious matching of funding and lending is maintained; in particular, surveys are conducted on the structural balance of the financial statements, with a focus on specific aspects of risk such as the concentration profile of funding. In addition to intercompany lending, intra-day liquidity movements are also monitored constantly and the specific summary metrics defined by the Basel Committee for Banking Supervision are quantified at the end of every month.

In addition to the annual recalibration of the system of internal risk indicators and limits and the ordinary update of the Contingency Funding Plan, which is in charge of managing liquidity tension situations that may affect the Group, we would point out the Bank's participation in the Liquidity Stress Test (LiST) promoted again this year by the ECB throughout the EU.

Operational and IT risks

As a concrete response to the impacts from the outbreak of the pandemic emergency, steps were taken during the year to intensify the supervision of risky cases of an operational and IT nature resulting from the sudden adaptation of management practices and technological infrastructures, or attributable to the advent of reinforced legislation on health and safety in the workplace and extraordinary credit support measures.

The physical limitations imposed to contain the pandemic and the need to ensure adequate levels of business continuity have led to the introduction of remote working, also to protect the health of employees, and have favoured the use of digital channels by customers. The application and infrastructural measures to mitigate the risks deriving from a more intensive use of technological systems have been strengthened.

The information systems, already adequately equipped to make the bank's IT services and procedures accessible remotely, internet banking and, in particular, the protection mechanisms necessary to guarantee «secure verification» of authorised users, the profiling and tracing of activities have been confirmed as suitable to support the new workloads of remote channels and respond to the reorganisation needs that arose during the emergency. Some services, including fast messaging and video-conferencing systems, have seen increasing use, significantly simplifying business communications.

The internal structures ordinarily involved in the collection and recording of data relating to operational risk events contributed to the identification and classification of losses and costs of an extraordinary nature incurred to ensure operational correctness and restore the situation, after suitable adjustment, prior to the lockdown, including the expenses incurred for the purchase of personal protective equipment and new IT equipment needed for the activation of remote working.

This review also benefited from evolutionary refinements of the definitional, methodological and organisational structure for the management of IT risks, which resulted in a series of improvements to the control and revision processes of the document archive in support of all processes of IT service development and distribution.

As evidence of the care taken by the Company in terms of safeguarding the security andprivacy of confidential data, during the year we were one of the first banks in Europe to be awarded the new dedicated certification in the field of personal data protection relating to the company's system for the management of security and confidentiality of information, having already been compliant with international standards on the subject since 2006. All of this with renewed attention to maintaining the conditions of operational continuity, a subject that, for both internal and external resources, had to be reconsidered in the face of the threat, previously only remotely conceivable, of the pandemic spread of Covid-19.

In this regard, we would also recall that in December the usual annual «global test» of the Business Continuity Plan was carried out with positive results, as has been the case for fourteen years now. This work, including both technical and organisational tests, involved running critical processes at one of the back-up sites, with the simulation of such risk scenarios as the destruction or inaccessibility of structures and buildings in which essential equipment or operating units are located, and also the non-availability of infrastructure, personnel and important documentation. Similar checks concerned specific IT resources whose use mitigates the risks associated with the non-availability of critical IT systems, as part of the disaster recovery plan. Several data and functionality restoration tests were completed successfully over the past twelve months, involving various components of our IT system. Remote working resources were also used in these activities.

The existence of such a plant has proved to be of valid support for the analyses, also requested by the competent authorities, of the impacts on corporate operational resilience to the risks associated with the spread of Covid-19, scientifically identified as the SARS-CoV-2 virus, and in consideration of possible logistical and organisational measures to mitigate the effects on the ability to continue normal business activities.

Reputational and money laundering risk

Precisely in the emergency phases, such as the one experienced during the last year and still in progress, we fully realise how essential it is – especially for an institution like ours traditionally anchored to cooperative values and support for the community – to promote a style of banking that is increasingly sensitive to the demands and objectives of sustainable development, an essential element to ensure adequate enhancement of the company's reputation. This with the fundamental objective of preventing or at least containing any potentially harmful effects resulting from a possible deterioration in the perception of the Bank's image by the various interlocutors involved in carrying out the business or interested in its performance, not only its economic performance, but also – and increasingly – its environmental and social performance.

Despite the difficult context, the bank did its utmost to ensure operational continuity and accessibility of the public to the wide range of services offered, favouring the use of on-line channels, but at the same time relying on the local branch network, in compliance with the prescribed measures to limit contagion. To confirm our traditional mutualist vocation, tangible measures to support the community have been activated, always combining them with a careful assessment of any risks that may be involved.

With the aid of well-established analytical techniques, the potentially critical issues in reputational terms were investigated. These were based on hypotheses of inadequacy of the measures implemented to manage the emergency situation, accompanying the assessments with monitoring, also for reporting purposes to the Supervisory Authority, complaints of this kind received from customers. Also on the impulse of the regulatory bodies and public opinion with respect to the demands of «sustainable finance», as well as for the fulfilment of the reporting obligations of a non-financial nature, in the last year the methodological tools for identifying and examining risks – mainly of a reputational and strategic nature – connected to climatic-environmental, social and corporate governance aspects (the so-called ESG parameters).

Through its Anti-Money Laundering Function, the bank then continued, in rigorous supervision of the sector, also carefully identifying and assessing the set of risks and vulnerabilities that still persist for financial intermediaries deriving from the commission of scams – on-line, but not only – and corruption, especially in the field of credit lines for the procurement of supplies and services in the health sector. The peripheral network and the operating units were all made aware of the main anomaly indices to be taken into consideration in the monitoring activities and invited to promptly report any transactions that could give rise to particular suspicion of money laundering.

The dedicated function also carried out specific controls at central level on the correct use of the loans granted to customers in order to cope with the effects of the crisis in compliance with government regulations; it was also engaged in carrying out targeted checks on the countries of destination of payments relating to the purchase of medical-health devices. Lastly, work continued on the IT systems to make the protection against the risks of involvement in money laundering and terrorist financing activities ever more effective.

Regulatory non-compliance risk

Even in terms of regulatory compliance, the year just past was also marked by the epidemiological emergency. The monitoring and analysis of regulatory measures conducted by the Compliance Unit has been intense, aimed at verifying the extent of the changes introduced and promoting their correct internal implementation. The emergency therefore confirmed the importance of careful governance of the applicable regulations, which are in constant evolution, and a check on timely compliance with them.

The Compliance Unit operated according to what is now a consolidated corporate model for the management of non-compliance risk – called «widespread compliance» – implemented with the collaboration of Specialist Controls and qualified Contacts appointed to oversee particular regulatory areas not supervised directly by the Unit. This operating model underwent further progress in terms of both the depth and diversification of the analyses performed.

During the year, progress was made in the more general system of controls on compliance with regulations, thanks to the adoption of IT platforms to monitor compliance, optimising and automating the various phases of monitoring. At the same time, the necessary experience and expertise have been gained to ensure timely alignment of organisational procedures with internal and external regulations. This also in terms of confirmation of the progress made after previous investigations by means of adequate follow-up procedures, facilitated in this by the introduction of a specific tool to support the recording of the activities carried out and the tracking of the interventions made to mitigate any vulnerabilities.

With reference to innovations and regulatory and operational changes, which require continuous updating and maintenance of organisational procedures and internal rules, a considerable effort was made by the Compliance Unit in examining the universe of new provisions: from banking transparency to the provision of investment services, from the processing of personal data to usury, from insurance brokerage to payment services and outsourcing. The Unit's contribution has also expanded in insuring ex ante the existence and adequacy of procedures and systems for the prevention of non-compliance risks associated with «innovative» projects (including operations in new products or services) or in assessing the regulatory consistency of new forms and contracts.

Other relevant risks

The principal controls also include those addressing possible conflicts of interest that might arise from related-party transactions, as well as the risks associated with equity investments in non-financial companies. These controls are implemented by checking the aggregate exposures in relation to the internal and regulatory limits.

With regard to the former and in application of the provisions of the 9th update to Circular 263 dated 27 December 2006 «New prudential supervisory instructions for banks», published by the Bank of Italy on 12 December 2011, which updated Title V – Chapter 5 on «Risk activities and conflicts of interest with related parties», now in Part Three – Chapter 11 of Circular no. 285 of 17 December 2013 «Prudential supervisory instructions for banks», the checks carried out are covered by the «General regulation of the risks deriving from related-party transactions», which describes policies and processes that mitigate the risks accepted at banking group level in relation to related parties. In accordance with the regulatory requirements, the policy is reviewed at least every three years and is made available for inspection by the Authorities upon request.

The Regulation has not been amended since the latest update approved by the Board on 23 March 2018. It will be made available to the Shareholders' Meeting and on the institutional website at the link: https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

The system of internal controls

As an attentive reviewer of the adequacy of the organisational and control structures, the Internal Audit Department, reporting directly to the Board as a guarantee of autonomy and independence of action, takes on the task – among other things – of evaluating the completeness and functionality of the risk monitoring system to which the different company processes are exposed. This assignment is conducted at the level of the entire banking group, also making use of the support of the audit unit established on a company basis for entities that have them.

During 2020, auditing activities have inevitably been affected by the pandemic, prompting the function to make some adjustments in order to establish priorities, for example by focusing attention on the processes most affected by the emergency, or to reshape the scope of intervention of certain activities already planned in order to analyse the business sectors most affected by the pandemic.

Likewise, the organisational and operational methods of internal audit have been adapted to the health crisis, favouring the execution of remote controls, but without this having had critical repercussions on the regular conduct of the activities planned.

However, the unfavourable context has not prevented the promotion of an overall updating of skills in the field of third-level controls, also in the face of the increase in the size of the workforce accompanied by methodological refinements of the work tools with a view to favouring an approach to monitoring that is more and more continuous and automated, aimed at increasing operational resilience and the ability to intervene remotely.

Among the main areas under consideration, with regard to the monitoring of credit risk, the checks carried out on the management of non-performing loans and the internal rating system (AIRB); the lending process has in fact continued to represent a primary area of investigation, taking into account the impact of the pandemic on it. Audit activities were intensified during the year to ascertain the reliability and functionality of the company's information systems, supported by a dedicated specialist structure (ICT Auditing), called to oversee aspects of growing importance, such as the fight against computer piracy, operational continuity, outsourced ICT processes and IT security.

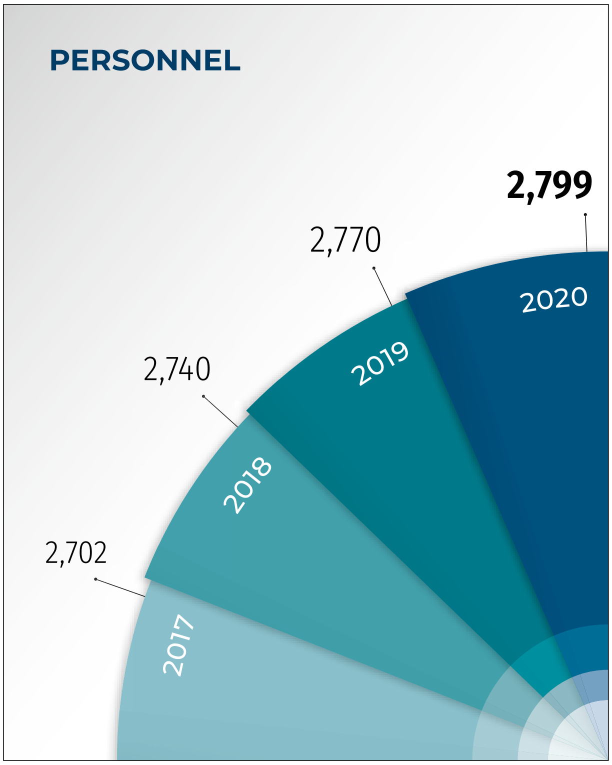
Particularly significant, then, are the activities carried out in relation to the verification of the overall risk governance system, especially with reference to the internal processes for determining capital adequacy (Internal Capital Adequacy Assessment Process – ICAAP) and the liquidity risk assessment (Internal Liquidity Adequacy Assessment Process – ILAAP), the schemes for defining and implementing risk appetite objectives (Risk Appetite Framework) and the requirements of the provisions on the management of banking crises.

Further prerogatives of the Internal Audit Department relate to the support and direct participation in the work of the Board Control and Risks Committee and the Supervisory Body provided for pursuant to Legislative Decree no. 231/2001, which is combined with detailed discussions with the representatives of the Supervisory Authorities and with the Boards of Statutory Auditors of the various members of the Group.

To the above must be added, as part of the general supervision of corporate risks, the traditional controls over correct operation of the territorial network and central services, which, although conditioned for most of the year by the impossibility of access on site, have always been aimed at rediscovering the operational regularity of management and compliance with company directives by the various business units, finding, since the outbreak of the pandemic, an adequate substitute in the strengthening of remote verification methods.

HUMAN RESOURCES

In a particular year like the one that has just passed, where certainties have wavered and life has changed radically in some respects, we have decided to enhance one of our strongest and most distinctive characteristics: perseverance. Perseverance in acting, in being attentive to the smallest details, and, above all, in guaranteeing customers the proximity of our staff to assist them in all their needs. This, even when health measures have imposed significant restrictions on access to branches. In addition to direct contact, we have provided support through telematic means, which are increasingly advanced and complete. It was an evolutionary step that we faced spontaneously, because it is inherent to our way of banking, which has its roots in the company's long history and the proven qualities of those who work for it. In this way, day after day, with thoughtful and conscious steps, we have continued to seek the best solutions to cope with the crisis and prepare for the long hoped-for recovery.



In fact, in the face of certain adversities, it is not possible to escape and thanks to the unanimous commitment of the employees, everything possible has been done, sometimes even more. We are grateful to them for this: grateful to the many men and women who, united together, have contributed to making our bank a strong, authentic and dynamic entity. We are convinced that it is this set of diversity and skills that has led our reality to be so appreciated by households and companies, who rely on us to build their future.

Below are some figures on the bank's staff, which we would like to mention as they show the measures of what, rightfully, is its most precious asset.

At the end of 2020, the Bank employed 2,799 persons, up by 29, +1.05%; 75% of them work in the branch network and the other 25% at the central offices. The average age of our employees, 41 years and 8 months, and their average length of service, 17 years and 6 months, have both increased by 3 months.

The management of human resources is entrusted to the Personnel and Organisational Models Unit, which strives daily to identify new resources and encourage the professional growth of employees in correlation with the needs of the various corporate structures, both central and peripheral. It is a delicate and burdensome task that allows us to develop professional skills and bring out the potential and aptitudes of the individual.

With regard to training, the pandemic no longer allowed the organisation of traditional face-to-face courses. Thus, to give continuity to the training interventions in a «synchronous» mode, i.e. with interaction between teachers and participants, a system was adopted for the use of remote training (virtual classrooms/webinars), which also guarantees timely tracking of activities.

The lessons held through remote courses and with multimedia tools in 2020 involved 1,920 employees with the first method, for a total of 30,488 man hours, while the second involved 2,453 employees, for a total of 80,466 man hours.

As for the issues to which particular attention was paid, it is worth mentioning the courses on specific sector regulations, such as anti-money laundering, banking transparency, the liability of banks under Legislative Decree 231/01, MIFID II and insurance brokerage. Training in this area is partly designed to help personnel obtain sales accreditation, as envisaged by the IVASS Regulation.

Distance learning was also privileged for the credit and loans sector, with particular focus on the management of NPLs, and for the offer of banking products and services.

Alongside this, multimedia courses were used for updates in the regulatory field on privacy, cyber security, transparency, MIFID, market abuse and anti-money laundering.

During the year, 245 new recruits received basic training. Via a combination of remote and multimedia courses, they completed sessions on various topics, such as the laws governing 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.

Internships organised in collaboration with technical institutes and universities in areas covered by the bank have unfortunately been suspended due to the pandemic.

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

Information on the protection of the health of employees and customers following the health emergency due to the Covid-19 pandemic

With regard to safeguarding the health of employees and to ensure operational continuity, with the start of the health emergency due to the Covid-19 pandemic in February 2020, the bank, through the «Corporate Crisis Committee», promptly adopted measures to ensure that members of staff could work in conditions of complete safety. To this end, remote working was implemented, as well as shifting employees between offices and branches, also by means of special leave.

Provision was made for the procurement and distribution to the staff of personal protection equipment (PPE: masks, sanitising gel for people and sanitising products for surfaces). In order to ensure safe operation, both for staff and for customers, plexiglass protection screens were installed both in the front office or wherever there was direct contact with the customer and in the offices to separate colleagues' workstations. The daily cleaning of all rooms was intensified, with sanitisation where necessary.

Organisational and operational instructions were issued to all staff, also in acknowledgement of government and regional instructions aimed at protecting the health of employees and customers. During the most difficult phases of the pandemic, branches were closed to the public in the afternoon, handling customer access by giving notice or making an appointment. Customers were also invited through the campaign «La Tua Banca pensa a Te #iorestoacasa – Lo faccio per me, per tutti», to make use of payment cards and digital channels: SCRIGNOInternet Banking, SCRIGNOapp and SCRIGNOPago

Facile. A dedicated assistance centre was also activated, reachable by telephone and e-mail to provide information. These provisions were promptly communicated by means of information displayed at the doors of the branches, published on the company's website and disseminated in the press.

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

The training activities for the staff, planned for 2020, were fully guaranteed and provided through the use of virtual classrooms.

The Corporate Crisis Committee, set up immediately to manage the emergency and to coordinate intervention activities, periodically issued notices to inform the staff and the entire BPS Group on the measures to be taken to safeguard health and guarantee business operations. Internal communication also took place via the company's intranet through a dedicated bulletin. The measures adopted helped to contain the risk of contagion in the Bank's population, even in the most critical phase of the emergency.

PROMOTIONAL AND CULTURAL ACTIVITIES

We are a territorial bank by vocation and by choice, which means that we have always offered our contribution to enhance and make known to the general public the beauties, characteristics and traditions of the places where we were born and those to which we have progressively extended our services. In this way, we nourish and strengthen the very identity of our institution, which has its raison to be in the relationship of mutual and advantageous exchange with the areas served.

Daily interaction with local communities is also affirmed through initiatives, at central and peripheral level, aimed at making us known, informing the public about our services and products and the methods and purposes of our work. Advertising products and services means facilitating awareness of them and their sale. Sometimes word of mouth may be enough. However, it is more productive if word of mouth is complemented with broad and diversified promotion, especially when aiming for large-scale dissemination, as is the case with our bank.

In the year of Covid-19, our cultural activity was inevitably limited. As a result of the pandemic, we have not been able to organise conferences or meetings as we used to do. It was also not possible to promote events at our Pirovano in the Stelvio Pass: for example, the Re Stelvio Mapei, which every year brought several thousand athletes, their supporters and sports enthusiasts to the Valley. The season at Pirovano Stelvio spa inevitably started late.

However, those interested were able to practice summer skiing, even if for a limited period, and take relaxing walks at high altitude, to the benefit of the spirit and the recovery of optimism, clouded by the effects of the pandemic.

The activity of our Luigi Credaro Library has been partial and almost exclusively via web. These are the new methods of communication and connection that have at least partly made it possible to make the isolation imposed by the containment measures of the pandemic less suffocating. The hope is that within the walls of the historic Sertoli-Guicciardi palace we can find the atmosphere that only a library can give its visitors.

Among the editorial initiatives, the 2020 calendar deserves a mention, which, in the illustrations and writings, highlighted the peculiar flora of the Alps, particularly rich in variety of flowers, plants, mosses and lichens, with historical and scientific insights in the field of botany.

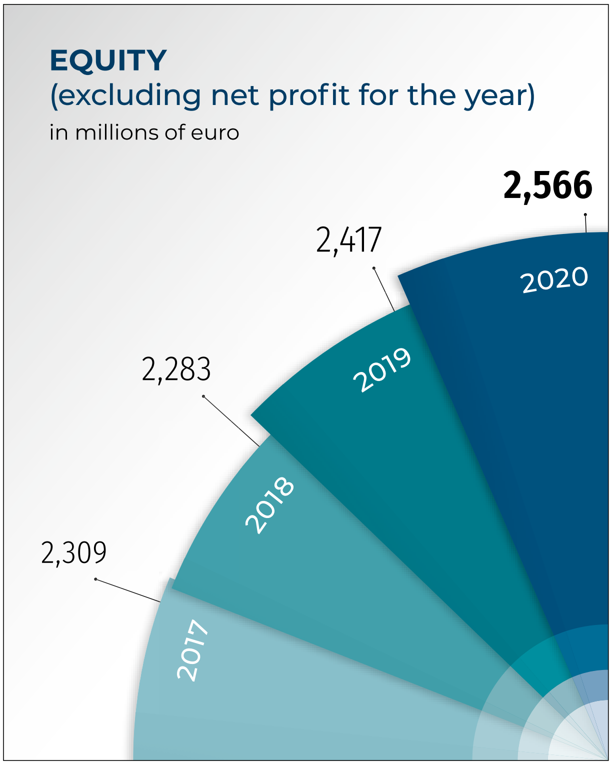
Publication of the *Notiziario* continued regularly and with the usual care. Among other things, the first issue of the quarterly features a substantial monograph dedicated to Le Corbusier, the well-known architect, who was born in Switzerland in 1887 and died in France in 1965. He contributed to the transformation of international architectural thinking of the last century, modernizing the whole complex of building rules. This is the essay that occupied the section reserved for culture in the 2019 Annual Report of the subsidiary Banca Popolare di Sondrio (SUISSE) SA, issued in 2020. Among other things, articles were published in the April *Notiziario* to honour the memory of the late Cardinal Carlo Maria Martini (1927-2012), an erudite theologian and biblical scholar, and Alberto Sordi (1920-2003), the renowned actor and film director. In September 1985 and October 1996 respectively, these two characters had entertained a large audience, gaining unanimous approval, as part of the series of conferences organised by our bank in Sondrio, which began back in 1971. The Third Page section, which opens the December issue of the corporate magazine, is dedicated to Pope Francis' latest encyclical «All Brothers» (nomen omen), a document of great topicality.

The Milanesiana, organised by Elisabetta Sgarbi, returned to Bormio on 29 June of the year under review, an important cultural event, in the context of which our no. 1 branch of the town in the Alta Valle was involved, hosting an exhibition of paintings by the Tuscan artist Luca Crocicchi from that date to mid-August.

Among what has been done by this Popular in favour of the community affected by the Coronavirus, we like to underline the supply of PPE to Sondrio Hospital and tablets to nursing homes. With these IT means, the guests of nursing homes, in temporary isolation due to Covid-19, were able to communicate via web with their loved ones.

Solidarity and humanity are a duo that Banca Popolare di Sondrio never puts into storage, indeed keeping it thoughtfully in evidence year after year. This was also the case in 2020, in which contributions were made to subsidise certain situations of serious human and social hardship. As a result of the Solidarity Current Account, sums were also allocated to AISLA, UNICEF, AVIS, AIRC and ADMO.

EQUITY



Shareholders' equity at 31 December 2020, inclusive of valuation reserves and the profit for the year, amounts to 2,641.049 million. Compared with the total at 31 December 2019 of 2,517.572 million, this represents an increase of 123.477 million. The change derives essentially from the recognition of profit for the year, as well as from the increase in reserves resulting from the good performance by financial markets.

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

The share premium reserve, equal to 79.005 million, and treasury shares remained unchanged.

Equity reserves rose to 1,102.257 million, +11.24%; the increase of 111.353 million derives from allocation of the profit for the year 2019 and from the inclusion of capital gains/losses on variable-yield securities sold and which were already, in part, in the valuation reserves. In this regard, we would recall that the Shareholders' Meeting held on 12 June 2020, called to approve the 2019 financial statements and allocation of the profit, resolved to allocate the profit entirely to reserves, in accordance with the recommendation of the ECB.

The valuation reserves, representing the net unrealised gains and losses recorded on financial assets measured at fair value through other comprehensive income and the net actuarial gains and losses on the defined benefit plans arranged for employees, now have a positive net balance of 49.906 million having improved from the positive balance of 12.132 million at the end of 2019; effect to be linked to the good performance by financial markets, in addition to revaluation of the investment in Nexi Payments Spa by 44.829 million.

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 amount to 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio.

Using the information gathered in the context of the prudential review and assessment process, the ECB can set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the Bank was notified in a communication dated 13 December 2019 of the Supervisory Board decision regarding the new minimum coefficients applicable from 1 January 2020.

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

– a minimum Common Equity Tier 1 Ratio of 10% (formerly 9.25%), calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%, unchanged) and an additional Second Pillar requirement (3%, formerly 2.25%);
– Tier 1 Capital ratio of 11.5% (formerly 10.75%), being the sum of the Pillar 1 regulatory minimum (6%), the Capital Conservation Buffer (2.5%) and an additional Pillar 2 requirement (3%, formerly 2.25%);
– a minimum Total Capital Ratio of 13.50% (formerly 12.75%), being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (3%, formerly 2.25%).

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

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

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

«Pillar 2 Guidance», which provides a guide to the future evolution of the Group's capital, was added 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. At the end of the annual SREP review carried out in 2020, the Bank has to continue to comply with the capital requirements set last year at consolidated level, as revised by the ECB's decision effective 12 March 2020 on the additional Pillar 2 Requirement (P2R).

Starting from the reports at 30 June 2019, the bank has made use of the internal rating system (AIRB) for regulatory purposes for measuring capital requirements on credit risk.

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,374 million at 31 December 2020.

In the interests of full disclosure, the Group decided to take advantage of Regulation (EU) 2017/2395, which allows supervised intermediaries to include, temporarily, in the calculation of their Tier1 capital an additional amount aimed at «neutralising» the effects of the higher accounting provisions required on immediate adoption of IFRS9, which came into force on 1 January 2018. With Regulation (EU) 2020/873 of 24 June 2020, changes were made to these transitional provisions, both with regard to the time frame and the computability percentages. The additional adjustments related to the entry into force of IFRS 9 will continue to be calculated on the basis of the percentages already provided, while for those related to the Covid-19 emergency, they will be applied to the value of CET1 assets taking into account a percentage of declining computability over time, from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023, 25% in 2024, until it reaches zero in 2025.

Set out below are the Group's capital adequacy requirements at 31 December 2020:

	Group's capital ratios (phased-in)	(fully phased)
CET 1 Ratio	16.32%	16.20%
Tier 1 Capital Ratio	16.36%	16.25%
Total Capital Ratio	18.55%	18.44%

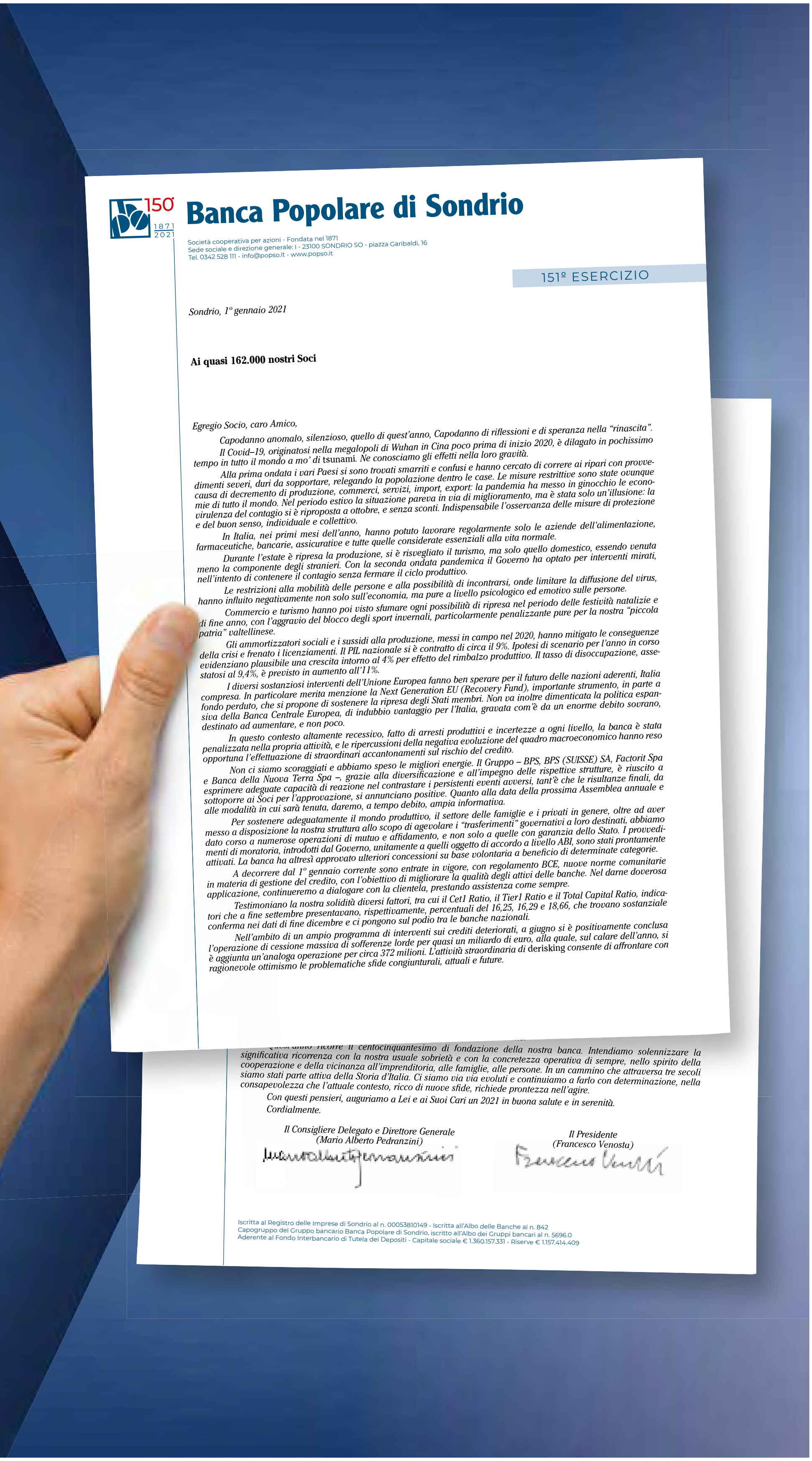
In accordance with the provisions of the ESMA (European Securities and Markets Authority) document no. 725/2012, which originated from the observation that the market value of numerous listed companies was lower than their book value, the Bank carried out an impairment test on the entire structure. The results of this test showed that the economic value of the Group was 3,937 million, which was 939 million more than its consolidated equity of 2,998 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 shown with comparative figures at 31 December 2019:

– *capital/direct funding from customers*
  8.12% versus 8.48%
– *capital/customer loans*
  10.96% versus 11.28%
– *capital/financial assets*
  25.06% versus 25.82%
– *capital/total assets*
  5.84% versus 6.84%
– *net non-performing loans/capital*
  12.95% versus 26.48%

BPS STOCK

The Banca Popolare di Sondrio stock is listed on the Screen-Traded Market (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed 2020 up by 4.36%, with a reference price at 30 December of 2.20 euro, compared with 2.108 euro at the end of 2019. The general FTSE Italia All-Share index recorded a decrease in the period of 5.56% and the FTSE Italia All-Share Banks sector index declined by 21.09%.



Banca Popolare di Sondrio

Società cooperativa per azioni - Fondata nel 1871
Sede sociale e direzione generale: I - 23100 SONDRIO SO - piazza Garibaldi, 16
Tel. 0342 528 111 - info@popso.it - www.popso.it

151º ESERCIZIO

Sondrio, 1º gennaio 2021

Ai quasi 162.000 nostri Soci

Egregio Socio, caro Amico,

Capodanno anomalo, silenzioso, quello di quest'anno, Capodanno di riflessioni e di speranza nella "rinascita".
Il Covid–19, originatosi nella megalopoli di Wuhan in Cina poco prima di inizio 2020, è dilagato in pochissimo
tempo in tutto il mondo a mo' di tsunami*. Ne conosciamo gli effetti nella loro gravità.*
Alla prima ondata i vari Paesi si sono trovati smarriti e confusi e hanno cercato di correre ai ripari con provve-
dimenti severi, duri da sopportare, relegando la popolazione dentro le case. Le misure restrittive sono state ovunque
causa di decremento di produzione, commerci, servizi, import, export: la pandemia ha messo in ginocchio le econo-
mie di tutto il mondo. Nel periodo estivo la situazione pareva in via di miglioramento, ma è stata solo un'illusione: la
virulenza del contagio si è riproposta a ottobre, e senza sconti. Indispensabile l'osservanza delle misure di protezione
e del buon senso, individuale e collettivo.
In Italia, nei primi mesi dell'anno, hanno potuto lavorare regolarmente solo le aziende dell'alimentazione,
farmaceutiche, bancarie, assicurative e tutte quelle considerate essenziali alla vita normale.
Durante l'estate è ripresa la produzione, si è risvegliato il turismo, ma solo quello domestico, essendo venuta
meno la componente degli stranieri. Con la seconda ondata pandemica il Governo ha optato per interventi mirati,
nell'intento di contenere il contagio senza fermare il ciclo produttivo.
Le restrizioni alla mobilità delle persone e alla possibilità di incontrarsi, onde limitare la diffusione del virus,
hanno influito negativamente non solo sull'economia, ma pure a livello psicologico ed emotivo sulle persone.
Commercio e turismo hanno poi visto sfumare ogni possibilità di ripresa nel periodo delle festività natalizie e
di fine anno, con l'aggravio del blocco degli sport invernali, particolarmente penalizzante pure per la nostra "piccola
patria" valtellinese.
Gli ammortizzatori sociali e i sussidi alla produzione, messi in campo nel 2020, hanno mitigato le conseguenze
della crisi e frenato i licenziamenti. Il PIL nazionale si è contratto di circa il 9%. Ipotesi di scenario per l'anno in corso
evidenziano plausibile una crescita intorno al 4% per effetto del rimbalzo produttivo. Il tasso di disoccupazione, asse-
statosi al 9,4%, è previsto in aumento all'11%.
I diversi sostanziosi interventi dell'Unione Europea fanno ben sperare per il futuro delle nazioni aderenti, Italia
compresa. In particolare merita menzione la Next Generation EU (Recovery Fund), importante strumento, in parte a
fondo perduto, che si propone di sostenere la ripresa degli Stati membri. Non va inoltre dimenticata la politica espan-
siva della Banca Centrale Europea, di indubbio vantaggio per l'Italia, gravata com'è da un enorme debito sovrano,
destinato ad aumentare, e non poco.
In questo contesto altamente recessivo, fatto di arresti produttivi e incertezze a ogni livello, la banca è stata
penalizzata nella propria attività, e le ripercussioni della negativa evoluzione del quadro macroeconomico hanno reso
opportuna l'effettuazione di straordinari accantonamenti sul rischio del credito.
Non ci siamo scoraggiati e abbiamo speso le migliori energie. Il Gruppo – BPS, BPS (SUISSE) SA, Factorit Spa
e Banca della Nuova Terra Spa –, grazie alla diversificazione e all'impegno delle rispettive strutture, è riuscito a
esprimere adeguate capacità di reazione nel contrastare i persistenti eventi avversi, tant'è che le risultanze finali, da
sottoporre ai Soci per l'approvazione, si annunciano positive. Quanto alla data della prossima Assemblea annuale e
alle modalità in cui sarà tenuta, daremo, a tempo debito, ampia informativa.
Per sostenere adeguatamente il mondo produttivo, il settore delle famiglie e i privati in genere, oltre ad aver
messo a disposizione la nostra struttura allo scopo di agevolare i "trasferimenti" governativi a loro destinati, abbiamo
dato corso a numerose operazioni di mutuo e affidamento, e non solo a quelle con garanzia dello Stato. I provvedi-
menti di moratoria, introdotti dal Governo, unitamente a quelli oggetto di accordo a livello ABI, sono stati prontamente
attivati. La banca ha altresì approvato ulteriori concessioni su base volontaria a beneficio di determinate categorie.
A decorrere dal 1º gennaio corrente sono entrate in vigore, con regolamento BCE, nuove norme comunitarie
in materia di gestione del credito, con l'obiettivo di migliorare la qualità degli attivi delle banche. Nel darne doverosa
applicazione, continueremo a dialogare con la clientela, prestando assistenza come sempre.
Testimoniano la nostra solidità diversi fattori, tra cui il Cet1 Ratio, il Tier1 Ratio e il Total Capital Ratio, indica-
tori che a fine settembre presentavano, rispettivamente, percentuali del 16,25, 16,29 e 18,66, che trovano sostanziale
conferma nei dati di fine dicembre e ci pongono sul podio tra le banche nazionali.
Nell'ambito di un ampio programma di interventi sui crediti deteriorati, a giugno si è positivamente conclusa
l'operazione di cessione massiva di sofferenze lorde per quasi un miliardo di euro, alla quale, sul calare dell'anno, si
è aggiunta un'analoga operazione per circa 372 milioni. L'attività straordinaria di derisking *consente di affrontare con*
ragionevole ottimismo le problematiche sfide congiunturali, attuali e future.

Quest'anno ricorre il centocinquantesimo di fondazione della nostra banca. Intendiamo solennizzare la significativa ricorrenza con la nostra usuale sobrietà e con la concretezza operativa di sempre, nello spirito della cooperazione e della vicinanza all'imprenditoria, alle famiglie, alle persone. In un cammino che attraversa tre secoli siamo stati parte attiva della Storia d'Italia. Ci siamo via via evoluti e continuiamo a farlo con determinazione, nella consapevolezza che l'attuale contesto, ricco di nuove sfide, richiede prontezza nell'agire.
Con questi pensieri, auguriamo a Lei e ai Suoi Cari un 2021 in buona salute e in serenità.
Cordialmente.

Il Consigliere Delegato e Direttore Generale
(Mario Alberto Pedranzini)

Il Presidente
(Francesco Venosta)

Iscritta al Registro delle Imprese di Sondrio al n. 00053810149 - Iscritta all'Albo delle Banche al n. 842
Capogruppo del Gruppo bancario Banca Popolare di Sondrio, iscritto all'Albo dei Gruppi bancari al n. 5696.0
Aderente al Fondo Interbancario di Tutela dei Depositi - Capitale sociale € 1.360.157.331 - Riserve € 1.157.414.409

LETTER TO THE SHAREHOLDERS

OUR SHAREHOLDERS

2020 — 161,870

2008 — 158,013

1996 — 52,258

BPS stock – MTA segment of Borsa Italiana

Source: THOMSON REUTERS

The average daily volume of securities traded on the MTA market of Borsa Italiana during the year was equal to 1.247 million shares, a significant increase compared with 0.665 million in 2019.

As regards the 3,650,000 treasury shares held at 31 December 2020, their carrying amount of 25.322 million was unchanged since the end of 2019, as no purchases or sales were made.

The shareholder base consists of 161,870 shareholders at 31 December 2020.

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.

As announced with press releases on 21 January and 3 March 2020, to which reference should be made for further information, the Board of Directors of the Bank rejected the applications for membership presented by Amber Capital UK LLP and Amber Capital Italy Sgr spa, believing that the conditions established in the regulations and the Articles of Association were not satisfied and noting, in that context, that the 1% limit on share ownership established in art. 30 of the Consolidated Banking Act (CBA) had been exceeded.

RATINGS

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

The judgements reported refer to the decision of 25 September 2020 as regards Fitch Ratings, as well as to the evaluations expressed by DBRS Morningstar and Scope Ratings respectively on 16 November 2020 and 8 April 2020.

FITCH RATINGS – issued on 25 September 2020

	RATING
LONG – TERM Measure of the probability of default and indicates the ability of the bank to repay medium/long-term loans. It is expressed on a scale from AAA to D, for a total of 11 levels.	**BB+**
SHORT – TERM Measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within the next 13 months. The scale includes seven levels (F1, F2, F3, B, C, RD and D).	**B**
VIABILITY RATING Aims to assess what the situation would be if the bank were completely independent and could not rely on external support. It is expressed on a scale from aaa to d, for a total of 11 levels.	**bb+**
SUPPORT Reflects Fitch's assessment of the probability that an external body would provide support to the bank, if needed. The scale has five levels from 1 (best) to 5 (worst).	**5**
SUPPORT RATING FLOOR Reflects Fitch's assessment of the minimum level below which it would not lower the long-term rating of the issuer, should it find itself in financial difficulty, given the propensity of potential supporters (government or institutional owner) to help the bank in such circumstances. The scale of values associated with this assessment reflects that of the long-term ratings. A further possible score, represented by «No Floor» (NF), indicates that according to Fitch it is unlikely that aid could come from an external source (probability of support lower than 40%).	**No Floor**
LONG-TERM DEPOSIT RATING Coefficient that reflects the vulnerability of uninsured deposits to default. Expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB-**
SHORT-TERM DEPOSIT RATING This is a coefficient that reflects the vulnerability of uninsured short-term deposits to default. It is expressed on a scale similar to the one used for the short-term rating (F1, F2, F3, B, C, RD and D).	**F3**
LONG-TERM SENIOR PREFERRED DEBT This is a coefficient that reflects the probability of default of Senior Preferred bonds expressed using a scale from AAA to D.	**BB+**
LONG-TERM SUBORDINATED DEBT This is a coefficient that reflects the probability of default of subordinate bonds expressed on a scale from AAA to D.	**BB-**
OUTLOOK It is a prospective assessment of the possible evolution of the issuer's ratings over a period of 1 to 2 years.	**Negative**

DBRS Morningstar – issued on 16 November 2020

	RATING
LONG – TERM Measures the probability of default and reflects the Bank's ability to repay medium/long-term loans. Expressed on a scale from AAA to D.	**BBB (low)**
SHORT – TERM Measures the ability of the organisation to which the rating is assigned to meet payments due in the short-term. The scale includes six levels (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (middle)**
INTRINSIC ASSESSMENT Reflects the opinion of DBRS on the intrinsic fundamentals of the bank, considering both quantitative and qualitative elements. Expressed on a scale from AAA to CCC.	**BBB (low)**
SUPPORT ASSESSMENT Reflects the opinion of DBRS on the probability and likelihood of timely external support for the bank, in case of need. The scale has four levels from SA1 (best) to SA4 (worst).	**SA3**
LONG-TERM DEPOSIT RATING Coefficient that reflects the vulnerability of uninsured medium/long-term deposits to default. Expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB**
SHORT-TERM DEPOSIT RATING Coefficient that reflects the vulnerability of uninsured short-term deposits to default. Expressed on a scale similar to that used for the short-term rating (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (high)**
LONG-TERM SENIOR DEBT This is a coefficient that reflects the probability of default of Senior Preferred bonds expressed using a scale from AAA to D.	**BBB (low)**
SHORT-TERM DEBT It is a coefficient that reflects the probability of default of a short term bonds expressed on a scale from R-1 to D.	**R-2 (middle)**
TREND Prospective assessment of possible changes in the long-term rating over a period of 1-2 years.	**Negative**

Scope Ratings – issued on 8 April 2020

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

INCOME STATEMENT

The year under review was heavily influenced by the fallout of the Covid-19 pandemic, which put the resilience of the national and international economic fabric severely under strain. In a very difficult context, the bank achieved a result which appears satisfactory, even if lower than the recent past. 2020 closed with a profit of 75.045 million, a decrease of 25.47% compared with 100.695 million the previous year.

The good result derives primarily from the resilience of the core business and the substantial stability of loan impairment adjustments despite considerable derisking.

The comments on the various items refer to the data shown in the «Summary income statement» below. Note that they have been reclassified with respect to those shown in the tables foreseen in Bank of Italy provision no. 262/2005.

Net interest income

Net interest income increased by 5.35%, coming in at 406.217 million. The expansionary monetary policy, which continued throughout the year and is destined to persist to support the recovery of the economy, has reduced government bond rates to a minimum, in many cases with negative yields, as well as interbank indices, which have fallen to levels never seen before and significantly impacting floating-rate loans to customers. The overall spread between lending and borrowing rates essentially stabilised during the year, even though they were down on the previous year.

Interest income has seen a reversal of the trend, rising to 499.257 million, +3.95%. The increase is attributable to the recognition of negative interest for approximately 51 million relating to the T-LTRO refinancing operations in place with the ECB. Interest expense amounted to 93.040 million, -1.75%. The limited reduction in the latter, despite the significant reduction in those associated with short-term funding, is affected by the cost of bond issues; the cost of negative rates on cash deposits with the ECB remains high, albeit decreasing.

Net fee and commission income amounted to 276.316 million, -1.89%. The contraction derives in particular from the reduction in fees and commissions on the placement of financial products and on collection and payment activities. Fees and commissions on orders and loans increased.

Dividends collected amounted to 21.118 million compared with 12.870 million, an increase of 64.09% mainly due to the distribution during the year of a dividend by Banca Popolare di Sondrio (SUISSE) SA and to the increase in the one distributed by Arca Vita Spa.

The result of financial activities, relating to the securities portfolio and currency and derivative transactions, was a positive contribution of 40.358 million compared with a positive contribution of 97.196 million in the prior year. This sub-total represents the sum of income statement items 80 – 100 – 110, as detailed below. While fluctuating widely during the year, long-term yields in the Euro-area financial markets trended downwards, together with risk premiums, due to expectations that the highly-accommodative monetary policies would continue for a long time to come.

The portfolio of assets held for trading (item 80) generated a negative result of 6.519 million, compared with a positive one of 49.301 million. Against profits from trading in securities of 18.813 million in the previous year, there were losses of 15.918 million, while exchange gains fell from 24.110 million to 23.669 million, -1.83%. The net difference between capital gains and losses was negative for

11.489 million, compared with +2.576 million the previous year. The result of the derivatives business was negative for 2.544 million, compared with +3.856 million. Exchange differences remained negative, going from 54 thousand euro to 237 thousand euro.

The profit/loss on sale/repurchase (line item 100), reclassified, was positive for 48.677 million compared with 35.756 million. This amount does not include 49.394 million of losses from the sale of NPL loans, which were reclassified to adjustments to loans and financial assets. Based on the new classification required by IFRS 9, this line item comprises: results from financial assets measured at amortised cost, 23.804 million; financial assets measured at fair value through other comprehensive income, 24.811 million; financial liabilities, 0.062 million.

The net loss on other assets measured at fair value through profit or loss (item 110) amounted to 1.800 million compared to a gain of 12.139 million.

Income from banking activities

Income from banking activities amounted to 744.009 million, -4.28%, affected in particular by the result of the securities business, as mentioned previously. Within this aggregate, the weighting of net interest income was 54.60% compared with 49.61%.

The risks and uncertainties to which the bank was exposed as a result of the progress of the Covid-19 pandemic led to the need to adequately reflect the impacts of unfavourable macroeconomic scenarios in the internal risk measurement and management processes and to classify exposures based on the appropriate risk stages envisaged by IFRS 9, also taking into account the fact that the public support measures currently available will come to an end at a certain point. The models used in preparing the adjustments have incorporated this situation.

The adjustments/write-backs for credit risk on the exposures to customers, banks and securities totalled 208.264 million, compared with 201.756 million, +3.23%, in the prior year. Following the reclassification mentioned above, this amount includes 49.394 million of the losses incurred in the two sales of NPLs during the year (Diana Project, POP NPLS 2020), 4.035 million of charges again linked to the sale and 15.511 million of provisions for guarantees given and commitments. The completion of the two NPL sales is a positive response to the ECB's recommendations which in its «Guidelines on NPL Management» invited banks that had accumulated high levels of (gross) NPLs to adopt clear and realistic strategies to reduce their stock.

In its components, the sub-item «adjustments to financial assets measured at amortised cost», which come from exposures to customers and banks in the form of loans and securities, reclassified for the above losses and charges from the sale, amounted to 185.484 million, -8.28% compared with 202.232 million, which net of provisions and net writebacks on securities and banks for modest amounts refers to loans to customers. Despite the presence of substantially stable adjustments on loans to customers, there was a slowdown in the dynamics of non-performing loans, to be attributed, at least in part, to the various initiatives that the bank has implemented to improve asset quality and to refine the credit assessment processes, particularly those classified as bad loans, unlikely-to-pay loans and overdue loans, determined in accordance with the supervisory regulations, as well as those relating to performing positions.

SUMMARY INCOME STATEMENT

(thousands of euro)	31/12/2020	31/12/2019	(+/-)	Change %
Net interest income	406,217	385,595	20,622	5.35
Dividends	21,118	12,870	8,248	64.09
Net fee and commission income	276,316	281,637	-5,321	-1.89
Result of financial activities [a]	40,358	97,196	-56,838	-58.48
Total income	**744,009**	**777,298**	**-33,289**	**-4.28**
Net adjustments [a] [b] [c]	-208,264	-201,756	-6,508	3.23
Net financial income	**535,745**	**575,542**	**-39,797**	**-6.91**
Personnel expenses [d]	-186,403	-186,011	-393	0.21
Other administrative expenses	-251,620	-242,119	-9,501	3.92
Other operating income/expense [b] [d]	58,242	57,059	1,183	2.07
Net accruals to provisions for risks and charges [c]	2,894	-4,369	7,263	-166.25
Adjustments to property, equipment and investment property and intangible assets	-46,510	-50,477	3,967	-7.86
Operating costs	**-423,397**	**-425,917**	**2,520**	**-0.59**
Operating profit (loss)	**112,348**	**149,625**	**-37,277**	**-24.91**
Net gains (losses) on equity investments and other investments	-570	-278	-292	n.s.
Profit (loss) before tax	**111,778**	**149,347**	**-37,569**	**-25.16**
Income taxes	-36,733	-48,652	11,919	-24.50
Profit (loss)	**75,045**	**100,695**	**-25,650**	**-25.47**

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Net adjustments are the sum of items 130 and 140 of the income statement.
The results at 31/12/2020 have been subject to the following reclassifications:
[a] reclassified losses on disposal for 49.394 million initially included in «profits/losses on financial assets measured at amortised cost», showing them in net adjustments;
[b] reclassified charges linked to the NPL sales for 4.035 million initially included in «other operating income/expense», showing them in net adjustments;
[c] reclassified net credit risk provisions for commitments and guarantees given for 15.511 million initially included in «net accruals to provisions for risks and charges [a) commitments and guarantees given]», showing them in net adjustments. The results at 31/12/2019 are shown on a like-for-like basis with those of 2020;
[d] reclassified personnel expenses and other operating income, after offsetting the income generated by the post-employment benefits fund of 3.864 million euro. The results at 31/12/2019 are shown on a like-for-like basis with those of 2020.

Sub-item 130b relating to financial assets measured at fair value through other comprehensive income is negative for 0.856 million compared with a positive figure of 1.536 million.

Line item 140, comprising the gains/losses on contractual amendments to cash flows not resulting in derecognition, shows losses for the period of 6.415 million compared with losses of 3.288 million.

Provisions for commitments and guarantees given amounted to 15.511 million compared with a release of provisions for 2.228 in the comparative period.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has fallen slightly from 0.90% to 0.86%.

Financial income has therefore decreased to 535.745 million, -6.91%.

Efforts have continued to improve the efficiency of the structures and contain costs, which is absolutely essentially given the continuing squeeze on net interest income. Operating costs amounted to 423.397 million, -0.59%. The small decrease is the result of different trend in the various components: it largely derives from the release of provisions regarding other net provisions and from lower adjustments to tangible and intangible fixed assets.

The ratio of operating costs to income from banking activities, otherwise known as the cost/income ratio, has risen to 56.91%, from 54.79% in the prior year, while the ratio of operating costs to total assets eased to 0.94% from 1.16%. Looking at costs in more detail, administrative expenses – normalised after excluding the deferral of the proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense – amounted to 438.023 million, +2.31%; of these, personnel costs rose from 186.011 a 186.403 million, +0.21%, with other administrative expenses increased from 242.119 to 251.620 million, +3.92%. Once again, other significant expenses included use of consultancy, IT costs and contributions to the National Resolution Fund and to the FITD. These last contributions totalled 35.259 million compared with 29.969 million in the prior year.

«Net provisions for risks and charges» show the release of provisions for 2.894 million, compared with accruals of 4.369 million.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 46.510 million compared with 50.477 million.

Other income, stated after the above mentioned reclassification and net of other operating expenses, amounted to 58.242 million, +2.07%.

The aggregate of gains/losses on equity investments other investments amounted to 0.570 million compared with losses of 0.278 million the previous year; difference between writedowns of Pirovano Stelvio spa for 0.288 million, of Rent2GO Srl for 0.652 million, as well as of Polis Fondi SGR for 0.937 million, and a positive amount of 1.293 million for the sale of a small percentage of shares held in ARCA Holding Spa and for disposals of assets for 0.012 million.

Profit for the year

Profit before income taxes therefore totalled 111.778 million, -25.16%. After deducting income taxes of 36.733 million, down 24.50% on the previous year, the profit for the year was 75.045 million, -25.47%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 32.86% compared with 32.58% in the previous year.

REFORM OF COOPERATIVE BANKS

In order to provide continuity of information on the transformation of Banca Popolare di Sondrio based on Law no. 33 – which, it should be remembered, intended to require cooperative banks with assets exceeding 8 billion euro to transform themselves into joint-stock companies – the following is an update on circumstances that took place in 2020.

1) The European Court of Justice, with a decision taken on 16 July 2020, referred the proceeding to the Council of State following an appeal by several parties against the so-called Reform of Cooperative Banks. More

specifically, the European Court of Justice affirmed that the provisions of Law 33 of 24 March 2015 submitted to its judgement did not conflict with European law and entrusted to the Council of State, as the referring court, the task of verifying that the legislation in question is concretely suitable for guaranteeing the achievement of the objectives of general interest that it pursues and does not exceed what is necessary to achieve them.

2) The Council of State, with an order published on 2 October 2020, decided to revoke its precautionary orders 5383 of 2 December 2016, supplemented with clarifications by order 111 of 13 January 2017, - 3645 of 1 August 2018 and 6086 of 26 October 2018 concerning, among other things, suspension of the deadline for the transformation of Banca Popolare di Sondrio into an SpA, based on the regulatory framework in force at the time. A hearing has been set for April 15 to discuss the substantive aspects of the matter on its merits.
3) Article 27, paragraph 3 bis, of Law 120 of 11 September 2020 (conversion with amendments of the Decree Law 76 of 16 July 2020, containing urgent measures for simplification and digital innovation) has extended by one year, i.e. until 31 December 2021, the deadline for transformation into a joint-stock company of cooperative banks that exceed the threshold of 8 billion euro of assets.

2020 NON-FINANCIAL REPORT PURSUANT TO DECREE 254/16

The «Non-Financial Report» relating to 2020, drawn up pursuant to Legislative Decree 254/2016, will be available at the Shareholders' Meeting of 11 May 2021 and on the company's website at: istituzionale.popso.it/en/sustainability/non-financial-reports.

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».

In 2020, our commitment was to satisfy the demand for banking products and services – primarily credit, also taking into account the difficult situation created for many households and businesses as a result of the Covid-19 pandemic – of customers and, above all, of our members (customers who are also 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. The above, in a vision that seeks to make best use of the resources and specific characteristics of each territory, thereby reflecting its nature and desires. In the interests of all, we seek to benefit from the business opportunities offered by our stakeholders, which in turn benefit from the positive outcomes that derive from working in a healthy and profitable environment. These cornerstone principles of identity, solidarity and support, also written into the Community Statute for Valtellina, continue to inform our conduct, both now and in the future.

Loans to customers amounted to 24,097 million, +7.99% on the previous year. This statistic and its progression confirm the growing scale of the financial support provided to households and businesses. With reference to the pandemic in progress, in the chapter of this Report dedicated to Loans an extensive explanation is given of the action taken for the benefit of customers and the territories served, in compliance with the government's measures, the initiatives promoted by ABI at banking system level and on a voluntary basis for the benefit of certain categories of subjects and types of contractual relationships, mostly not having the characteristics to access the first two types of facilitations.

We have also 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 in order to assure an adequate level of retirement income.

Direct deposits came in at 32,534 million, +9.60%. This confirms the validity of our commercial proposals and, above all, the trust placed in the Bank as a result of its solidity and 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, ever 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 161,870 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 in fact our duty to ensure that the multiple communications increasingly required by the regulations do not become excessively technical and, therefore, only understandable by 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. Indirect participation is of course possible by the wider possibility to use proxy voting.

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 our substantial wealth of books and documents available to the public, we have also established valuable contacts with the world of education and the schools, building synergies with other major libraries managed by several prestigious universities;
– support for Pirovano Stelvio spa and through it for the tourist complex of the Stelvio and the Upper Valtellina;
– the cultural events organised, as well as publications edited and published by us;
– 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, with particular reference to the internationalisation of businesses;
– the contributions made in favour of public and private entities, universities, hospitals and institutions to which we provide treasury services;

– the donations made – from the amount allocated for this purpose at the shareholders' meeting – to support entities and associations that carry out cultural, sporting or voluntary work.

The Non-financial report, made available to the shareholders in compliance with the relevant legislation, provides further information about the matters discussed above.

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 9 March 2021, at the end of the analysis process conducted for the first time on a «solicited» basis, the independent agency Standard Ethics raised the Bank's sustainability rating to EE (from EE-, previously assigned on an «unsolicited» basis). In its report, the agency affirms that over the years the Bank has constantly aligned itself with international recommendations on sustainability, showing a regular progression that has concerned both corporate governance and environmental and social issues.

In the period between 31 December 2020 and the date of approval of this report, no significant events have taken place that might have a material impact on the figures presented here.

OUTLOOK FOR OPERATIONS

2021 will be another year conditioned by the evolution of Covid-19, with short-term growth prospects oriented downwards, closely linked to the timing of the vaccination campaign that is currently in progress and to the effects of the measures adopted to contain its impact on economic activity. The resurgence of the pandemic is postponing the growth – which we hope will be significant – in GDP to the second half of the year, with a forecast – as of now – of recovering pre-pandemic levels in 2023.

The Bank's performance will be conditioned by the external context. At present, it is believed that the positive trend will continue for both customer deposits and for loans; the results of the core business, namely net interest income and net fee and commission income, should also improve. Cost containment will continue to reduce the cost/income ratio. With regard to loan adjustments, due to the persistent uncertainties, it cannot be excluded that the current emergency may involve a certain amount of additional adjustments, even though adverse future scenarios were already taken into account in the assessments made in 2020.

However, it is considered reasonable that the performance of the year will be such as to achieve a positive result, with the possibility of distributing a dividend to members and shareholders, compatibly with any restrictions imposed by the ECB.

* * *

Shareholders,

The 2020 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 € 75,045,078, have been audited by EY s.p.a.

BALANCE SHEET

Total assets			€	45,231,360,079
Liabilities	€	42,590,311,387		
Valuation reserves	€	49,906,067		
Share capital	€	1,360,157,331		
Share premium reserve	€	79,005,128		
Treasury shares	€	-25,321,549		
Reserves	€	1,102,256,637		
Total liabilities and equity (excluding profit for the year)			€	45,156,315,001
Profit for the year			€	75,045,078

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%	€	7,504,507.80
– to the statutory reserve 30%	€	22,513,523.40
– dividend to shareholders of € 0.06 per share	€	27,203,146.62
– to the reserve for donations	€	300,000.00
– to the legal reserve, a further	€	17,523,900.18
Total	€	**75,045,078.00**

EQUITY

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

– Valuation reserves	€	49,906,067
– Share capital – 453,385,777 shares	€	1,360,157,331
– Share premium reserve	€	79,005,128
– Treasury shares	€	-25,321,549
– Reserves	€	1,149,798,568
Total	€	**2,613,545,545**

Shareholders,

even in the highly recessive context caused by Covid-19 we managed to achieve positive results; and this, through careful decisions and a huge effort, together with the support of various groups of people to whom we feel obliged to express our genuine gratitude.

Special thanks go to our Customers, who have had some difficulties in accessing our services due to the limitations caused by the pandemic. They have proved to be understanding and patient, adapting without too many complaints, however understandable, to the changes in procedure, the reduction in branch opening hours and having to put up with appointments and social distancing.

We are grateful to the Members who have placed their trust in us. In some cases, they have given us advice and ideas in a cooperative spirit.

We thank the members of the Board of Statutory Auditors for their usual prudence and seriousness in carrying out their duties. Similarly, we would like to thank the members of the Advisory Committee, who always stand out for their wisdom and diligence.

We are grateful to the corporate bodies and personnel of our subsidiaries Banca Popolare di Sondrio (SUISSE), Factorit and Banca della Nuova Terra, who have worked so hard and passionately for the benefit of the institutions to which they belong and to help the Group's results.

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

We thank the representatives of the European Central Bank, with a special appreciation for the president, Christine Lagarde, a highly talented lawyer, politician and now central banker, who by continuing the ECB's expansionary policy has concretely favoured the Eurozone's economy at a time of serious difficulty.

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. Particular mention, in relation to this last point, is reserved for Giuseppe Sopranzetti of the Milan office of the Central Bank, recently retired, and Luigi Mariani of the Rome office, bankers with long experience and proven professionalism.

Many thanks too for the constant and appreciated collaboration of the directors, managers and staff of Consob and Borsa Italiana, which supervises the MTA, the screen-based market where our shares are traded.

A thought of gratitude goes to FINMA-the Swiss Federal Supervisory Authority for Financial Markets in Bern, which has carefully monitored the work of our subsidiary BPS (SUISSE) SA. Similar recognition goes to the Banque de France, the French supervisory body, which controls the foreign branch of BPS SUISSE, located in the Principality of Monaco.

We thank our Employees who, in this difficult year just ended, have demonstrated their dedication, willingness and loyalty to the Bank. In particular, it is pleasing to note that they have done everything possible to help the Customers, encouraging them, when possible, to use online devices for their banking needs and providing them – when necessary – with appropriate technical suggestions.

Speaking of our Employees, in 2020 a fair number of them left their jobs having reached retirement age. Two of them are ladies: Luigina Scotti and Alessandra Tempra; the rest are all men: Alberto Baluvio, Giovanni Bombardieri, Enea Bonfiglio, Alessandro Bordoni, Guido Bordoni, Sergio Bormetti, Alberto Cassinelli, Daniele Del Curto, Fabio Del Nero, Tiziano Del Nero, Carlo Dell'Oca, Massimo Landini, Renato Meraviglia, Francesco Moltoni, Dario Pellizzoni, Carlo Martino Pini, Piermartino Ronchi, Augusto Speziale, Gianluca Tarabini, Rinaldo Torricelli, Enrico Trivella, Giuseppe Valsecchi, Johann Wieser and Gabriele Zaninelli.

We wish all these new pensioners a long and peaceful retirement, full of satisfaction. Of these Colleagues, who have spent a great deal of time and energy for the Popolare di Sondrio, we retain a positive memory, combined with a certain sense of nostalgia. To each and every one of them we address our feelings of sincere gratitude. We trust that each of them will always feels that the Popolare di Sondrio is close to them, as it is and will remain the bank that we all belong to.

If we have forgotten to mention someone in the list of those who have been close to us, we apologize. We will remedy any misunderstanding and express our thanks to them as well.

Shareholders,

In presenting the 2020 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 Shareholders' Meeting of Banca Popolare di Sondrio, held today, having heard the directors' report on operations during 2020 and the proposed allocation of the profit for the year; 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 2020, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 75,045,078. The Shareholders' Meeting therefore specifically approves the allocation of profit for the year of € 75,045,078 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	€	7,504,507.80
– 30% to the statutory reserve	€	22,513,523.40
b) to pay a dividend of € 0.06 to each of the 453,385,777 shares in circulation at 31/12/2020 with dividend rights as from 1/1/2020, 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	€	27,203,146.62
c) to allocate the residual profit:		
– to the reserve for donations	€	300,000
– to the legal reserve, a further	€	17,523,900.18

In accordance with the Stock Exchange calendar, the dividend will be paid from 26 May 2021, going ex-coupon (no. 42) on 24 May 2021.

Point 2) on the agenda: resolutions on compensation matters:

letter a) 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, pursuant to Directive 2013/36/EU (CRD IV) dated 23 June 2013, the Shareholders' Meeting held on 12 June 2020 approved the «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

At the board meeting held on 26 February, the directors of the Bank resolved to make a number of changes to the «Policies» proposed by the Remuneration Committee.

Compared with last year, a number of simple updates were made and the list of key personnel was revised. As for the changes of a more substantial nature, we have acted on the recommendations of the Supervisory Authority by appointing a Head of the new NPE Unit and allocating staff to it.

As will be recalled, last year, in consideration of the important work entrusted to the NPE Unit to accelerate the reduction of the stock of non-performing loans, at the same time decreasing transfers from performing to non-performing exposures, it was decided to help achieve these objectives by activating specific remuneration mechanisms dedicated to the staff involved in NPE reduction to stimulate them to take more and more effective action. In particular, part of the variable remuneration of the persons concerned has been linked to reductions in the stock of impaired loans, applying the criteria specified in the «Policies».

The specifications now proposed are aimed at clarifying that, in determining the criteria and parameters for the attribution of variable remuneration to the Head of the NPE Unit and its staff, the qualitative component of the variable remuneration must be correlated to the quantitative element and depend on it.

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 https://istituzionale.popso.it/en/investor-relations/shareholders-meeting. It is also attached to the booklet containing the Annual Financial Report.

The Compliance Unit has been involved in the process of validating the remuneration policies and found that the innovations introduced comply with the rules, the articles of association, the corporate code of ethics and the standards of conduct applicable to the Bank, also in relation to its activity of management control 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, as an attachment to the Annual Financial Report, the Document on Remuneration Policies pursuant to the supervisory regulations. That document, approved by the Board of Directors, contains the information and data required by the current Supervisory Regulations for Banks, Title IV, Chapter 2, Section VI.

This document is also published on the company website at the following address https://istituzionale.popso.it/en/governance/corporate-documents.

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 6 times in 2020 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 explained its activities to the Board of Directors and the Shareholders' Meeting in the report approved at the meeting held on 7 April 2020.

The Remuneration Committee recommended the adoption of the Compensation Policies for the BPS Banking group that, following approval by the Board of Directors, were then authorised at the Shareholders' Meeting held on 12 June.

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 2020 Compensation Plan based on financial instruments, which was also approved by the Shareholders' Meeting.

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 by the Shareholders' Meeting, the Remuneration Committee also presented proposals for the remuneration of directors with specific responsibilities.

The Remuneration Committee considered the indications given by the European Central Bank on the subject of remuneration policies in the context of the health emergency caused by the Covid-19 pandemic and their consistency with the Group's remuneration policies.

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.

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.

Shareholders,

Having regard for the above, management invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' report:

hereby resolves:

to approve the «Remuneration Policies of the Banca Popolare di Sondrio Banking Group»

takes note

of the Report to the public required by the supervisory regulations on Remuneration and incentive policies and practices, and of the information received about the activities of the Remuneration Committee».

letter b) Approval, pursuant to art. 123-ter of Legislative Decree 58/98, Consolidated Finance Act, of the Report on Remuneration Policy and the Compensation Paid.

Shareholders,

In implementation of the revised art. 123-ter of Legislative Decree 58/98, Consolidated Finance Act, and related regulations approved by CONSOB, the Board of Directors has approved the «Report on Remuneration Policy and the Compensation Paid», which comprises two sections.

The first section explains the policies adopted by the Bank for the remuneration of directors, the general manager, managers with strategic responsibilities and members of the control body, with reference to at least the next financial year; it also covers the procedures for adopting and implementing this policy. Among other matters, the Report also explains the proposed changes to the remuneration policies that were mentioned earlier. 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.

Pursuant to art. 123-ter, paragraph 1, of the CFA, the «Report on Remuneration Policy and the Compensation Paid» is distributed and made available to the public on the basis and with the timing envisaged in current legislation, in particular via publication on the Bank's website https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

It is also attached to the draft of the Annual Financial Report.

Pursuant to art. 123-ter, paras. 3-bis and 3-ter of the CFA, we now submit for your binding approval the first section of the «Report on remuneration policy and the compensation paid».

In addition, pursuant to art. 123-ter, para. 6 of the CFA, we submit for your approval the second section of the «Report on remuneration policy and the compensation paid», in relation to which the Shareholders' Meeting may adopt a non-binding resolution in favour or against.

Shareholders,

Having regard for the above, management invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' explanatory report:

hereby resolves:

to approve the first section of the Report on Remuneration Policy and the Compensation Paid».

Management also invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' explanatory report:

hereby resolves:

to approve the second section of the Report on Remuneration Policy and the Compensation Paid».

letter c) Approval of the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Compensation Policies of the Banca Popolare di Sondrio Banking Group for 2021.

Shareholders,

We submit for your approval the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Compensation Policies of the Banca Popolare di Sondrio Banking Group for 2021.

The proposed resolution is explained in the Report on the 2021 Compensation Plan based on financial instruments attached to the draft Annual Financial Report.

Shareholders,

Having regard for the above, management invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the explanatory report and attached report:

hereby resolves:

to approve the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Compensation Policies of the Banca Popolare di Sondrio Banking Group for 2021».

Point 3) 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 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».

This topic is governed by the Italian Civil Code and, specifically, by art. 2529 and arts. 2357 et seq, by art. 132 of Legislative Decree 58/98 CFA and by Consob Regulation 11971 dated 14 May 1999 as amended («Issuer's Regulation»), as well as by arts. 77-78 of Regulation (EU) 575/2013 as amended. In particular, articles 73, 144-bis and 144-bis.2 of Issuers' Regulation establish how information should be communicated to the General Meeting and the procedures for carrying out purchases and sales. The instructions contained in Regulation (EU) 596/2014 (the Market Abuse Regulation or MAR) are also applicable. In accordance with para. 33 of IAS 32 «Financial Instruments: Presentation», any treasury shares purchased must be deducted from equity.

The proposal is to renew the authorisation granted by the Shareholders' Meeting of 12 June 2020 to purchase and sell treasury shares, which expired today.

<u>Reasons for requesting authorisation to purchase and/or sell treasury shares</u>

The purchase, trading and sale of treasury shares are intended, and are therefore appropriate and useful, to create in advance a package of shares available for special transactions designed to establish forms of partnership or collaboration with other industrial or financial operators, also active in the core business addressed by the Bank, as well as for small operations in the market designed to ensure liquidity and stable volumes for trading in the interests of the shareholders and the Bank, thus avoiding uncertainties and unjustified fluctuations in the share price. In addition, treasury shares may be purchased as a medium/long-term investment or, in any case, to take advantage of market opportunities whenever appropriate, both in the market and (solely with regard to disposals) over the counter, or even off market, on condition that reference is always made to the official listed price. With a view to optimising the capital structure, treasury shares may also be purchased with a view to capital reductions by cancellation of the treasury shares acquired, which may be arranged whenever deemed to be in the interests of the Bank.

<u>Maximum number, category and value of the shares for which authorisation is requested</u>

Today, share capital comprises 453,385,777 ordinary shares, all of which carry normal dividend rights.

In compliance with the limits established by current legislation, the authorisation relates to the purchase, on one or more occasions, of treasury shares totalling a maximum of Euro 30,000,000 (thirty million) drawn from the available reserves that amount to Euro 1,102,256,637, as reported in the Reserves line item of the financial statements, on condition in all cases that the number of treasury shares held shall not exceed 2% of the issued share capital.

The request for authorisation grants the Board the right to carry out repeated purchases and sales (or other forms of assignment) of treasury shares, on multiple occasions and on a revolving basis, including transactions that only involve a fraction of the maximum authorised quantity, so that – in all cases and at any time – the sum of the shares to be purchased and those already held by the Bank does not exceed the limits envisaged by law or by the Shareholders' authorisation.

Information for checking compliance with the limits referred to in art. 2357 of the Italian Civil Code

Purchases cannot be made for amounts that exceed the available reserves reported in the latest-approved financial statements of the Bank.

In this regard, it is noted that the draft financial statements at 31 December 2020, submitted for approval at the same Shareholders' Meeting called to approve this requested authorisation and assuming such approval is given, report available reserves totalling Euro 1,102,256,637.

At the time of preparing this report, 30 March 2021, the Bank holds 3,650,000 treasury shares, representing 0.80% of the share capital, with a carrying amount in terms of reserves committed of Euro 25,321,549. Subsidiaries hold 29,959 shares in the Bank, representing 0.006% of its share capital.

Given that the treasury shares held cannot, under the proposal made, exceed 2% of the shares comprising the share capital of the Bank, it is clear that the maximum limit allowed by art. 2357, para. 3, of the Italian Civil Code, being 20% of share capital, is not exceeded.

If the shares purchased are sold, it is understood that the proceeds may be used to make additional purchases until expiry of the Shareholders' authorisation granted, without prejudice to the limits and conditions established at the Shareholders' Meeting.

Duration of the authorisation

The authorisation to purchase and dispose of treasury shares is requested for the period commencing on the date of this Shareholders' Meeting called to approve the 2020 financial statements until the date of the Shareholders' Meeting called to approve the 2021 financial statements.

The Board of Directors may make the authorised purchases on one or more occasions at any time during the period indicated above.

Minimum and maximum consideration

Purchases must be made at a price that is not more than 20% greater than the closing price posted at the end of the market day immediately prior to each transaction and with a further limit that, depending on the trades carried out, the number of shares owned must not exceed 2% of the total shares representing share capital. Sales must be made at a price that is not more than 20% lower than the closing price posted at the end of the market day immediately prior to each transaction.

We also recommend granting authorisation, from the date of this Shareholders' Meeting called to approve the 2020 financial statements until the date of the Shareholders' Meeting called to approve the 2021 financial statements, for the disposal pursuant to art. 2357-ter of the Italian Civil Code, at any time, in whole or in part, on one or more occasions, of the treasury shares purchased in accordance with this proposed resolution or on the basis of previous authorisations, for the purposes described above and understood for all intents and purposes to be repeated here, as well as granting authorisation for the further use of all the treasury shares purchased in the context of and for the above purposes, in all cases on the terms and conditions determined by the Board of Directors.

With regard to any disposals of treasury shares arranged off market, the Board will establish criteria for determining the related price and/or the basis, timing and conditions for the use of the treasury shares held, having regard for the actual disposal procedures followed, the changes in the listed share price in the period prior to the transaction and the best interests of the Bank.

Any cancellations of the treasury shares purchased pursuant to this proposed resolution or previous authorisation must comply with the law and the articles of association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

Method for purchasing and selling shares

The treasury shares will be purchased, pursuant to art. 132 of Legislative Decree 58/1998 and arts. 144-bis and 144-bis.2 of the Issuer's Regulation, on one or more occasions, in one or more of the following ways: I) public offer to purchase or exchange; II) in regulated markets following the operating procedures established in compliance with regulations governing the organisation and management of those markets, which do not allow proposed purchase trades to be matched directly with specific proposed sale trades (art. 144-bis, para. 1.b, Issuer's Regulation); III) by purchasing and selling derivative instruments traded in regulated markets that envisage physical delivery of the underlying shares, on condition that the regulations governing the organisation and management of the market establish procedures for the purchase and sale of the above instruments that do not allow proposed purchase trades to be matched directly with specific proposed sale trades and that guarantee ready participation by investors in the trading of the above derivative instruments used for the purchase of treasury shares (art. 144-bis, para. 1.c, Issuer's Regulation); IV) in the context of systematic internalisation activities that are non-discriminatory and envisage the automated and non-discretionary execution of trades on the basis of predetermined parameters (art. 144-bis, para. 1.d-bis, Issuer's Regulation); V) with the methods established by market practices accepted by Consob pursuant to art. 13 MAR (art. 144-bis, para. 1.d-ter, Issuers' Regulation); VI) under the conditions indicated in art. 5 MAR (art. 144-bis, para. 2, Issuers' Regulation).

With regard to the volume of shares, the purchases and sales – if the latter are executed in the market – must never exceed 25% of the average daily volume of shares traded on Borsa Italiana S.p.A. The average volume is calculated with reference to the average daily volume of trades in the 20 trading days prior to the date of each purchase.

The treasury shares will be sold, on one or more occasions, even before having purchased the maximum quantity, on the basis and with the timing deemed most appropriate in the interests of the Bank, using any means considered suitable in relation to the objectives pursued, including off-market sales, sales of blocks of shares and/or assignments consistent with the objectives identified above, without prejudice in all cases to compliance with the duration of the Shareholders' authorisation, the requirements established for the minimum and maximum prices and all applicable regulations.

<u>Capital reductions by cancellation of the treasury shares acquired or held</u>

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.

* * *

In implementation of above articles of association and in compliance with the relevant regulations, the Board of Directors recommends that the Shareholders' Meeting adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today,

– taking note of the recommendation of the Board of Directors;
– taking note of the current legal requirements and the provisions of the Articles of Association;
– acknowledging that, today, the Bank holds 3,650,000 treasury shares, representing 0.80% of share capital, with a carrying amount in terms of reserves committed of euro 25,321,549, while subsidiaries hold 29,959 shares representing 0.006% of the share capital of the Bank.

hereby resolves:

– to authorise the Board of Directors to purchase and/or dispose of ordinary treasury shares and/or to cancel them, pursuant to current legislation and the Articles of Association, for the period of time between today's date and the date of the Shareholders' Meeting called to approve the 2021 financial statements, on the basis specified below, on condition that the start of the purchase programme, or its suspension and/or its termination is authorised by the Board of Directors, with the right to delegate to the Chairman's Committee, which will therefore publish the information required pursuant to art. 144-bis, para. 3, Issuer's Regulation on the programme start date;

Purchase of treasury shares:

- o purchases may be made up to a maximum amount of euro 30,000,000 (thirty million) without exceeding the available reserves, on condition in all cases that the number of shares held never exceeds 2% of the shares representing share capital;
- o purchase transactions may be made at any time until the date of the Shareholders' Meeting called to approve the 2021 financial statements;
- o the purchase price of the shares must not be more than 20% greater than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction;
- o purchases must be made in one of the ways specified in para. 1, letters a), b), c), d-bis), d-ter), or in para. 2 of art. 144-bis of Regulation 11971 approved by Consob on 14 May 1999, as subsequently amended.

Trading and sale of treasury shares

- o the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be traded and disposed of and, therefore, assigned even prior to making the maximum purchase covered by this requested authorisation, on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank;
- o the disposals or dispositions may be made at any time prior to the Shareholders' Meeting called to approve the 2021 financial statements;
- o the treasury shares purchased may be disposed of, on one or more occasions, even prior to making the maximum authorised purchase of treasury shares;
- o the disposals may be made on the basis and with the timing deemed most appropriate in the interests of the Bank, in any manner considered suitable in relation to the objectives pursued, without prejudice in all cases to compliance with the authorisation conditions and the applicable regulations;
- o the selling price of the shares – if sold in the market – must not be more than 20% lower than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction.

Maximum volume

- o the purchases and sales – in the latter case if made in the market – must not exceed 25% of the average daily volume of the shares traded on the market run by Borsa Italiana S.p.A., calculated with reference to the average daily volume of trades in the 20 trading days prior to the date of each transaction.

Cancellation of treasury shares

- o the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be cancelled on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank, without prejudice to compliance with the regulatory requirements and the Articles of Association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

– to grant the Board of Directors, and the Managing Director, on its behalf, 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 manage the market».

Shareholders,

The Bank has updated the Compensation Policies for 2021 that are submitted for approval at the Shareholders' Meeting, together with the Compensation Plan pursuant to ex art. 114-bis of Legislative Decree 58/98 CFA, whose characteristics are described in the Information Document on the 2021 Compensation Plan based on financial instruments.

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;
– five equal annual tranches, equalling 40% of the total variable remuneration, are deferred over a five-year period commencing from the year after that in which the up-front amount is paid;
– 50% of the up-front part and 55% of the deferred part is paid via the grant of shares in Banca Popolare di Sondrio scpa. These shares are subject to a retention period of 1 year.

Considering the theoretical requirement estimated for the 2021 Compensation Plan based on financial instruments, covering the variable remuneration of key personnel and totalling a maximum of Euro 490,000, 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 490,000, in order to service the 2021 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.

In this regard, we note that at 31 December 2020 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 490,000, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2021 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 manage the market».

Point 4) on the agenda: setting the remuneration of the directors.

Shareholders,

pursuant to art. 41 of the Articles of Association, it is up to the Shareholders' Meeting to set the annual remuneration of the Board of Directors. The Meeting also determines the amount of the attendance fees and, as a lump sum, the reimbursement of expenses for directors' attendance at meetings of the corporate bodies. Pursuant to the Remuneration policies of the Banca Popolare di Sondrio Banking Group, this remuneration is always set as a fixed amount without impact on the financial statements, given that the amount involved is 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 30 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.

Shareholders,

Having regard for the above, management invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' report on setting the annual compensation of the directors:

hereby resolves:

– directors' emoluments: Euro 40,000 for each director, giving a total of Euro 600,000;
– individual attendance fees:
  € 400 for attending meetings of the Board of Directors; € 200 for attending meetings of the Chairman's Committee and Board committees; the chairmen of the Executive Committee and of the other Committees established within the Board of Directors are awarded an individual attendance fee of € 300;
– 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: € 100;
  – for residents outside the province of Sondrio: € 200».

Point 5) on the agenda: appointment of five directors for the three-year period 2021-2023.

Shareholders,

In accordance with the articles of association, the Shareholders' Meeting is called upon to renew the appointment of directors. The term of office of the following directors has expired: Alessandro Carretta, Loretta Credaro, Donatella Depperu, Attilio Piero Ferrari and Adriano Propersi.

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.

„„„„„„

Still on the subject of directors' requirements, the rules laid down by the Decree no. 169 of the Ministry of Economy and Finance of 23 November 2020 on the subject of requirements and eligibility criteria for the corporate officers of banks.

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 registered offices by the deadlines 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 satisfying 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. Shareholders have to declare the number of shares that they own in total and certify their ownership of that interest.

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. The candidates must declare if they possess the independence requirements as per article 33, paragraph 2 and this is shown on 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 https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

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

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

""""""

Art. 36
Election of the directors

Each member may vote for only one list of candidates.

Directors are elected as follows:

a) 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 can alter all or part of the ballot paper, eliminating candidates who they do not intend to vote and, if they want, adding one or more new candidates in place of those eliminated. 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 or 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 this does not identify suitable substitutes, the director appointed from the list that obtained the second highest number of votes also gets substituted. 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 6) on the agenda: Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2021-2023; 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 2021-2023. The mandates of the following statutory auditors have expired: Piergiuseppe Forni, Laura Vitali and Luca Zoani, acting 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».

Still on the subject of the requirements of statutory auditors, the rules laid down by the Decree no. 169 of the Ministry of Economy and Finance of 23 November 2020 on the subject of requirements and eligibility criteria for the officers of banks.

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 and methods established by 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 satisfying 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. Shareholders have to declare the number of shares that they own in total and certify their ownership of this 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

In compliance with current legislation, the Board of Statutory Auditors carried out an analysis aimed at identifying in advance its optimal qualitative and quantitative composition and the profile of candidates for the office of Statutory Auditor.

The results of this analysis are reported in the document entitled «Optimal qualitative and quantitative composition of the Board of Statutory Auditors of Banca Popolare di Sondrio», published on the Bank's website https://istituzionale.popso.it/en/investor-relations/shareholders-meeting.

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 Statutory Auditors can take into account the professional skills required to perform the tasks entrusted to the Board.

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

Art. 50
Election of Statutory Auditors

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 can alter all or part of the ballot paper, eliminating candidates who they do not intend to vote and, if they want, adding one or more new candidates in place of those eliminated. 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.

”””

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 30 March 2021, the Board of Directors acted on a suggestion from the Compensation Committee to formulate a recommendation for the annual emoluments of the Board of Statutory Auditors for submission to the Shareholders' Meeting. Given the economic and financial position of the Bank and having regard for the commitment required of the Board of Statutory Auditors in order to fulfil their important and delicate functions, we would like to submit the following proposal to the Shareholders' Meeting for approval.

Shareholders,

Having regard for the above, the Board of Directors invites the Shareholders' Meeting to adopt the following resolution:

«The Ordinary Shareholders' Meeting of Banca Popolare di Sondrio, held today, having examined the directors' report on setting the annual compensation of the Board of Statutory Auditors for the entire period of their term of office:

hereby resolves:

– Chairman of the Board of Statutory Auditors, annual emolument of € 85,000;
– each Acting Statutory Auditor, annual emolument of € 65,000;
– individual attendance fees:
  € 400 for attending meetings of the Board of Directors;
  € 200 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 € 100;
  for residents outside the province of Sondrio € 200;
– 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, 30 March 2021

THE BOARD OF DIRECTORS

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

Shareholders,

pursuant to art. 153 of Legislative Decree 58/1988 (TUF), in compliance with the provisions of art. 2429, paragraph 2, of the Civil Code, in compliance with the statutory provisions and the provisions issued by the National and European Supervisory and Control Authorities, with this Report we, the Board of Statutory Auditors of Banca Popolare di Sondrio (hereinafter also the «Bank» or «Parent Company»), reports to you on the activities that we carried out in 2020. In drafting this Report, we have complied with the standards of conduct of the Board of Statutory Auditors for listed companies recommended by the National Council of Chartered Accountants and Accounting Experts, as well as the indications provided by Consob Communication no. 1025564/2001 and its subsequent amendments and additions.

We confirm that the financial statements of the Bank and of the Banca Popolare di Sondrio Banking Group for the year ended 31 December 2020 were approved by the Board of Directors on 30 March 2021 and were sent to us, together with the directors' report on operations and the other prescribed documents in time for the preparation of this report in which, pursuant to the law, we report to you on the supervisory activity that we have carried out, on the omissions and reprehensible facts that may have been found, as well as on the observations and proposals within our sphere of competence regarding to the financial statements and their approval.

Supervisory activities of the Board of Statutory Auditors and information about the meetings attended

In compliance with the provisions of article 149 of the Consolidated Finance Act (CFA), we supervised (I) compliance with the law and the articles of association; (II) compliance with the principles of proper administration; (III) the adequacy of the organisational structure, the system of internal control and the administrative-accounting system; (IV) the practical application of the corporate governance rules envisaged pursuant to current legislation; (V) the adequacy of the instructions given to Group companies.

Moreover, as regards the concrete methods of carrying out our supervision, during 2020, as required by paragraph no. 2 of the aforementioned article of the CFA, and by art. 52 of the articles of association of the Bank, we participated in the Ordinary Shareholders' Meeting, in meetings of the Board of Directors (16) and, except when there was a good reason not to participate, in those of the Chairman's Committee (42); in addition, the Chairman of the Board of Statutory Auditors took part in meetings of the Control and Risks Committee. This activity, together with the normal system of information flows envisaged by the Bank, allowed us, in accordance with the provisions of art. 150 of the CFA, to obtain precise information on the more important economic, financial and equity transactions carried out during the year by the Bank and by the other Group companies. We drew up an audit plan of checks (75) that were implemented often as a result of scheduled and periodic meetings with the control functions; we also held frequent meetings with corporate offices and functions, concerning specific operational aspects or facts.

We actively interacted with the Supervisory Body pursuant to Legislative Decree no. 231/2001, whose meetings were attended by our Chairman, thereby fostering a constant exchange of information on specific issues of common importance.

Operations and facts of greatest significance in economic, financial and capital terms involving the Bank or its subsidiaries

In their report on operations, the Directors have reported and described in detail the most important activities in economic and financial terms that characterised 2020. 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).

Based on the results acquired in the performance of our supervisory activities and on the information provided to us by the Directors pursuant to art. 150 of the CFA, we deem it appropriate to summarise the events that occurred in 2020 and that we consider most significant, to the extent of our sphere of competence. As regards the effects connected to the Covid-19 pandemic, a specific paragraph follows.

– After in-depth discussion with the ECB, the Bank decided not to go ahead with the request to acquire the **70.77% of Farbanca S.p.A.** held by Banca Popolare di Vicenza in LCA. With this decision, which terminated the acquisition process initiated in the second half of 2019, the Bank's Board of Directors accepted the Supervisory Authority's request to boost the Bank's current derisking activities, also considering alternative options to those in force, which could be more effective in reducing the stock of non-performing loans. We considered that this decision not to go ahead with the acquisition procedure was justified in terms of sound and prudent management.
– With the resolution of 3 April 2020, the Bank's Advisory Committee took a majority decision to reject the requests for review for admission of Amber Capital Italia SGR SPA and Amber Capital UK LLP as members of the Bank. The appeal to the Advisory Committee was forwarded against the resolution adopted by the Board of Directors on 21 January 2020 to reject the request for admission as a shareholder received by the Bank on 25 October 2019. All of the documentation relating to the topic of Amber's admission as a member was made public to the market in accordance with Consob's recommendations.
– In 2020, contributions to the National Resolution Fund and the Interbank Deposit Protection Fund for the stabilisation of the banking system were booked for a total of 35.3 million euro.

- Following the ECB's decision of 12 March 2020 to modify some key parameters of the third series of TLTRO III targeted operations, adopted in order to guarantee the flow of credit to the real economy also in a period of high stress, the Bank has decided to increase the available liquidity of this series of operations also aimed at longer-term refinancing (TLTRO III). At the end of 2020 there were three TLTRO III operations outstanding for a total of 8,068 million euro, all with the possibility of early repayments with respect to their natural maturities. The first of 1,600 million euro, maturing on 21 December 2022 and with the option of quarterly repayment starting in September 2021. The second of 2,100 million euro, maturing on 29 March 2023 and with the option of repayment from September 2021. The third of 4,368 million euro, maturing on 28 June 2023 and with the option of repayment from September 2021.
- Significant action to achieve the Bank's derisking objectives was achieved through the completion during the year of two securitisations, called Diana and Luzzatti, carried out through the sale of non-performing loans. These operations are described in detail in the Explanatory Notes to which reference is made. The Diana operation, traditional with a GACS guarantee from the Ministry of Economy and Finance (MEF), involved the sale without recourse of 999.7 million euro with a loss on disposal of 45.1 million euro, plus 2.6 million euro of other charges. The Luzzatti operation, multi-originator with a GACS guarantee from the MEF, involving securities classified as non-performing originating from fifteen banks, of which 371.8 million euro referable to Banca Popolare di Sondrio, resulted in a loss on disposal of 4.2 million euro, plus 1.4 million euro of other charges.

Significant subsequent events

Among the events that occurred after the end of 2020, we identified the following, which we report in consideration of their materiality, already referred to in the Directors' report: on 9 March 2021, at the end of their analyses carried out for the first time on a «solicited» basis, the independent agency Standard Ethics raised the Bank's sustainability rating to EE (from EE-, previously assigned on an «unsolicited» basis).

Covid-19

We consider it necessary to provide information relating to the particular context that characterised 2020 due to the Covid-19 pandemic, a situation that impacted the decisions, operations and, in general, the activities of the Banking Group.

The pandemic has had enormous and unpredictable impacts on health, economic and social systems around the world. The quarantine period or «lockdown», which in Italy began at the end of February and continued, alternately, until the end of the year (and still continues, with varying degrees of depth, linked to the trend in regional infections), as well as involving serious repercussions at an economic level, has led to a genuine revolution also in the social sphere, in consumption and in the habits of the population, forced to remain closed in their homes. The more intense the restrictive measures adopted to protect public health, the more severe the consequences on the economies of individual countries. The recession manifested itself worldwide with quite similar intensity in the various nations, while in Italy its asymmetry concerned, in particular, the tourism, catering, transport, recreational and cultural sectors.

Given the foregoing, in the preparation of this Report, we took into account Consob's Call for Attention no. 1/21 of 16 February 2021 concerning «COVID 19 – measures to support the economy – Reminder of the disclosure to be provided [...] by supervised issuers, control bodies and auditing firms in relation to the 2020 financial statements prepared in accordance with international accounting standards». It provides, to the extent of our sphere of competence, that in our report we acknowledge that we have «strengthened the information flows with the administrative body responsible for preparing the draft financial statements and promoted effective and timely communication with the auditors, for the purpose of a mutual exchange of information that is useful for the performance of their respective duties, also pursuant to art. 150, paragraph 3, of the CFA». We acknowledge this. Again in accordance with the same Call for Attention, we can confirm that we have promoted timely discussion with the supervisory bodies of the Group's other entities, as better specified in the following paragraph «Instructions given to Group companies». On the adequacy of the internal control system, also taking into account the risks associated with the difficulties of carrying out on-the-spot checks due to the restrictions caused by the Covid-19 pandemic, we will provide more information in the following paragraph «Adequacy of the internal control system», which is dedicated to this subject.

As for the activity carried out by us on the 2020 Non-Financial Report, again taking into account Consob's Call for Attention no. 1/21 of 16 February 2021, we acknowledge that we have found in it adequate information about the impacts of the events generated by Covid-19 also on non-financial issues, social and personnel issues, business models and the creation of value, risks relating to climate change and existing interconnections between financial and non-financial information, also taking into account the indications provided by ESMA on the subject.

As for the impacts on the Bank's economic and capital situation, it can also be inferred from an examination of the financial report for the year 2020 prepared by the Directors, exhaustive on this point and to which reference should be made, that the pandemic has had an impact on credit risk, mitigated by the positive acceptance of all the initiatives implemented by the EU and the Government to support customers and reduce the negative effects of the crisis as much as possible, through the acquisition of public guarantees and timely assessment of the customer's risk profile ex ante/ex post. Also by granting moratoria, aimed at limiting the effects of the restrictive measures introduced to contain the pandemic, the Bank allowed customers to postpone payment of their loan instalments and increase the residual duration of the credit exposures, this in compliance with sound principles as to the disbursement, monitoring and management of the measures, in order to promptly identify any potential signs of deterioration in credit quality. Against the moratoria granted, at 31 December 2020 the Bank prudently reclassified in advance to Stage 2 over 1 billion loans subject to Covid-19 moratoria (compared with the 3.364 billion granted) in order to prevent a possible «cliff effect».

As for the impacts on the market risk to which the Bank is subject, the situation of strong market disturbance recorded during the year led to an increase in the VaR and put under stress the system of limits on exposure to risk inherent in the set of instruments held for trading purposes (the trading book),especially between the months of March and April. A remodelling of the system of internal limits to adapt them to the exceptional external context and the interventions carried out by the ECB in the latter part of the year helped to calm down the situation.

This Board believes that the Bank has taken appropriate steps to ensure the continuity of operations, having regard for the instructions issued by the Supervisory Authorities.

Reform of cooperative Banks

With a decision taken on 16 July 2020, the European Court of Justice ruled on application of the legislation on the transformation of cooperative banks into joint-stock companies, establishing two basic principles: (i) European legislation does not pose obstacles to the legislation of an EU State setting an asset threshold for the exercise of banking activities by cooperative banks established in the State and constituted in the form of cooperative limited liability companies, above which these banks are obliged to transform themselves into joint-stock companies, to reduce the assets below that threshold or to proceed with their liquidation, provided that such legislation is suitable for guaranteeing the achievement of the objectives of general interest that it pursues and does not exceed what is necessary to achieve them, a circumstance which it is for the referring court to verify; (ii) European legislation does not preclude the legislation of a Member State which prohibits cooperative banks established in its territory from refusing the redemption of capital instruments, but which allows such banks to postpone the repayment of a retiring member's share for an unlimited period and to limit in whole or in part the amount of such repayment provided that the repayment limits decided in the exercise of this right do not exceed what is necessary, taking into account the prudential situation of these banks, in order to ensure that the equity instruments issued by them are considered to be «Class 1» instruments, a circumstance which it is for the referring court to verify.

The European Court of Justice referred back to the Council of State, as the referring court, the task of verifying that the legislation in question is concretely suitable for guaranteeing the achievement of the objectives of general interest that it pursues and does not exceed what is necessary for their achievement.

It should be noted that on 18 October 2018 the Council of State had decided to refer to the European Court of Justice, for an opinion of legitimacy, five important issues concerning Law no. 33 of 24 March 2015 for the reform of cooperative banks and had specified that, pending the decision by the Court of Justice, the precautionary measures already granted regarding the transformation of the cooperative banks into joint-stock companies remained as they were.

On 1 October 2020, the Council of State revoked the precautionary measures granted with order no. 5383 of 2 December 2016, ordinance no. 3645 of 1 August 2018 and ordinance no. 6086 of 26 October 2018, based on the ruling of the European Court of Justice.

Given this scenario, the Italian legislator has repeatedly postponed the deadline for transformation into a joint-stock company; lastly, the Parliament, with Law no. 120 (conversion with amendments of Decree Law no. 76 of 16 July 2020) set the deadline for the transformation at 31 December 2021.

To date, the Bank has decided to wait for the ruling of the Council of State on the matter, in order to have a clear regulatory framework, needed to take the appropriate decisions.

Compliance with the principles of proper administration

We have monitored compliance with the law, the provisions of the Articles of Association, the provisions issued by the Supervisory and Control Authorities; we acquired knowledge and, to the extent of our sphere of competence, monitored compliance with the principles of correct administration and the adequacy of the organisational and accounting structures, as well as the functionality of the Bank's overall Internal Control System.

During 2020, we gathered adequate information about the principal economic and financial transactions carried out by the Bank. Based on our information, we can reasonably exclude that the Bank has carried out any transactions, directly or via subsidiaries, that are manifestly imprudent or risky, in potential conflict of interest without proper management, or in contrast with the principles of correct administration or resolutions adopted by the Bank that would compromise the integrity of its assets.

The information received during meetings of the Board of Directors, that collected during the interviews with the Managing Director, Management, the Heads of the second and third level Control Functions, the Boards of Statutory Auditors of the directly controlled companies and the Independent Auditors, did not highlight the existence of atypical or unusual transactions carried out by the Bank with third parties, with companies of the Banking Group or with other related parties, pursuant to art. 2391-bis of the Italian Civil Code.

With regard to transactions with related parties/associated persons, we can assure you that the Board of Directors has complied with the rules set out in the Regulation on transactions with related parties issued with Consob resolution no. 17221/2010 and subsequent amendments, in Circular 285/2013 of the Bank of Italy, in the provision of the Bank of Italy «Risk activities and conflicts of interest versus related parties», in article 136 of Legislative Decree

385/1993, as well as in IAS 24 for disclosure on related parties; this in compliance with internal procedures and awareness of the risk and effects of the decisions taken. The transactions were settled at normal market conditions on the basis of evaluations of objective mutual convenience and fairness and did not have a significant impact on the equity and economic situation of the Company and the Group. Lastly, we can confirm that the transactions referred to in art. 136 of the Consolidated Banking Act (CBA) were assessed by the Related Parties Committee and unanimously approved by the Board of Directors, with the favourable vote of all the members of the Board of Statutory Auditors and in any case in compliance with the regulatory provisions.

By attending the various meetings of the Board of Directors and the Chairman's Committee, we monitored the compliance of decision-making processes with the law and the articles of association and determined that the related resolutions were adopted on the basis of adequate information and, in all cases, in the interests of the Bank.

With reference to transactions with related parties/associated persons, we would point out that on 10 December 2020 Consob issued resolution no. 21624, which from 1 July 2021 innovates certain provisions of the Regulation adopted with resolution no. 17221/2010 and subsequent amendments. Implementation of these new regulations had been delegated to the Supervisory Authority by article 2391-bis of the Civil Code, introduced with Legislative Decree no. 49/2019, in implementation of Directive no. 2017/828 of the European Parliament (Shareholders' Rights Directive II – SHRD II).

We acknowledged that the Bank, through the Related Parties Committee, has examined the amendments to the regulations, and is making the necessary adjustments to the Internal Regulations and the procedures governed therein in compliance with the new regulatory provisions.

Adequacy of the organisational structure

During 2020, we carried out the supervisory activity for which we are responsible, acquiring the necessary information on the organisational structure of the Bank and the Group, in order to assess the adequacy of the structure and the response of the management and strategic supervisory bodies with respect to the needs and the market and competitive context. These activities were carried out through direct enquiries, collection of data and information and regular meetings with the Chief Executive Officer and with the Heads of the Personnel Service and the main corporate Functions concerned.

During our continuous monitoring, we carefully followed the actions of remediation implemented by the Bank following the recommendations and requests for strengthening contained in the prescriptive indications communicated by the ECB during 2019.

We took note of a significant improvement in the effectiveness of the Board of Directors, of the profound revision of the organisational structure of the top management positions of the Bank implemented through the establishment of the so-called «C-Suite», of the hiring of a Chief Financial

Officer (CFO) in early 2021, the review of the competences of the Chief Risk Officer (CRO), as well as a qualitative and quantitative strengthening of the Compliance, Internal Audit and Anti-Money Laundering Functions.

We made every effort to guarantee a periodic and constant control of the process involved in implementing organisational decisions. Specifically, we took note of the effort made by the Bank in adopting further interventions for the consolidation of the new organisational structure through a process of progressive evolution, necessary to be able to face, in a context characterised by rapid change as well as by the persistent health emergency, both the dynamics of the market and the intense development of banking regulations and, last but not least, the requests of the European Supervisory Authority.

The organisational changes also affected the NPE Unit, where the Bank took concrete action to strengthen the structure in qualitative and quantitative terms, with the aim of limiting the flows of non-performing positions and increasing those of recovery.

With regard to the Functions of Compliance, Anti-Money Laundering and Internal Audit, with which the Board maintained a constant flow of information during the year, we note the significant strengthening implemented during the year in the presence of a perimeter of activity in constant growth. The Bank has strengthened the staff, innovated and reinforced the methodological process and the scope of interventions, put in place the actions to remedy the outcome of the independent assessment prescribed by the Supervisory Authority, all to facilitate sound and prudent risk management. In addition, various activities related to the assessment, identification and preventive management of risks were completed through greater systematic control and a more methodical use of tools for monitoring and tracking the results of the controls. Almost all of these activities are been implemented. The reorganisation of the structures as mentioned above is considered to be consistent with the more general objectives of ensuring a constant strengthening of the effectiveness and efficiency of the internal control system.

To achieve this objective, it was necessary to have recourse to the support of external consultants who actively collaborated with the Bank's structures in order to implement the strategies as defined. All implementation work is due for completion by the end of the first half of 2021, which will make it possible to carry out the necessary improvements to the overall organisational model of the Bank, consistent with the best market practices and the enhanced regulatory and supervisory requirements.

Adequacy of the system of internal control

The Internal Control System assumes a strategic role for the Group, representing a fundamental element through which to acquire full awareness of the management of corporate risks and related interrelations.

In this context, Circular no. 285/2013 of the Bank of Italy assigns to the Board the responsibility of supervising the completeness, adequacy, functionality and reliability of the overall internal control system; in consideration of this, during the year we constantly interacted with all the structures involved through frequent and regular meetings with the Heads of the Corporate Control Functions, with a view to ascertaining the adequacy, concrete functioning and correct fulfilment of the tasks and the consequent coordination between them. In this last context, we have constantly spent time supervising both the planning of the activities of the various Functions and, above all, the process of increasing integration and effectiveness in the representation to the Corporate Bodies of the evidence that emerged as a result of the checks carried out; in this regard and in a logic of continuous evolution of the internal control system, as also desired by the Supervisory Authority, the tracking methodology implemented by the Compliance and Internal Audit Control Functions for the assessment of risks and the continuous determination and monitoring of the urgency and expiry of the remedial actions planned, with the aim of ensuring timeliness and priority of action. Since December 2020, the Anti-Money Laundering Function has also equipped itself with a specific IT tracking tool to track all of the control activities carried out, of the related owners, the stage of completion and the deadlines.

We took note of the requests contained in the usual SREP communication as regards Internal Audit, in terms of greater involvement of the Function in the key decision-making process and in the strategic direction activities, as well as, more generally, regarding the state of implementation of the corrective measures in response to the prescriptions formulated by the Supervisory Authority, actions that in 2020 suffered some slowdowns in consideration of the six-month postponement agreed with the ECB due to the need to manage the effects of the Covid-19 pandemic at the same time.

In 2020, the work of all the Control Functions was impacted by the Covid-19 emergency, with obvious repercussions that required an adaptation of internal organisational processes: in certain periods, almost all of the staff worked on a remote basis, an organisational solution which, however, did not affect the activity carried on nor did it limit its effectiveness; so much so that the action plans of all the aforementioned Functions were substantially respected. The organisational structure of the internal control system was also affected by the change of the Head of the Compliance and Anti-Money Laundering Functions, after consulting us, following the retirement of the previous one at the end of 2019. This circumstance did not have repercussions either on the control activity planned by the Functions.

During 2020 the intragroup outsourcing model was consolidated with a view to a greater guarantee of control measures. The second level Control Functions of Compliance and Anti-Money Laundering have been centralised at the Parent Company by the subsidiary Banca della Nuova Terra S.p.A.; Factorit S.p.A. has entrusted the Compliance Function to a leading independent company, while it manages the Anti-Money Laundering Function internally, structures which in any case operate in compliance with the guidelines and standards laid down by the Parent Company, with a view to developing a global approach to risk according to suitably uniform methodological criteria. Internal Audit has been outsourced to the Parent Company by both subsidiaries; in 2020 the assignment conferred on it by the subsidiary BNT also came into effect. BPS (SUISSE) is equipped with autonomous control functions, which in any case act on the basis of the Policy adopted by the corresponding functions of the Parent Company and interacting periodically with the relevant Heads of Function. By resolution of the Board of Directors on 26 February 2021, the ICT Auditing Office was set up at the Parent Company as a new unit of the Internal Audit Department reporting directly to the Head of the Function.

In line with the Bank of Italy's Circular no. 285/2013, the Bank's internal control system is divided into the following types of controls: (i) first-level controls, aimed at ensuring the correct performance of all basic operations. They are carried out by the same operating structures, also through dedicated units, or carried out by the back office or, as far as possible, incorporated into IT procedures; (ii) second-level controls, aimed at ensuring the correct implementation of the risk management process, compliance with the operating limits assigned to the various corporate functions and compliance of operations with regulations, including those of self-regulation. The Functions responsible for these controls are distinct from the production ones, as they contribute to the definition of risk governance policies and the risk management process; (iii) third-level controls, carried out by Internal Audit with the aim of identifying any anomalies in the procedures and compliance with the regulations, as well as periodically assessing the adequacy, functionality and reliability of the internal control and information system, according to the nature and intensity of the risks.

A specific focus is given to each type of control as set out below.

With regard to first-level controls, we monitored their adequacy by examining the checks carried out by the competent second- and third-level Control Functions; due to the pandemic, in 2020 we were unable to take part, as we usually, in the checks carried out on the Branch Network by the Bank's Central and Seconded Inspectors Office, as they generally operated on a remote basis, sometimes from home. Regardless of the pandemic, however, there is an ever greater use being made of off-site remote controls, also made possible by a progressive digitisation of the main banking processes, which also allows investigations and assessments that were technically impossible in the past.

Considering the work of the individual second-level control functions, we discussed various matters of significance with the respective managers that are summarised below:

– The Covid-19 emergency led to numerous activities for the Compliance Department resulting from constant analysis of the reference legislation and related business processes, also following the various provisions issued by the Government and the Regions. The Function has in fact provided its collaboration aimed at timely and correct implementation of the complex new regulations within the company.
  During 2020, the Compliance Function continued its adoption of the «broad compliance» operational model, with direct work on core matters within the Bank and collaboration with specialists and compliance contacts regarding more specific matters.. This model makes it possible to

use and benefit from certain professional skills within the Bank, spreading and consolidating a culture of compliance with the established rules and control. We believe this approach to be effective. This Board held periodic constructive discussions with the manager of this function, examining and assessing the matters arising from regulatory framework and the instructions received from the Italian and European Supervisory Authorities; the function dedicated particular attention, among other matters, to the topic of business transparency with various activities completed in accordance with the 2020 plan. Particular attention was paid to the regulatory changes that have taken place in investment and payment services; we also noted a consolidation of the procedures aimed at the correct transposition of Europe's General Data Protection Regulation (GDPR); attention was paid to issues relating to insurance brokerage, also by virtue of the letter sent to the system in 2020 by the Bank of Italy relating to the joint communication with IVASS on the topic «Offer of products combined with loans».

Also through the periodic meetings at the time of the in-depth analyses concerning both the contents of the annual and half-yearly reports, and the results relating to specific control activities, we were able to ascertain the substantial adequacy of the supervision of the risks pertaining to the Function, which in relation to the final results of the independent assessment of its organisational structure, it has implemented numerous organisational and methodological improvements

– Also for the Anti-Money Laundering Function, the year 2020 was characterised by the serious consequences of the Covid-19 pandemic, which led to an increase in the risks of potential scams, including those on-line, situations of corruption, especially in assignments for the procurement of supplies and services in the health and research sector, speculative manoeuvres (including international ones) on medical material, counterfeiting, usury, criminal infiltration into companies in crisis and fraudulent conduct, hoping to obtain loans with a government guarantee without satisfying the conditions envisaged by the legislation. This has resulted in a need for the Function to address and promptly assess a series of new risks and vulnerabilities and, consequently, to prepare, within a very short period of time, the necessary countermeasures; also in consideration of the Authorities' attention, both at supranational and national level, which has produced a great deal of recommendations and best practices to manage emerging risks. The interventions carried out nevertheless made it possible to confirm a low risk profile overall during the year under review.

  In accordance with the recommendations of the Supervisory Authorities, the activity aimed at enhancing the second-level controls continued, also through the formalisation of periodic assessments. Evolutionary interventions of the IT tools available were also promoted, through implementations aimed at a more effective use of the «AML Dashboard» application: the introduction of a specific report is cited as a significant innovation in which any changes in the ownership structure of client companies are highlighted to the branches on a quarterly basis. In 2020, coordination with the corresponding Functions of the subsidiaries (Factorit and BPS (SUISSE)) continued and increased, in order to improve and make the controls, methodologies used and risk assessment at group level more efficient and reasonably homogeneous; also taking into account the discussions with the Bank of Italy, particularly concerning the relations between the Parent Company and the subsidiary BPS (SUISSE). The training activities carried out by the Function also continued, to raise the awareness of the various levels of the Bank involved, even though the training activity was conditioned by the Covid-19 emergency, which limited the provision of the classroom sessions initially scheduled.

Taking into account the verification activities on the Anti-Money Laundering Function conducted with the support of the Internal Audit Department, we can confirm for 2020 the substantial adequacy of the monitoring of risks pertaining to this Function.

– The Validation Function continued its control activities in 2020; credit risk – AIRB continued to represent the area of analysis in which the Function was most involved. There was an increase in the overall number of checks carried out on the various types of risk, mainly linked to the preparatory activities for the transition to the new definition of default (starting from January 2021), as well as to the verification activities carried out on the ICAAP and ILAAP reports. The activities planned for 2020, despite being slowed down to a certain extent by the pandemic, have all been carried out, making it possible to attribute a positive overall opinion to the entire series of checks carried out, albeit with certain aspects worthy of improvement for which recommendations or suggestions have been made, depending on their importance.

  Based on periodic discussions with the manager of this function, including on the issue of annual and semi-annual reports, this Board has formed a substantially adequate opinion on the verification work performed.

  The European Supervisor has not made any particular observations about the structure and activities of this function and, accordingly, this Board believes overall that it is adequate for the performance of its duties.

– In 2020, the Risk Control Function found itself having to pro-actively manage cases of risk that worsened particularly with the onset of the Covid-19 health emergency; this made it possible to keep the effects of the pandemic under constant observation with respect to orderly management of the business. Analyses and simulations were carried out (and will continue to be done in 2021) to monitor, even prospectively, the impacts on capital and risk figures, considering the effects that are estimated to have repercussions on debtors once the effects of the support measures to the liquidity of businesses and households granted to date are exhausted. In 2020, the Function ensured constant support during the ongoing discussions held by the Bank with the Supervisory Authority, also and in particular on the subject of the introduction of new European criteria to identify bank loans in default. Various activities to prepare for and adapt to the new rules were completed, which required profound interventions, including on organisational processes, statistical models and IT infrastructures. Also taking into account so-called calendar provisioning, aimed at preventing new accumulations of NPLs not supported by suitable provisions and adjustments. The strategic RAF, ICAAP and ILAAP processes have been further strengthened and the integrated information provided about risks continues to be improved.

We have dedicated particular attention to the work of this function, not least by holding periodic meetings with the manager and lead personnel in the various offices: in addition to supervising and monitoring the various types of risk, specific supervisory efforts have been dedicated to the processing of defining the RAF, which is revised periodically to become more sophisticated and detailed, harmonising better with other key business processes. We also interacted with the Function during the calculations for determining the adequacy of capital (ICAAP) and liquidity (ILAAP). We can confirm that, as far as our sphere of competence is concerned, we have not found any really critical issues to be reported.

From the point of view of the organisational structure, a specific «Governance Area» was established from 1 January 2020 under the Chief Risk Officer (CRO), to which the Risk Control Unit refers; a partial reformulation of the perimeter of activities pertaining to it was then carried out, through further internal reconfiguration interventions in the component structures of the CRO Area, motivated by the need to exploit some specific functional synergies and to better support the carrying out newly introduced activities, in harmony with the Supervisor's requests. This reorganisation process continued in the initial months of 2021, which saw the appointment of the new head of the Risk Control Unit, a position previously held by the CRO, continuing to respond to the path undertaken to strengthen and rationalise the hierarchical-functional reports, which also provided for the relocation of certain Offices which are now reporting directly to the CRO. We believe that this reorganisation goes in the right direction to strengthen the structure and functioning of Top Management, a move that was also agreed with the ECB.

With regard to third-level controls, it is worth noting the verification and in-depth analyses carried out continuously by the Internal Audit Function on the core processes, in a risk-based logic. The impact of the Covid-19 emergency has imposed an adaptation of internal organisational processes: almost all of the workforce has operated in remote working mode since March 2020, still allowing substantial compliance with the plan of activities foreseen for the year by the Function, which acted with the same depth and effectiveness in the checks carried out. The credit process continued to represent a primary area of investigation for Internal Audit, also with reference to the effects of the current crisis, which have to be managed with effectiveness and determination, strengthening all available risk mitigation tools, with particular attention to moratoria and other forbearance measures related to Covid-19. Specific activities were carried out, again in this context, on the additional write-downs required as a result of the Credit File Review – Corporate & SME, on the procedures for granting and managing mortgage facilities relating to the corporate portfolio, as well as on counterparties subject to ongoing disputes.

On the question of credit, Internal Audit pointed out some areas for improvement, related among other things to the management of forborne positions. Constant attention was also maintained in the context ofgovernance of the risks, also in relation to primary processes such as ICAAP, ILAAP and RAF and to specific areas such as the Manager responsible for preparing the company's accounting documents, noting points of attention and providing ideas for greater efficiency. With regard to internal IT processes, significantly stressed also by the advent of the pandemic and implementation of the EBA Guidelines, having acknowledged the approval of the IT plan which ascertains the need for greater focus at Group level on IT issues, Internal Audit found slowdowns in some projects, which in any case have been launched. Effective control activities were also aimed at compliance with particular regulatory provisions, specifically with reference to the area of banking transparency, appropriate interventions were carried out in response to the findings raised by the Supervisory Authority. In the field of outsourcing, the Function reports, as an evolutionary aspect, the introduction in 2020 of the Outsourcing Officer, whose organisation is in line with the reference legislation. Important checks also involved the area of financial risks, from which some governance issues emerged, though they are currently being resolved. We have monitored the corrective actions implemented and planned by the Bank's structures as a result of the findings made by Internal Audit in the various areas.

Working with the function manager in a spirit of mutual cooperation, we agreed at the planning stage the operational audit work to be performed and, periodically during the year, we assessed the outcome of the checks performed and the remedial actions taken by the Bank in the areas for improvement identified.

Based on these assumptions and with particular reference to the specific operational contexts analysed and the consequent corrective actions currently being implemented, it is believed that the internal control system has matured during the year a substantially adequate level of control of corporate risks.

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

We have monitored the adequacy and concrete functioning of the administrative 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 corporate documentation and analysing the results of the work performed by the Independent Auditors and the Manager Responsible for preparing the Company's accounting documents.

As part of his Operational Report for 2020 when issuing the certification required by art. 154-bis, paragraph 5, of the CFA, the Manager Responsible acknowledges that in June 2020 he completed the first phase of a specific assessment aimed at revising and updating the framework of the control system for compliance with the provisions of Law no. 262/05. The verification activity made it possible to issue an opinion of substantial adequacy and effective application of the administrative and accounting procedures that govern the preparation of the financial statements; this despite having identified areas for improvement relating to some aspects, with regard to which a second phase was launched in December 2020 which provides for the implementation of an application that will provide support to the control activities by the staff of the Manager Responsible. Its release is scheduled for April 2021 and it will be used to support the checks used in preparing the half-year report 2021.

Given the duties assigned to this Board in the process of making financial disclosures, including our role as the Audit Committee, we have coordinated closely with the manager of the Administration & Financial Accounting Department, holding periodic meetings to exchange information about the administrative and accounting system, as well as its reliability in terms of presenting properly the results of operations in compliance with international accounting standards.

Although the duties of this Board do not include the legal audit of the accounts pursuant to Legislative Decree 39/2010, which is performed by the Independent Auditors, we believe with reference to the information obtained from both the Legal Auditor and the Responsible Manager that the administrative-accounting system taken as a whole is adequate and reliable and that the results of operations are recorded correctly.

Lastly, with regard to the accounting information contained in the financial statements at 31 December 2020, we note that the Managing Director and the Responsible Manager have issued an unqualified attestation pursuant to art. 154-bis CFA, having regard for the requirements of art. 81-ter of Consob Regulation 11971 dated 14 May 1999, as amended.

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

Pursuant to the provisions of art. 123-bis of the CFA, the Board of Directors's meeting of 23 March 2021 approved the «Report on corporate governance and ownership structures», which has been published on the company's website. As has happened in the past, we would remind you that the Bank has decided not to adhere to the «Corporate Governance Code», approved by the Corporate Governance Committee, addressed to all companies with shares listed on the Mercato Telematico Azionario managed by Borsa Italiana. Nevertheless, the model approved by the Board of Directors expresses principles and provides a framework for conduct and procedures that assure substantial consistency with the objectives of the Code.

With reference to the activity carried out in 2020, considering art. 148 of the CFA and MEF Decree No. 169 of 23 November 2020, in compliance with the provisions of the Bank of Italy in Circular No. 285 of 17 December 2013, Part I, Title IV, Chapter 1, as well as in compliance with sector regulations, including the Rules of Conduct of the Board of Statutory Auditors of Listed Companies of 2018, we have carried out a self-assessment from which emerged an opinion confirming the overall adequacy in relation to the supervisory tasks and responsibilities attributed to our Board, as well as the complementary nature of the professional skills of its members. Considering the evolution of the legislation (CRD IV), we considered it appropriate to continue organising specific meetings with the second- and third-level control functions, with the aim of maintaining constant monitoring of all these controls. The Board has also verified that each of the Acting Statutory Auditors continued to meet the requirements of independence, integrity and professionalism envisaged, as well as compliance with the provisions in force for 2020 as regards the absence of impediments or forfeiture. In this connection, it should be noted that with the Shareholders' Meeting for the approval of the 2020 financial statements, our three-year mandate expires. This means that the provisions of the MEF Decree, which entered into force on 30 December 2020, incorporating the indications of the CRD IV, apply to the newly elected Statutory Auditors. This with particular regard to the provisions of art. 91 regarding the suitability of corporate officers, also taking into account the Joint EBA and ESMA Guidelines of March 2018 on the assessment of the suitability of corporate officers. We think it is appropriate that maximum attention should be paid to the matter in order to ensure effective organisational and corporate governance structures, which are an essential condition for the achievement of the Bank's objectives with a view to sound and prudent management.

As stated in the «Report on corporate governance and the ownership structure», the Board of Directors of the Bank, in implementation of Bank of Italy Circular 285/2013, as amended, has carried out a self-assessment of the Board and its Committees in accordance with the relevant regulation, in order to analyse their size, composition and functioning, check the effectiveness and timeliness of the actions taken and identify areas for possible improvement. This analysis was carried out by the General Affairs Office of the Bank, using a specific questionnaire approved by the Appointments Committee, and was completed anonymously by the members of the Board of Directors. We note that the results of this self-assessment were discussed and approved at the Board meeting held on 27 February 2020.

We also acknowledge that, in compliance with current legislation, the Board of Directors has identified its optimal qualitative and quantitative composition and the profile of the candidates for the office of Directors for the year 2021 in accordance with the provisions of the Bank of Italy's Circular no. 285 on corporate governance, as well as the MEF Decree. The related document was approved by the Board of Directors on 5 February 2021 and made known to the members of the Bank, so their nominations for the renewal of the Board of Directors could take account of the professionalism needed, the reasons for incompatibility and termination, and the limits on the accumulation of appointments envisaged under current regulations and laws, including the ban on interlocking relationships.

Compensation policies

At its meeting of 26 February 2021, the Board of Directors approved the document «Compensation policies of the Banca Popolare di Sondrio Banking

Group» in implementation of the supervisory provisions for banks on the subject of remuneration and incentive policies and practices, issued in implementation of Directive 2013/36/EU of 23 June 2013, the so-called CRD IV. In drafting the document, the recommendations on the advisability of adopting compensation policies consistent with the current economic situation formulated in the letter of 15 December 2020 sent by the Chairman of the ECB's Supervisory Board, concerning «Compensation policies in the context of the coronavirus pandemic (COVID-19)». Compared with the equivalent document adopted by the Bank in 2020, some minor updates and improvements to the text have been made, together with some additions for material risk takers, they are aimed at clarifying that, in determining the criteria and parameters for the attribution of variable remuneration to the Manager and staff of the NPE Unit, the qualitative component of the variable remuneration must be correlated to the quantitative part and dependent on it. We also took note of the positive outcome of the attestation issued by the Compliance Function on 19 February 2021, in which reference is made to compliance with the rules, the articles of association and the company's code of ethics, also in relation to the role of management control and coordination of the Banking Group. To the extent of our sphere of competence, in our control activity, carried out also by taking part in meetings of the Remuneration Committee at which the topic was discussed, we did not find any elements worthy of mention and, in particular, we believe that the document on compensation policies is, as a whole, consistent with the law.

Instructions given to Group companies

This Board has monitored the adequacy of the instructions given by the Bank to its subsidiaries, in compliance with art. 114 CFA, considering them suitable for the purpose of complying with the disclosure requirements imposed by law.

An adequate flow of information was guaranteed during 2020 due to the existence of close functional and operational ties, as well as the presence of contact persons within the subsidiaries.

This Board has also maintained contacts with the corresponding boards active at Group companies. In particular, there were constant exchanges of information and meetings during the year with the control bodies and contact persons within the Control Functions of each Group company.

The relations maintained by the Bank with the other Group companies were also described at meetings of the Board of Directors; these exchanges of information were facilitated by participation in the administrative bodies of subsidiaries by the General Manager, top managers and/or directors.

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

– because Swiss regulations do not require Banca Popolare di Sondrio (SUISSE) SA (100%) to have a Board of Statutory Auditors, control activities consist in constant interaction between the Internal Audit Department of the Bank and the equivalent department within the subsidiary. This company operates in accordance with the instructions issued by FINMA, which is the authority that supervises financial activities in Switzerland. Based on the results of the checks carried out by the Bank's Internal Audit Department, 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 S.p.A. (60.5%), the control activities of this Board mainly consisted of interaction with the Internal Audit Department of the Bank, which performs the internal audit function of the subsidiary under an outsourcing agreement, and examination of the periodic reports on the work performed presented to the Board of Directors of the Bank. Coordination with Factorit's Statutory Auditors is guaranteed by the fact that the Chairman of that Board is also a Statutory Auditor of the Bank. This Board has also held discussions with EY S.p.A., the auditing firm, obtaining all necessary information on economic and financial matters;
- 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 S.p.A., 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;
- with regard to Banca della Nuova Terra (100%), the control activities of this Board during 2020 mainly consisted of interaction with the Internal Audit Department of the Bank, which performs the internal audit function of the subsidiary under an outsourcing agreement signed during the year, and examination of the periodic reports on the work performed presented to the Board of Directors of the Bank. Coordination with BNT's Board of Statutory Auditors took place by holding joint meetings of the two companies' statutory auditors to discuss issues of mutual interest. This Board has also held discussions with EY S.p.A., the auditing firm, obtaining all necessary information on economic and financial matters;
- for Sinergia Seconds S.r.l. (100%) and Pirovano Stelvio S.p.A. (100%), in carrying out our control activities we benefited from the fact that the Chairman of the Parent Company's Board of Statutory Auditors was also a member of the other two companies' Control Bodies. This Board also held discussions with EY S.p.A., the auditing firm, obtaining all necessary information on economic and financial matters.

With regard to the above, we have no observations to make about the adequacy of the instructions given to Group companies for the purpose of obtaining the information flows needed to comply on a timely basis with the reporting obligations imposed by law.

We also note that no matters worthy of mention emerged from the discussions held with the control bodies active in the subsidiaries, or from the evidence presented by the Control Functions of the Parent Company including, in particular, the Internal Audit and Compliance functions.

Relations with the Supervisory Authorities and the SREP process

As the Parent Company of a significant banking group, since 2014 the Bank has been subject to the Single Supervisory Mechanism (SSM), under the direct supervision of the European Central Bank. In carrying out its control activities, the latter makes use of the Joint Supervisory Group -operational nucleus of the SSM in charge of continuously exercising the prudential supervision activities of the Group, with which the Bank maintains constant contact and dialogue, through meetings with the management, the Heads of the second- and third-level Control Functions and the central offices, to define, evaluate and update, in agreement with the Team managers, the activities already undertaken and planned, as well as the new projects requested by the Supervisory Authority. The Bank is also subject to control and monitoring, to the extent of their responsibilities, by the Bank of Italy, Consob and the bodies responsible for the resolution of banking crises.

In response to the requests made by the Supervisory Authorities, we found that the work performed by the Bank demonstrates attention, commitment, awareness and collaboration by all the Functions of the Bank involved. We have also checked implementation of the methodological and organisational initiatives taken by the Bank in response to the matters raised, decisions, observations and suggestions made by the ECB and the Bank of Italy during their inspections and/or investigations covering key areas.

In carrying out our institutional activities, we took advantage of the help provided by the Internal Audit Department, which paid particular attention to the completeness of the various interventions and compliance with the deadlines. In particular, the following inspection work was performed.

– On-Site Inspection (OSI) by the ECB between May and July 2019 to evaluate the processes followed for identifying, measuring, managing and monitoring the exposures to market risk and interest-rate risk in the banking book (IRRBB); the Bank received a follow up on the inspection carried out in October 2020 after which the Bank initiated further remedial actions.
– Inspection by Consob, concluded on 5 August 2020 concerning the status of company compliance with MIFID 2 regulations, with regard to the procedural structures for product governance and the procedures for assessing the adequacy of transactions arranged by customers. During 2020, the Bank took suitable remedial action.
– Inspection assessment regarding the adoption of the new definition of default, following which the process of adaptation to the new rules was started, which provide, among other things, for harmonisation of the treatment of non-performing positions at Group level. The qualitative and quantitative analyses aimed at understanding the decisive impacts are currently underway, following the adoption of the new definition of default.
– Joint communication from the Bank of Italy and IVASS of 18 March 2020 on the subject: «Offer of products combined with loans». The Bank took steps – through its internal structures (Compliance and Internal Audit) – to carry out the appropriate checks, following which a context of

substantial correctness of the actions carried out by the Bank was found to ensure adequate protection of customers.

- With a letter dated 10 April 2020, the Bank of Italy requested the Bank, with reference to the findings that emerged as a result of the targeted inspection on transparency concluded on 18 April 2019, to provide further clarifications and additions to the corrective initiatives formulated by the Bank in August 2019. The Bank carried out the resolution measures.
- Bank of Italy communication of 19 April 2020 with which the Bank was asked to provide clarifications on the risk controls set up at Group level for the management of the anti-money laundering issue, with particular regard to the Swiss subsidiary Banca Popolare di Sondrio (SUISSE) SA. The Bank provided the requested feedback and took steps to strengthen the safeguards in this area.
- By letter dated 10 June 2020, the Bank of Italy asked to provide detailed information on implementation of the government's measures referred to in Article 13 of Law Decree no. 23 of 8 April 2020 relating to the update on the number of loans disbursed by the Bank and a summary of the main causes underlying the difference between the requests for loans received and those completed. Analyses highlighted the correctness of the assessments, which allowed a progressive improvement in the loan disbursement process.
- With a letter dated 18 June 2020, the Bank of Italy launched a qualitative and quantitative survey regarding the regulation of payment accounts, also in light of the changes introduced by Directive 2014/92/EU. The Bank has followed up on the Authority's requests.
- By letter dated 29 September 2020, the Bank of Italy requested clarifications regarding unfavourable manoeuvres approved starting from 1 February 2020. The Bank has responded to the letter, underlining that there are no critical issues.
- Communication from the Antitrust Authority of 21 April 2020 with which the Authority itself requested information from the Bank pursuant to art. 3, paragraph 2 of the Regulations on investigative procedures regarding misleading and comparative advertising, unfair commercial practices, violation of consumer rights in contracts, violation of the prohibition of discrimination and unfair clauses. With a letter dated 12 June 2020, the AGCM invited the Bank to remove any potential illicit profiles deriving from commercial conduct pursuant to art. 4, paragraph 5 of the aforementioned Regulation. The Bank has reviewed the areas considered by the Authority, in particular with reference to the updating of the website.

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

Pursuant to art. 17, para. 9.a), of Legislative Decree 39/2010 and art. 149-duodecies of Consob Regulation 11971, as well as arts. 4 and 5 of EU Directive 537/2014, this Board identifies below the total consideration recognised to EY S.p.A. and its network for services provided to the BPS Group during 2020, as specified in the notes to the financial statements, to which reference is made for further details.

Amounts in euro Type of services	Parent Company EY S.p.A.	 EY Network	Subsidiaries EY S.p.A.	 EY Network	Total EY S.p.A.	 EY Network
Audit services	331,000		137,500	432,735	468,500	432,735
Certification services	295,000			1,852	295,000	1,852
Other services	25,000	103,400		10,000	25,000	113,400
Total	**651,000**	**103,400**	**137,500**	**444,587**	**788,500**	**547,987**

The certification services are additional to the legal audit work assigned by law or by a Supervisory Authority; these include activities that represent an extension with respect to the independent audit (limited review of the consolidated Non-Financial Report, comfort letter, Certifications relating to TLTRO, Certification in relation to the deposit and sub-deposit of the assets of customers and intermediaries, obtaining the GACS guarantee, etc.). The above services are usually assigned to the legal auditor as, by their nature, they are not deemed to compromise its independence.

For services other than auditing («other services»), the Parent Company paid EY S.p.A. and the EY network a total of 128,400 euro for the assessment activities and gap analysis on certain business processes.

With regard to the audit work performed, the remuneration recognised to EY S.p.A. and its network in 2020, in compliance with current regulations, totalled Euro 331,000 from the Bank and Euro 570,235 from the other companies (Italian and foreign) in the Group.

With regard to the activities and related fees for the work identified above as «other services» that were requested from EY S.p.A. and its network, we confirm that they were authorised by this Board pursuant to arts. 4 and 5 of EU Regulation no. 537/2014.

The auditors have confirmed to us that they did not issue any opinions pursuant to the law during the year, given that the conditions that would have required them did not arise.

We also certify that we obtained the report on the independence of EY S.p.A. on 16 April 2021 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 Legislative Decree 39/2010 and articles 4 and 5 of Regulation (EU) 537/2014.

Lastly, we note pursuant to art. 150 CFA that we exchanged valuable information during the periodic meetings organised with the auditing firm, during which we analysed the principal topics regarding the preparation of the financial statements. The policies for evaluating loans and guarantees were also discussed, and in particular the criteria for the activities of derisking connected with the two mass disposals of NPLs «Diana» and «Luzzatti», the critical aspects of credit deriving from the Covid-19 emergency, the impact of the new definition of default, the processes of impairment of equity investments, as well as the priorities relating to financial information for 2020 described in the ESMA document 32-63-1021 of 28 October 2020 and in Consob's Call for Attention no. 1/2021 of 16 February 2021. In turn, this Board provided the auditors with information about our supervisory activities and, to the extent known, any significant matters relating to the Bank. This

Board confirms that no matters have emerged that are deemed censurable and/or that require mention pursuant to art. 155, para. 2, TUF.

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

As required by the above Communication, we confirm that this Board did not receive any complaints pursuant to art. 2408 of the Italian Civil Code between the date of our 2020 report to the Shareholders' Meeting held to approve the financial statements at 31 December 2019 and the date of this report.

We also inform you that during 2020 we did not receive any complaints from shareholders or customers of the Bank worthy of reporting.

Information about complaints submitted to the Bank

We analysed with the Compliance Function the Annual Report presented to the Board of Directors on 26 February 2021 on the subject of whistleblowing (internal reporting of violations) and acknowledged that no reports of violations of the kind referred to in the specific legislation were received in 2020.

With regard to the complaints received by the Bank, the Board found that the Compliance Function analysed the annual report drawn up by the complaints office in compliance with the provisions of the Bank of Italy in Section XI, paragraph 3, of the provisions on «Transparency of banking and financial operations and services. Correctness in relations between intermediaries and customers». In this regard, we confirm that three complaints regarding investment services were received in 2020 as in 2019 (10 in 2018): the minimum quantity in absolute terms confirms that the specific activity is carried out in compliance with the regulations on transparency and the risk appetite of customers. During the period, the Bank was notified of an appeal to the Arbitrator for Financial Disputes, currently awaiting settlement and the acceptance was notified of an appeal relating to a 2018 complaint with reimbursement of € 25,484.76. With reference to the complaints regarding the transparency of banking and financial operations and services, 206 complaints were received (168 in 2019 and 146 in 2018). The number remains low, although increasing compared to the previous year due to the increased operations of the Bank and the activities relating to the Covid-19 health emergency. Specifically, the following outcomes were found: 38 accepted, 9 partially accepted and 159 not accepted, of which 11 with subsequent appeal to the Arbitrator. In this regard, the Board confirms that, to the extent of its sphere of competence, management has been adequate and in compliance with the specific regulatory provisions.

Non-Financial Report

We would like to inform you about observance of the provisions established by Legislative Decree 254/2016 which transposed the Community Directive 95/2014 with reference to the Non-Financial Report (NFR or also «Report»). In the introduction, it is noted that the responsibility for ensuring that the NFR is drawn up and published in compliance with the aforementioned Legislative Decree rests with the Directors of Banca Popolare di Sondrio. As part of its control functions, the Board of Statutory Auditors is called upon to supervise compliance with the obligations set out in Articles 2, 3, and 5 of the same Decree and that, in particular, the Bank availed itself of the exemption from the obligation to draw up the individual Non-Financial Report provided for by art. 6, paragraph 1, opting for a Consolidated Report pursuant to art. 4. The NFR of the BPS Group also constitutes a separate report for 2020 with respect to the Directors' report on operations.

The Board considers it necessary to observe that ample space is given in the Report on the impacts of Covid-19 as already referred to in the paragraph «Covid-19» with regard to the interventions of ESMA, Consob and GRI in 2020 and Consob's Call for Attention no. 1/21.

From the examination of the Report we note that, as a necessary measure to ensure the understanding of the activities carried out by the Bank, an exhaustive description is provided (i) of the business management and organisation model adopted, (ii) of the policies applied by the Bank, of the results achieved and the key performance indicators, and (iii) the main risks generated or suffered. The BPS Group conducted a materiality analysis which made it possible to identify potentially material issues with the related degree of priority through a process, implemented bytop management, which contemplated the involvement of the stakeholders of reference. With regard to these issues, the Report presents a detailed report on the Group's material topics, divided into the various categories: social, environmental, personnel-related, the fight against corruption and human rights. Attention is also paid to two important non-material issues: financial education and dialogue with the social partners. In compliance with the relevant legislation, a comparison is made for each issue taken into consideration with respect to the assessments expressed in 2019 and, in the case of significant changes, the reasons for them are provided. As initiatives of particular importance, the Board reports the adoption of the new ESGeo software for the collection of data and its management and the establishment at the Banking Group level of the «Sustainability Working Group», which examines the most important initiatives promoted at EU and international level in ESG issues.

Lastly, we note that EY S.p.A. subjected the Report to a limited examination in compliance with art. 3, para. 10, of the above decree, issuing the required attestations to confirm that the information provided complies with the requirements of the legislation with regard to the principles, methodologies and procedures established for its preparation, pursuant to the Consob Regulation adopted by Decision 20267 dated 18 January 2018 and other requirements.

Financial Statements and Report on Operations

We have examined the financial statements at 31 December 2020, 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 30 March 2021 and, on that date, they were provided to us together with the Directors' report on operations and the other obligatory documentation.

We would remind you that the financial statements are audited by the EY S.p.A., appointed as independent auditors of the separate and consolidated financial statements.

We hereby certify that, on 16 April 2021, the Independent Auditors issued their auditors' report pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of Regulation (EU) 537/2014, the content of which respects, in terms of its form, certifications and information provided, the requirements of Legislative Decree no. 135/2016.

The auditors' reports on the separate and consolidated financial statements do not contain any qualifications or emphases of matter. In addition, as required by the regulations, they refer to the auditing standards adopted and indicate the following as a «key aspect»: classification and measurement of loans to customers (Loans) in the separate and consolidated financial statements.

On 16 April 2021, the auditors submitted to us the additional report envisaged by art. 1 of the Regulation (EU) no. 537/2010. This report confirms that following the checks carried out pursuant to article 14 paragraph 1, letter b) of the Legislative Decree 39 of 27 January 2010, on the regular keeping of the accounts and the correct recording of management facts in the accounting records, no significant aspects emerged that required reporting to the Governance and Control Bodies. This report also certifies that no cases of non-compliance were identified during our auditing activity and does not highlight any critical issues regarding the appropriateness of the accounting standards adopted by the Bank and the Group.

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 attestation referred to in para. 5 of art. 154-bis of Legislative Decree 58/1998, duly prepared and signed by the Managing Director and the Responsible Manager.

Although the auditing firm is responsible for performing the accounting checks, the Statutory Auditors still have a duty 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 on the preparation of the financial statements regarding, in particular, the adoption of generally-accepted accounting standards, agreement between the contents of the financial statements and the results of operations during the year, and the completeness of the directors' report on operations.

In performing work on the financial statements, we maintained contact with the audit personnel of EY S.p.A. In this regard, we can confirm that:

– the financial statements for 2020 reflect the balances on the books of account and have been prepared in accordance with the IAS/IFRS endorsed by the European Union and applied in the manner described in the explanatory notes;

- the report on operations is both complete and consistent with the data and other information provided in the financial statements; 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 the end of 2020.

Consolidated Financial Statements

With regard to the consolidated financial statements for the year ended 31 December 2020, which report a profit of 106.597 million euro compared with 137.435 million euro in 2019, 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. The financial statements are also accompanied by the attestation referred to in para. 5 of art. 154-bis of Legislative Decree 58/1998, duly prepared and signed by the Managing Director and the Responsible Manager.

Closing remarks

Shareholders,

Given all of the above and having taken note of EY SpA'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. In fact, the distribution approved by the Board of Directors takes into account the ECB's recommendation of 15 December 2020, both as regards the quantitative limits set by its, and with respect to the hope that the Institutions will carry out a prudent joint assessment of profitability and solidity on the current and prospective balance sheet of the Bank.

With the approval of the financial statements for the year ended 31 December 2020, 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 2021-2023 and to decide on their compensation.

Sondrio, 16 April 2021

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

EQUITY INVESTMENTS

INTERNATIONAL UNIT

DIGITAL BANKING

THE BANK AND YOUNG PEOPLE

“MULTIPLUS” ACCOUNT

CARTA +MA

AMICO QUINTO

ADVANCE ON ACCRUED END-OF-SERVICE BENEFITS (ESB)

TAX BONUSES

ASSET MANAGEMENT

BANCASSURANCE AND PENSION SCHEMES

PUBLISHING

CULTURAL ACTIVITIES

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 typical commercial activities of the Bank.

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 | **Arca Vita** SPA | **Alba Leasing** SPA
Polis Fondi SGR PA | **Cossi Costruzioni** SPA | **Rent2Go** SRL | **Sofipo** SA

INTERNATIONAL UNIT

PAGE 66

INCOMING AND OUTGOING PAYMENTS IN EURO AND CURRENCY

- BANK TRANSFERS AND CHECKS
- DEDICATED LOANS
- RESIDENT ACCOUNTS IN CURRENCY
- NON-RESIDENT ACCOUNTS
- CASH MANAGEMENT SERVICES
- SWIFT SERVICES FOR COMPANIES

TRADE FINANCE

- LETTERS OF CREDIT
- DOCUMENTARY REMITTANCES AND LCR
- CREDIT RISK COVERAGE
- BANK GUARANTEES
- PRECIOUS METALS OPERATIONS

DEALING ROOM

- INTEREST RATES AND COMMODITIES HEDGING
- DEPOSITS IN FOREIGN CURRENCY
- FX SPOT
- FX OPTIONS
- FX FORWARD AND NDF
- TRADING OF FOREIGN BANKNOTES

PROMOTIONAL INITIATIVES

- COUNTRY PRESENTATIONS
- TRAINING FOR INTERNATIONAL TRADE
- ASSISTANCE ON FOREIGN MARKETS
- EUROPEAN DESK
- NEWSLETTER BUSINESS CLASS
- BUSINESS SCHOOL PLATFORM

INFO

At all branches of the bank

or at the International Division
tel. +39 0342 528 783
businessclass@popso.it

www.popso.it/estero
businessschool.popso.it

INTERNATIONAL DIVISION
Lungo Mallero Cadorna 24
I-23100 SONDRIO

PAGE 68

DIGITAL BANKING

SCRIGNO*app* allows you to view accounts connected to SCRIGNO and to carry out the main operations on the move.

There are a number of features that facilitate use of the app:
▶ **biometric recognition on access** (Touch ID and Face ID)
▶ **fast operations** ▶ **address book** ▶ **hide Home page data** ▶ **version in English**.

An extension of **SCRIGNO***app* is available for Apple watch.

PAGE 68

THE BANK AND YOUNG PEOPLE

Banca Popolare di Sondrio offers a complete range of products dedicated to young people.

Conto 44 Gatti
a savings deposit book
reserved for children aged 0-11.

SoPOP is the new online bank account dedicated to university students.
www.sopop.it

ateneo+ the university badge is also a contactless prepaid card with an IBAN.
www.ateneopiu.it

“MULTIPLUS” ACCOUNT

The current account as you want it!

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

Put it together... 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 if you credit your salary or pension

Do you have your salary or pension credited to your current account?
With **MULTI**plus 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

PAGE 62

ADVANCE ON ACCRUED END-OF-SERVICE BENEFITS (ESB)

Reserved exclusively for retired public sector employees, it allows pensioners to obtain an advance on their accrued end-of-service benefits.

For retired public sector employees

Advance

on accrued end-of-service benefits

tfs
Trattamento di Fine Servizio

Now you can get
an advance on your ESB!

PAGE 68

ASSET MANAGEMENT

Years of experience and professionalism to best meet the most diversified investment objectives of savers.

Mutual Funds Managed by ARCA SGR

Popso (SUISSE) Investment Fund SICAV

Sidera Funds SICAV

Mutual Funds Managed by Etica SGR

Insurance Solutions

Portfolio and Fund Management

BANCASSURANCE AND PENSION SCHEMES

PAGE 68

With the collaboration of long-standing partners Arca Vita, Arca Assicurazioni and Arca Fondi SGR, the Bank offers complete and innovative solutions in the insurance and pension sector.

BANCASSICURAZIONE
Insieme perché il tuo mondo è unico

ARCA SGR

ARCA VITA ARCA ASSICURAZIONI

Arca Previdenza
FONDO PENSIONE APERTO

PAGE 83

PUBLISHING

Enhance our own chosen territory, its natural beauties,
with an eye to the cultural heritage of the Valley:
a constant commitment of the Bank, also implemented through the *Notiziario*
and numerous other publishing initiatives.

"NOTIZIARIO" THE MAGAZINE OF **BANCA POPOLARE DI SONDRIO**
All of the issues published since April 1999 can be seen on **nonsolobanca.popso.it**

CULTURAL ACTIVITIES

PAGE 83

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

BALANCE SHEET

(in euro)

	ASSET ITEMS		31/12/2020		31/12/2019
10.	CASH AND CASH EQUIVALENTS		**4,263,373,371**		**1,153,027,548**
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		**1,239,044,920**		**945,662,146**
	a) financial assets held for trading	169,744,106		225,786,507	
	c) other financial assets mandatorily measured at fair value	1,069,300,814		719,875,639	
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**2,617,072,850**		**2,590,618,396**
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST		**35,353,029,582**		**30,415,372,211**
	a) loans and receivables with banks	5,107,527,392		2,365,908,344	
	b) loans and receivables with customers	30,245,502,190		28,049,463,867	
70.	EQUITY INVESTMENTS		**613,487,983**		**620,398,948**
80.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**379,777,099**		**400,238,077**
90.	INTANGIBLE ASSETS		**12,872,557**		**14,167,977**
100.	TAX ASSETS		**378,942,324**		**369,299,404**
	a) Current	43,167,619		–	
	b) Deferred	335,774,705		369,299,404	
120.	OTHER ASSETS		**373,759,393**		**271,318,957**
	TOTAL ASSETS		**45,231,360,079**		**36,780,103,664**

THE CHAIRMAN
Francesco Venosta

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

EQUITY AND LIABILITY ITEMS			31/12/2020		31/12/2019
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		**41,392,257,233**		**33,139,673,205**
	a) due to banks	8,858,607,901		3,456,147,384	
	b) customer deposits	29,725,068,448		26,899,672,395	
	c) debt securities in issue	2,808,580,884		2,783,853,426	
20.	FINANCIAL LIABILITIES HELD FOR TRADING		**31,785,558**		**33,865,539**
60.	TAX LIABILITIES		**26,177,989**		**33,716,521**
	a) current	–		13,203,226	
	b) deferred	26,177,989		20,513,295	
80.	OTHER LIABILITIES		**844,105,983**		**777,619,715**
90.	RESERVE FOR TERMINATION INDEMNITIES		**39,854,380**		**41,237,849**
100.	PROVISIONS FOR RISKS AND CHARGES		**256,130,244**		**236,419,095**
	a) commitments and guarantees given	58,301,001		42,790,027	
	b) pension and similar obligations	162,296,416		152,526,396	
	c) other provisions for risks and charges	35,532,827		41,102,672	
110.	VALUATION RESERVES		**49,906,067**		**12,131,964**
140.	RESERVES		**1,102,256,637**		**990,903,675**
150.	SHARE PREMIUM RESERVE		**79,005,128**		**79,005,128**
160.	SHARE CAPITAL		**1,360,157,331**		**1,360,157,331**
170.	TREASURY SHARES (-)		**(25,321,549)**		**(25,321,549)**
180.	PROFIT (LOSS) FOR THE YEAR (+/-)		**75,045,078**		**100,695,191**
	TOTAL LIABILITIES AND EQUITY		**45,231,360,079**		**36,780,103,664**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

INCOME STATEMENT

(in euro)

	ITEMS		31/12/2020		31/12/2019
10.	INTEREST AND SIMILAR INCOME		499,257,139		480,296,574
	of which: interest income calculated using the effective interest method	491,791,157		472,759,501	
20.	INTEREST AND SIMILAR EXPENSE		(93,039,782)		(94,701,450)
30.	**NET INTEREST INCOME**		**406,217,357**		**385,595,124**
40.	FEE AND COMMISSION INCOME		289,140,354		297,277,922
50.	FEE AND COMMISSION EXPENSE		(12,824,563)		(15,640,757)
60.	**NET FEE AND COMMISSION INCOME**		**276,315,791**		**281,637,165**
70.	DIVIDENDS AND SIMILAR INCOME		21,118,202		12,869,582
80.	NET TRADING INCOME		(6,519,006)		49,301,342
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES:		(717,156)		35,756,120
	a) financial assets measured at amortised cost	(25,590,503)		23,055,929	
	b) financial assets measured at fair value through other comprehensive income	24,811,767		12,286,272	
	c) financial liabilities	61,580		413,919	
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES		(1,799,424)		12,139,386
	b) Other financial assets mandatorily measured at fair value	(1,799,424)		12,139,386	
120.	**TOTAL INCOME**		**694,615,764**		**777,298,719**
130.	NET ADJUSTMENTS FOR CREDIT RISK:		(132,910,477)		(200,696,196)
	a) financial assets measured at amortised cost	(132,054,574)		(202,231,964)	
	b) financial assets measured at fair value through other comprehensive income	(855,903)		1,535,768	
140.	GAINS/LOSSES ON CONTRACTUAL CHANGES NOT RESULTING IN DERECOGNITION		(6,414,585)		(3,287,718)
150.	**NET FINANCIAL INCOME**		**555,290,702**		**573,314,805**
160.	ADMINISTRATIVE EXPENSES:		(441,887,596)		(436,636,907)
	a) personnel expenses	(190,267,407)		(194,518,109)	
	b) other administrative expenses	(251,620,189)		(242,118,798)	
170.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(12,616,540)		(2,141,463)
	a) commitments and guarantees given	(15,510,974)		2,228,265	
	b) other net provisions	2,894,434		(4,369,728)	
180.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(32,770,630)		(36,152,651)
190.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(13,739,044)		(14,323,933)
200.	OTHER OPERATING INCOME/EXPENSE		58,071,163		65,566,086
210.	**OPERATING COSTS**		**(442,942,647)**		**(423,688,868)**
220.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		(582,334)		(284,123)
250.	NET GAINS ON SALES OF INVESTMENTS		12,007		5,363
260.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**111,777,728**		**149,347,177**
270.	INCOME TAXES		(36,732,650)		(48,651,986)
280.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**75,045,078**		**100,695,191**
300.	**PROFIT (LOSS) FOR THE YEAR**		**75,045,078**		**100,695,191**

STATEMENT OF OTHER COMPREHENSIVE INCOME

Items/Amounts		2020	2019
10.	**Profit for the year**	**75,045,078**	**100,695,191**
	Other income items net of income taxes that will not be reclassified to profit or loss		
20.	Variable-yield securities measured at fair value through other comprehensive income	30,562,885	(17,832,672)
70.	Defined-benefit plans	(5,644,440)	(6,887,641)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
140.	Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	12,855,658	53,048,050
170.	**Total other income items net of income taxes**	**37,774,103**	**28,327,737**
180.	**Comprehensive income (Items 10+170)**	**112,819,181**	**129,022,928**

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2019	Change in opening balances	Opening balance at 1.1.2020	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations
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	990,903,675	–	990,903,675	100,695,191	–
b) other	–	–	–	–	–
Valuation reserves	**12,131,964**	**–**	**12,131,964**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury Shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**
Profit for the year	**100,695,191**	**–**	**100,695,191**	**(100,695,191)**	**-**
Equity	**2,517,571,740**	**–**	**2,517,571,740**	**–**	**-**

The Shareholders' Meeting held on 12 June 2020, called to approve the 2019 financial statements and allocation of the profit for the year, passed a resolution to transfer all of the profit to reserves, in accordance with the ECB's recommendation.

The directors have proposed a dividend of € 0.06 from the results for 2020. 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 **26 May.** The payout envisaged totals € 27.203 million.

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2018	Change in opening balances	Opening balance at 1.1.2019	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations
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	885,551,458	–	885,551,458	61,036,328	–
b) other	–	–	–	–	–
Valuation reserves	**(16,195,773)**	**–**	**(16,195,773)**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury Shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**
Profit for the year	**83,623,117**	**–**	**83,623,117**	**(61,036,328)**	**(22,586,789)**
Equity	**2,366,819,712**	**–**	**2,366,819,712**	**–**	**(22,586,789)**

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 at 31.12.2020	**Equity at 31.12.2020**
–	–	–	–	–	–	–	–	**1,360,157,331**
–	–	–	–	–	–	–	–	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
10,657,771	–	–	–	–	–	–	–	**1,102,256,637**
–	–	–	–	–	–	–	–	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**37,774,103**	**49,906,067**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**75,045,078**	**75,045,078**
10,657,771	**–**	**–**	**–**	**–**	**–**	**–**	**112,819,181**	**2,641,048,692**

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 at 31.12.2019	**Equity at 31.12.2019**
–	–	–	–	–	–	–	–	**1,360,157,331**
–	–	–	–	–	–	–	–	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
44,315,889	–	–	–	–	–	–	–	**990,903,675**
–	–	–	–	–	–	–	–	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**28,327,737**	**12,131,964**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**100,695,191**	**100,695,191**
44,315,889	**–**	**–**	**–**	**–**	**–**	**–**	**129,022,928**	**2,517,571,740**

CASH FLOW STATEMENT (indirect method)

	31/12/2020	31/12/2019
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**358,754,302**	**474,198,471**
- profit for the year (+/-)	75,045,078	100,695,191
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through other comprehensive income (-/+)	17,514,884	(10,877,000)
- net hedging gains (losses) (-/+)	–	–
- net adjustments for credit risk (+/-)	144,368,608	220,451,632
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	46,509,674	50,476,584
- provisions for risks and charges and other costs/revenues (+/-)	35,580,931	26,634,877
- unpaid taxes, duties and tax credits (+)	36,732,650	48,651,986
- net impairment adjustments to disposal groups, net of tax effect (+/-)	–	–
- other adjustments (+/-)	3,002,477	38,165,201
2. **Cash generated/absorbed by financial assets**	**(5,515,721,225)**	**660,538,633**
- financial assets held for trading	50,453,490	46,222,776
- financial assets designated at fair value	–	–
- financial assets mandatorily measured at fair value through profit and loss	(351,606,163)	(72,112,380)
- financial assets measured at fair value through other comprehensive income	25,380,542	1,913,728,908
- financial assets measured at amortised cost	(5,089,679,380)	(1,271,776,180)
- other assets	(150,269,714)	44,475,509
3. **Cash generated/absorbed by financial liabilities**	**8,272,524,302**	**(852,203,621)**
- financial liabilities valued at amortised cost	8,255,622,989	(879,658,915)
- financial liabilities held for trading	(10,607,668)	(14,776,727)
- financial liabilities measured at fair value	–	–
- other liabilities	27,508,981	42,232,021
Net cash generated/absorbed by operating activities	**3,115,557,379**	**282,533,483**

	31/12/2020	31/12/2019
B. **INVESTING ACTIVITIES**		
1. Cash generated by	**24,045,946**	**9,373,057**
- sales of equity investments	7,279,421	–
- dividends collected from equity investments	16,754,558	9,365,070
- sale of property, equipment and investment property	11,967	7,987
- sales of intangible assets	–	–
- sale of business divisions	–	–
2. **Cash absorbed by**	**(28,787,778)**	**(86,089,299)**
- purchases of equity investments	(950,790)	(58,528,572)
- purchases of property, equipment and investment property	(15,396,013)	(13,831,228)
- purchases of intangible assets	(12,440,975)	(13,729,499)
- purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**(4,741,832)**	**(76,716,242)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	–	–
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	–	(22,486,789)
Net cash generated/absorbed by financing activities	**–**	**(22,486,789)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**3,110,815,547**	**183,330,452**

Key:
(+) generated (-) absorbed

RECONCILIATION

Line items	**31/12/2020**	**31/12/2019**
Cash and cash equivalents at beginning of year	1,153,027,548	969,358,505
Total net cash generated/absorbed in the period	3,110,815,547	183,330,452
Cash and cash equivalents: effect of change in exchange rates	(469,724)	338,591
Cash and cash equivalents at end of year	**4,263,373,371**	**1,153,027,548**

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 Standard Board (IASB) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2020 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 and additions.

The financial statements of the Bank at 31 December 2020 were approved by the Board of Directors on 30 March 2021.

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 funding, based essentially on T-LTRO III refinancing operations, customer current accounts, repurchase agreements and lending, mainly to retail customers and SMEs which the Bank monitors constantly, as well as the prevalence of government securities and prime corporate bonds, management is of the opinion, even considering the difficulties encountered by sovereign debt securities in the recent past and the macroeconomic scenario created by the pandemic, that there are no critical areas that could adversely influence the Bank's capital solidity and profitability, which are prerequisites for adopting the going concern basis. With reference to the information provided in Document no. 2 of 6 February 2009 and of Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP and subsequent updates, the Bank has the reasonable expectation of continuing to operate as a going concern in the foreseeable future and has therefore prepared the financial statements as at 31 December 2020 on the assumption of business continuity. In this regard, management believes that, despite foreseeable negative repercussions on certain types of revenues and the cost of credit and the elements of risk referred to in the section entitled «Risk Management», the Bank can continue to operate as a going concern in the foreseeable future, with capital ratios that are higher than the regulatory minimum requirements. This conclusion also takes into

account the significant government interventions in support of companies and households, the incisive monetary policy measures of central banks and the temporary easing of regulatory requirements.

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 Board 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.
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 financial statements.

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

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

Section 3 ***Subsequent events***

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 30 March 2021 that would require the adjustment of such approved information, and nothing of significance has occurred that would require changes in the figures of the financial statements.

On 25 January 2021, the application for the State guarantee (GACS) on the sale of NPLs in December was submitted.

Section 4 ***Other aspects***

The following are the new documents issued by the IASB and endorsed by the EU, which have to be adopted from the financial statements for the years beginning on 1 January 2020:

- Amendments to references to the IFRS Conceptual Framework.
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Regulation (EU) 2020/34 dated 16 January 2020 which issued the «IBOR Reform» document modifying certain hedge accounting requirements. This enables entities to report useful information during the period of uncertainty caused by the gradual elimination of benchmark interest rates by the end of 2021. This regulation introduced a number of changes to hedge accounting in order to

avoid uncertainties about the amount and timing of the cash flows deriving from the reform of interest rates leading to the interruption of existing hedges and problems in designing new hedging relationships. See the paragraph 16 «Other information» in these explanatory notes for further information.

- Amendments to IFRS 3 – Business combinations. The amendments are to help determine whether a transaction is an acquisition of a business or of a group of assets that does not satisfy the definition of a business given in IFRS 3.
- Amendments to IAS 1 and IAS 8 – definition of Material. The amendments aim to clarify the definition of «material» in order to help companies assess whether a piece of information should be included in the financial statements.
- Amendments to IFRS 16 – on 10 April 2020, following the advent of the COVID-19 pandemic, the IFRS Foundation clarified («Accounting for COVID-19 related rent concessions applying IFRS 16 Leases») that in the event of changes in payments of lease instalments, also as a result of government interventions, it was necessary to assess whether or not they represented a modification of the contract with the appropriate accounting treatment and disclosure in the financial statements. Given the protraction of the emergency situation caused by Covid-19 and the consequent economic and financial effects, on 28 May 2020 the IASB published the amendment to IFRS 16 «Covid-19 Related Rent Concessions», approved on 9 October 2020 with Regulation (EU) 2020/1434, whose effects take effect from 1 June 2020 with the possibility of earlier application. In this sense, the new paragraphs 46A and 46B introduced as a practical expedient the possibility for the lessee not to treat the unpaid rents, as a direct consequence of Covid-19, as modifications to the original contract and therefore not as a modification of the amortisation plan of the lease, with consequent recalculation of the liability. In order to apply this exemption, all the following conditions must be met:
  - the concession on payments is a direct consequence of the Covid 19 pandemic;
  - the modification in payments left the same amount to be paid with respect to the original conditions or reduced the amount;
  - the reduction in payments refers solely to those originally due until June 2021;
  - there are no substantial changes to other contractual terms or conditions of the lease.

Taking into account the above, the Bank did not request any suspension of payment of the lease instalments to deal with the emergency.

The changes to the international accounting standards did not have a significant impact on the financial statements.

The new accounting standards, amendments and interpretations, whose application will become mandatory after 31 December 2020, are listed below:

- EU Regulation 2021/25 of 13 January 2021. On 27 August 2020, the International Accounting Standards Board published its «Interest Rate Benchmark Reform – phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16» to take into account the consequences of the effective replacement of benchmark indices for the determination of existing interest rates with alternative benchmark rates.
- Amendments to IAS 1 Financial Statement Presentation: Classification of liabilities as current or non-current. On 23 January 2020 the IASB publish an amendment to IAS 1 which clarified that the classification of a liability between current and non-current depends on the existing rights at the end of the reporting period, without considering the expectation of being able to defer the payment. The amendment includes:
  - clarification that the right to defer settlement must exist at the end of the reporting period;
  - ·clarification that classification is unaffected by management intentions or expectations about possible exercise of the deferral right;

- clarification about how loan conditions influence classification;
- clarification of the requirements for classifying a liability that the entity intends to settle or might settle by the transfer of its own equity instruments. On 15 July 2020, the IASB published a further document which provided for the deferral of the date of first application by one year, from 1 January 2022 to 1 January 2023.

– IFRS 17 – Insurance contracts published on 18 May 2017 and the amendments to IFRS 17 published on 25 June 2020. This applies from 1 January 2023.
– Amendments to IFRS 4 Insurance contracts (Regulation (EU) 2020/2097 of 15 December 2020). The amendments to IFRS 4 extend the expiry of the temporary exemption from the application of IFRS 9 until 2023 in order to align the date of entry into force of IFRS 9 with the new IFRS 17 Insurance Contracts.
– On 14 May 2020, the IASB published a number of amendments to IFRS:
  - amendments to IFRS 3 Business Combinations: to update the reference in IFRS 3 to the Conceptual Framework in the revised version, without this involving any changes to the standard;
  - amendments to IAS 16 Property, Plant and Equipment: it does not allow the amount received from the sale of goods produced before the asset was ready for use to be deducted from the cost of the fixed asset. Such sales revenues and the related costs will be recognised in the income statement;
  - amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: to clarify which cost items have to be considered to assess whether a contract will make a loss;
  - Annual Improvements 2018 – 2020: amendments are made to IFRS 1 First-time Adoption of International Financial Reporting Standards, to IFRS 9 Financial Instruments, to IAS 41 Agriculture and to the Illustrative Examples accompanying IFRS 16 Leases.

The amendments will come into effect on 1 January 2022.

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 as at 31 December 2020, 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 analyses performed confirm the carrying amounts of the items mentioned at 31 December 2020. It should be stated, however, that this valuation process was particularly complex in view of the current macroeconomic and market context, characterised by high levels of uncertainty about the prospects, 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 during a pandemic which could experience rapid changes that are currently unforeseeable, with effects – even significant effects – on the amounts reported in the financial statements at 31 December 2020.

The financial statements are subject to audit 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

Classification of financial assets

Financial assets are classified with reference, on the one hand, to the contractual characteristics of the related cash flows i.e. whether or not they depend solely on the payment of principal and related interest (SPPI) and, on the other, the reason (business model) for which the instrument is held. The business model determines whether the cash flows derive from the collection of contractual cash flows, the sale of financial assets or both.

Held to Collect (HTC)

The objective of this business model is to hold financial assets to collect the contractual cash flows during the instrument's life.

Sales are only deemed to be eligible if they are frequent but not significant, or significant but not frequent, or if due to an increase in credit risk, or if close to the maturity date of the financial asset. Frequency is measured based on the number of sales made in the period, while significance is measured based on the total amount of sales compared to the portfolio at the beginning of the period. The criteria used to determine these requisites have been included by the Bank in specific internal regulations.

The Bank holds the following within an HTC business model:

- Almost the entire portfolio of loans to customers and Banks, given that the bank mainly undertakes traditional banking activities and holds a loan portfolio that originates from finance granted to households, individuals and businesses;
- Fixed-yield securities that may be subjected to this business model's management logic.

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets. The Bank has decided not to use the HTC&S business model for loans, but for securities (most of the securities already held as financial assets available for sale have been included here).

Others (FVTPL)

This business model is adopted when the Bank takes decisions based on the fair value of financial assets and it manages them in order to realise the latter or when the objective of the business model does not fall within that of the previous two (HTC and HTC&S). The Bank holds the following within an «Others» business model:

- Financial instruments held within a trading business model
- Financial instruments held at fair value within a business model (that mostly include funds and SICAVs).

The Bank does not require ex post monitoring for credit and loans to verify the consistency of the loan portfolio with the HTC business model within which they are held, while it is required for securities to verify the consistency of securities portfolio management with the HTC and HTC&S business models.

Solely Payment of Principal and Interest Test (SPPI test)

By means of an SPPI test, it is possible to check whether a financial asset may be considered to be a «basic lending arrangement», whereby the contractual cash flows consist solely of payments of principal and interest accrued on the principal amount outstanding. If the test of the characteristics of the contractual cash flows shows compliance with the requirements of IFRS 9 (SPPI test has been passed), the asset may be measured at amortised cost, provided that it is held within a business model the objective of which is to collect the contractual cash flows during the instrument's life (HTC business model), or at fair value through other comprehensive income (FVOCI), provided that the asset is held within a business model the objective of which is to collect contractual cash flows over the entire life of the asset and to sell the asset (HTC&S business model). If the test of the characteristics of the contractual cash flows from a financial asset does not show compliance with the requirements of IFRS 9 (SPPI test has not been passed), the asset is measured at fair value through profit or loss (FVTPL). In accordance with Group guidelines, the test is performed before a loan is granted or a security purchased (origination) in order to gain awareness of the accounting implications in terms of the classification of assets in accordance with IFRS 9. Test procedures make use of an SPPI tool.

For credit and loans, the approach for the execution of the SPPI test differs based on whether they consist of:

- Standard products (e.g. current accounts or loans), for which the test is performed at product level. Upon granting a loan, account is taken of the outcome of the SPPI test at product level, updated following verification of the remuneration of credit risk and a Benchmark test, where required.
- Non-standard contracts, for which the test is performed individually for each amount.

For the securities portfolio, the results of the SPPI test and Benchmark test are acquired for each ISIN from an external info provider. For amounts for which the results of the SPPI test and/or benchmark test obtained from an external info provider are not available and/or complete, the tests are performed within the Bank, using the aforementioned tool.

1. Financial assets measured at fair value through profit or loss

Classification

Financial assets held for trading (fixed-yield securities, variable-yield securities, loans, mutual funds) have been allocated to this line item. It also includes the derivative contracts with a positive fair value, except those offset pursuant to IAS 32. 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, is settled on maturity and requires a limited initial net investment. If the derivative qualifies as a hedging derivative, the applicable line item is «hedging derivatives». If a financial asset contains an embedded derivative, it is measured by measuring the entire asset at fair value. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This line item also includes financial assets designated at fair value (fixed-yield securities and loans) as the result of the exercise of the fair value option. For the time being, the Bank has decided not to apply the fair value option, but does not exclude the exercise thereof in the future.

Lastly, it includes other financial assets mandatorily measured at fair value (fixed-yield securities, variable-yield securities, mutual funds and loans) or that do not meet the requirements for classification at amortised cost or at fair value through other comprehensive income, since they did not pass the contractual cash flow characteristics test (SPPI test), as well as variable-yield securities and mutual funds (that are not held for trading) and debt instruments held within a fair value business model.

Recognition

Assets measured at through profit or loss are recognised at the settlement date at fair value, which normally corresponds to the consideration paid, with the exception of transaction costs and revenues that are recognised directly in profit or loss. 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 recognition, financial assets measured at fair value through profit or loss are measured at fair value at the reporting 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 data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity; cost, in the event that this is the best approximation of fair value).

As regards loans and receivables (due from banks and customers), the models used differ based on the nature and the characteristics of the instruments being measured. Currently, three main base models are applied:

- Discounted Cash Flow Model (DCF)
- Reverse mortgage model
- ABS model

The above models are used to measure performing exposures. In the event of non performing loans or loans repayable on demand, the fair value equates to the gross balance adjusted for impairment.

Recognition of components affecting the income statement

Income statement components generated by changes in fair value of financial assets measured at fair value through profit or loss are recognised in the income statement in the period they arise under «Net trading income» and «Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss» split between the sub-items: «financial assets and liabilities designated at fair value» and «other financial assets mandatorily measured at fair value».

Interest income and dividends are reported in the income statement under «Interest and similar income» and «Dividends and similar income» respectively.

Derecognition

Financial assets measured at fair value through profit or loss are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

2. Financial assets measured at fair value through other comprehensive income

Classification

This line item includes all financial assets (fixed-yield securities, variable-yield securities and loans) classified in the portfolio measured at fair value through other comprehensive income, distinguishing between those that will subsequently be reclassified to the income statement (fixed-yield securities and loans) and that will not (variable-yield securities). The following are classified in the portfolio measured at fair value through other comprehensive income:

- fixed-yield securities and loans held within an HTC&S business model and that pass the SPPI test;
- variable-yield securities for which the FVOCI option has been irrevocably exercised upon recognition.

Recognition

The assets classified in this caption are recorded on the settlement date. Financial assets measured at fair value through other comprehensive income are initially recognised at fair value, which normally corresponds to the fair value of the consideration paid to acquire them.

With regard to fixed-yield securities and loans, the Bank requires any changes in business model due to inconsistency between the management of the portfolio and the model chosen, or to significant changes in the strategic choices made, to be decided by the Board of Directors, which will determine if, in rare circumstances, reclassification is needed.

No possibility exists for the reclassification of variable-yield securities. The exercise of the FVOCI option, being the option envisaged by the standard that permits equity instruments to be designated at fair value through other comprehensive income upon initial recognition, is in fact irrevocable.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value in the same manner as financial assets measured at fair value through profit or loss.

The line item «Financial assets measured at fair value through other comprehensive income» comprises 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 represent the majority in this portfolio. For these investments and in consideration of the fact that the application of valuation techniques would use significant discretionary factors, valuation at cost is considered the best expression of their fair value.

At each year end or interim reporting date, fixed-yield securities classified at «fair value through other comprehensive income» are subject to impairment testing based on a calculation framework similar to the one used for financial instruments measured at amortised cost. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

As regards variable-yield securities classified in the line item «Financial assets measured at fair value through other comprehensive income» no Impairment testing is required, since changes in fair value due to a deterioration in credit status are recognised in an equity reserve named «Valuation reserves».

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 a change in fair value are, net of deferred tax effect, classified in separate line items within shareholders' equity: «Valuation reserves: Variable-yield securities measured at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income». As an exception for fixed-yield securities, changes in fair value triggered by changes in risk are recognised in profit or loss in the line item 130 b) «Net impairment adjustments/ write-backs relating to credit risk» in relation to financial assets measured at fair value through other comprehensive income. Upon derecognition of fixed-yield securities, accumulated gains or losses pertaining thereto are recognised in profit or loss.

Upon derecognition of variable-yield securities, accumulated gains or losses pertaining thereto are recognised in an equity reserve (line item 140).

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

Financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

3. Financial assets measured at amortised cost

Classification

This line item includes fixed-yield securities and loans allocated to the portfolio measured at amortised cost. To qualify for inclusion in the portfolio measured at amortised cost, a financial asset must be held within an HTC business model and have passed the SPPI test. The following are recognised in this line item:

a) due from banks (current accounts, guarantee deposits, fixed-yield securities, etc.). These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, the distribution of financial products). They also include deposits with Central Banks other than sight deposits included in the line item «Cash and cash equivalents» (for example, mandatory reserve);
b) loans and receivables with customers (mortgage loans, finance leases, factoring, fixed-yield securities, etc.). These also include deposits with post offices and Cassa Depositi e Prestiti, variation margins with clearing houses arising from derivative transactions and operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, servicing activities).

Also included are:

- finance leases relating to assets under construction and assets about to be leased under «transfer of risks» contracts, whereby the risks are transferred to the lessee prior to delivery of the asset and the start of lease instalments;
- loans granted through government or other public entity funding in connection with particular lending transactions provided for and governed by specific laws («loans through third-party funds under administration»), provided that the loans and funds bear interest due and payable to the lender;
- trade notes and documents that the banks receive subject to collection or subsequent to collection and for which the banks handle the collection service on behalf of assignors (recognised only upon settlement of the related amounts);

Recognition

Financial assets measured at amortised cost are recognised on the settlement date at fair value, which normally coincides with the amount paid, including transaction costs.

Financial assets measured at amortised cost include 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 acquired by the bank, and booked in the name of the assigned debtor, for which the related risks and benefits have all been substantially transferred to the bank.

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.

The Bank requires any changes in business model due to inconsistency between the management of the portfolio and the model chosen,or to significant changes in the strategic choices made, to be decided by the Board of Directors, which will determine if, in rare circumstances, reclassification is needed.

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 (less than 12 months) without a specific repayment date and loans repayable on demand are recognised at historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this amount. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount expected cash flows, even if there has been a credit change associated with the loan triggered by loan forbearance that has led to a change in the contractual rate.

For measurement purposes, financial assets measured at amortised cost are classified in one of 3 different stages as follows:

- Stage 1: performing positions for which there has been no significant increase in credit risk since the date of initial recognition
- Stage 2: performing positions for which there has been a significant increase in credit risk since the date of initial recognition
- Stage 3: positions classified in one of the credit-impaired categories (overdrawn for more than 90 days, unlikely-to-pay, non-performing)

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts».

At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, POCI and use of the low credit risk exemption for limited and particular types of counterparties and technical forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric

(«Probability of Default»), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard. Such a case would result in a transfer between stages: this model is symmetrical and assets may be moved from one stage to another. In particular, consistent with the prudent principles of forbearance, an observation period of at least two years is applied before returning the position to a better stage.

The measurement of financial assets carried at amortised cost is based on a computation of expected credit loss, which is defined as an estimate of the weighted probability of credit losses over the expected life of the financial instrument weighted for the probability of occurrence and is calculated based on the classification in stages as indicated above.

In particular:

- 12-month expected credit losses, for assets classified in stage 1. 12-month expected credit losses are those that result from default events that are possible within 12 months (or within a shorter period if the expected life is less than 12 months), weighted for the probability of occurrence of the default event.
- Lifetime expected credit losses, for assets classified in stage 2 and 3. Lifetime expected credit losses are those that result from all possible default events over the expected life of the financial instrument, weighted for the probability of occurrence of the default event.

  For stage 2 positions, the provisions relating to each counterparty may be amended manually to a level considered appropriate by the competent business functions, based on the results of applying the statistical methodology defined by the bank and specific operational information, if the theoretical expected loss does not accurately reflect the level of risk identified.

  As regards performing positions, measurement is performed on an overall basis, taking account of the risk parameters consisting of Probability of Default (PD) and Loss Given Default (LGD), as well as exposure at default (EAD).

  As regards credit-impaired positions, measurement may be performed on an overall or detailed basis. More specifically:
- Bad loans, reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.
- Exposures classified as unlikely-to-pay loans are 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 those classified as non-performing or unlikely-to-pay, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 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.

Impairment of individual assets measured at amortised cost is 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:

- 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;

- expected timing of recoveries, considering the progress made by recovery procedures;
- internal rate of return.

Bad loans are assessed on either a detailed or an overall basis. The specific analysis of non-performing financial assets measured at amortised cost takes the following parameters into account:

- recoveries forecast by the account managers;
- expected timing of recoveries based on historical-statistical data;
- 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:

- recoveries forecast by the offices concerned;
- expected timing of recoveries based on historical-statistical data;
- original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of bad loans loans for which no specific estimate has been made of the loss attributable to each individual relationship.

These financial assets are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Past due and/or impaired overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters established by regulations in force from time to time.

For the positions in question, it is not possible to quantify expected losses on a detailed basis at the level of individual position. The measurement of the level of impairment thereof – and, thus, of the impairment adjustments to be applied on an overall basis – is performed by taking account of the possibility of return to performing of the positions or of a further deterioration of default and, accordingly, of the amount of the estimated expected loss arising from the established recovery process. Measurement is also performed based on the availability of appropriate information of a macroeconomic and prospective nature that is deemed significant for the estimation of the adjustments.

It should be noted that the Impairment model relating to impaired loans (Stage 3) envisaged by IFRS 9 is based on an estimate of the difference between the original contractual flows and expected cash flows. So, in determining the expected flows, it is necessary to include estimates at the reporting date of the various expected scenarios, including any loan disposal programmes. If the entity expects to recover a portion of the cash flow of the exposures through sales procedures, these can be included in the calculation of the Expected Credit Losses verified under certain conditions.

The bank incorporates the various recovery strategies considering the different probabilities that they will take place according to the IFRS 9 impairment model.

In the context of calculating the ECL, internal regulations require the expected loss and the recoverable value of bad loans to be estimated in disposal scenarios in accordance with a specific procedure, comprising several phases, that starts with identification of the scenarios.

In general, the accounting rules require the estimate of the loss on non-performing loans to reflect a range of possible outcomes for different scenarios, each associated with a specific probability of occurrence.

Currently, the following possible scenarios have been identified, each with different models and estimated outcomes:

- internal management of credit recovery activities;
- disposal to third parties of impaired exposures.

The next phase consists in identifying the portfolio to be sold, based on knowledge of its characteristics, the existence of any internal and/or external constraints, the monitoring of market conditions and any more complex strategic and operational objectives. The aggregate is defined with reference to the specific factors attributed to each position, such as their contractual characteristics (e.g. type of guarantee, ageing, size of the exposure etc.) and relevant operational information, including the type of recovery procedures already in progress, the geographical location of the counterparty, any impediments or obstacles to disposal, the strategic orientation of the group, the conditions existing from time to time in the market for the disposal of loans, the strategies adopted by competitors, and any other internal and/or external factors that can be explained appropriately.

Each operational scenario identified is assigned a specific probability of occurrence. This probability is determined after considering both quantitative and qualitative elements that can be supported by factual data and documented analysis; for example, the probability of occurrence of the external disposal scenario considers such qualitative elements as the progress made on preparations for the sale and the stage reached in the approval process.

The next phase involves estimating the expected loss for each scenario. The estimate of losses on non-performing loans must reflect reasonable and well-founded information, available without excessive cost or effort, including details of past events, current conditions and the economic situation expected in future. In line with the internal regulations for quantifying the loss expected on non-performing exposures, an estimate is made of the cash flows expected from each operational scenario identified. Without prejudice to specific regulatory instructions, the estimate of cash flows from internal credit management scenarios takes account of macroeconomic and sector information, the situation faced by the debtor, the cash flows expected from the restructuring of unlikely-to-pay exposures, any secured and unsecured guarantees, the period for which the position has been impaired and the expected time to obtain recovery.

The estimate of cash flow from loan disposal scenarios takes account of any similar transactions carried out in the past by the group, as well as specific information available about the underlying (situation faced by the borrower and any loan guarantees obtained) and the market for the disposal of non-performing loans (e.g. historical and forecast market curves, positioning analyses, discount rates based on current and expected conditions in the market for impaired loans an receivables).

The expected loss on each impaired position is therefore determined using the following formula:

Expected Loss – Individual position	=	Expected Loss – Disposal Scenario * Probability of occurrence of Disposal	+	Expected Loss – Internal Management Scenario * Probability of occurrence of Internal Management

Recognition of components affecting the income statement

Interest income on financial assets measured at amortised cost is classified in the line item «interest and similar income».

Reductions or recoveries of partial or entire amounts previously written down are booked to the income statement.

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the line item «interest and similar income».

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

IFRS 9 confirms the rules for derecognition of financial assets already established by IAS 39. Accordingly, financial assets measured at amortised cost are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

However, the standard includes new guidance on:

- Write-offs of financial assets: when an entity does not reasonably expect to fully or partly recover contractual cash flows from a financial asset, it must directly reduce the gross carrying amount of the financial asset. This writedown constitutes partial or total derecognition of the asset.
- Modification of contractual cash flows: when a modification of contractual cash flows occurs, an entity must assess whether the modification would lead to derecognition, that is, whether the modification is substantial.

When the modification of contractual cash flows from a financial asset leads to the derecognition of a financial asset in compliance with the present standard, an entity should derecognise the existing financial asset and subsequently recognise the modified financial asset: the modified financial asset is deemed to be a «new» financial asset for the purpose of this standard. (IFRS 9 B5.5.25).

When the modification of contractual cash flows from a financial asset does not lead to the derecognition thereof, an entity should redetermine whether there has been a significant increase in credit risk and/or whether the financial asset should be reclassified to stage 3.

At the time of a modification that does not lead to derecognition, the Bank adjusts their carrying amount to the present value of the modified cash flows determined using the original effective interest rate, with a matching entry to the income statement.

3.1 Commitments and guarantees given

Classification

These comprise all the secured and unsecured guarantees given for third-party obligations and commitments to disburse funds.

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. The impairment model envisaged for this category of financial assets is the same as that for financial assets measured at amortised cost (see paragraph 3 above).

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 reversals, are booked to the income statement under «net provisions for risks and charges» with a contra-entry to «Provisions for risks and charges – a) Commitments and guarantees given».

4. Hedging derivatives

Classification and recognition

Financial and credit derivatives held for hedging purposes with a positive or negative fair value are recognised in the corresponding balance sheet line item. The IASB is still developing new macro hedging requirements to complete the hedge accounting requirements already included in IFRS 9, which will replace the rules set out in IAS 39 and, accordingly, until the completion and publication of the new standard, the Bank has decided to continue to apply the hedge accounting requirements set out in IAS 39, as this option is allowed under IFRS 9.

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:

- fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

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.

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.

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- 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;
- 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 to match the change in the carrying value of the hedged item.

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:

- 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;
- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

If the hedging instrument expires or is sold, cancelled or exercised without replacement (as part of the hedging strategy), or if it ceases to be designated as a hedging instrument, or if the hedge no longer satisfies hedge accounting criteria, any gains or losses previously recognised as components of other comprehensive income remain classified separately within equity until the expected transaction takes place or the commitment made in relation to foreign currency is called upon.

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.

5. Equity investments

The portfolio of equity investments comprises holdings in subsidiary companies, associated companies and companies under joint control, other than those classified as «financial assets measured at fair value through other comprehensive income». 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 recognised at cost on the acquisition date, whereby cost 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.

6. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery. The rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

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.

According to IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset for the duration of the lease.

When the asset is made available to the lessee for its use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

The start of the lease term is the date from which the lessee is authorised to exercise his right to use the leased asset, it corresponds to the date of initial recognition of the lease and also includes the so-called rent-free period, or those contractual periods in which the lessee makes use of the asset free of charge. At the time the contract begins, the lessee recognises:

- an asset consisting of the right to use the asset underlying the lease contract.

  The asset is recognised at cost, determined by the sum of
  - the financial liability for the lease;
  - payments for the lease paid before or on the date on which the lease takes effect (net of the lease incentives already received);
  - initial direct costs;
  - any (estimated) costs for the dismantling or restoration of the underlying leased asset;
- a financial liability deriving from the lease agreement corresponding to the present value of the payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise the lessee's incremental borrowing rate is used. If a lease contract contains «non-lease components» (for example services, such as routine maintenance, to be recorded according to the provisions of IFRS 15) the lessee has to account for «lease components» and «non-lease components» separately and split the contract consideration between the various components based on their relative prices.

The lease term is determined by taking into account:

- periods covered by a lease extension option, if it is reasonably certain to be exercised;
- periods covered by a lease termination option, if it is reasonably certain to be exercised.

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 measured 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 amount with respect to their recoverable amount 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.

With regard to lease contracts, the lessee must:

– assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36 «Impairment of assets», adjusted to take into account any restatements of the lease liability;
– increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the incremental borrowing rate and reduce it for payments of principal and interest. In the event of changes in payments due for leases, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

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.

With regard to buildings held for investment purposes, the net result of their measurement at fair value is recorded separately in the income statement.

In the lessee's income statement, the payment of the fee, previously shown under «Other administrative expenses», is now accounted for:

– under «Net interest» for the portion of interest expense relating to the financial liability in relation to the lease contract;
– under «Adjustments to property, equipment and investment property and intangible assets» for the depreciation charge relating to the right of use of the asset.

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.

The right of use deriving from lease contracts is eliminated from the financial statements at the end of the lease term.

7. 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.

Accounting policies

Subsequent to initial recognition, intangible assets except for goodwill 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 amount 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 amount 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.

8. Non-current assets held for sale and discontinued operations

The Bank classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally from sale rather than from continuous use. Non-current assets are only classified in this item when disposal is considered very probable, and the asset or disposal group is available for immediate sale in its current condition, given that management is committed to making the sale, which should be scheduled for completion within one year of the classification date. 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.

9. 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, if these amounts are likely to be recovered from or paid to the tax authorities. Tax liabilities are determined by applying the current tax rates and regulations.

The estimate of tax assets and liabilities takes into account any charges deriving from disputes notified by the Tax Authorities and not yet settled or whose outcome is uncertain, as well as any doubts about tax treatments adopted by the Company, given the complexity of tax legislation.

If there are deductible or taxable temporary differences at the reporting date between the value of assets and liabilities for tax purposes and the related carrying amounts, the corresponding deferred tax assets and liabilities are recognised using the liability method.

Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions:

- they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future.

Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions:

- the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them.

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 only recognised when 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 is assessed by carrying out a probability test, based on the ability of the Bank or its tax group to continue generating taxable income. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal.

Deferred tax assets and liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date.

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 comprehensive income or equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This caption comprises the following provisions:

- The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to disburse loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.
- Sub-item «Pensions and similar obligations» only includes the supplementary defined benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other «external» supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed.
- The sub-item «Other provisions for risks and charges» includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
  - the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
  - it is likely that settlement of the obligation will involve the use of economic resources;
  - 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).

11. Financial liabilities measured at amortised cost

Classification

This line item includes amounts due to banks and due to customers, regardless of their technical form (deposits, current accounts, loans, securities), other than those recognised in line items 20 «Financial liabilities held for trading» and 30 «Financial liabilities designated at fair value». It also includes operating payables linked to the financial services and activities defined in the Consolidated Banking Act and the Consolidated Finance Act, variation margins with clearing houses arising from derivative transactions and other operating payables associated with the provision of financial services. 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. They also include payables recorded by the company as a lessee in the context of lease transactions.

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. 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. Amortised cost is calculated after identifying the acquisition discount or premium and the fees or costs that are an integral part of the effective interest rate. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are measured in accordance with the regulations applying to such transactions.

Lease payables are revalued when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest and similar expense». The amortisation charged using the effective interest rate is recognised among the financial charges in the income statement. Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses from sales or repurchases of financial liabilities».

Interest expense on the financial liability under the lease contract is recorded in «Interest and similar expense».

Derecognition

Financial liabilities are derecognised when the underlying obligations expire or are settled, cancelled or satisfied.

Funding liabilities that are subsequently repurchased are eliminated from the financial statements.

12. 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.

13. Financial liabilities carried at fair value

The financial statements do not include any financial liabilities at fair value.

14. Currency transactions

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 in which they arise. Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the 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.

15. Termination indemnities

Post-employment benefits (i.e. 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, for the portion of the amount accrued. Under the projected unit credit method, 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.

The termination indemnities earned after 31 December 2006 are part of defined contributions plans. The contributions payable to these plans are recognised as a liability on an accruals basis, after deducting any contributions already paid to supplementary pension funds and to the INPS treasury fund in relation to the work performed by employees, with a matching entry to the income statement.

16. Other information

16.1 Share-based payments – Transactions settled using equity instruments

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. The cost of transactions settled using equity instruments is represented by their fair value at the grant date, as determined using an appropriate method of measurement.

This cost and the corresponding increase in equity is recognised as a payroll cost over the period in which the conditions for achieving the objectives and/or providing the service are satisfied. The transaction costs already accumulated at each reporting date prior to the vesting date are projected forward to the vesting date, together with the best estimate of the number of equity instruments that will actually vest. The cost or income recognised in the income statement represents the change in accumulated cost between the start and the end of the year.

The service or performance conditions are ignored when the fair value of the plan is determined at the grant date. However, the probability that these conditions will be satisfied is considered when estimating the number of equity instruments that will actually vest. Market conditions are reflected in the fair value determined at the grant date. All other plan conditions that do not involve a service obligation are not considered to be vesting conditions. Non-vesting conditions are reflected in the fair value of the plan and result in immediate recognition of the cost of the plan, unless service or performance conditions must also be satisfied.

16.2 Interest Rate Benchmark Reform

The so-called «IBOR reform» follows the recommendations of the Financial Stability Board (FSB) following the G20 request for a radical revision of the main benchmark interest rates. The request is a direct consequence of the loss of reliability of certain benchmark rates following their alleged manipulation, corroborated by the scarcity of liquidity in interbank markets in the period after the economic crisis.

At the European level, this reform was translated into the European Union Regulation 2016/1011 of 8 June 2016 (the so-called Benchmarks Regulation, BMR) in force since January 2018, implemented in Italy by Legislative Decree 19 of 13 February 2019. The regulation defined the new regulatory framework on reference rates, EURIBOR, LIBOR and EONIA, creating uncertainty about the long-term availability of some Benchmarks. In this context, the Bank has launched an assessment project in order to have a clear vision of the «magnitude» of the phenomenon with regard to the following areas of investigation: products, contracts, models and information systems.

With reference to the Euribor, the reference rate used for numerous types of funding and lending transactions and derivative products, calculated for different maturities and administered by the European Money Markets Institute (EMMI), from 28 November 2019 it is calculated using a new methodology in order to adapt to this regulation. This innovative methodology does not change the economic variable that the index represents, which remains the cost of funding for the contributing European banks. The change relates to the figure being measured, which now consists of the actual cost of funding recorded by the transactions effectively concluded and no longer, as was previously the case, from that relating to the purchase or sale proposals declared by the contributing banks.

Publication of the EONIA benchmark rate as previously calculated ceased as of 1 October 2019. The publication of €STR (Euro Short-Term Rate) replaced this parameter from 2 October 2019. As regards the €STR rate, the Bank's exposure appears to have no impact given the absence of products indexed to the new €STR.

In the end of the day, publication of LIBOR will cease from the end of 2021 and in the individual countries concerned there are already alternative risk-free rates that will replace LIBOR.

From an accounting point of view, Regulation 34/2020 of 15 January 2020 which endorsed the amendments to IFRS 9, IAS 39 and IFRS 7 issued by the IASB as part of the «Interest Rate Benchmark Reform» is to be applied. This document modifies certain requirements relating to hedge accounting to allow entities to provide useful information in the period of uncertainty resulting from the phasing out of benchmark interest rates by 2021. The principal points of this document relate to the highly-probable requirement for the hedging of cash flows (i.e. if the hedged element consists of a programmed operation, the entity must determine if that operation is highly probable, assuming that the benchmark interest rate underlying the hedged cash flows does not change as a result of the reform), to assessment of the relation between the hedged element and the hedging instrument (the entity must assume that the benchmark interest rate underlying the hedged cash flows and/or the hedged risk or the cash flows of the hedging instrument do not change as a result of the reform), to forward-looking and retrospective assessments (the entity must presume that the benchmark interest rate underlying the hedged cash flows and/or the hedged risk or the cash flows of the hedging instrument will not change as a result of the reform), and to the designation of a component of risk as the hedged element (the entity must apply the specific provisions of IFRS 9/IAS 39 if the risk component affected by the reform is only identifiable separately at the start of the hedging relationship; it is not necessary to remeasure or redesignate a hedging relationship if the hedge is dynamic). It should be noted that the Bank has no hedging transactions in place to which hedge accounting is applied.

16.3 TLTRO III

The Governing Council of the European Central Bank (ECB) launched a new series of seven targeted longer-term refinancing operations (TLTRO III) in 2019. The new financing operations, based on what is indicated in the ECB decision of 07/03/2019:

- envisaged auctions from September 2019 to March 2021 on a quarterly basis;
- have a duration of three years, with the possibility of voluntary early repayment (total or partial) starting one year after the settlement of each transaction.

During the meetings of 12 March and 30 April 2020, as a result of the Covid-19 emergency, the Governing Council of the ECB revised the parameters of the TLTRO operations with reference to the maximum amount that can be financed and the related remuneration.

TLTRO III operations are indexed to the average interest rate on the main refinancing operations (MRO), currently equal to 0%, or alternatively, depending on the achievement of certain benchmarks, at the average interest rate on overnight deposits at the central bank's Deposit Facility (DF).

Following the crisis linked to Covid-19, for the period between 24 June 2020 and 23 June 2021, a cut in these rates of 50 basis points has been envisaged.

Application of the DF rate (currently -0.50%) is tied to the condition that eligible net loans between 1 March 2020 and 31 March 2021 are higher than benchmark net lending. Taking into account that for the Bank benchmark net lending is negative and that eligible net loans show a development that makes it reasonably certain that the benchmark net lending will be exceeded, interest was recognised on the basis of the minimum deposit rate (equal to -0.50% and a further reduction of 50 bps). Consequently, the value of the maximum benefit is lower than the market interest rate (MRO).

Given that the funding is granted not at market terms, TLTRO III transactions qualify as a loan from a government whose benefit is treated as a government grant under IAS 20. In line with the provisions of paragraph 8 of IAS 20, a public grant cannot be recognized until there is reasonable certainty that the entity complies with the required conditions.

From an accounting point of view, in consideration of paragraph 12 of IAS 20, the recognition of the benefit must be made in the years in which the entity recognizes as costs the related expenses that the contributions are intended to offset. Considering that the benefit was granted to the banks in order to support the provision of loans during the pandemic which, for the Bank, mainly consisted of granting of new loans directly linked to the pandemic, it can be concluded that the «higher cost» incurred by the Bank is attributable to both the cost of the new funding to finance new disbursements, and to a loss of cash flow on transactions subject to a moratorium for the period of the suspension, which resulted in an additional financial requirement.

At 31 December 2020, the book value of the TLTRO III liabilities amounted to € 8,068 million and the related accounted interest amounted to € 51 million.

16.4 Revenue from contracts with customers

In compliance with IFRS 15, revenue arises from the transfer of goods or services to the customer and is recognised at an amount that reflects the consideration that the Group deems it is entitled to in exchange for the above goods or services using a five-step model (identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue when the entity satisfies a performance obligation).

Revenue from contracts with customers is recognised in profit or loss when it is probable that an entity will receive the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. The consideration is allocated to individual performance obligations in the contract and is recognised in profit or loss based on the timing of the satisfaction of performance obligations. More specifically, revenue is recognised in profit or loss either at a point in time or over time as and when the entity satisfies its performance obligations. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both. The contractual consideration may vary as a result of price concessions, discounts, rebates, incentives or other similar items and may be contingent on the occurrence or non-occurrence of a future event. In the presence of variable consideration, revenue is recognised in profit or loss if it is possible to reliably estimate the revenue and only if it is highly probable that the entire consideration, or a significant part thereof, will not be subsequently reversed from profit or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements. The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to.

The amount of commission recognised on the placement of products is adjusted to take account of any variable revenues that might have to be returned in future. The revenues earned on current accounts are recognised after allocation to the individual products or services comprising the stand-alone package.

16.5 Accounting treatment of tax credits connected with the «Cura Italia» and «Relaunch» Decrees

Decree Laws 18/2020 (so-called «Cura Italia») and 34/2020 (so-called «Relaunch») have introduced into the Italian law incentive tax measures connected with both investment expenses (e.g. Ecobonus and Sismabonus) and with current expenses (e.g. rental fees for non-residential premises). These tax incentives are applied to households or businesses, they are commensurate with a percentage of the expenditure incurred (which in some cases even reaches 110%) and are disbursed in the form of tax credits or tax deductions (with an option to convert them into tax credits). For the Ecobonus and Sismabonus, in addition to the other incentives for building interventions, it is also possible to take advantage of the incentive through a discount on the amount due to the supplier, who will be granted a tax credit. Most of the tax credits subject to the incentives are transferable to third-party purchasers, including banks, who will use them according to specific rules.

With a view to helping to support families and businesses, Banca Popolare di Sondrio launched a specific project aimed at acquiring these tax credits in the second half of 2020. As of 31 December, the amount of these acquired tax credits was limited. They were accounted for in compliance with the provisions of the international accounting standards. In this sense, consistently with the provisions of the Bank of Italy/Consob/Ivass Document no. 9, the purchased tax credits do not represent tax assets, government grants, intangible assets or financial assets, so the most appropriate classification in the balance sheet is «other assets». At the time of initial recognition, the tax credit is recognized at the price of the transaction (value corresponding to its fair value). For subsequent valuations, application of IFRS 9 to the Hold To Collect business model is envisaged, with measurement at amortised cost. As for how it should be presented in the income statement, the related income is recognised under interest.

16.6 Income from dividends

Dividends are recognised when the right to collect them arises.

16.7 Treasury shares

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

16.8 Covered bond

See Part E, section E.4, of these notes to the financial statements.

16.9 Interbank Deposit Protection Fund – 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. The Fund intervened in support of Banca Carige in 2018, resulting in a payment by the Bank of 5.257 million matched by the recognition of a financial asset represented by securities measured at fair value through profit and loss. This financial asset was written down in full in the 2018 financial statements. No other charges for other interventions were accounted for during 2019 and the period under review.

16.10 Information pursuant to art. 1, paras. 125-129 of Law 124 dated 4 August 2017 «Annual law for the market and competition – Measures on the transparency of public payments» as amended by art. 35 of Legislative Decree 34 dated 30/04/2019 (so-called «Growth decree»)

With regard to the above legislation, the contributions or aid received by the bank in cash or kind, that were not generally available and did not represent consideration, remuneration or reimbursements, have been published on the National Register of State Aid, to which reference is made pursuant to art. 125-quinquies of that law.

16.11 Significant accounting policies and uncertainties about the use of estimates when preparing the consolidated financial statements (pursuant to IAS 1 and the recommendations contained in Bank of Italy/Consob/Isvap documents 2 dated 6 February 2009 and 4 dated 3 March 2010)

As stated previously, the adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the financial statements and the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Bank considers all available information at the reporting date, as well as any reasonable assumptions based on external evidence and its own historical experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the bank. The results reported in future might, in fact, differ significantly from the estimates made when preparing the interim financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities might become necessary that are currently unforeseeable and cannot be estimated.

The principal uncertainties at this time, with a potential impact on the future operating scenarios that unfold for the Bank, include the direct and indirect adverse consequences for the Italian and global economies linked to the COVID-19 pandemic.

Based on the provisions of the ESMA document on common European supervisory priorities 2020 of 28 October 2020 («European common enforcement priorities for 2020 annual financial reports») and CONSOB reference 1/21 of 16/02/2021, containing the recommendations concerning the implications of the COVID-19 pandemic on the annual financial reports of listed issuers, the essential aspects of the information regarding the impacts of the COVID-19 epidemic on the assessment of the recoverability of the assets, on the significant uncertainties and risks as well as the impacts of the pandemic on the economic results of the period are shown below.

A. Economic results

The dynamics of the main economic aggregates of the Bank recorded at 31 December 2020 are summarized below, highlighting those most affected by the effects linked to the health crisis caused by the spread of COVID-19. In particular, the net interest income benefited from the positive effects deriving from the expansion of loan volumes, in particular those that benefited from government measures. Net fee and commission income was affected by the reduction in branch operations following the restrictive measures introduced to limit the spread of the virus, with a negative impact on those relating to the collection and payment system. The results of the financial activity were negatively impacted by the tensions on financial markets recorded above all in the first part of the year and not fully recovered by the end of the year. The cost of credit was influenced by the effects deriving from the changed macroeconomic scenario that emerged with the spread of the pandemic, which led to an increase in coverage levels. This effect was partly offset by the positive impacts deriving from the lower transfers to default, thanks to the moratoria granted and the positive effects generated by the acquisition of state guarantees on the loans disbursed. In the following paragraph, more detail is provided on the impacts on the quantification of expected losses, also highlighting the quantitative ones. Overall, this negatively impacted the partial and total economic results, with a consequent negative effect also on profitability and credit quality indicators.

B. ECL – Expected credit losses

During the 2020, to calculate expected losses on performing loans and to update the historical series of risk parameters and macroeconomic factors based on the latest available forecasts, including the effects of the COVID-19 pandemic, we continued to make improvements to our models with a view to making better estimates of expected losses, in line with the requirements of IFRS 9.

With specific reference to the explicit modelling of the scenario-dependency component as postulated by the accounting standard, we would point out that we adopted to calculate the loan loss adjustments made in December 2020 different macro-scenarios, including COVID effects.

On the other hand, as regards the SICR thresholds to be used in the absolute staging criteria, they were recalibrated on the basis of the new macro-economic scenarios carried out according to the usual methods. Furthermore, in light of the macroeconomic context and from a prudential and prospective point of view, a working group dedicated to the analysis of loans that benefited from the COVID-19 moratoria was set up; this analysis aims to identify any signs of increased credit risk, segmenting the portfolio on the basis of certain driver risks such as the sector to which it belongs and the borrower's rating.

Lastly, again from a prudential point of view and considering the high uncertainty of the current macroeconomic context, a specific expert-based overlay framework was developed, aimed at best capturing the risks associated with the pandemic.

Overall, these revisions resulted in higher collective loan loss adjustments, going from 115 million euro at 31 December 2019 to 183 million euro at 31 December 2020.

In any case, it cannot be excluded that the introduction of different methodologies, parameters and assumptions in determining the recoverable value of the Bank's performing credit exposures – also influenced by the evolution of the economic-financial and regulatory context of reference – could lead to valuations that are different from those carried out for the purpose of these financial statements at 31 December 2020.

For further details on the incorporation of the COVID-19 effects in the calculation of value adjustments on loans and on the sensitivity analysis, please refer to paragraphs «2.3 Methods for measuring expected losses» and «5 Impacts deriving from the COVID-19 pandemic» contained in the section on credit risk of «Part E – Information on risks and related hedging policies» of the notes to the separate financial statements.

C. Moratoria and other support measures

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

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

Through the Communication of 30 June 2020 «Guidelines of the European Banking Authority relating to the reporting and disclosure obligations to the public on exposures subject to measures applied in light of the COVID-19 crisis» and of 15 December 2020, the Bank of Italy implemented the Guidelines of the European Banking Authority (EBA) relating to the reporting and disclosure obligations to the public on exposures subject to measures applied in light of the COVID-19 crisis. In detail, the integration of the provisions governing the financial statements of banks (Circular 262 of 2005) was envisaged to provide the market with information on the effects that COVID-19 and the measures to support the economy have produced on strategies, risk management objectives and policies, as well as on the financial situation of intermediaries.

The accounting classification criteria for loans remained unchanged compared with the financial statements as at 31 December 2019, with the exception of the following. Given the exceptional nature of the situation caused by the COVID-19 pandemic and the guidelines of the Supervisory Authorities, aimed at using the margins of flexibility existing in the accounting and prudential regulations, during the 2020 it was decided to make some changes to the accounting classification, such as:

1) loan suspensions and concessions (e.g. restructuring/rescheduling) according to a specific law or allowed by the banking system for the purpose of providing lines of credit to cope with COVID-19 are not to be identified as forborne exposures, unless otherwise indicated;
2) suspensions and concessions other than those in point 1) are subject to specific assessment and considered forborne, with consequent transfer to stage 2, in all cases in which the financial difficulty and/or type of support granted is not exclusively attributable to the COVID-19 pandemic and/or are not sufficient to cope with its effects.

For more information on the actions taken by the Bank for a correct classification of the support measures, please refer to the specific paragraphs «Impacts deriving from the COVID-19 pandemic» in the qualitative section on the general aspects of each risk.

Lastly, for details in terms of gross exposure, impairment adjustments (overall and for the year), inter-stage transfers of the support measures granted to the Bank at 31 December 2020, please refer to the following tables:

- 4.4a of «Section 4 – Financial assets measured at amortised cost», contained in «Part B – Information on the balance sheet» of these Notes;
- 8.1a and 8.2a of «Section 8 – Net adjustments for credit risk» contained in «Part C – Information on the income statement» of these Notes;
- A.1.5a and A.1.7a included in the quantitative information of the section related to credit risk of «Part E – Information on risks and related hedging policy» of these Notes.

D. Financial instruments (measurement of financial assets, equity investments and models for determining the fair value of instruments not listed in active markets)

Financial instruments not listed in active markets and illiquid and complex instruments are measured using specific complex models and/or parameters not observable in the market. These measurements are therefore highly complex, as highlighted by their classification in the fair value hierarchy. See Part A.4 – «Information on fair value» in these notes to the financial statements for qualitative and quantitative information on the methods adopted to determine the carrying amounts of instruments measured at fair value and those measured at amortised cost.

With regard to equity investments, the draft financial statements and updated business plans of the companies concerned might not be available when preparing the financial statements of the bank, which would increase the uncertainties involved in measuring their value. In such cases, the carrying amounts assigned to the equity investments concerned, based on the available information, might differ from subsequent measurements made on the basis of different information that becomes available.

E. Deferred tax assets

The assets shown in the Bank's balance sheet include deferred tax assets, which principally derive from temporary differences between the date of recognition of costs in the income statement and the date on which they become tax deductible and, to a lesser extent, from tax losses carried forward. The recognition of these assets and their subsequent retention in the balance sheet is dependent on verification of their recoverability. This involves the performance of a probability test that, inter alia, takes account of the tax regulations in force at the reporting date. At 31 December, the Bank has recognised deferred tax asset totalling about 274 million that satisfy the requirements of Law 214 dated 22 December 2011, which are transformable into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value of production» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. For the residual tax assets that cannot be converted into tax credits, on the basis of the provisions of accounting standard IAS 12 and the considerations formulated by ESMA in the document of 15 July 2019, the required verification of recoverability was carried out by analysing the probability of having sufficient taxable income in the future. In particular, the forecast of profitability that underpins the opinion on recoverability is based on reasonable and realistic hypotheses and assumptions. It also applies a weighting factor that expresses the relative degree of uncertainty, which increases along with the estimation time horizon. At 31 December, among the assumptions that most influenced the aforementioned estimate, it is necessary to mention the potential negative impacts that the COVID-19 pandemic will have on the future profitability of the Bank. Lastly, the recoverability of all the deferred tax assets might be adversely influenced by further changes in the current tax regulations, which are not foreseeable at this time. Section 10 – «Tax assets and tax liabilities», contained in Part B – Assets of these notes to the financial statements, provides information about the nature of DTAs and the checks carried out on their recoverability, as well as about the results of the sensitivity analysis carried out on the time horizon for their recoverability, considering reasonable changes in the expected cash flows.

F. The measurement of the liability for employee benefits

The measurement of the liability for employee benefits involves a certain degree of complexity, especially with regard to defined benefit plans and other long-term benefits, given that this involves making actuarial assumptions of a demographic (e.g. mortality rate, employee turnover) and financial (e.g. discount rates and inflation rates) nature.

Part B of these notes to the financial statements contains separate analyses covering the sensitivity of the provision for employee termination indemnities and the provision for defined benefit pensions to changes in the actuarial assumptions included in the model.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

A.3.1 Reclassified financial assets: book value, fair value and the impact on comprehensive income.

There were no transfers during the year due to changes in business model.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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, 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 Bank's portfolio of financial assets and considering that the Level 3 instruments contained in the portfolio of financial assets largely comprise securities carried at cost, or through prices of previous transactions, 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.

As regards the Asset Backed Securities (ABS) present in portfolio, deriving from the «Diana» and «Luzzatti» securitisations of non-performing loan portfolios, the analyses and assessments were carried out on the basis of the most recent information available and following the so-called waterfall structure for modelling the cash flows of the securitisations. From our analyses, no elements emerged that would justify a change in the fair value of the tranches with respect to the values currently recorded in the financial statements. There are also in portfolio units of funds deriving from corporate loan restructurings, whose measurement at fair value is carried out on the basis of the NAV, corrected if necessary to take into account the investment's poor liquidity.

The Level 3 instruments whose Fair value is determined by processing unobservable quantitative inputs largely relate to those financial instruments that did not pass the SPPI test envisage in IFRS 9 for classification as financial assets. The fair value of the majority of these financial instruments is determined using a Discounted Cash Flow model or, for demand products, stated at the gross exposure net of any impairment due to credit risk. The economic results do not fluctuate significantly on changes in the unobservable risk parameters.

In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of Default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.10% under the adverse scenario and higher by 0.05% under the favourable scenario). The changes were very limited because the credit risk associated with most of these instruments is low.

b) analysis of the sensitivity to changes in the LGD (Loss Given Default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (fair value lower by 0.34% under the adverse scenario and higher by 0.19% under the favourable scenario). Here too, the changes were very limited because the credit risk associated with most of these instruments is low.

c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by 1.23% following an increase in the rate curves and, conversely, increased by 4.52% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The shocked and non-shocked fair value may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low.

d) sensitivity analysis to quantify the effect of modelling explicitly the illiquidity and funding spread component. If this component is not modelled explicitly, the change in fair value is +6.50%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is 0.04% if the rate curves are shifted up, and +0.01% if they are shifted down.

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 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

	31/12/2020			31/12/2019		
Financial assets/liabilities carried at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Financial assets measured at fair value through profit or loss**	**118,041**	**602,138**	**518,866**	**170,637**	**351,515**	**423,509**
a) financial assets held for trading	117,984	45,815	5,945	170,496	47,185	8,105
b) financial assets designated at fair value	–	–	–	–	–	–
c) other financial assets mandatorily measured at fair value	57	556,323	512,921	141	304,330	415,404
2. **Financial assets measured at fair value through other comprehensive income**	**2,475,149**	**–**	**141,924**	**2,517,070**	**–**	**73,548**
3. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
4. **Property, equipment and investment property**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Intangible assets**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,593,190**	**602,138**	**660,790**	**2,687,707**	**351,515**	**497,057**
1. **Financial liabilities held for trading**	–	30,896	890	–	33,676	190
2. **Financial liabilities designated at fair value**	–	–	–	–	–	–
3. **Hedging derivatives**	–	–	–	–	–	–
Total	**–**	**30,896**	**890**	**–**	**33,676**	**190**

There were no transfers between fair value levels during the year.

The impact of the CVA (credit value adjustment) and the DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because a large part of the exposures are covered by credit support annexes (CSA).

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (Level 3)

	Financial assets measured at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. **Opening balance**	**423,509**	**8,105**	**-**	**415,404**	**73,548**	**-**	**-**	**-**
2. **Increases**	**243,203**	**-**	**-**	**243,203**	**102,052**	**-**	**-**	**-**
2.1. Purchases	228,001	-	-	228,001	5,113	-	-	-
2.2. Income booked to:	7,903	-	-	7,903	54,349	-	-	-
2.2.1 Income statement	7,903	-	-	7,903	20	-	-	-
- of which realized gains	6,340	-	-	6,340	-	-	-	-
2.2.2. Equity	-	-	-	-	54,329	-	-	-
2.3 Transfers from other levels	-	-	-	-	29,867	-	-	-
2.4 Other increases	7,299	-	-	7,299	12,723	-	-	-
3. **Decreases**	**147,846**	**2,160**	**-**	**145,686**	**33,676**	**-**	**-**	**-**
3.1 Sales	13,324	-	-	13,324	2,604	-	-	-
3.2. Reimbursements	116,997	-	-	116,997	264	-	-	-
3.3. Losses booked to:	9,707	2,160	-	7,547	27,088	-	-	-
3.3.1 Income statement	9,707	2,160	-	7,547	1,009	-	-	-
- of which realized losses	9,123	1,585	-	7,538	-	-	-	-
3.3.2. Equity	-	-	-	-	26,079	-	-	-
3.4 Transfers from other levels	-	-	-	-	2,657	-	-	-
3.5 Other decreases	7,818	-	-	7,818	1,063	-	-	-
4. **Closing balance**	**518,866**	**5,945**	**-**	**512,921**	**141,924**	**-**	**-**	**-**

The increase during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (loans in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This line item also includes the units in mutual funds not held for trading that were previously classified as «financial assets carried at fair value» and «financial assets available for sale».

A.4.5.3 Annual changes in liabilities carried at fair value on a recurring basis (Level 3)

	Financial liabilities held for trading	Financial liabilities measured at fair value	Hedging derivatives
1. **Opening balance**	**190**	**–**	**–**
2. **Increases**	**700**	**–**	**–**
2.1 Issues	–	–	–
2.2. Losses booked to:	700	–	–
2.2.1 Income statement	700	–	–
- of which realized losses	700	–	–
2.2.2. Equity	–	–	–
2.3. Transfers from other levels	–	–	–
2.4. Other increases	–	–	–
3. **Decreases**	**–**	**–**	**–**
3.1. Reimbursements	–	–	–
3.2. Repurchases	–	–	–
3.3. Income booked to:	–	–	–
3.3.1 Income statement	–	–	–
- of which realized gains	–	–	–
3.3.2. Equity	–	–	–
3.4. Transfers to other levels	–	–	–
3.5. Other decreases	–	–	–
4. **Closing balance**	**890**	**–**	**–**

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	31/12/2020				31/12/2019			
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	35,353,030	7,182,624	–	28,930,231	30,415,372	6,393,563	–	24,648,663
2. Investment property	–	–	–	–	–	–	–	–
3. Non-current assets and disposal groups held for sale	–	–	–	–	–	–	–	–
Total	**35,353,030**	**7,182,624**	**–**	**28,930,231**	**30,415,372**	**6,393,563**	**–**	**24,648,663**
1. Financial liabilities measured at amortised cost	41,392,257	2,614,567	261,537	38,583,676	33,139,672	2,598,332	226,661	30,355,819
2. Liabilities associated with assets held for sale								
Total	**41,392,257**	**2,614,567**	**261,537**	**38,583,676**	**33,139,672**	**2,598,332**	**226,661**	**30,355,819**

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IFRS 9 para. B5.1.2A 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

	31/12/2020	31/12/2019
a) Cash	113,887	140,720
b) Sight deposits with central banks	4,149,486	1,012,308
Total	**4,263,373**	**1,153,028**

Section 2 Financial assets measured at fair value through profit or loss - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2020			31/12/2019		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	25,441	–	–	82,698	–	–
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	25,441	–	–	82,698	–	–
2. Variable-yield securities	66,969	–	–	57,212	–	–
3. Mutual funds	25,573	12,820	–	30,586	11,808	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total (A)	**117,983**	**12,820**	**–**	**170,496**	**11,808**	**–**
B. **Derivatives**						
1. Financial derivatives	–	32,996	5,945	–	35,377	8,105
1.1 for trading	–	32,996	5,945	–	35,377	8,105
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)	**–**	**32,996**	**5,945**	**–**	**35,377**	**8,105**
Total (A+B)	**117,983**	**45,816**	**5,945**	**170,496**	**47,185**	**8,105**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparties

Items/Amounts	31/12/2020	31/12/2019
A. **CASH ASSETS**		
1. Fixed-yield securities	**25,441**	**82,698**
a) Central banks	–	–
b) Public administrations	25,441	82,698
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
2. Variable-yield securities	**66,969**	**57,212**
a) Banks	16,152	7,288
b) Other financial companies	7,570	4,314
of which: insurance companies	6,405	3,249
c) Non-financial companies	43,247	45,610
d) Other issuers	–	–
3. **Mutual funds**	**38,393**	**42,395**
4. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**130,803**	**182,305**
B. **Derivatives**	**–**	**–**
a) Central Counterparties	–	–
b) Other	38,941	43,482
Total (B)	**38,941**	**43,482**
Total (A+B)	**169,744**	**225,787**

2.5 Other financial assets mandatorily measured at fair value: breakdown by sector

	31/12/2020			31/12/2019		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**–**	**–**	**33,032**	**–**	**–**	**37,335**
1.1 Structured securities	–	–	33,032	–	–	37,132
1.2 Other fixed-yield securities	–	–	–	–	–	203
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**57**	**556,324**	**127,134**	**142**	**304,330**	**117,738**
4. **Loans**	**–**	**–**	**352,754**	**–**	**–**	**260,331**
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	352,754	–	–	260,331
Total	**57**	**556,324**	**512,920**	**142**	**304,330**	**415,404**

Loans classified under this item are financial instruments that have not passed the SPPI test. The fixed-yield securities classified under this item are instruments that are part of a business model of financial instruments managed at fair value and not held for trading.

The item «Fixed-yield securities» includes the Asset Backed Securities (ABS) mezzanine and junior for 0.758 million deriving from the sales of Diana and Luzzatti, and the note linked with the securitisation by BNT Portfolio SPV Srl. These securities are classified in Level 3. See paragraph «C. Securitisation transactions» in Part E of these notes to the financial statements for further details.

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

	31/12/2020	31/12/2019
1. **Variable-yield securities**	**–**	**–**
of which: banks	–	–
of which: other financial companies	–	–
of which: non-financial companies	–	–
2. **Fixed-yield securities**	**33,032**	**37,335**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	29,175	31,331
of which: insurance companies	–	–
e) Non-financial companies	3,857	6,004
3. **Mutual funds**	**683,515**	**422,210**
4. **Loans**	**352,754**	**260,331**
a) Central banks	–	–
b) Public administrations	92	93
c) Banks	–	–
d) Other financial companies	5,287	50
of which: insurance companies	–	–
e) Non-financial companies	223,320	177,996
f) Households	124,055	82,192
Total	**1,069,301**	**719,876**

Mutual funds are made up of: equity funds and sicavs for €52.973 million, bond funds for €502.123 million, balanced funds for €54.695 million and real estate funds for €73.724 million.

With regard to mutual funds acquired as part of transactions for the sale of receivables included among bond funds, please refer to the specific paragraph reported in Part E of these Explanatory Notes (Subsection E «Disposals» point «C. Financial assets sold and fully cancelled»).

Section 3 Financial assets measured at fair value through other comprehensive income - line item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by sector

	31/12/2020			31/12/2019		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**2,472,573**	**–**	**43,558**	**2,489,354**	**–**	**14,423**
1.1 Structured securities	418,402	–	42,727	369,387	–	10,677
1.2 Other fixed-yield securities	2,054,171	–	831	2,119,967	–	3,746
2. **Variable-yield securities**	**2,576**	**–**	**98,366**	**27,716**	**–**	**59,125**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,475,149**	**–**	**141,924**	**2,517,070**	**–**	**73,548**

The fixed-yield securities portfolio is made up mostly of Italian government securities held with the intent of receiving cash flows and benefiting from any gains deriving from their sale. For unlisted equities with observable inputs, but for which the most recent information available to measure their fair value is insufficient, the best estimate was made considering their adjusted equity value.

The increase in equities in level 3 mainly derives from the revaluation of the interest in Nexi Payments S.p.a. for approximately 45 million euro, with an effect on the valuation reserve. The revaluation was carried out on the basis of the assessments emerging as part of the purchase by Nexi Payments of Intesa Sanpaolo's merchant acquiring activities and of the partnership with the same bank to become its sole partner in acquiring activities.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	31/12/2020	31/12/2019
1. **Fixed-yield securities**	**2,516,131**	**2,503,777**
a) Central banks	–	–
b) Public administrations	1,956,408	1,745,832
c) Banks	376,001	639,046
d) Other financial companies	86,368	67,878
of which: insurance companies	–	–
e) Non-financial companies	97,354	51,021
2. **Variable-yield securities**	**100,942**	**86,841**
a) Banks	5,938	8,973
b) Other issuers:	95,004	77,868
– other financial companies	73,134	65,287
of which: insurance companies	–	–
– non-financial companies	21,870	12,581
– other	–	–
3. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**2,617,073**	**2,590,618**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total impairment adjustments

	Gross value				Total impairment adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Total partial write-offs
Fixed-yield securities	2,475,838	–	42,260	–	1,427	540	–	–
Loans	–	–	–	–	–	–	–	–
Total 31/12/2020	**2,475,838**	**–**	**42,260**	**–**	**1,427**	**540**	**–**	**–**
Total 31/12/2019	**2,497,785**	**–**	**7,104**	**–**	**1,063**	**49**	**–**	**–**
of which: acquired or originated impaired financial assets	–	–	–	–	–	–	–	–

From 1 January 2018, following the entry into force of IFRS 9, financial assets valued at fair value through other comprehensive income fall within the scope of the new impairment model.

3.3a Loans measured at fair value through other comprehensive income object of Covid–19 support measures: gross amount and total impairment adjustments

As of 31 December 2020, there are no loans measured at fair value through comprehensive income subject to Covid-19 support measures.

Section 4 *Financial assets measured at amortised cost - line item 40*

4.1 Financial assets measured at amortised cost: breakdown of loans and receivables with banks

	Total 31/12/2020						Total 31/12/2019					
	Book value			*Fair value*			Book value			*Fair value*		
Type of transaction/Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**2,271,762**	**-**	**-**	**-**	**-**	**2,271,762**	**80,548**	**-**	**-**	**-**	**-**	**80,548**
1.Fixed-term deposits	-	-	-	-	-	-	-	-	-	-	-	-
2.Compulsory reserve	2,271,762	-	-	-	-	-	80,548	-	-	-	-	-
3.Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
4.Other	-	-	-	-	-	-	-	-	-	-	-	-
B. **Loans and receivables with banks**	**2,835,765**	**-**	**-**	**528,437**	**-**	**2,329,823**	**2,285,360**	**-**	**-**	**335,862**	**-**	**1,956,753**
1.Loans	2,299,281	-	-	-	-	2,299,487	1,804,958	-	-	-	-	1,805,034
1.1. Current accounts and sight deposits	212,911	-	-	-	-	-	68,637	-	-	-	-	-
1.2 Fixed-term deposits	2,059,995	-	-	-	-	-	1,695,939	-	-	-	-	-
1.3 Other loans:	26,375	-	-	-	-	-	40,382	-	-	-	-	-
- Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
- Finance leases	-	-	-	-	-	-	-	-	-	-	-	-
- Other	26,375	-	-	-	-	-	40,382	-	-	-	-	-
2.**Fixed-yield securities**	536,484	-	-	528,437	-	30,336	480,402	-	-	335,862	-	151,719
2.1 Structured securities	248,789	-	-	245,020	-	15,336	115,632	-	-	110,773	-	6,268
2.2 Other fixed-yield securities	287,695	-	-	283,417	-	15,000	364,770	-	-	225,089	-	145,451
Total	**5,107,527**	**-**	**-**	**528,437**	**-**	**4,601,585**	**2,365,908**	**-**	**-**	**335,862**	**-**	**2,037,301**

These receivables are not specifically hedged.

The fair value of short-term loans or loans that are repayable on demand is assumed to be the same as their carrying amount.

4.2 Financial assets measured at amortised cost: breakdown of loans and receivables with customers

	Total 31/12/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
Type of transaction/Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
1. **Loans**	**22,032,182**	**1,004,473**	**158,179**	**-**	**-**	**23,634,908**	**20,367,296**	**1,480,365**	**185,895**	**-**	**-**	**22,418,229**
1.1. Current accounts	2,758,148	406,861	55,774	-	-	-	3,434,959	616,097	68,596	-	-	-
1.2. Repo transactions	67,273	-	-	-	-	-	1,099,082	-	-	-	-	-
1.3. Mortgage loans	12,618,724	529,089	87,440	-	-	-	10,218,567	768,788	100,614	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	236,316	5,434	794	-	-	-	276,946	17,408	2,195	-	-	-
1.5. Finance leases	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
1.7. Other loans	6,351,721	63,089	14,171	-	-	-	5,337,742	78,072	14,490	-	-	-
2. **Fixed-yield securities**	**7,208,847**	**-**	**-**	**6,654,187**	**-**	**693,738**	**6,201,803**	**-**	**-**	**6,057,701**	**-**	**193,133**
2.1. Structured securities	1,967,436	-	-	1,308,945	-	693,738	1,402,490	-	-	1,212,684	-	193,133
2.2. Other fixed-yield securities	5,241,411	-	-	5,345,242	-	-	4,799,313	-	-	4,845,017	-	-
Total	**29,241,029**	**1,004,473**	**158,179**	**6,654,187**	**-**	**24,328,646**	**26,569,099**	**1,480,365**	**185,895**	**6,057,701**	**-**	**22,611,362**

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 €1,467 million of residential mortgages, which were the subject of covered bond transactions by the Bank.

The covered bond transaction involved the sale to the SPV POPSO Covered Bond s.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers. Given that the Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

As a result of the derisking operations that took place during the year, non-performing loans (third stage) amounted to €1,004.473 million, down on the previous year (€1,480.365 million). Line item 2. Fixed-yield securities includes for €278.938 million, senior securities issued by Diana S.p.V. and POP NPLs 2020 S.p.V. as part of the two sales of NPLs completed during the year. See Part E, Section 1, «C. Securitisation transactions» for further information.

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans and receivables with customers

	31/12/2020			31/12/2019		
Type of transaction/Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	First and second stage	Third stage	of which: impaired assets purchased or originated
1. **Fixed-yield securities**	**7,208,847**	**–**	**–**	**6,201,803**	**–**	**–**
a) Public administration	6,135,054	–	–	5,951,839	–	–
b) Other financial companies	997,944	–	–	215,246	–	–
of which: insurance companies	6,121	–	–	8,286	–	–
c) Non-financial companies	75,849	–	–	34,718	–	–
2. **Loans to:**	**22,032,182**	**1,004,473**	**158,179**	**20,367,295**	**1,480,365**	**185,895**
a) Public administration	204,158	3	–	235,773	3	–
b) Other financial companies	3,867,827	10,929	2	4,619,321	22,628	475
of which: insurance companies	8,656	–	–	5,236	–	–
c) Non-financial companies	12,227,250	724,080	114,105	10,055,021	1,047,844	125,798
d) Households	5,732,947	269,461	44,072	5,457,180	409,890	59,622
Total	**29,241,029**	**1,004,473**	**158,179**	**26,569,098**	**1,480,365**	**185,895**

4.4 Financial assets measured at amortised cost: gross amount and total impairment adjustments

	Gross value				Total impairment adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Partial total write-off
Fixed-yield securities	7,695,718	–	60,062	–	5,229	5,219	–	–
Loans	23,513,334	–	3,253,345	2,142,857	49,911	113,543	1,138,384	145,725
Total 31/12/2020	**31,209,052**	**–**	**3,313,407**	**2,142,857**	**55,140**	**118,762**	**1,138,384**	**145,725**
Total 31/12/2019	**25,961,616**	**–**	**3,070,705**	**3,558,404**	**33,230**	**64,084**	**2,078,038**	**294,727**
of which: impaired financial assets purchased or originated	–	–	53,524	207,308	–	2,911	99,742	–

4.4a Loans measured at amortised cost subject to COVID-19 support measures: gross amount and total impairment adjustments

	Gross value				Total impairment adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Partial total write-off*
1. Loans subject to forbearance complying with the GL	1,889,158	–	1,141,987	26,811	3,065	46,229	7,782	–
2. Loans subject to other forbearance measures	152,414	–	70,997	58,181	155	2,877	15,744	–
3. New loans	1,598,516	–	130,393	5,232	549	603	1,691	–
Total 31/12/2020	**3,640,088**	**–**	**1,343,377**	**90,224**	**3,769**	**49,709**	**25,217**	**–**
Total 31/12/2019	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

* amounts to be displayed for information purposes

Section 7 *Equity investments - line item 70*

7.1 Equity investments: disclosure

Name	Registered offices	Operational office	% holding	% of votes
A. **Investments in wholly-owned subsidiaries**				
1. BANCA POPOLARE DI SONDRIO (SUISSE) SA	Lugano	Lugano	100.000	100.000
2. FACTORIT S.p.a.	Milan	Milan	60.500	60.500
3. SINERGIA SECONDA S.r.l.	Milan	Milan	100.000	100.000
4. PIROVANO STELVIO S.p.a.	Sondrio	Sondrio	100.000	100.000
5. POPSO COVERED BOND S.r.l.	Conegliano	Conegliano	60.000	60.000
6. BANCA DELLA NUOVA TERRA	Sondrio	Sondrio	100.000	100.000
7. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.r.l.	Milan	Milan	100.000	100.000
B. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l.	Sondrio	Sondrio	50.000	50.000
2. RENT2GO S.r.l.	Bolzano	Bolzano	33.333	33.333
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
4. UNIONE FIDUCIARIA S.p.a.	Milan	Milan	24.000	24.000
5. POLIS FONDI SGR PA	Milan	Milan	19.600	19.600
6. ARCA HOLDING S.p.a.	Milan	Milan	34.715	34.715
7. BORMIO GOLF S.p.a.	Bormio	Bormio	25.237	25.237
8. LAGO DI COMO GAL S.c.r.l.	Canzo	Canzo	28.953	28.953
9. COSSI S.p.a.	Sondrio	Sondrio	18.250	18.250

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.

7.5 Equity investments: changes during the year

	31/12/2020	**31/12/2019**
A. **Opening balance**	**620,399**	**562,154**
B. **Additions**	**951**	**59,828**
B.1 Purchases	667	56,730
B.2 Write-backs	–	-
B.3 Revaluations	–	-
B.4 Other changes	284	3,098
C. **Decreases**	**7,862**	**1,583**
C.1 Disposals	5,985	1,299
C.2 Adjustments	1,877	284
C.3 Writedowns	–	-
C.4 Other changes	–	-
D. **Closing balance**	**613,488**	**620,399**
E. **Total revaluations**	**–**	**-**
F. **Total write-downs**	**(38,211)**	**(36,334)**

This item passes from €620.399 million to €613.488 million.

The increases refer to:

- coverage of the 2019 loss of Pirovano Stelvio spa of €0.284 million,
- payment of €0.667 million for increasing the quota capital of Rent2GO S.r.l.

The decreases refer to:

- the write-down of Pirovano Stelvio spa by €0.288 million,
- a write-down of RENT2GO S.r.l. by €0.652 million,

– a write-down of POLIS FONDI SGR PA by €0.937 million,
– disposal of part of the interest in Arca Holding S.p.A. for €5.985 million.

7.6 – 7.7 – 7.8 – 7.9 Commitments relating to investments in subsidiaries, companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing spa granted when this company started up as part of the reorganisation of Banca Italease spa, against which the Bank has made a specific risk provision.

Section 8 *Property, equipment and investment property - line item 80*

8.1 Property, equipment and investment property used for business purposes: analysis of assets valued at cost

Assets/Values	31/12/2020	31/12/2019
1. **Owned assets**	**187,938**	**185,092**
a) land	53,664	52,964
b) buildings	120,365	117,897
c) furniture	4,723	4,556
d) IT equipment	1,005	1,011
e) other	8,181	8,664
2. **Rights of use acquired through leases**	**191,839**	**215,146**
a) land	–	–
b) buildings	191,616	214,889
c) furniture	–	–
d) IT equipment	173	210
e) other	50	47
Total	**379,777**	**400,238**
of which: obtained by enforcing guarantees received	–	–

Property, equipment and investment property are measured at cost, except for the leased right-of-use assets that are measured in accordance with IFRS 16. Buildings have a fair value of €356,123 million, as determined by an internal appraisal. The carrying amount of land and buildings totals €174.029 million.

Property, equipment and investment property are free from restrictions and commitments guaranteeing liabilities.

The figures for the previous year have been restated for comparison purposes.

8.6 Property, equipment and investment property used for business purposes: changes during the year

	Land	Buildings	Furniture	IT equipment	Other	Total
A. **Opening gross amount**	**52,964**	**455,361**	**29,276**	**18,176**	**76,046**	**631,823**
A.1 Total net reductions in value	–	122,573	24,720	16,955	67,337	231,585
A.2 Opening net amount	52,964	332,788	4,556	1,221	8,709	400,238
B. **Additions**:	**700**	**8,278**	**1,344**	**685**	**4,467**	**15,474**
B.1 Purchases	700	3,733	1,344	627	4,450	10,854
B.2 Capitalised improvement expenditure	–	4,545	–	–	–	4,545
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	–	–	–	58	17	75
C. **Decreases**:	**–**	**29,085**	**1,177**	**728**	**4,945**	**35,935**
C.1 Disposals	–	–	–	–	–	–
C.2 Depreciation	–	25,921	1,177	728	4,945	32,771
C.3 Impairment charges booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value attributable to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) investment property	–	–	–	–	–	–
b) non-current assets and disposal groups held for sale	–	–	–	–	–	–
C.7 Other changes	–	3,164	–	–	–	3,164
D. **Closing net amount**	**53,664**	**311,981**	**4,723**	**1,178**	**8,231**	**379,777**
D.1 Total net reductions in value	–	149,691	25,896	17,639	69,821	263,047
D.2 Closing gross amount	53,664	461,672	30,619	18,817	78,052	642,824
E. **Valuation at cost**	**53,664**	**311,981**	**4,723**	**1,178**	**8,231**	**379,777**

This item totals €379.777 million, a decrease of €20.461 million.

The principal changes relate to:

- owned buildings:
  purchases in Rome, Berzo Demo, Vezza D'Oglio, San Pietro Berbenno, Darfo Boario Terme, Sondrio
- work in Mantua, San Pietro Berbenno, Verona, Segrate, Brescia, Treviso, Monza, Sondrio and Voghera
- 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.

8.9 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to €13.030 million, compared with €4.138 million the previous year.

Section 9 Intangible assets - line item 90

9.1 Intangible assets: breakdown by type

	31/12/2020		31/12/2019	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**-**	**-**	**-**	**-**
A.2 Other intangible assets	**12,873**	**-**	**14,168**	**-**
A.2.1 Carried at cost:	12,873	-	14,168	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	12,873	-	14,168	-
A.2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**12,873**	**-**	**14,168**	**-**

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:

	31/12/2020	31/12/2019
recorded in 2018	2	5,015
recorded in 2019	4,577	9,153
recorded in 2020	8,294	-
Total	**12,873**	**14,168**

9.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets generated internally: Specified	Other intangible assets generated internally: Unspecified	Other intangible assets: other: Specified	Other intangible assets: other: Unspecified	**Total 31/12/2020**
A. **Opening balance**	**–**	**–**	**–**	**167,542**	**–**	**167,542**
A.1 Total net reductions in value	–	–	–	(153,374)	–	(153,374)
A.2 Opening net amount	–	–	–	14,168	–	14,168
B. **Additions**	**–**	**–**	**–**	**12,444**	**–**	**12,444**
B.1 Purchases	–	–	–	12,444	–	12,444
– of which: business combinations	–	–	–	–	–	–
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**	**–**	**–**	**–**	**13,739**	**–**	**13,739**
C.1 Disposals	–	–	–	–	–	–
– of which: business combinations	–	–	–	–	–	–
C.2 Adjustments	–	–	–	13,739	–	13,739
– Amortisation	–	–	–	13,739	–	13,739
– 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	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. **Closing net amount**	**–**	**–**	**–**	**12,873**	**–**	**12,873**
D.1 Total net reductions in value	–	–	–	(167,110)	–	(167,110)
E. **Closing gross amount**	**–**	**–**	**–**	**12,873**	**–**	**12,873**
F. **Valuation at cost**	**–**	**–**	**–**	**12,873**	**–**	**12,873**

9.3 Other information

Contractual commitments to purchase software user rights amount to €9.137 million, compared with €3.825 million in the prior year.

Section 10 *Tax assets and liabilities- asset line item 100 and liability line item 60*

10.1 Deferred tax assets: breakdown

	31/12/2020	31/12/2019
Loan write-downs	290,059	308,853
Provisions for risks and charges	24,882	21,725
Securities and equity investments	862	2,717
Administrative expenses, amortisation and depreciation and other	19,972	36,004
Total	**335,775**	**369,299**

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, the provision for personnel charges and the provision for writedown of loans from banks. Where applicable, deferred tax assets have been recognised in relation to all liabilities generating temporary differences.

The recognition and retention in the financial statements of DTA depends on an assessment of their recoverability, which is based on the future income forecast in business plans approved by the administrative bodies of the bank.

In accordance with IAS 12 and the ESMA communication dated 15 July 2019, the Bank has recognised deferred tax assets (DTA)) totalling €335.775 million. Of these, €17.379 million relate to equity accounts, €274.083 million comply with the requirements of Law 214 dated 22 December 2011 and may be transformed into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value of production» for IRAP purposes); their recovery is therefore certain, as unrelated to the ability to generate future taxable income. The other tax assets not transformable into tax credits, €44.313 million, have been recognised after checking their recoverability, which is supported by a probability opinion expressed after performing the so-called probability test. This opinion was expressed after analysing the likelihood that sufficient taxable income will be generated in future. In particular, the estimate of future profitability underling the recoverability opinion was based on reasonable and realistic hypotheses and assumptions, after weighting the various degrees of uncertainty. The ability of future taxable income to absorb the recovery of tax assets was checked over a reference period ending in 2027, with economic projects for 2021-2025 deriving from the latest business plan approved by the Board of Directors. The profitability expected in 2026 and 2027 was estimated with reference to a prudent projection of the results expected in 2025. The incidence of permanent IRES and IRAP adjustments on pre-tax income and total income was calculated with reference to historical data for 2015-2020, applying normalisation rules to the tax disallowances in prior years in order to determine a pro forma taxable income for those years consistent with the current tax regulations, while also eliminating any non-recurring or extraordinary components from the prior-year taxable amounts.

The figures for the previous year have been restated for comparison purposes.

10.2 Deferred tax liabilities: breakdown

	31/12/2020	31/12/2019
Owned and leased buildings	8,439	8,732
Revaluation of securities and gains	17,739	11,781
Total	**26,178**	**20,513**

The amount relating to owned buildings comprises the deferred taxation arising on the adoption of IAS, with the elimination of the accumulated depreciation of land, and that calculated in 2004 on the elimination of «fiscal interference».

10.3 Change in deferred tax assets (with contra-entry to the income statement)

	31/12/2020	31/12/2019
1. **Opening balance**	**351,551**	**352,767**
2. **Increases**	**24,656**	**9,089**
2.1 Deferred tax assets arising during the year	24,530	8,997
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	24,530	8,997
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	126	92
3. **Decreases**	**57,811**	**10,305**
3.1 Deferred tax assets eliminated during the year	57,811	7,814
a) reversals	57,811	7,814
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases:	–	2,491
a) transformation into tax credits of which as per Law 214/2011	–	–
b) other	–	2,491
4. **Closing balance**	**318,396**	**351,551**

The recognition of a tax loss entirely attributable to decreasing variations relating to the writedown of loans and receivables from customers, will result in the transformation of prepaid taxes into tax credits, in accordance with the provisions of art. 9 of Legislative Decree 201 of 6 December 2011 converted by law 214 of 22 December 2011

10.3 bis Changes in deferred tax assets as per Law 214/2011

	31/12/2020	31/12/2019
1. **Opening balance**	**308,853**	**307,113**
2. **Increases**	**–**	**1,740**
3. **Decreases**	**34,770**	**–**
3.1 Reversals	34,770	–
3.2 Transformation into tax credits	–	–
a) resulting from operating losses	–	–
b) arising from tax losses	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**274,083**	**308,853**

The recognition of a tax loss entirely attributable to decreasing variations relating to the writedown of loans and receivables from customers, will result in the transformation of prepaid taxes into tax credits, in accordance with the provisions of art. 9 of Legislative Decree 201 of 6 December 2011 converted by law 214 of 22 December 2011

10.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2020	31/12/2019
1. **Opening balance**	**8,732**	**9,019**
2. **Increases**	**–**	**145**
2.1 Deferred tax liabilities arising during the year	–	145
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	–	145
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**148**	**432**
3.1 Deferred tax liabilities eliminated during the year	148	165
a) reversals	148	165
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	267
4. **Closing balance**	**8,584**	**8,732**

10.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2020	31/12/2019
1. **Opening balance**	**17,748**	**35,082**
2. **Increases**	**2,206**	**3,533**
2.1 Deferred tax assets arising during the year	2,206	3,533
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	2,206	3,533
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**2,575**	**20,867**
3.1 Deferred tax assets eliminated during the year	2,575	20,818
a) reversals	2,575	20,818
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	–	49
4. **Closing balance**	**17,379**	**17,748**

This amount refers for €0.321 million to the unrealized losses recognised in equity on securities assigned to the portfolio of financial assets measured at fair value through other comprehensive income, for €17.058 million to actuarial losses recognised in relation to long-term employee benefits, consisting of the pension fund and termination indemnities recognised in equity.

10.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2020	31/12/2019
1. **Opening balance**	**11,781**	**6,039**
2. **Increases**	**11,126**	**9,461**
2.1 Deferred tax liabilities arising during the year	11,126	9,461
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	11,126	9,461
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**5,313**	**3,719**
3.1 Deferred tax liabilities eliminated during the year	5,313	3,719
a) reversals	5,313	3,719
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**17,594**	**11,781**

This amount relates to the tax on the unrealised gains recognised in equity on the securities assigned to the portfolio of financial assets measured at fair value through other comprehensive income.

Section 12 Other assets - line item 120

	31/12/2020	31/12/2019
Advances paid to tax authorities	52,730	48,014
Tax credits and related interest	4,593	4,306
Current account cheques drawn on third parties	17,616	21,410
Current account cheques drawn on Group banks	221	309
Transactions in customers' securities	76,671	5,547
Inventories	1,128	1,099
Advances to suppliers	502	971
Advances to customers awaiting collections	19,119	19,474
Miscellaneous debits in transit	31,296	29,278
Liquid assets serving pension and similar obligations	15,002	11,582
Accrued income not allocated	38,953	46,543
Prepayments not allocated	8,958	9,442
Residual items	106,970	73,344
Total	**373,759**	**271,319**

Accrued income and prepayments mainly relate to commission income and costs that cannot be allocated to specific asset accounts.

Liabilities and equity

Section 1 *Financial liabilities measured at amortised cost - line item 10*

1.1 Financial liabilities measured at amortised cost: breakdown of loans and receivables with banks

	Total 31/12/2020				Total 31/12/2019			
		Fair Value				Fair Value		
Type of transaction/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. **Due to central banks**	**8,082,531**	**-**	**-**	**-**	**2,713,646**	**-**	**-**	**-**
2. **Due to banks**	**776,077**	**-**	**-**	**-**	**742,501**	**-**	**-**	**-**
2.1 Current accounts and sight deposits	366,523	-	-	-	323,033	-	-	-
2.2 Fixed-term deposits	324,807	-	-	-	311,869	-	-	-
2.3 Loans	74,912	-	-	-	93,808	-	-	-
2.3.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.3.2 Other	74,912	-	-	-	93,808	-	-	-
2.4 Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
2.5 Payables for leases	127	-	-	-	194	-	-	-
2.6 Other payables	9,708	-	-	-	13,596	-	-	-
Total	**8,858,608**	**-**	**-**	**8,858,608**	**3,456,147**	**-**	**-**	**3,456,147**

Amounts due to central banks comprise three loans from the ECB totalling Euro 8,068 million as part of its «Targeted Longer-Term refinancing operations» (T-LTRO). The first one of €1.600 million, stipulated in December 2019, repayable on 21 December 2022. During 2020 another two loans were stipulated, one in March 2020 of €2.100 million, repayable on 29 March 2023, the other one obtained in June 2020, of €4,368 million, repayable on 28 June 2023. 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 of payables to banks is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.2 Financial liabilities measured at amortised cost: breakdown of loans and receivables with customers

	Total 31/12/2020				Total 31/12/2019			
		Fair Value				Fair Value		
Type of transaction/Amounts	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**28,934,304**	**-**	**-**	**-**	**25,163,136**	**-**	**-**	**-**
2. **Fixed-term deposits**	**499,766**	**-**	**-**	**-**	**953,332**	**-**	**-**	**-**
3. **Loans**	**56,377**	**-**	**-**	**-**	**514,100**	**-**	**-**	**-**
3.1 Repurchase agreements	55,422	-	-	-	509,383	-	-	-
3.2 Other	955	-	-	-	4,717	-	-	-
4. **Payables for commitments to repurchase own equity instruments**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. **Payables for leases**	**193,634**	**-**	**-**	**-**	**215,361**	**-**	**-**	**-**
6. **Other payables**	**40,987**	**-**	**-**	**-**	**53,743**	**-**	**-**	**-**
Total	**29,725,068**	**-**	**-**	**29,725,068**	**26,899,672**	**-**	**-**	**26,899,672**

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.

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

	Total 31/12/2020				Total 31/12/2019			
		Fair Value				Fair Value		
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	2,658,515	2,614,567	111,471	–	2,691,043	2,598,332	133,851	–
1.1 structured	812,072	748,303	99,794	–	833,882	732,310	122,070	–
1.2 others	1,846,443	1,866,264	11,677	–	1,857,161	1,866,022	11,781	–
2. other securities	150,066	–	150,066	–	92,810	–	92,810	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 others	–	–	–	–	–	–	–	–
Total	**2,808,581**	**2,614,567**	**261,537**	**–**	**2,783,853**	**2,598,332**	**226,661**	**–**

The fair value of the sub-item 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-MTF market (Multilateral Trading Facility).

1.4 Detail of subordinated payables/securities

Subordinated securities amount to €699.189 million and are made up of the loans indicated below:

- bond loan of €3.709 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 3.50%.
- bond loan of €5.612 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 3.50%.
- bond loan of €6.001 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 3%.
- a bond of €203.478 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 €275.633 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%:
- a bond of €204.756 million from 30/07/2019 and maturity on 30/07/2029 with repayment in full on maturity. It bears a fixed interest rate of 6.25%.

1.6 Payables for leases

Financial outflows for leasing

	2020				2019
	Buildings*	Cars	Other	Total	Total
Opening Lease Liability	215,302	47	206	215,555	232,744
Financial flows	(22,111)	(14)	(95)	(22,220)	(22,800)
Interest	3,729	–	1	3,730	4,087
Other changes	(3,378)	17	57	(3,304)	1,524
Closing Book Value	**193,542**	**50**	**169**	**193,761**	**215,555**

* Including finance leases under IAS 17

As regards the Other changes during the year, the impact is mainly due to recalculation of the Lease Liability following the ISTAT changes and the opening and closing of contracts.

As of 31.12.2020, the lessee's weighted average marginal borrowing rate of the rates used to discount the lease liabilities is 1.84%.

Analysis of leasing liability maturities

	within 1 year	1 to 5 years	over 5 years within 10 years	over 10 years
Buildings*	22,058	85,327	78,175	28,417
Cars	16	35	–	–
Other types	86	84	–	–
Total	**22,160**	**85,446**	**78,175**	**28,417**

*Including finance leases under IAS 17

The amounts reported pursuant to paras. 39 and B11 of IFRS 7 «Financial instruments» represent non-discounted cash flows.

Section 2 *Financial liabilities held for trading - line item 20*

2.1 Financial liabilities held for trading: breakdown by sector

	31/12/2020					31/12/2019				
		Fair Value					Fair Value			
Type of transaction/Amounts	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	–	–	30,896	890	–	–	–	33,676	190	–
1.1 for trading	–	–	30,896	890	–	–	–	33,676	190	–
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	**–**	**–**	**30,896**	**890**	**–**	**–**	**–**	**33,676**	**190**	**–**
Total (A+B)	**–**	**–**	**30,896**	**890**	**–**	**–**	**–**	**33,676**	**190**	**–**

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 *Tax Liabilities - line item 60*

The balance of €26.178 million relates to deferred taxation.

As regards the composition and amount of deferred taxes, please read Assets Section 10 of these notes. The bank's tax years up to 2014 have been closed.

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.

The Bank has made the tax group election in relation to the Bank, Factorit S.p.a., Banca della Nuova Terra S.p.a. and Pirovano S.p.a.

Section 8 *Other liabilities - line item 80*

8.1 Other liabilities: breakdown

	31/12/2020	31/12/2019
Amounts at the disposal of third parties	434,971	397,043
Taxes to be paid on behalf of third parties	56,320	47,890
Taxes to be paid	863	1,955
Employee salaries and contributions	23,269	22,063
Suppliers	16,052	15,756
Transit accounts for sundry entities	39,345	18,790
Invoices to be received	15,421	16,963
Credits in transit for financial transactions	2,015	2,024
Value date differentials on portfolio transactions	177,613	155,232
Directors' and statutory auditors' emoluments	1,087	1,081
Loans disbursed to customers to be finalised	3,412	6,445
Miscellaneous credit items being settled	11,718	14,699
Accrued expenses not allocated	3,638	1,452
Deferred income not allocated	12,872	16,527
Residual items	45,510	59,700
Total	**844,106**	**777,620**

This line item shows an increase of 8.55%.

The «value date differentials on portfolio transactions» relate to the notes received and sent for collection with recourse or for crediting after collection, which are only recognised in the balance sheet on settlement. The value date differences between the related assets and liabilities give rise to the above differentials.

Section 9 *Post-employment benefits - line item 90*

9.1 Termination indemnities: change in the year

	Total 31/12/2020	Total 31/12/2019
A. **Opening balance**	**41,238**	**40,638**
B. **Additions**	**8,530**	**10,322**
B.1 Provisions for the period	7,764	7,884
B.2 Other changes	766	2,438
C. **Decreases**	**9,914**	**9,722**
C.1 Payments made	2,222	2,230
C.2 Other changes	7,692	7,492
D. **Closing balance**	**39,854**	**41,238**
Total	**39,854**	**41,238**

9.2 Other information

Other decreases relate to payments to the Arca Previdenza Fund for a total of €5.865 million, compared with €5.510 million the previous year, payments to INPS of €1.748 million, compared with €1.822 million and tax on the annual revaluation of €0.080 million, compared with €0.161 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. High-quality corporate securities with an AA rating have been taken as a point of reference. 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 €33.308 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:

	31/12/2020	31/12/2019
Discount rate	0.22%	0.33%
Rate of inflation		1.50%
- 2021	0.00%	
- 2022	0.80%	
- 2023	1.20%	
– subsequent	1.50%	
Annual rate of increase in termination indemnities	1.50%	1.50%

The discount rate was calculated according to the I–Boxx Corporates EUR AA 7–10 on 28 December 2020.

Section 10 *Provisions for risks and charges - line item 100*

10.1 Provisions for risks and charges: breakdown

Items/Amounts	Total 31/12/2020	Total 31/12/2019
1. **Provisions for credit risk related to commitments and financial guarantees given**	**39,507**	**19,818**
2. **Provisions on other commitments and other guarantees given**	**18,794**	**22,972**
3. **Pension and similar obligations**	**162,296**	**152,526**
4. **Other provisions for risks and charges**	**35,533**	**41,103**
4.1 legal disputes	20,608	23,971
4.2 personnel expenses	14,437	16,423
4.3 other	488	709
Total	**256,130**	**236,419**

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.

10.2 Provisions for risks and charges: change in the year

	Provisions on other commitments and other guarantees given	Pension and similar obligations	Other provisions for risks and charges	**Total**
A. **Opening balance**	**22,972**	**152,526**	**41,103**	**216,601**
B. **Additions**	**3,949**	**13,816**	**14,976**	**32,741**
B.1 Provisions	3,949	2,136	14,821	20,906
B.2 Changes due to the passage of time	–	–	–	–
B.3 Changes due to variations in the discount rate	–	8,424	–	8,424
B.4 Other changes	–	3,256	155	3,411
C. **Decreases**	**8,127**	**4,046**	**20,546**	**32,719**
C.1 Utilisations during the year	–	4,041	14,820	18,861
C.2 Changes due to variations in the discount rate	–	–	–	–
C.3 Other changes	8,127	5	5,726	13,858
D. **Closing balance**	**18,794**	**162,296**	**35,533**	**216,623**

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given			
	First stage	Second stage	Third stage	**Total**
1. Commitments to make loans	19,525	9,064	78	28,667
2. Financial guarantees issued	882	356	9,602	10,840
Total	**20,407**	**9,420**	**9,680**	**39,507**

10.5 Defined-benefit pension plans

10.5.1. 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 335 employees and 309 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. 2,318 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.

10.5.2 Changes in net (assets) liabilities and redemption rights

	2020	2019
At 1 January	**152,526**	**139,029**
Service cost	2,319	2,276
Interest cost	1,021	2,074
Actuarial gains/losses	8,424	8,186
Payments	(4,041)	(3,842)
Other provisions	2,047	4,803
At 31 December	**162,296**	**152,526**

10.5.3 Other information on the fair value of plan assets

Details of the assets of the pension plan are summarised in the following table:

	2020	2019
Fixed-yield securities	106,951	102,311
Variable-yield securities	2,396	3,670
Mutual funds. bonds	8,139	10,921
Mutual funds invested in shares	12,798	17,100
Mutual funds invested in property	17,010	6,942
Other assets	15,002	11,582
Total	**162,296**	**152,526**

The amount of the fund increases by € 9.770 million, +6.41%.

Payments of benefits amount to €4.041 million compared with €3.842 million. The contributions paid by the employees totalled €0.214 million (€0.223 million in the prior year).

10.5.4 Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	2020	2019
discount rate	0.36%	0.73%
expected increase in salaries	0.25%	0.50%
rate of inflation		1.50%
– 2021	0.00%	
– 2022	0.80%	
– 2023	1.20%	
subsequent	1.50%	
underlying rate of pension increases	0.50%*	0.77%*

*average equalisation rate

The average discount rate was determined with reference to the value of the I-Boxx Corporates EUR AA 10+ index at 28 December 2020.

10.5.5 Information on the amount, timing and uncertainties of cash flows

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. The situation reflected in the financial statements was used as the base scenario and the two most significant assumptions (average discount rate and inflation rate) were increased and decreased, obtaining the following results:

Sensitivity

+0.25% increase in the discount rate, liability of €141.491 million
-0.25% decrease in the discount rate, liability of €153.497 million
+0.25% increase in the inflation rate, liability of €149.289 million
-0.25% decrease in the inflation rate, liability of €145.538 million

In addition, the liability in the coming years was also analysed; as a result, the payments for the next five years were estimated, as shown in the following table:

Future payments (millions of euro)

Year	0-1	1-2	2-3	3-4	4-5
Cash flow	4.305	4.164	4.001	3.854	3.763

10.6 Provisions for risks and charges – other provisions

Items/Amounts	**31/12/2020**	**31/12/2019**
Provision for legal disputes	20,608	23,971
Provision for personnel expenses	14,437	16,423
Other provisions	488	709
Total	**35,533**	**41,103**

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 €2.786 million, and other disputes that have arisen in the ordinary course of business for €17.822 million.

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 31/12/2020 as the discount rate.

They decrease by €3.363 million for the difference between the provisions for the year of €2.833 million and the release of prior year provisions of €6.196 million.

The bank recognizes liabilities for legal disputes in accordance with the provisions of IAS 37. No provision or disclosure is made for potential liabilities for which there is a remote risk of disbursement. Potential liabilities that are considered possible are subject to disclosure, if material. For potential liabilities for which there is a probable risk, provisions are made in agreement with the lawyers.

At 31 December 2020, about 200 disputes, other than tax-related ones, were pending, with a total petitum of about Euro 150 million. This amount includes all existing disputes regardless of the estimate of the risk of disbursement of economic resources deriving from the potential loss. It therefore also includes disputes with a remote risk.

The following paragraphs give summary information on the various types of disputes and those with a *petitum* exceeding Euro 5 million and with a risk of disbursement that is deemed «possible».

Disputes relating to compound interest and usury

In 2020, the disputes falling within this line of litigation, which for years represented a significant part of the litigation brought against the Italian banking system, have decreased. For disputes relating to compound interest, the petitum is equal to approximately Euro 6.85 million, with provisions for 1.7 million, while for those relating to usury, the petitum is equal to 5.70 million, with provisions for 0.74 million.

Clawback actions in insolvency proceedings

19 disputes were pending for a petitum of 7.72 million, with a provision of 2.79 million. None with a request for a refund of a particularly significant amount.

AMA – Azienda Municipale Ambiente s.p.a.

In December 2020 the bank was notified of the summons before the Court of Rome, concerning the requests for assessment and declaration of the nullity or cancellation of the transaction in financial instruments called «Interest Rate Swap» stipulated on 30 September 2010 and the repayment of amounts unduly received by the Bank for €20.67 million. The bank will appear in court at the hearing scheduled for 11 May 2021. At present, the risk of losing appears «possible».

Bankruptcy of Interservice s.r.l. in liquidation

In February 2015, the bankruptcy procedure sued the bank before the Court of Milan with a request for compensation for the damage caused to the company by the illegal conduct of its director, quantified at Euro 14.65 million. With a sentence published on 26 May 2020, the Court rejected the plaintiff's request, but the plaintiff has filed an appeal. The risk of losing appears «possible».

Ginevra s.r.l.

In January 2019, the company and the shareholders Giuliana Piovan and Gianpiero De Luca sued the Bank before the Court of Genoa with a request for compensation, quantified at Euro 11.39 million, for contractual liability for failure to grant credit, compound interest and usury. The Judge has already set a hearing for the clarification of the conclusions on 11 April 2022. The risk of losing appears «possible».

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 €1.986 million, -12.09%.

The provision for charitable donations of Euro 0.488 million comprises an allocation from profits authorised by the Shareholders' Meeting, decreased by Euro 0.220 million due to donations made during the year.

Section 12 *Equity - line items 110, 130, 140, 150, 160, 170 and 180*

12.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling €1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2020.

At the year-end, the Bank held treasury shares with a carrying value of €25.322 million.

12.2 Share capital – Number of shares: changes during the year

Items/Type	Ordinary	Other
A. **Shares at the beginning 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. **Additions**	**–**	**–**
B.1 New issues	–	–
– for payment:	–	–
– business combinations	–	–
– conversion of bonds	–	–
– exercise of warrants	–	–
– other	–	–
– 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	–	–

12.3 Share capital: other information

Share premium reserve

It amounts to €79.005 million, unchanged on last year.

12.4 Profit reserves: other information

Revenue reserves contribute to the capital adequacy of the Bank, considering both current and future operations. They amount to €1,102.257 million, + 11.24% 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 €426.779 million, +19,78%, following the allocation of €70.487 million from 2019 profit.

Statutory reserve, required by art. 60 of the Articles of Association, which amounts to

€567.678 million (+5.62%), following the allocation of €30.209 million out of the 2019 profit.

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 €30 million (used for €25.322 million), unchanged compared with the previous year.

Reserve pursuant to art. 13 of Legislative Decree 124/93, €0.142 million.

Other reserves of €77.658 million have increased by €10.658 million compared with the previous year, essentially due to the reclassification from the valuation reserve of unrealised gains recognised on the investment held in Nexi S.p.a. that was sold during the year and of the write off of the investment in Release S.p.A..

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 and 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).

12.5 Equity instruments: breakdown and change in the year

No equity instruments have been issued.

Other information

1. Commitments and financial guarantees given (excluding those designated at fair value)

	Nominal value on commitments and financial guarantees given				
	First stage	Second stage	Third stage	**Total 31/12/2020**	**Total 31/12/2019**
1. **Commitments to make loans**	**11,308,026**	**1,011,502**	**104,489**	**12,424,017**	**12,124,400**
a) Central banks	–	–	–	–	–
b) Public administrations	701,428	–	76	701,504	415,110
c) Banks	25,135	–	–	25,135	129,218
d) Other financial companies	1,649,902	1,355	11	1,651,268	2,215,958
e) Non-financial companies	7,825,625	894,304	97,604	8,817,533	8,302,449
f) Households	1,105,936	115,843	6,798	1,228,577	1,061,665
2. **Financial guarantees issued**	**1,574,311**	**64,873**	**16,484**	**1,655,668**	**1,272,392**
a) Central banks	–	–	–	–	–
b) Public administrations	7,066	2	–	7,068	7,842
c) Banks	624,766	–	–	624,766	632,387
d) Other financial companies	630,861	363	210	631,434	245,589
e) Non-financial companies	273,136	46,519	15,424	335,079	328,740
f) Households	38,482	17,989	850	57,321	57,834

2. Other commitments and other guarantees given

	Nominal value 31/12/2020	Nominal value 31/12/2019
Other guarantees given	**3,103,210**	**2,837,252**
of which: impaired	60,894	65,653
a) Central banks	–	–
b) Public administrations	65,380	37,338
c) Banks	83,816	93,664
d) Other financial companies	34,179	58,279
e) Non-financial companies	2,719,523	2,465,079
f) Households	200,312	182,892
Other commitments	**3,151,010**	**3,263,080**
of which: impaired	59,727	109,366
a) Central banks	–	–
b) Public administrations	27,026	46,666
c) Banks	221,384	213,369
d) Other financial companies	67,114	49,979
e) Non-financial companies	2,736,321	2,872,997
f) Households	99,165	80,069

3. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2020	31/12/2019
1. Financial assets measured at fair value through profit or loss	76,359	75,173
2. Financial assets measured at fair value through other comprehensive income	467,839	510,383
3. Financial assets measured at amortised cost	10,424,545	7,325,983
4. Property, equipment and investment property	–	–
of which: property, equipment and investment property held as inventory	–	–

The assets measured at fair value through other comprehensive income and those measured at amortised include securities assigned to customers under repurchase agreements, assigned to guarantee loans from central banks (TLTRO III) and to guarantee the operations of the Swiss subsidiary.

The assets measured at amortised cost also include loans that guarantee the funding provided by the Central Bank (ABACO loans) and residential mortgages guaranteeing the covered bonds issued by the Bank.

4. Management and intermediation for third parties

Type of service	31/12/2020
1. **Execution of orders on behalf of customers**	**64,545**
a) purchases	–
1. settled	–
2. not settled	–
b) sales	64,545
1. settled	64,545
2. not settled	–
2. **Individual portfolio management**	**1,266,599**
3. **Custody and administration of securities**	**49,540,597**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	2,722,222
1. securities issued by the reporting bank	–
2. other securities	2,722,222
b) third-party securities on deposit (excluding portfolio management): other	17,261,862
1. securities issued by the reporting bank	2,043,369
2. other securities	15,218,493
c) third-party securities on deposit with third parties	18,434,548
d) own securities on deposit with third parties	11,121,965
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 the 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 (f=c–d–e) 31/12/2020**	**Net amount 31/12/2019**
1. Derivatives	13,482	–	13,482	4,607	8,495	380	294
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2020	**13,482**	**–**	**13,482**	**4,607**	**8,495**	**380**	**–**
Total 31/12/2019	**18,405**	**–**	**18,405**	**5,111**	**13,000**	**–**	**294**

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 derivatives subject to agreements of this type and reported herein are measured at fair value.

6. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of the financial assets (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 (f=c–d –e) 31/12/2020**	**Net amount 31/12/2019**
				Financial instruments (d)	Cash deposits given in guarantee (e)		
1. Derivatives	21,221	–	21,221	4,607	15,723	891	17
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2020	**21,221**	**–**	**21,221**	**4,607**	**15,723**	**891**	**–**
Total 31/12/2019	**27,289**	**–**	**27,289**	**5,111**	**22,161**	**–**	**17**

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 31/12/2020**	**Total 31/12/2019**
1. **Financial assets measured at fair value through profit or loss:**	**922**	**6,544**	**-**	**7,466**	**7,913**
1.1 Financial assets held for trading	244	-	-	244	599
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	678	6,544	-	7,222	7,314
2. **Financial assets measured at fair value through other comprehensive income**	**12,184**	**-**	**-**	**12,184**	**15,127**
3. **Financial assets measured at amortised cost:**	**33,739**	**391,576**	**-**	**425,315**	**436,251**
3.1 Loans and receivables with banks	7,810	4,630	-	12,440	10,679
3.2 Loans and receivables with customers	25,929	386,946	-	412,875	425,572
4. **Hedging derivatives**	**-**	**-**	**-**	**-**	**-**
5. **Other assets**	**-**	**-**	**-**	**-**	**-**
6. **Financial liabilities**	**-**	**-**	**-**	**54,292**	**21,006**
Total	**46,845**	**398,120**	**-**	**499,257**	**480,297**
of which: interest and similar income on impaired financial assets	-	33,545	-	33,545	41,503
of which: interest income on finance leases	-	-	-	-	-

1.2 Interest and similar income: other information

Interest income has increased by +3.95 % from €480.297 million to €499.257 million. The interest earned on financial liabilities of 51 million relates to negative interest rates related to the ECB T-LTRO II refinancing operations.

1.2.1 Interest and similar income on foreign currency assets

Items	**31/12/2020**	**31/12/2019**
Interest and similar income on foreign currency assets	14,294	22,308

1.3 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2020**	**Total 31/12/2019**
1. **Financial liabilities measured at amortised cost**	**(16,153)**	**(63,291)**	**–**	**(79,444)**	**(77,587)**
1.1 Due to central banks	(26)	–	–	(26)	(115)
1.2 Due to banks	(1,257)	–	–	(1,257)	(3,445)
1.3 Due to customers	(14,870)	–	–	(14,870)	(16,926)
1.4 Securities issued	–	(63,291)	–	(63,291)	(57,101)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**–**	**–**	**–**
5. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**
6. **Financial assets**	**–**	**–**	**–**	**(13,596)**	**(17,114)**
Total	**(16,153)**	**(63,291)**	**–**	**(93,040)**	**(94,701)**
of which: interest expense relating to lease liabilities	(3,730)	–	–	(3,730)	(4,087)

1.4 Interest and similar expense: other information

Interest expense has decreased from €94.701 million to €93.040 million, –1.75%, a reduction of €1.661 million. While the cost of short-term funding from customers has decreased, there has been an increase in the cost of funding in the form of bond issues, while the amount of the negative interest earned on deposits with the ECB remains high, although showing a contraction.

1.4.1 Interest and similar expense on foreign currency liabilities

Items	**31/12/2020**	**31/12/2019**
Interest and similar expense on foreign currency liabilities	(2,231)	(5,948)

Section 2 *Commissions - line items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total 31/12/2020	Total 31/12/2019
a) **guarantees given**	**24,665**	**25,509**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**83,287**	**87,294**
1. trading in financial instruments	–	–
2. trading in foreign currencies	–	–
3. individual portfolio management	9,908	9,922
4. custody and administration of securities	1,700	1,730
5. custodian bank	4,652	4,034
6. placement of securities	32,799	38,166
7. order receipt and transmission	12,354	9,158
8. consultancy	–	–
8.1. investments	–	–
8.2. corporate finance	–	–
9. distribution of third-party services	21,874	24,284
9.1. portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2. insurance products	19,026	19,981
9.3. other products	2,848	4,303
d) **collection and payment services**	**82,254**	**91,147**
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**	**35,473**	**36,036**
j) **other services**	**63,461**	**57,292**
Total	**289,140**	**297,278**

«Other services» mainly consist of loan commissions of €50.920 million and international/foreign exchange fees of €5.646 million.

The prior year figures have been restated for comparison purposes due to the reclassification to a more appropriate item of collection fees on coupons.

2.2 Fee and commission income: distribution channels for products and services

Channels/Amounts	Total 31/12/2020	Total 31/12/2019
a) **bank branches:**	**64,581**	**72,372**
1. portfolio management	9,908	9,922
2. placement of securities	32,799	38,166
3. third-party products and services	21,874	24,284
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	Total 31/12/2020	Total 31/12/2019
a) **guarantees received**	**(353)**	**(613)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(4,042)**	**(3,989)**
1. trading in financial instruments	(1,653)	(1,784)
2. trading in foreign currencies	–	–
3. portfolio management:	–	–
3.1 own	–	–
3.2 delegated to third parties	–	–
4. custody and administration of securities	(2,389)	(2,205)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(7,151)**	**(9,782)**
e) **other services**	**(1,279)**	**(1,257)**
Total	**(12,825)**	**(15,641)**

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	Total 31/12/2020		Total 31/12/2019	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,654	194	1,648	58
B. Other financial assets mandatorily measured at fair value	–	3,834	–	3,681
C. Financial assets measured at fair value through other comprehensive income	1,116	–	1,106	–
D. Equity investments	14,320	–	6,377	–
Total	**17,090**	**4,028**	**9,131**	**3,739**

Dividends on equity investments were paid for €3.783 million by BPS Suisse, for €7.725 by Arca Vita spa, per €2.762 million by Arca Holding Spa and for €0.050 million by Rajna Immobiliare S.r.l.

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 gain (loss) [(A+B) – (C+D)]
1. **Financial assets held for trading**	**1,651**	**27,805**	**(13,287)**	**(19,907)**	**(3,738)**
1.1 Fixed-yield securities	403	1,793	(26)	(45)	2,125
1.2 Variable-yield securities	670	1,792	(12,056)	(18,232)	(27,826)
1.3 Mutual funds	389	404	(869)	(1,630)	(1,706)
1.4 Loans	–	–	–	–	–
1.5 Other	189	23,816	(336)	–	23,669
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. **Financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**(237)**
4. **Derivatives**	**6,258**	**38,768**	**(8,528)**	**(39,068)**	**(2,544)**
4.1 Financial derivatives:	6,258	38,768	(8,528)	(39,068)	(2,544)
- On debt securities and interest rates	5,464	11,167	(4,880)	(10,403)	1,348
- On equities and equity indices	–	16,641	(2,861)	(17,813)	(4,033)
- On currency and gold	–	–	–	–	24
- Other	794	10,960	(787)	(10,852)	115
4.2 Credit derivatives	–	–	–	–	–
of which: natural hedges linked to the fair value option	–	–	–	–	–
Total	**7,909**	**66,573**	**(21,815)**	**(58,975)**	**(6,519)**

Net trading loss for €6.519 million compared with net trading income of €49.301 million in the prior year. Total trading income was €27.805 million compared with €42.692 million; the result from other financial activities of €23.669 million mainly consisted of exchange gains. Net unrealized gains and losses recorded on securities and shares of O.I.C.R. it is negative for €11.489 million. The net result of derivative trading is negative for €2.544 million.

This table does not include the result of the securities in the post-employment fund, which is shown under another item.

Section 6 *Gains (losses) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases: breakdown

	Total 31/12/2020			Total 31/12/2019		
Items/income items	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
A. **Financial assets**						
1. Financial assets measured at amortised cost	23,806	(49,397)	(25,591)	23,056	-	23,056
1.1 Loans and receivables with banks	40	(3)	37	-	-	-
1.2 Loans and receivables with customers	23,766	(49,394)	(25,628)	23,056	-	23,056
2. Financial assets measured at fair value through other comprehensive income	24,812	-	24,812	12,897	(610)	12,287
2.1 Fixed-yield securities	24,812	-	24,812	12,897	(610)	12,287
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**48,618**	**(49,397)**	**(779)**	**35,953**	**(610)**	**35,343**
B. **Financial liabilities measured at amortised cost**						
1. Due to banks	-	-	-	-	-	-
2. Customer deposits	-	-	-	-	-	-
3. Securities issued	91	(29)	62	417	(4)	413
Total liabilities (B)	**91**	**(29)**	**62**	**417**	**(4)**	**413**

The loss of line item «1.2 Loans and receivables with customers» records the effects of the derisking with the sale of NPLs carried out during 2020.

In detail, the result includes the effects relating to the sale of bad loans relating to the «Diana» Project, which ended in the first half of 2020, and the «Luzzatti» Project, which ended in December 2020. For further details, please refer to Part E of these explanatory notes, section «C. Securitisation transactions».

In the course of 2020, operations for the sale of exposures classified as unlikely-to-pay loans were also carried out, which resulted in the recognition of gains on disposal of approximately €8 million; for further details, please refer to Part E of these explanatory notes, section «E. Disposal» sub-paragraph «C. Financial assets sold and fully eliminated».

Section 7 *Net gains/losses on financial assets and liabilities measured at fair value through profit or loss - line item 110*

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Net gain (loss) [(A+B) – (C+D)]
1. **Financial assets**	**28,312**	**1,605**	**(29,892)**	**(9)**	**16**
1.1 Fixed-yield securities	-	1,563	(1,368)	-	195
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	8,072	42	(6,317)	(9)	1,788
1.4 Loans	20,240	-	(22,207)	-	(1,967)
2. **Foreign currency financial assets: exchange differences**	**-**	**-**	**-**	**-**	**(1,815)**
Total	**28,312**	**1,605**	**(29,892)**	**(9)**	**(1,799)**

Gains, losses, proceeds from disposals concern mutual fund units and Italian Government securities. This line item also includes the change in fair value of loans which did not pass the SPPI test.

Section 8 *Net adjustments for credit risk - line item 130*

8.1 Net adjustments for credit risk related to financial assets measured at amortised cost: breakdown

	Adjustments (1)			Write-backs (2)			
	First and	Third stage		First and		Total	Total
Transactions/Income items	second stage	Write-off	Other	second stage	Third stage	31/12/2020	31/12/2019
A. **Loans and receivables with banks**	**(7,896)**	**-**	**-**	**330**	**-**	**(7,566)**	**(625)**
- Loans	(1,697)	-	-	318	-	(1,379)	(138)
- Fixed-yield securities	(6,199)	-	-	12	-	(6,187)	(487)
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
B. **Loans and receivables with customers**	**(105,272)**	**(19,753)**	**(203,303)**	**49,906**	**153,933**	**(124,489)**	**(201,607)**
- Loans	(104,219)	(19,753)	(203,303)	49,906	153,933	(123,436)	(201,703)
- Fixed-yield securities	(1,053)	-	-	-	-	(1,053)	96
of which: impaired loans acquired or originated	(2,047)	-	(13,936)	2,303	9,084	(4,596)	(18,625)
Total	**(113,168)**	**(19,753)**	**(203,303)**	**50,236**	**153,933**	**(132,055)**	**(202,232)**

8.1a Net adjustments for credit risk related to financial assets measured at amortised cost subject to Covid-19 support measures: breakdown

	Net impairment losses				
	First and	Third stage		Total	Total
Transactions/Income items	second stage	Write-off	Other	31/12/2020	31/12/2019
1. Loans subject to forbearance complying with the GL	(26,880)	(52)	(7,449)	**(34,381)**	-
2. Loans subject to other forbearance measures	(1,331)	-	(7,156)	**(8,487)**	-
3. New loans	(1,178)	-	(1,686)	**(2,864)**	-
Total	**(29,389)**	**(52)**	**(16,291)**	**(45,732)**	**-**

8.2 Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

	Adjustments (1)			Write-backs (2)			
	First and	Third stage		First and		Total	Total
Transactions/Income items	second stage	Write-off	Other	second stage	Third stage	31/12/2020	31/12/2019
A. Debt securities	(1,400)	-	-	544	-	(856)	1,536
B. Loans	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-
of which: impaired financial assets purchased or originated	-	-	-	-	-	-	-
Total	**(1,400)**	**-**	**-**	**544**	**-**	**(856)**	**1,536**

8.2a Net adjustments for credit risk relating to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

During 2020, no credit risk adjustments were made on loans measured at fair value through other comprehensive income subject to Covid-19 support measures.

Section 9 *Gains/losses on contractual changes not resulting in derecognition - line item 140*

The losses on contractual changes not resulting in derecognition amounted to €6.415 million, compared with €3.288 million in the prior year.

This line item principally includes the economic impact of contractual changes that do not qualify for the derecognition of financial assets and, therefore, that result in a change in the related amortised cost to reflect the discounting to present value of the new contractual cash flows using the original internal rate of return.

The total reflects losses from changes of €9.503 million, net of profits from changes of €3.088 million.

Section 10 *Administrative expenses - line item 160*

10.1 Personnel expenses: breakdown

Type of expense/Amounts	Total 31/12/2020	Total 31/12/2019
1) **Employees**	**(188,746)**	**(193,338)**
a) wages and salaries	(118,943)	(116,937)
b) social security contributions	(33,577)	(33,343)
c) post-employment benefits	–	–
d) pension expenses	–	–
e) provision for employee termination indemnities	(7,723)	(7,884)
f) provision for pension and similar obligations:	(7,035)	(11,351)
– defined contribution	–	–
– defined benefits	(7,035)	(11,351)
g) payments to external supplementary pension funds:	(3,145)	(2,999)
– defined contribution	(3,145)	(2,999)
– defined benefits	–	–
h) costs deriving from payment agreements based on own capital instruments	–	–
i) other personnel benefits	(18,323)	(20,824)
2) **Other working personnel**	**(178)**	**(101)**
3) **Directors and Statutory Auditors**	**(1,808)**	**(1,690)**
4) **Retired personnel**	**–**	**–**
5) **Recovery of expenses for personnel on secondment to other firms**	**914**	**710**
6) **Reimbursement of expenses for personnel on secondment to the company**	**(453)**	**(101)**
Total	**(190,267)**	**(194,518)**

10.2 Average number of employees by category

	31/12/2020	31/12/2019
1) **Employees**	2,769	2,755
a) managers	26	27
b) officials	575	567
c) other employees	2,168	2,161
2) **Other personnel**	5	3
Total	**2,774**	**2,758**

	Total 31/12/2020	Total 31/12/2019
– Number of employees at year-end	2,799	2,770
– Other personnel	5	3

10.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2020	31/12/2019
Service cost	2,319	2,276
Interest cost	1,021	2,074
Contributions from employees	(215)	(222)
Reductions and payments	3,910	7,222
Total charge to income statement (A)	7,035	11,351
Yield from assets servicing the fund (B)	3,864	8,507
Total charge (A-B)	3,171	2,843

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 10.5 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 €3.864 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». The actuarial loss of €8.424 million has not been charged to the income statement; rather, in accordance with IAS 19, it has been deducted from equity as shown in the statement of comprehensive income.

10.4 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.

10.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2020	31/12/2019
Telephone, post and data transmission	(12,122)	(12,212)
Maintenance of property, equipment and investment property	(7,380)	(8,156)
Rent of buildings	(88)	(48)
Security	(3,752)	(4,691)
Transportation	(1,513)	(1,668)
Professional fees	(43,234)	(38,279)
Office materials	(1,587)	(1,632)
Electricity, heating and water	(5,000)	(5,249)
Advertising and entertainment	(2,093)	(2,629)
Legal	(14,314)	(14,272)
Insurance	(1,507)	(1,499)
Company searches and information	(7,542)	(7,593)
Indirect taxes and dues	(53,960)	(52,280)
Software and hardware rental and maintenance	(16,132)	(14,920)
Data entry by third parties	(2,500)	(1,929)
Cleaning	(5,587)	(5,526)
Membership fees	(1,751)	(1,866)
Services received from third parties	(7,044)	(8,851)
Outsourced activities	(20,346)	(19,884)
Deferred charges	(1,350)	(991)
Goods and services for employees	(595)	(1,141)
Other	(42,223)	(36,801)
Total	**(251,620)**	**(242,119)**

Other expenses include €35.259 million comprising the ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

Section 11 *Net accruals to provisions for risks and charges - line item 170*

11.1 Net provisions for the credit risk on commitments to make loans on financial guarantees given: breakdown

The line item is negative for €19.689 million made up of the difference between provisions for the year and reallocations.

11.2 Net provisions for other commitments and other guarantees given: breakdown

The line item is positive for €4.178 million made up of the difference between provisions for the year and reallocations.

11.3 Net accruals to other provisions for risks and charges: breakdown

The balance of €2.894 million is made up of the difference between provisions for the year for €2.832 million to the provision for legal disputes and reallocations for €5.726 million.

Section 12 *Depreciation and net impairment losses on property, equipment and investment property - line item 180*

12.1. 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)
A. **Property, equipment and investment property**				
1. For business purposes	(32,771)	–	–	(32,771)
– Owned	(12,551)	–	–	(12,551)
– Rights of use acquired through leases	(20,220)	–	–	(20,220)
2. Investment property	–	–	–	–
– Owned	–	–	–	–
– Rights of use acquired through leases	–	–	–	–
3. Inventories	–	–	–	–
Total	**(32,771)**	**–**	**–**	**(32,771)**

Section 13 *Net adjustments to intangible assets - line item 190*

13.1 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)
A. **Intangible assets**				
A.1 Owned	(13,739)	–	–	(13,739)
– Internally generated	–	–	–	–
– Other	(13,739)	–	–	(13,739)
A.2 Rights of use acquired through leases	–	–	–	–
Total	**(13,739)**	**–**	**–**	**(13,739)**

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 14 *Other operating income and expense - line item 200*

This caption amounts to €58.071 million and comprises other operating income of €63.918 million, net of other operating expenses of €5.847 million.

14.1 Other operating expenses: breakdown

	31/12/2020	31/12/2019
Out-of-period expense	(1,464)	(3,833)
Other	(4,383)	(302)
Total	**(5,847)**	**(4,135)**

Other operating expenses largely consist of the expenses linked to the sales of bad loans.

14.2 Other operating income: breakdown

	31/12/2020	31/12/2019
Recovery of charges on deposits and overdrafts	987	487
Rental income from buildings	1,270	1,242
Recovery of taxes	47,515	45,189
Financial income of pension and similar obligations plan	3,864	8,507
Out-of-period income - other	1,181	2,561
Other	9,101	11,715
Total	**63,918**	**69,701**

The sub-item «other» includes €1.832 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.

Rental income from buildings includes €0.602 million from the sub-lease of right-to-use assets.

Section 15 *Net gains (losses) on equity investments - line item 220*

15.1 Net gains (losses) on equity investments: breakdown

Income item/amount	Total 31/12/2020	Total 31/12/2019
A. **Income**	**1,294**	**–**
1. Revaluations	–	–
2. Gains on disposal	1,294	–
3. Write-backs	–	–
4. Other income	–	–
B. **Charges**	**(1,876)**	**(284)**
1. Write-downs	–	–
2. Impairment writedowns	(1,876)	(284)
3. Losses on disposal	–	–
4. Other charges	–	–
Net gain (loss)	**(582)**	**(284)**

Write-downs relate to Pirovano Stelvio spa (€0.288 million), Rent2Go S.R.L., (€0.651 million) and Polis Fondi S.G.R.P.A., (€0.937 million). Gains on disposal of €1.294 million, relate to the disposal of a marginal share of the interest in Arca Holding S.p.A. as part of a redefinition of the members' holdings.

Section 18 *Net gains on sales of investments - line item 250*

18.1 Net gains on sales of investments: breakdown

Income item/amount	Total 31/12/2020	Total 31/12/2019
A. Buildings	–	–
– Gains on disposal	–	–
– Losses on disposal	–	–
B. Other assets	12	5
– Gains on disposal	12	5
– Losses on disposal	–	–
Net gain (loss)	**12**	**5**

Section 19 *Income taxes - line item 270*

19.1 Income taxes: breakdown

Income items/Amounts	Total 31/12/2020	Total 31/12/2019
1. Current taxes (–)	(3,600)	(47,673)
2. Change in prior period income taxes (+/–)	–	(2,327)
3. Reduction in current taxes (+)	–	–
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4. Change in deferred tax assets (+/–)	(33,282)	1,183
5. Change in deferred tax liabilities (+/–)	149	165
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(36,733)	(48,652)

The tax rate, i.e. the ratio of income taxes recognised to the profit on current operations before tax, is 32.86%.

19.2 Reconciliation between the theoretical and current tax burden

Profit before tax	**111,778**
IRES (corporate income taxes)	
Theoretical taxation	**30,739**
Dividends (–)	(4,032)
Maxi depreciation	(437)
Evaluation of securities	516
Administrative expenses (partially deductible)	1,016
Other changes (+/–)	100
TOTAL IRES	**27,902**
IRAP (Regional business tax)	
Theoretical taxation	**6,226**
Dividends	(476)
Personnel expenses	659
Administrative expenses	(2,980)
Depreciation and amortisation	259
Other operating income/expense	259
Other items	4,884
TOTAL IRAP	**8,831**
TOTAL INCOME TAXES	**36,733**

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.

Section 22 *Earnings per share*

22.1 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.

	31/12/2020	31/12/2019
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.

22.2 Other information

IAS 33 requires that earnings per share (EPS) 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.

	31/12/2020	31/12/2019
Basic EPS – €	0.166	0.222
Diluted EPS – €	0.166	0.222

PART D *Other comprehensive income*

Statement of other comprehensive income

Items	31/12/2020	31/12/2019
10. **Profit (loss) for the year**	**75,045**	**100,695**
Other items of comprehensive income that will not be reclassified to profit or loss	24,918	(24,719)
20. **Variable-yield securities measured at fair value through other comprehensive**	**32,844**	**(19,163)**
a) change in fair value	48,397	21,580
b) transfer to other components of equity	(15,553)	(40,743)
30. **Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness):**	**-**	**-**
a) change in fair value	-	-
b) transfer to other components of equity	-	-
40. **Hedge of variable-yield measured at fair value through other comprehensive income:**	**-**	**-**
a) change in fair value (hedged instrument)	-	-
b) change in fair value (hedging instrument)	-	-
50. **Property, equipment and investment property**	**-**	**-**
60. **Intangible assets**	**-**	**-**
70. **Defined-benefit plans**	**(7,672)**	**(9,500)**
80. **Non-current assets and disposal groups held for sale**	**-**	**-**
90. **Share of valuation reserves of equity investments valued at net equity**	**-**	**-**
100. **Income taxes on other items of comprehensive income that will not be reclassified to profit or loss**	**(254)**	**3,944**
Other items of comprehensive income that may be reclassified subsequently to profit or loss	12,856	53,048
110. **Hedges of foreign investments:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
120. **Exchange differences:**	**-**	**-**
a) change in value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
130. **Cash-flow hedges:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
of which: result of net positions	-	-
140. **Hedging instruments (non-designated elements):**	**-**	**-**
a) change in value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
150. **Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income:**	**18,785**	**80,018**
a) changes in fair value	30,473	69,901
b) transfer to income statement	(11,688)	10,117
- adjustments for credit risk	856	(1,536)
- gains/losses on disposals	(12,544)	11,653
c) other changes	-	-
160. **Non-current assets and disposal groups held for sale:**	**-**	**-**
a) changes in fair value	-	-
b) transfer to income statement	-	-
c) other changes	-	-
170. **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	-	-
180. **Income taxes on other items of comprehensive income that may be reclassified subsequently to profit or loss**	**(5,929)**	**(26,970)**
190. **Total other income items**	**37,774**	**28,328**
200. **Other comprehensive income (Item 10+190)**	**112,819**	**129,023**

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.

For more details on the impact of the pandemic and related support measures on credit risk, please refer to the Third Pillar public disclosure.

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 non-performing 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.
- *The NPE Unit*. It oversees the performance of credit quality and verifies the effectiveness of the actions taken to settle credit anomalies and recover the debt. In particular, the current structure involves the following organisational units:
  - *Problem Loans Management*. 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
- Litigation. For credit positions classified as bad loans, it take legal action, in and out of court, to recover them, organising the necessary interventions directly and/or through external lawyers.
- *Performance monitoring and support*: It monitors the NPE portfolio for operational and early warning purposes, manages the status changes and provisions, investigation of the NPE chain, regulations and relevant processes. This organisational unit is also responsible for managing and coordinating the various processes involved in outsourcing non-performing loans.

– *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 continued 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;
- *Pricing and valuation models*: it develops and monitors quantitative methodologies and models for risk (i.e. IFRS 9 stage allocation and impairment, measurement of operational and counterparty risk, analysis of macroeconomic scenarios) and for valuation (i.e. pricing models, independent price verification methodologies, calculation of fair value and related adjustments).
- *Credit Risk Office*: It continuously monitors exposure to credit risk through the preparation and use of methods and tools suitable for identifying critical issues in the underlying processes and the steps needed to overcome them. As part of the process of developing and monitoring the NPL strategy, it assesses its consistency with the RAF indicators on risk appetite and whether the NPL reduction and recovery objectives are suitable given the amount of capital available.
- *Financial Risk Office*: It develops credit risk measurement metrics for regulatory and management purposes.
- *Credit Models Development Office*: it designs, develops and maintains models and metrics adopted for the measurement of credit risk for both regulatory and management purposes;
- *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.
- *Summary Systems Office*: it ensures the production and control of the data needed for the preparation of the financial statements and reports to the Supervisory Authority and institutional bodies.

Within the Risk Data Management Department an office has been set up to govern and oversee the management of risk data and the quality controls performed on them, ensuring integration with the various processes of corporate data governance. In addition, it oversees the IT architecture supporting the internal rating system (AIRB).

– *Internal Audit Department*: it 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 Businesses (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 2020, the sub-portfolios subject to these rating systems account for 80.97% of lending to customers (93.76% 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 valuations obtained through internal models, the ratings granted by leading international 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 counterparty/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 «non-performing», 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 Methods for measuring expected losses

The purpose of this section is to describe the methodological framework implemented by Banca Popolare di Sondrio, in accordance with the requirements of the new IFRS 9 that came into force on 1 January 2018, to calculate the Expected Credit Loss (ECL) of the loan portfolio.

The principal innovation contained in the new standard is to replace the concept of incurred credit losses with an expected loss approach. In order to comply as closely as possible with the new requirements when calculating writedowns, the Bank defined a specific methodological framework. Building on a suite of models already used in other business areas and processes, this activity involved developing various methodologies – statistical, econometric and, more generally, quantitative and data driven – for modelling the usual credit risk parameters – PD, LGD, EAD – and methodologies relevant to the calculation of impairment, such as stage allocation methodologies, as well as the micro-modelling of scenario dependency and the calculation of a multi-period ECL that takes account of the above key aspects.

These methodologies are considered optimal with regard to the rationale underlying the standard (including the avoidance of undue cost and effort), the current and prospective taxonomy and complexity of the portfolio, the materiality of the impact of specific modelling decisions and the following drivers of analysis considered important:

– Disclosure and consistency, with particular reference to the ease with which the approach can be explained to the various types of stakeholder, and consistency with the methodological framework currently used for stress testing.
– Conformity with current regulations, with particular reference to integration of the forward-looking element and the move from a «Through-the-Cycle» to a «Point-in-Time» approach.
– Ease of maintenance, particularly in relation to the frequency with which the model is recalibrated under the point-in-time approach.
– Representativeness of the composition of the portfolio, considering the level of specialisation with respect to the clusters within the portfolio and the essential duration of the portfolio.
– Adequacy with respect to the depth and frequency of the available data, specifically considering aspects of data availability and methodological requirements, as well as the stability of the estimates and the number of parameters to be estimated.

Scope of application

The above methodologies are used to calculate impairment write-downs for the loan portfolio of the Parent Company of the Banca Popolare di Sondrio Group (the Bank) in accordance with IFRS 9. More precisely, these methodologies are applied to the portfolios classified in accordance with the Held To Collect business model (portfolios measured at amortised cost if they pass the «Solely Payment of Principal and Interest» (SPPI) test and are reported in the «Due from customers» and «Loans and receivables with banks» line items) and the Held To Collect and Sell business model (portfolios measured at fair value through other comprehensive income (FVOCI), in order to determine the change in fair value that is attributable to credit risk).

In addition to the above, applicable to the «on–balance sheet» component, IFRS 9 also applies to the financial instruments associated with «off–balance sheet» categories, such as revocable margins, non-revocable margins and financial guarantees.

Credit risk parameters under IFRS 9

The process of modelling credit risk parameters started with the internal models developed for regulatory purposes. Based on these, the Bank defined a set of refined methodologies and adjustments to model in a specific and appropriate manner the point-in-time and forward-looking components, in order to ensure maximum consistency between the overall methodology adopted and the rationale underlying the standard. The probability of default (PD) was modelled on adaptation of the default rates, applying a variable scale approach. As discussed earlier regarding internal consistency with other methodologies already developed and used in other business areas, the set of AIRB models is the starting point for the methodological framework used to model the probability of default (PD).

On this basis, the Bank defined a series of specific methodological approaches, essentially covering the aspects described below, in order to develop a precise model that embodies as closely as possible the rationale and requirements of the new standard:

- Transition matrices, used to model the PD dynamics needed to calculate the IFRS 9-compliant ECLs over essentially long-term time horizons;
- Econometric models, defined for various customer segments and sectors of business activity, that make it possible to differentiate the above forward-looking dynamics by examining different macroeconomic scenarios over a long time horizon;
- Convergence dynamics towards long-term equilibrium that make it possible to extend the above-mentioned forward-looking and scenario-dependent dynamics over longer time horizons than those covered by the econometric models;
- Methodologies for estimating the long-term PD by adopting a suitable methodological framework;
- Methodologies for defining appropriate PDs for segments not covered by ratings, including the corporate and retail segments for which no models are available, as well as the exposures to those types of counterparty (e.g. banks, public administrations) that do not fall within the scope of the AIRB models. The approach in these cases uses the ECAI transition matrices and the internal default rates. In order to develop a model for the LGD component under IFRS 9 that embodies as closely as possible the spirit and requirements of the new standard, the Bank sought to make methodological choices and/or adopt definitions that differed from those developed in the AIRB context, as well as to develop IFRS 9-specific methodologies that model changes in the metric more precisely over long-term time horizons under different macroeconomic conditions. More precisely, the LGD parameter used under IFRS 9 differs from those considered by the internal models in the following ways:
- Definition of LGD by state of impairment (LGS). Although the starting point for the definition of LGD by state of impairment (LGS) uses the same concept as that used in the AIRB context, in order to maximise internal consistency among the models adopted, the Bank defined a different set of underlying methodologies for the calculation of that metric, in order to ensure greater consistency with the rationale underlying the new standard.
- Development of econometric models for LGD by state of impairment. The Bank has developed a specific methodological module that renders LGD by state of impairment (LGS) dependent on the macroeconomic scenario selected.
- Definition of the danger rate parameter. The Bank has defined an alternative version of the danger rate parameter, which is estimated over a shorter time horizon than that considered in the AIRB context, achieving greater alignment with the point-in-time calibration logic touched on in the standard.
- Parameters for segments other than Corporate and Retail not covered by the AIRB model. The Bank has defined specific methodologies for estimating the LGD for those portfolio segments that, while falling within the scope of the IFRS 9 simulation, are not currently covered by the internal LGD models.

The Exposure At Default (EAD) component is modelled using different methodologies, depending on the segment of the counterparties concerned; in particular, the EAD model developed by the Bank in the AIRB context is used for counterparties in the Retail segment, while a standard CCF value is used for those in the Corporate segment, given the (temporary) absence of internal models, as well as for the other counterparties not covered by an internal model.

Stage allocation

The standard requires the classification of all financial instruments subject to impairment into three different stages, considering the level of impairment of the exposure at the analysis date with respect to an initial recognition date:

- Stage 1 positions: performing positions for which no significant increase in credit risk is found at the analysis date with respect to that at the date of initial recognition;
- Stage 2 positions: performing positions for which a significant increase in credit risk is found with respect to that at the date of initial recognition;
- Stage 3 positions: positions in default.

The principal innovation relates to the need, for financial instruments classified in stage 2, to calculate the expected loss over their entire residual lives, based on the increase in default risk with respect to that found on «initial recognition». The standard requires the change in credit risk to be assessed with reference to both qualitative and quantitative information.

For this purpose, the Bank has developed a series of methodologies for classifying the exposures to be analysed into the above stages that use both qualitative and quantitative information and approaches, as well as both absolute and relative staging criteria.

The following absolute criteria are considered for staging purposes:

- Low Credit Risk Exemption. Consistent with the rationale underlying the standard, which accepts the presumption that credit risk has not increased significantly since initial recognition if the risk level of the exposure is deemed to be «low», the Bank has identified the following types of transaction for which, given their nature, it is appropriate to make this election by classifying them automatically in stage 1: transactions with the Bank of Italy and central banks, repurchase agreements expiring within one month and sovereign securities whose issuers have an investment grade rating.
- Past due by 30 days. The standard makes explicit reference to the case in which a relationship is late in meeting its contractual obligations, as a possible indicator for classification in stage 2, given the deterioration of the relationship.
- State of forbearance. Forborne exposures comprise loans that have benefited from special concessions, marked by changes in the contractual conditions or refinancing arrangements, following a substantial change in economic condition that is considered somewhat compromised. The methodology defined by the Bank for determining stage allocation only considers that condition appropriate for classification in stage 2 in the case of performing exposures.
- Purchased or originated credit-impaired (POCI) loans. These comprise all those positions defined as non-performing loans at the time of initial recognition, which are subject to specific regulations regarding the measurement of the credit risk. The methodology defined by the Bank for determining stage allocation only considers that condition appropriate for classification in stage 2 in the case of Performing exposures.

On the other hand, with regard to the use of relative staging criteria, the Bank has selected a metric based on the lifetime PD that, although requiring more effort to implement, allows the achievement of greater consistency with the rationale and requirements of the standard (in particular, the use of relative measurements for the assessment and adoption of a point-in-time logic). In particular, assessment of the change in creditworthiness of a generic position by comparing a suitable metric based on the lifetime PD – i.e. relating to the residual life of the relationship – determined at the reporting date, with the lifetime forward PD – i.e. relating to the same point in time – estimated with reference to the curve at the origination date of the position.

The above methodology therefore assumes the availability of a series of information and suitable methodologies for constructing lifetime cumulative PD curves, at both the reporting date and the origination date, for all counterparties included in the loan portfolio subject to the impairment calculations.

The lifetime PD curves to be used at the reporting date are calculated by applying non-homogeneous Markovian methodologies to transition matrices estimated using a frequency approach for different portfolio segments/clusters and subsequently rendered point in time and scenario dependent by applying econometric models based on a Merton-type methodological framework commonly found in the literature.

The lifetime PD curves at the origination date, on the other hand, are obtained using a simple Markovian methodology applied to transition matrices estimated over a long-term time horizon if it is prior to first-time adoption of the accounting standard, while for subsequent dates the lifetime PD curves calculated on that date are used.

The lifetime PD curves at the reporting and origination dates for positions associated with counterparties for which no internal rating is available, or that belong to segments not covered by internal models, are constructed using transition matrices estimated by external rating agencies (ECAI) and appropriately processed for banking counterparties for which an ECAI rating is available, applying an homogeneous Markovian methodology to obtain lifetime curves, and/or using internal new default rates analysed by portfolio cluster and macroclasses of creditworthiness in all other situations. More precisely, the internal new default rates are used to reconstruct a simplified transition dynamic that, together with the econometric models and the long-term convergence mechanisms described earlier, is used to obtain lifetime cumulated PD curves.

At the same time as selecting the stage allocation approach to use and specifying an appropriate metric, the Bank also devised and applied a series of analytical methodologies in order to first identify appropriate levels of detail for segmenting the loan portfolio and, subsequently, to calibrate the corresponding threshold levels for assigning a given position to either Stage 1 or Stage 2.

In general terms, the definition of different levels of detail for segmenting the loan portfolio and the calibration of the corresponding threshold levels involved the use of purely statistical or, more generally, data-driven techniques for the analyses of impact and sensitivity (using certain metrics of greatest interest to analyse the impact of applying a given set of thresholds defined for a specific level of detail and/or a specific change in them) and for benchmarking purposes (calculation and comparison of a set of metrics of interest deriving from the application of a given set of thresholds defined for a specific level of detail with the same quantities that would be obtained using alternative staging methodologies).

Based on the information obtained following the initial analyses carried out using the above methodologies, the Bank decided to calculate the writedowns using different thresholds for the following levels of detail:

- the portfolio covered by an internal model is segmented by operational macro-segment and rating class. In order to consider appropriately the flattening dynamics of the lifetime PD curve and their effect on the values of the metric, the above criteria were used to identify the segments in which that phenomenon is significant, for which the threshold levels were further differentiated with reference to the residual lives of the positions segmented into appropriate buckets.
- for portfolios not covered by an internal model, a distinction is made between banking counterparties, whose PD-based metric is estimated using lifetime PD curves generated by the ECAI transition matrices, applying the methodology described earlier, and other types of customer, whose PD-based metric is calculated with reference to the lifetime PD curves obtained via appropriate processing, in the manner described earlier, of the corresponding new default rates estimated internally, which are further segmented into appropriate macro-segments.

The threshold values for the various portfolio segments indicated above are, in the most general case, calibrated at the level of macro-segment, rating class and residual life of the position, taking as the threshold value that corresponding to the assigned percentile, taken from the metric, of the empirical observed distribution of the underlying estimation pool. This value is determined with reference to the percentage of positions in the segment analysed that, considering their trends over the observable period, have transitioned to lower classes of creditworthiness under a notching-down approach with variable scale; at this level it is possible to apply adjustments and corrections due to roundings, the application of prudential add-ons or consideration of the impact of the threshold values concerned on the final writedown calculations.

The recent adoption of the new standard and the resulting significant discontinuities make it necessary to carry out periodic holistic assessments, not only of the threshold levels of the PD-based metric used and the related segmentation defined, but also of the quality and stability of the methodological approach adopted.

In order to respond fully to these needs, the Bank ha defined and formally approved a structured and thorough process for assessing the entire framework for the stage allocation (and impairment adjustment) of its loan portfolio. The above process will carry out two types of analysis (trend analysis and model monitoring analysis) with a predetermined frequency, thus satisfying structurally different needs that are nevertheless complementary.

Modelling of the scenario-dependent component

One of the key points of the new standard relates to the use of forecasts that contain forward-looking and, in particular, scenario-dependent elements. In order to guarantee maximum alignment with these requirements, the Bank has explicitly and specifically included that component in many aspects of the methodological framework; more precisely, modelling of the scenario-dependent component by the Bank involved the selection and definition of macroeconomic scenarios, their parameterisation in a suitable manner and the interpretation of their dynamics in order to identify scenario-dependent risk parameters and methods for calculating the ECL.

The Bank decided to adopt three different macro-scenarios that, as required by the standard, allow sufficiently detailed and precise forecasts to be made, having due regard for the size, structure and complexity of the Bank and its business:

- A baseline scenario, based on «central» trends in the macroeconomic variables with respect to the value observed when making the initial forecast that, generally, should therefore represent the outcome considered most likely;
- A moderately adverse scenario that, while undeniably representing an unfavourable but plausible development of the macroeconomic situation, should not normally result in conditions that are particularly stressed;
- A moderately favourable scenario that, conversely, should represent a positive but completely plausible development of the macroeconomic situation, based on the conditions observed at the time of the forecast.

The Bank has engaged an external supplier, with recognised expertise in the forecasting of scenarios and a consolidated reputation in Italy, to perform the related activities. This provider has already assisted the Bank for many years, supplying forecasts for macroeconomic, financial and banking variables, based on predictions or simulations of future events, that are used for strategic purposes and for the healthy and prudent management of the business.

Under standard market conditions, these macroeconomic forecasts are updated quarterly by the external supplier; however, they may be updated more frequently if the provider identifies atypical elements and/or particular turbulence affecting the general macroeconomic situation; this was the case in the current year, during which the crisis induced by the outbreak of the COVID-19 pandemic led to the release of various updates of the baseline scenario on an almost monthly basis.

The parameterisation of the above scenarios results in the supply, for each scenario considered, of hundreds of forecast variables of various types. These include quarterly forecasts covering strictly macroeconomic factors – such as Italian and EU GDP, the inflation rate, the unemployment rate, the level of Italian public debt – as well as strictly financial variables – mainly stock indices, money market and swap rates, the yields on government securities, the yield spreads on securities with different credit ratings, the prices of such commodities as gold and oil, the exchange rates between the Euro and other major currencies over a three-year time horizon.

In order to be considered properly within the multi-period ECL, the dynamics of the macroeconomic scenarios described above must be translated appropriately into scenario-dependent credit risk parameters, specifically PD and LGS, using the econometric models also mentioned above. The statistical relations on which these are based are differentiated at the level, respectively, of portfolio cluster and type of guarantee, making use of meaningful variables that statistical tests and economic intuition have identified as significant, plausible and representative.

The dynamics generated initially cover a three-year time horizon that, in order to cover the residual contractual lives of all positions in the portfolio, is then extended on a lifetime basis by developing geometric convergence dynamics driven by suitably calibrated parameters, considering the nature and severity of the scenarios modelled.

Notably, given the intrinsic risk associated with these forecasts and the potential bias that would derive from the blind adoption of estimates provided by a single research institution, however reliable and authoritative, the Bank has established a managerial «Scenarios Committee» that meets to:

- examine the results of the analyses carried out internally, in order to confirm – applying economic, financial, statistical and/or data-driven logic – the plausibility, quality and consistency of the scenarios and related «weighting factors», having regard for the benchmarking exercises carried out with alternative, reputable and independent providers;
- arrange for the communication and critical discussion of the forecasts within the organisation, in order to determine how well the wealth of information received fits with the sentiment of participants regarding the macroeconomic situation and the specific business conditions faced by the Bank, as well as to consider whether or not to include these expert-based elements in the macroeconomic data used in the calculations.

Calculation of the multi-period, scenario-dependent ECL

The impairment for each position under a given scenario is calculated as the sum, discounted to present value at the measurement date, of the ECL determined by multiplying together the PD (scenario-dependent)and LGD (scenario-dependent) and the EAD associated with each contractual cash flow generated by the instrument over a time horizon that depends on the staging (i.e. positions classified in stage 1 are written down over a maximum of one year, while those classified in stage 2 are written down considering the entire residual duration of the contract).

Subsequently, these estimates are aggregated appropriately to obtain the best estimate of a final value that gives due weight to the likelihood of the various macroeconomic scenarios considered. The aggregation mechanism used by the Bank in fact determines the weighted average of the various ECL, applying weighting factors linked to the probability of occurrence of each scenario.

The Bank basically uses a «hybrid» methodology to estimate these factors, balancing the results of a purely macroeconomic and/or data-driven approach with considerations of a more qualitative and expert-based nature. This approach involves obtaining the estimated probability of occurrence of the scenarios presented by the provider, analysing their plausibility and using them as a starting point for formal discussion within the Bank (Scenarios Committee). This process, which also involves other persons drawn from different business functions, considers the results of the internal analyses carried out, reviews them critically and determines, if deemed appropriate, any adjustments or corrections to be made on the basis of judgemental and expert-based input.

IFRS 9 methodology for other portfolios

The writedowns required in accordance with the logic indicated in the new IFRS 9 are also calculated in relation to the securities portfolio, although it is less material than the loans portfolio discussed above.

In this case, the scope of the calculation includes the securities classified under the new C&M model as Held to Collect (which corresponds to the IAS «held to maturity» classification) and as Held to Collect & Sell (which corresponds to the IAS «available for sale» classification). The ECL must be calculated on the exposures classified in one of the above categories that have passed the solely payment of principal and interest (SPPI) test. In particular, the scope of application under the new C&M model comprises the securities measured at: amortised cost and at FVOCI.

The calculation framework is developed using methodological logic consistent with that described above, with a number of differences (e.g. estimation of the term structures of risk parameters and their segmentation, statistical and econometric models and micro-factors used as predictors) made necessary by the different type and risk profile of the positions included in the portfolio.

Lastly, with regard to subsidiaries, the models developed to calculate writedowns applied logic that, while consistent with the methodological framework developed by the Parent Company to comply with the key aspects of the new standard (e.g. estimation of risk parameters over long-term time horizons considering different scenarios, with writedown time horizon dependent on the staging of the position), takes account of their specific characteristics, such as the geographical and economic context in which they operate, the nature and level of diversification of their core businesses, and the complexity and scale of their control structures.

Amendments due to COVID-19

In order to adequately incorporate in the quantification of its provisions the effects of the crisis induced by the COVID-19 pandemic and the consequent uncertainty about how the general macroeconomic context might evolve, the Bank introduced a series of evolutionary specifications into its methodological framework.

More precisely, during the year, steps were taken:

- to introduce a so-called «expert-based overlay» applied at the level of write-downs, with a view to aligning the overall level of coverage to a level deemed adequate in light of the current and prospective riskiness of the portfolio, the purpose being to avoid the so-called «cliff effect» and at the same time to acknowledge the intrinsically asymmetrical nature of the crisis observed between the various economic sectors and national geographical areas;
- to identify, within the counterparties that have submitted a request for a moratorium, a list of high risk positions (so-called high risk moratoria) for which a prudential classification in Stage 2 has been made;
- to intensify the existing supervision of the macroeconomic scenarios used in calculating write-downs, taking care to significantly increase both the frequency and the level of in-depth analyses of the macro-forecasts, a periodic review of alternative sources (e.g. Bankit, ECB, Istat, Eur, Commission, IMF) and benchmarking, as well as their reporting and discussion through the release of internal reports (e.g. dashboards addressed to top management) and discussion in dedicated management committees;
- to update the macro-scenarios and associated weighting factors with a higher frequency than usual, and the contextual close and constant involvement of senior management in relation to the parameterisation of the components of scenario-dependency and their effects in quantifying collective write-downs;
- to implement geo-sectoral differentiations and state interventions to support the economy in the modelling of credit risk parameters (PD and LGD), as well as to recalibrate the so-

called «significant increases in credit risk» (SICR) used in the process of stage allocation, while at the same time using PD term structures that fully incorporate the effects of the crisis.

ECL sensitivity analyses

The macroeconomic scenarios contain forecasts for the evolutionary dynamics of dozens of macro factors, developed over multi-year time horizons and updated on a quarterly basis at market conditions that are considered standard[1] and subjected to specific analysis, discussion and approval by dedicated management committees.

The scenarios examined address different degrees of adverse/favourable conditions affecting the overall macroeconomic situation.

The estimation of write-downs generally considers a baseline scenario that applies «central» trends to the macroeconomic variables, with respect to their initial values at the time of the estimate, in order to derive an overall most likely outcome; in addition, two «alternative» scenarios are considered – «adverse» and «favourable» – that address outcomes deemed somewhat plausible and not extreme in the macroeconomic context identified. The importance of the above scenarios in the final determination of the write-downs is defined using an appropriate set of weighting coefficients that, in general, reflect the estimated severity assigned to each scenario by the external provider, as adjusted after specific internal analysis and processing.

Following the COVID-19 pandemic and its progressive spread world-wide, the last year has been characterised by an unprecedented deterioration in the macroeconomic context, followed by extreme volatility in the macroeconomic forecasts of the main national and international research institutions. In order to ensure optimal monitoring of these aspects given the particular importance they have acquired in the light of recent events, the Bank has intensified its oversight of these specific issues, as well as its analysis, benchmarking and use of monthly updates issued released by the supplier with specific reference to the baseline scenario developed in the last official forecast report.

In this regard, it should be noted that, when calculating write-downs at the end of December 2020, the Bank adopted the following three different macro-scenarios and their respective weightings:

- a baseline scenario, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 75% is attributed;
- a (slightly) adverse scenario, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 15% is attributed;
- a (slightly) favourable scenario[2], being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 10% is attributed.

Table 1 shows the evolutionary dynamics of the main macro factors (gross domestic product, unemployment and inflation) in each of these scenarios.

1. These estimates may however be updated on an ad hoc basis if the provider identifies atypical elements and/or particular turbulence affecting the general macroeconomic situation.

2. It is important to point out that, despite the definition of a «favourable» scenario, the parameterisations of this scenario configure evolutionary dynamics which are in any case extreme compared with the conditions considered «standard», as can be seen from Table 1.

Table 1 – Annual forecasts for the main macro variables.

	Baseline Dec 2020			Adverse Dec 2020			Favourable Dec 2020		
Macro-variable	2020	2021	2022	2020	2021	2022	2020	2021	2022
Italy's GDP (% on an annual basis)	-9.6%	6.2%	2.8%	-9.8%	5.0%	3.0%	-9.4%	7.6%	2.8%
Italy's unemployment	9.8%	11.3%	10.8%	9.9%	12.6%	12.3%	9.8%	10.2%	8.7%
Italy's inflation (% on an annual basis)	-0.1%	0.7%	1.1%	-0.1%	0.5%	0.9%	0.0%	0.8%	1.2%

In order to quantify the variability to which the final write-downs are subject, given all the scenario-dependent factors considered explicitly in its methodological framework , the Bank has also carried out specific sensitivity analyses in accordance with sector best practices and the most recent recommendations of the Supervisory Authorities[3]. The results of these analyses are presented in the following tables.

In particular, Table 2 analyses by operational macro-segment and stage the different levels of write-down corresponding to the three scenarios identified – baseline, favourable and adverse – used to calculate the official amount, as well as the weighted outcome determined after applying the probabilities indicated above.

Table 2 – Write-downs [in €/million] at 31 December 2020 of the performing loans of the Parent Company associated with different macroeconomic scenarios

Operational macro-segment	Stage	Favourable	Baseline	Adverse	Weighted
Corporate & Large Corporate	Stage 01	23.5	24.2	25.0	24.2
	Stage 02	60.5	60.4	62.3	60.7
	Total	**84.0**	**84.6**	**87.3**	**84.9**
Small businesses	Stage 01	3.6	3.8	4.0	3.8
	Stage 02	19.2	20.4	21.4	20.4
	Total	**22.8**	**24.2**	**25.4**	**24.2**
Small Economic Operators	Stage 01	4.9	5.1	5.3	5.1
	Stage 02	18.8	19.8	20.7	19.8
	Total	**23.7**	**24.9**	**26.0**	**24.9**
Private customers	Stage 01	6.8	7.0	7.2	7.0
	Stage 02	20.9	21.5	22.2	21.5
	Total	**27.7**	**28.5**	**29.4**	**28.5**
Other	Stage 01	27.1	29.3	31.7	29.4
	Stage 02	0.7	0.8	0.9	0.8
	Total	**27.8**	**30.1**	**32.6**	**30.2**
Total	Stage 01	65.9	69.3	73.2	69.5
	Stage 02	120.1	122.9	127.5	123.3
	Total	**186.0**	**192.2**	**200.7**	**192.8**

Table 3 indicates the write-downs that would have been recorded had four different sets of probabilities[4] been applied with respect to the official one adopted.

3. For example see ESMA32 -63 – 791 dated 22 October 2019.

4. The weighting factors for the baseline, adverse and favourable scenarios are respectively 60%-10%-30% (weighted scenario alternative 1), 70%-10%-20% (weighted scenario alternative 2), 50%-25%-25% (weighted scenario alternative 3) and 75%-25%-0% (weighted scenario alternative 4).

Table 3 – Write-downs [in €/million] at 31 December 2020 of the Parent Company's performing loans associated with different weightings of the macroeconomic scenarios

Operational macro-segment	Stage	Weighted 1	Weighted 2	Weighted 3	Weighted 4
Corporate & Large Corporate	Stage 01	24.0	24.1	24.2	24.4
	Stage 02	60.6	60.6	60.9	60.8
	Total	**84.6**	**84.7**	**85.1**	**85.2**
Small Businesses	Stage 01	3.8	3.8	3.8	3.9
	Stage 02	20.2	20.3	20.4	20.7
	Total	**24.0**	**24.1**	**24.2**	**24.6**
Small Economic Operators	Stage 01	5.1	5.1	5.1	5.1
	Stage 02	19.6	19.7	19.8	20.0
	Total	**24.6**	**24.8**	**24.9**	**25.1**
Private customers	Stage 01	6.9	7.0	7.0	7.0
	Stage 02	21.4	21.4	21.5	21.6
	Total	**28.3**	**28.4**	**28.5**	**28.6**
Other	Stage 01	28.8	29.1	29.3	29.9
	Stage 02	0.8	0.8	0.8	0.8
	Total	**29.6**	**29.9**	**30.1**	**30.7**
Total	Stage 01	68.7	69.0	69.4	70.3
	Stage 02	122.5	122.8	123.3	124.0
	Total	**191.2**	**191.8**	**192.7**	**194.3**

Lastly, Table 4, Table 5 and Table 6 show the different levels of collective write-downs corresponding to the baseline, adverse and favourable scenarios respectively, in the event that their parameters were used not only to calculate the ECL, but also in the stage allocation.

Table 4 – Write-downs [in€/ million] at 31 December 2020 for the performing positions of the Parent Company's loan portfolio if the parameters of the baseline scenario were used both to calculate the ECL and for the stage allocation

Operational macro-segment	Stage	Pos	EAD	%Pos	%EAD	ECL IFRS 9
Corporate & Large Corporate	Stage 01	38.248	12.425	88.9%	84.8%	24.2
	Stage 02	4.752	2.228	11.1%	15.2%	60.4
	Total	**43.000**	**14.653**	**18.3%**	**50.8%**	**84.6**
POE	Stage 01	47.433	1.824	82.0%	77.4%	3.8
	Stage 02	10.391	533	18.0%	22.6%	20.4
	Total	**57.824**	**2.357**	**24.6%**	**8.2%**	**24.2**
Private customers	Stage 01	74.015	3.381	91.4%	87.2%	5.1
	Stage 02	6.932	495	8.6%	12.8%	19.8
	Total	**80.947**	**3.876**	**34.5%**	**13.4%**	**24.9**
Small Business	Stage 01	42.394	1.967	83.4%	77.1%	7.0
	Stage 02	8.468	585	16.6%	22.9%	21.5
	Total	**50.862**	**2.552**	**21.7%**	**8.8%**	**28.5**
Other	Stage 01	1.914	5.384	97.6%	99.4%	29.3
	Stage 02	47	34	2.4%	0.6%	0.8
	Total	**1.961**	**5.418**	**0.8%**	**18.8%**	**30.1**
Total	Stage 01	204.004	24.980	87.0%	86.6%	69.3
	Stage 02	30.590	3.875	13.0%	13.4%	122.9
	Total	**234.594**	**28.855**	**100.0%**	**100.0%**	**192.2**

Table 5 – Write-downs [in €/million] at 31 December 2020 for the performing positions of the Parent Company's loan portfolio if the parameters of the Adverse scenario were used both to calculate the ECL and for the stage allocation

Operational macro-segment	Stage	Pos	EAD	%Pos	%EAD	ECL IFRS9
Corporate & Large Corporate	Stage 01	37.883	12.276	88.1%	83.8%	24.4
	Stage 02	5.117	2.377	11.9%	16.2%	63.9
	Total	**43.000**	**14.653**	**18.3%**	**50.8%**	**88.3**
POE	Stage 01	45.463	1.708	78.6%	72.5%	3.7
	Stage 02	12.361	649	21.4%	27.5%	23.6
	Total	**57.824**	**2.357**	**24.6%**	**8.2%**	**27.3**
Private customers	Stage 01	73.066	3.294	90.3%	85.0%	5.1
	Stage 02	7.881	582	9.7%	15.0%	22.6
	Total	**80.947**	**3.876**	**34.5%**	**13.4%**	**27.7**
Small Business	Stage 01	41.509	1.930	81.6%	75.7%	7.0
	Stage 02	9.353	621	18.4%	24.3%	22.9
	Total	**50.862**	**2.551**	**21.7%**	**8.8%**	**29.9**
Other	Stage 01	1.785	5.172	91.0%	95.5%	31.3
	Stage 02	176	246	9.0%	4.5%	1.3
	Total	**1.961**	**5.418**	**0.8%**	**18.8%**	**32.6**
Total	Stage 01	199.706	24.380	85.1%	84.5%	71.4
	Stage 02	34.888	4.476	14.9%	15.5%	134.4
	Total	**234.594**	**28.855**	**100.0%**	**100.0%**	**205.8**

Table 6 – Write-downs [in €/million] at 31 December 2020 for the performing positions of the Parent Company's loan portfolio if the parameters of the favourable scenario were used both to calculate the ECL and for the stage allocation

Operational macro-segment	Stage	Pos	EAD	%Pos	%EAD	ECL IFRS9
Corporate & Large Corporate	Stage 01	38.356	12.377	89.2%	84.5%	23.5
	Stage 02	4.644	2.276	10.8%	15.5%	61.5
	Total	**43.000**	**14.653**	**18.3%**	**50.8%**	**85.0**
POE	Stage 01	49.245	1.918	85.2%	81.4%	4.0
	Stage 02	8.579	439	14.8%	18.6%	17.4
	Total	**57.824**	**2.357**	**24.6%**	**8.2%**	**21.4**
Private customers	Stage 01	74.587	3.429	92.1%	88.5%	5.1
	Stage 02	6.360	447	7.9%	11.5%	17.5
	Total	**80.947**	**3.876**	**34.5%**	**13.4%**	**22.6**
Small Business	Stage 01	42.998	1.980	84.5%	77.6%	7.0
	Stage 02	7.864	572	15.5%	22.4%	20.9
	Total	**50.862**	**2.552**	**21.7%**	**8.8%**	**27.9**
Other	Stage 01	1.931	5.384	98.5%	99.4%	27.1
	Stage 02	30	34	1.5%	0.6%	0.7
	Total	**1.961**	**5.418**	**0.8%**	**18.8%**	**27.8**
Total	Stage 01	207.117	25.088	88.3%	86.9%	66.7
	Stage 02	27.477	3.767	11.7%	13.1%	118.0
	Total	**234.594**	**28.856**	**100.0%**	**100.0%**	**184.7**

See «Part A – Accounting policies» for information about the determination of expected losses on stage 3 exposures i.e. non-performing loans. More specifically, the expected losses on non-performing loans at 31 December 2020 are determined analytically with reference to expected recoveries, which are discounted using the original effective interest rates over the collection period. Given that the expected recoveries are determined with reference to the specific circumstances of each debtor, it is not considered meaningful to analyse the sensitivity of the ECL identified.

2.4 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.

3 Non-performing exposures

3.1 Strategies and operational policies

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 «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:
- Bad loans, covering the entire exposure to borrowers that are insolvent or in an equivalent state, regardless of the guarantees given and/or any loss forecasts made;
- Unlikely to pay, all exposures to debtors that, in the opinion of the Bank, are unlikely to pay in full (principal and/or interest) their loan obligations without recourse to the enforced collection of guarantees; this assessment is made regardless of whether or not there are any past due amounts (or instalments);
- Non-performing past due and/or overdrawn exposures, cash exposures, other than those classified as 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 «non-performing» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

More precisely, in the event of positions that are:
- bad loans, suitable procedures are implemented to recover the loans; if circumstances permit, recovery plans are drawn up and/or settlements are proposed on an amicable basis in order to terminate the relationship;
- unlikely to pay, an assessment is made of the probability that the debtor will meet its contractual obligations in full, in order to re-establish the original conditions of reliability and profitability of the relationship, or, if this is impossible, steps are taken to transfer the position to the non-performing category. For unlikely to pay loans subject to restructuring agreements, checks are made continuously to ensure that the agreed conditions are met;
- non-performing past due and/or overdrawn exposures are monitored and timely attempts are made to get the situation back to normal; if it is seen that the borrower really is in financial difficulty, the necessary steps are taken to transfer the loan to unlikely-to-pay loan or to bad loans, depending on the circumstances.

Adjustments are made in strict compliance with both the primary and secondary regulations and on a highly prudent basis. In particular, having regard for bad loans and unlikely-to-pay loans, the bank carries out an analysis of each position, which also takes into account the discounting effects of expected recovery.

Overall assessments are made solely with regard to smaller individual loans, being not more than € 10,000 for bad loans and € 15,000 for unlikely-to-pay loans. The objective is to adopt a prudent approach to the control of these non-performing 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 non-performing past due and/or overdrawn exposures, the adjustment is determined with reference to the historical experience of losses on loans with that type of anomaly.

See section 2.2 above for information about the operating policies adopted with regard to non-performing loans.

3.2 Write-offs

The gross carrying amount of a financial asset is written off if the amount is confirmed to be unrecoverable or there are no realistic prospects of recovery.

The timely assessment of non-recoverability is based on certain criteria, such as the inability to enforce mortgage or personal guarantees, the unsuccessful completion of enforcement/court-supervised proceedings, the start of bankruptcy procedures, removal from the register of the business name of the debtor legal entity, or the untraceability or advanced age of the customer.

The procedure to identify the absence of any reasonable prospects of recovery is focused on the counterparties within the portfolios of non-performing loans and differs depending on the existence or otherwise of mortgage guarantees, the ageing of the position and the progress made with recovery actions.

Write-offs totalling 150 mln (including 13 mln partial) were recorded during the year.

3.3 Purchased or originated credit-impaired financial assets

The category of purchased or originated credit-impaired (POCI) financial assets includes all purchased or originated financial instruments that, on initial recognition, are found to be credit-impaired.

The accounting rules for POCI apply to the financial instruments classified in asset line item 30. «Financial assets measured at fair value through other comprehensive income» or 40. «Financial assets measured at amortised cost», or to the financial instruments that have passed the SPPI (SPPI – Solely Payments of Principal and Interests) test with reference to the business models whose objective is to hold financial assets representing the right to collect contractual cash flows (HTC – «held to collect») or to both hold and sell them (HTCS – «held to collect and sell»). The «POCI» attribute remains assigned for the entire duration of the relationship and the assets concerned are written down to reflect any losses expected over their residual lifetime.

There are two categories of product associated with POCI financial instruments arising from the granting of finance:

- standard products with instalment repayment plans: in this case, the DelFiWeb procedure recognises the creation of the new relationship that passes the SPPI test, but with an credit-impaired counterparty and automatically assigns the «POCI» attribute for approval by the competent decision-making body;
- standard products managed with the «current accounts» and «international accounts», and non-standard contracts originated by the corporate finance department: for these relationships, the Unit responsible for monitoring and managing anomalous credit manually assigns the «POCI» attribute for approval by the competent decision-making body.

Regardless of how assigned (manual or automatic), the «POCI» attribute must always be confirmed by the competent decision-making body and, once approved, remains valid for the entire duration of the relationship.

3.4 New Definition of Default (New DoD)

As required by IAS 8, the following disclosure is on the new European rules regarding the classification of counterparties in default («New DoD») which the Banca Popolare di Sondrio Group has applied from 1 January 2021.

The new rules introduced by the European Banking Authority (EBA) and implemented at national level by the Bank of Italy establish more restrictive criteria and methods for classification by default than those adopted so far by Italian intermediaries. The aim is to harmonise the approaches for applying the definition of default and identifying the conditions of unlikely payment between financial institutions and the different jurisdictions of EU countries.

The following is a brief summary of the changes made.

Theme	Current rules (until 31/12/2020)	New rules (from 01/01/2021)
Default classification	A customer is classified as being in default if they have arrears for more than 90 consecutive days equal to at least 5% of the client's total exposures to the bank	A customer is classified as being in default if they exceed both of the following materiality thresholds for more than 90 consecutive days: • in absolute terms: Euro 100 for retail exposures (Individuals and SMEs) and Euro 500 for other exposures (e.g. Businesses) • in relative terms: 1% of the total amount of all customer exposures to the bank
Offsetting	It is possible to offset overdue amounts with funds available on other lines of credit that are not being used or only partially used by the customer.	Offsetting is no longer allowed. Consequently, the bank is required to classify a customer as being in default even if there are funds available on other lines of credit that are not being used
Time spent in a state of default	The state of default ceases when the customer settles the payment arrears with the bank and/or returns below their overdraft limit	The state of default remains for at least 90 days from the moment in which the customer settles the payment arrears with the bank and/or returns below their overdraft limit
Joint obligations	There are no rules for the contagion of default in the case of joint obligations (so-called «joint account»)	With reference to joint obligations (so-called «joint account»), new contagion rules are envisaged: • if the joint obligation is in default, the contagion of default applies to the exposures of the parties involved • if in a joint obligation one or more parties are in default, the contagion applies to the exposures of the joint obligation
Classification at banking group level	The classification of a customer as being in default at a company of the Banca Popolare di Sondrio Group does not entail their classification as default at all the companies of the group	Classification as being in default automatically applies at the level of Banca Popolare di Sondrio Group (it is no longer permitted for a customer to be classified as being in default at one group company and performing at another)

In view of the entry into force of the new regulations, given the transversal and pervasive nature of the issue, the Group started a specific programme of activities in 2019 which involves various project areas, from credit management processes to internal rating models, from supervisory reports to IT structures, which concerned:

- initial assessment to identify any gaps with respect to the new regulatory requirements for classification as «default»;
- definition of a remediation plan to overcome any gaps that are identified and the consequent updating of the processes and applications affected;
- provision of specific training sessions to inform all members of staff about the changes introduced by the legislation and the new management processes adopted by the Group.

At the same time, the Group recalibrated its internal risk parameters (PD, LGD and CCF), the impacts of which cannot be determined as the start-up is planned following a specific authorisation from the Supervisory Authority.

An increase in the non-performing portfolio of around 5 percentage points is expected between now and the end of the year due to the introduction of this new legislation.

4. Financial assets subject to commercial renegotiation and exposures subject to forbearance

Financial assets subject to commercial renegotiation

This category includes those renegotiations that envisage changes for commercial reasons to the original contractual conditions governing credit exposures to counterparties that are not in financial difficulty. These changes therefore differ from forbearance and are made to align interest levels with current market conditions.

In addition, commercial renegotiations include changes to the economic conditions applied to newly-arranged credit relationships, being those established for not more than 6 months.

Commercial renegotiations are principally agreed in order to maintain the commercial relationship with the customer (retention of existing loans).

In a market context characterised by low rates, not least in view of the strategies adopted by competitors in the Italian banking systems, especially with regard to lending to businesses and households, the Bank has received many requests to review the economic conditions applied. These are considered with reference to the rating of the counterparty and its prospective profitability, with a view to maintaining and developing the relationship and, therefore, retaining the lending business.

By contrast with the forbearance measures, the renegotiations for commercial reasons relate to debtors without financial difficulties and include all operations designed to align their cost of borrowing with market conditions. Commercial renegotiations involve changing the original contractual conditions at the request of the debtor, considering the cost of borrowing or the duration of the loan, with a resulting benefit for the customer. In general, whenever the Bank agrees to renegotiate in order to avoid losing the customer, the transaction is considered substantial because, in its absence, the customer would obtain funding from other sources and the Bank would the expected future revenue streams. Transactions of this type are treated as an early close-out of the original loan and the arrangement of a new contract.

Exposures subject to forbearance

The Bank treats as forbearance the concessions granted in relation to any exposure – loans, debt securities, revocable and irrevocable commitments to grant loans (excluding the exposures held for trading) – towards debtors that are, or are about to be, in difficulty with regard to their financial commitments (financial difficulties).

A concession is made when the amended contractual conditions are more favourable to the debtor than those applied previously. Consistent with the relevant current regulations, the Bank identifies a series of standardised concessions, distinguishing between short and medium/long-term measures, and periodically monitors their effectiveness in terms of bringing the exposures back into line.

For a relationship to be classified as forborne, the concession must be agreed in relation to a customer that is experiencing financial difficulties. This situation is confirmed objectively if the counterparty is classified as non performing, while it is assumed, subject to detailed analysis and assessment, if the counterparty rating of a performing customer reflects a high degree of risk, or the position concerned is past due or was past due for at least 30 days during the three-month period prior to amending the contract, or there is evidence via the Central Risks database of «corrected non-performing» status.

In order to guarantee the quality of credit exposures and monitor their trends effectively, the Bank applies «industrialised» internal processes designed to identify the most suitable concessions for debtors experiencing financial difficulties, as well as to manage the forborne classification of the related exposures.

When a concession is requested, the Operating Unit responsible for the loan determines the most suitable and sustainable measure for the customer, with support from dedicated tools that provide guidance.

As part of this process, the Unit must assess the nature of the financial difficulties (short or long term) and ensure that the expected duration of the concession is consistent with the nature of the related relationship.

Subsequently, the economic sustainability of the measure is analysed with respect to the financial situation of the customer; in particular, the adequacy of the assets of the customer is analysed on a current and prospective basis, considering the need for credibility and prudence.

On arrangement of the concession, dedicated IT procedures check if the conditions exist for classifying the relationship as forborne and, if they do, propose the assignment of this attribute to the competent Operating Unit. Any exceptions made to this classification must be supported by adequate reasons.

Following approval of the concession and the proposed forborne classification by the competent decision-making body, specific objectives and deadlines are added to the loan contract, with which the customer must comply when repaying the debt.

This supplementary conditions are determined using prudent criteria and checked as part of the more general monitoring of the position.

The gross exposure associated with forborne positions at 31 December 2020 totals € 1,583 million, as analysed in the following table:

Gross balances at 31/12/2020 €/000	Retail Secured	Retail Unsecured	Corporate Secured	Corporate Unsecured	Large Corporate	Total
Performing «forborne» – First year of probation period	91,434	28,467	72,258	62,682	15,285	270,126
Performing «forborne» – Second year of probation period	142,274	39,347	172,211	29,509	13,582	396,923
Non-performing «forborne»	242,235	81,132	398,814	183,274	10,287	915,742
Total	**475,943**	**148,946**	**643,283**	**275,465**	**39,154**	**1,582,791**

Of this amount, about € 330.5 million relates to concessions granted during 2020: 51% performing and 49% non-performing relationships. During the year, about 9% of the opening «non-performing forborne» balance have been cured, while 20% of the opening «performing forborne» balance became «fully performing» and no longer classified as forborne.

The stock of forbearance measures associated with customers classified as performing at the beginning of 2020 which was classified among credit-impaired assets during the year comes to approximately 8% of the gross exposure.

In the event of non-substantial changes to a position, IFRS 9 requires the resulting gain or loss to be determined. A change is deemed non-substantial when it does not result in closure of the pre-existing relationship and/or involve the addition of clauses that might cause the relationship to fail the SPPI test.

The profit or loss on non-substantial changes to forborne relationships is calculated as the difference between the present value of the new contractual cash flows following renegotiation or amendment, discounted using the original effective interest rate (rate before the renegotiation or amendment of the loan contract), and the present value of the original contractual cash flows, also discounted using the original effective interest rate. The forbearance measures granted during the year resulted in net amendment losses of about €6.4 million being charged to the income statement. These losses reduced the carrying amount of the gross exposure and, therefore, the expected future losses.

All «performing forborne» positions are classified in stage 2 and the related adjustments are stated at an amount equal to the lifetime losses expected on the loan. The reduction in credit risk and the allocation of the relationship to stage 1 reflects loss of the forborne attribute.

Contractual amendments resulting from COVID-19

With specific reference to the contractual amendments resulting from COVID-19, the requests for payment extensions, received following the measures implemented by the government to deal with the COVID-19 pandemic in support of the economy, were managed according to the company's procedures already in place and reported previously. So, in the presence of financial difficulty, the accounting treatment of the amendment was applied. If the condition is not the same, it is assumed that the amendment to the original conditions of the contract regards aspects linked to the onerousness of the debt or its duration. Consequently, it is classified a transaction aimed at retaining the customer and the amendment is considered material as, if the extension is not granted, the customer would look for refinancing elsewhere and the bank would suffer a decrease in future revenues.

The impact of these amendments on the income statement was negative and amounted to approximately 1 million euro.

5. Impacts resulting from the COVID-19 pandemic

With reference to credit risk, Banca Popolare di Sondrio has welcomed all of the initiatives implemented by the Government and the EU to support customers during this period and reduce the negative effects of the crisis as much as possible. All concessions are defined to respond to the disadvantage deriving from the temporary slowdown in the economic cycle and the related impacts on liquidity. The potential impact on the Bank's risk profile is mitigated:

- with the acquisition of public guarantees in line with the mechanisms put in place by the various governments;
- with an ex ante/ex post assessment of the customer's risk profile.

Banca Popolare di Sondrio has established guidelines (GLs) for the disbursement, monitoring and management of moratoria, in order to identify promptly any potential signs of deterioration in asset quality. With specific reference to the moratorium measures and in order to limit the effects of the restrictions introduced to contain the pandemic, the Bank has made available to customers a series of initiatives that generally allow the deferral of instalment payments and an extension of the residual duration of credit exposures.

Specific rating guidelines were also introduced with a request to adopt a prospective approach with the aim of avoiding significant macroeconomic variations in the future.

The moratoria granted by Banca Popolare di Sondrio and still outstanding at 31 December 2020 are summarised below, distinguishing between those that comply with the EBA guidelines (92%) and those that do not (8%).

	Gross carrying amount (millions of €)	Net carrying amount (millions of €)
Moratoria EBA compliant	3,081	3,024
Moratoria not EBA compliant	283	264
Total	**3,364**	**3,288**

Over 35% of the above positions have already been classified in Stage 2 or Stage 3.

The following table shows the volume of loans subject to government guarantees originated by the Bank at 31 December 2020.

	Gross carrying amount (millions of €)	Net carrying amount (millions of €)
Loans subject to government guarantees	1,763	1,760

On the subject of a significant increase in credit risk (SICR), the authorities have specified that the IFRS 9 rules must not be applied mechanically, but that the assessment of SICR should differentiate debtors whose credit quality is significantly affected by the current situation in the long term, from those who will probably restore their creditworthiness, also considering the mitigating interventions in the form of government guarantees. In other words, the moratoria granted would not necessarily entail a reclassification of the loans involved to Stage 2.

In any case, at 31 December 2020 the Bank reclassified over 1 billion of loans subject to the COVID-19 moratoria to Stage 2 on a temporary basis. The reclassification was implemented to prevent a possible «cliff effect» by identifying through the triggers described below:

- High-risk moratoria: all positions with moratoria that have been identified as «high risk» have been reclassified to Stage 2 for prudence sake on a temporary basis
- Expert-based overlays: a series of geo-sectoral expert-based overlays specific to the particular position are applied to the impairment adjustment in order to better grasp the asymmetrical nature of the crisis related to the pandemic.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Non-performing and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Bad loans	Unlikely-to-pay loans	Non-performing past due exposures	Performing past due exposures	Other performing exposures	**Total 31/12/2020**
1. Financial assets measured at amortised cost	342,053	648,234	14,186	59,925	34,288,632	35,353,030
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,516,130	2,516,130
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	26,961	484	1,668	356,674	385,787
5. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2020	**342,053**	**675,195**	**14,670**	**61,593**	**37,161,436**	**38,254,947**
Total 31/12/2019	**666,629**	**822,132**	**27,138**	**214,391**	**31,486,525**	**33,216,815**

The word exposures is understood as excluding equities and mutual funds.

A.1.2 Distribution of financial assets by portfolio and asset quality (gross and net values)

	Non-performing				Performing			
Portfolio/quality	Gross exposure	Total writedowns	Net exposure	Write-off sub-totals*	Gross exposure	Total writedowns	Net exposure	Total (net exposure)
1. Financial assets measured at amortised cost	2,142,857	1,138,384	1,004,472	145,725	34,522,459	173,902	34,348,557	35,353,030
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,518,098	1,967	2,516,131	2,516,131
3. Financial assets designated at fair value	–	–	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	41,856	14,411	27,445	13	–	–	358,342	385,786
5. Financial assets being sold	–	–	–	–	–	–	–	–
Total 31/12/2020	**2,184,713**	**1,152,795**	**1,031,917**	**145,738**	**37,040,557**	**175,869**	**37,223,030**	**38,254,947**
Total 31/12/2019	**3,606,701**	**2,090,802**	**1,515,899**	**293,517**	**31,537,209**	**98,426**	**31,700,916**	**33,216,815**

* amount to be shown for information purposes

The gross carrying amount of financial assets measured at fair value at year end includes the credit risk component.

Partial write-offs recorded over the years in relation to the above portfolios total € 145 million, reflecting the non-performing loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» shows 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	16	331	64,051
2. Hedging derivatives	–	–	–
Total 31/12/2020	**16**	**331**	**64,051**
Total 31/12/2019	**8**	**96**	**126,084**

A.1.3 Distribution of financial assets by past due bands (book values)

	First stage			Second stage			Third stage		
	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days
1. Financial assets measured at amortised cost	9,888	2	–	13,784	23,131	13,120	2,826	16,176	658,067
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–
Total 31/12/2020	**9,888**	**2**	**–**	**13,784**	**23,131**	**13,120**	**2,826**	**16,176**	**658,067**
Total 31/12/2019	**77,100**	**8**	**–**	**34,467**	**62,846**	**29,903**	**10,538**	**32,551**	**1,033,481**

A.1.4 Financial assets, commitments to make loans and financial guarantees given: dynamics of total writedowns and provisions

	Total writedowns							
	Assets included in the first stage					Assets included in the second stage		
Reasons/stages of risk	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold
Total opening adjustments	**33,231**	**1,062**	**-**	**-**	**34,292**	**64,084**	**49**	**-**
Increases in financial assets purchased or originated	-	-	-	-	-	18	-	-
Derecognition other than write-offs	(8,828)	(644)	-	-	(9,472)	(4,651)	(36)	-
Net adjustments for credit risk (+/-)	27,232	2,071	-	-	29,303	59,624	576	-
Contractual amendments not resulting in derecognition	(2)	-	-	-	(2)	53	-	-
Changes in estimation methodology			-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-
Other changes	3,507	(1,061)	-	-	2,446	(368)	(51)	-
Total closing adjustments	**55,140**	**1,428**	**-**	**-**	**56,567**	**118,760**	**538**	**-**
Recoveries on financial assets subject to write-offs	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to grant loans and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

	Gross exposure/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolios/stages of risk	From first to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	2,137,565	981,491	101,287	53,040	139,477	16,230
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments to make loans and financial guarantees given	977,111	101,688	5,781	1,180	84,490	603
Total 31/12/2020	**3,114,676**	**1,083,179**	**107,068**	**54,220**	**223,967**	**16,833**
Total 31/12/2019	**1,327,462**	**1,406,280**	**146,193**	**88,078**	**105,806**	**19,717**

Total writedowns								Total provisions on commitments to grant loans and financial guarantees given			
		Assets included in the third stage									
of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual writedowns	of which: collective writedowns	Of which: POCI financial assets	First stage	Second stage	Third stage	**Total 31/12/2020**
-	**64,134**	**2,078,038**	**-**	**-**	**2,078,038**	**-**	**111,488**	**7,090**	**2,043**	**10,685**	**2,196,282**
–	18	4,195	–	–	4,195	–	4,213	–	–	–	4,213
–	(4,686)	(964,628)	–	–	(964,628)	–	(7,584)	–	–	–	(978,786)
–	60,200	146,533	–	–	146,533	–	4,596	13,318	7,376	(1,005)	255,725
–	54	1,552	–	–	1,552	–	–	–	–	–	1,604
–	–	–	–	–	–	–	–	–	–	–	–
–	–	(129,907)	–	–	(129,907)	–	–	–	–	–	(129,907)
–	(418)	2,601	–	–	2,601	–	(10,061)	–	–	–	4,628
-	**119,302**	**1,138,384**	**-**	**-**	**1,138,384**	**-**	**102,652**	**20,408**	**9,419**	**9,680**	**1,353,761**
–	–	18,049	–	–	18,049	–	–	–	–	–	18,049
–	–	(19,753)	–	–	(19,753)	–	–	–	–	–	(19,753)

A.1.5a Loans subject to Covid-19 support measures: transfers between the different stages of credit risk (gross amounts)

	Gross amounts/nominal amounts					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolio/quality	From first to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to stadio a first stage
A. **Loans valued at amortised cost**	**854,684**	**226,560**	**21,503**	**11,205**	**17,205**	**29**
A.1 subject to forbearance compliant with GLs	682,978	212,747	19,058	10,494	7,471	29
A.2 subject to other forbearance measures	41,313	13,813	2,445	711	4,503	–
A.3 new loans	130,393	–	–	–	5,231	–
B. **Loans measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 subject to forbearance compliant with GLs	–	–	–	–	–	–
B.2 subject to other forbearance measures	–	–	–	–	–	–
B.3 new loans	–	–	–	–	–	–
Total 31/12/2020	**854,684**	**226,560**	**21,503**	**11,205**	**17,205**	**29**
Total 31/12/2019	**–**	**–**	**–**	**–**	**–**	**–**

A.1.6 Cash and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure Non-performing	Gross exposure Performing	Total adjustments and provisions	Net exposure	Write-off sub-totals*
A. **On-balance sheet exposure**	**–**	**–**	**–**	**–**	**–**
a) Bad loans	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
c) Non-performing past due exposures	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	–	5,492,943	9,414	5,483,529	–
– of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**–**	**5,492,943**	**9,414**	**5,483,529**	**–**
B. **Off-balance sheet credit exposures**	**–**	**–**	**–**	**–**	**–**
a) Non-performing	–	–	–	–	–
b) Performing	–	982,218	306	981,912	–
Total (B)	**–**	**982,218**	**306**	**981,912**	**–**
Total (A+B)	**–**	**6,475,161**	**9,720**	**6,465,441**	**–**

*Amount to be shown for information purposes

Cash exposures include loans and receivables with banks shown in item 40 a) as well as other financial assets represented by bank securities included in items 20 c) and 30 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.7 Cash and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure Non-performing	Gross exposure Performing	Total adjustments and provisions	Exposure Net	Write-offs sub-totals*
A. **On-balance sheet exposure**					
a) Bad loans	1,050,424	–	708,371	342,053	145,683
– of which: exposures subject to forbearance	237,519	–	162,260	75,259	10,616
b) Unlikely-to-pay loans	1,117,241	–	442,047	675,195	55
– of which: exposures subject to forbearance	674,212	–	253,461	420,751	55
c) Non-performing past due exposures	17,047	–	2,378	14,670	–
– of which: exposures subject to forbearance	3,970	–	515	3,456	–
d) Performing past due exposures	–	64,455	2,862	61,593	–
– of which: exposures subject to forbearance	–	12,139	687	11,451	–
e) Other performing exposures	–	31,866,941	163,593	31,703,348	–
– of which: exposures subject to forbearance	–	655,813	25,786	630,027	–
Total (A)	**2,184,712**	**31,931,396**	**1,319,250**	**32,796,858**	**145,738**
B. **Off-balance sheet credit exposures**	–	–	–	–	–
a) Non-performing	241,593	–	27,770	213,823	–
b) Performing	–	19,149,036	30,225	19,118,811	–
Total (B)	**241,593**	**19,147,036**	**57,995**	**19,332,634**	**–**
Total (A+B)	**2,426,305**	**51,080,432**	**1,377,245**	**52,129,493**	**145,738**

* amount to be shown for information purposes

Cash exposures include the customer loans shown in item 40b as well as other financial assets represented by non-bank securities included in items 20c and 30 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.1.7a On-balance sheet credit exposures to customers subject to Covid-19 support measures: gross and net amounts

Type of exposure/Amounts	Gross exposure	Total adjustments and provisions	Net exposure	Write-off sub-totals*
A. **Exposures classified as bad loans**	**–**	**–**	**–**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–
b) Subject to other forbearance measures	–	–	–	–
c) New loans	–	–	–	–
B. **Exposures classified as unlikely-to-pay loans**	**90,458**	**25,459**	**64,999**	**55**
a) Subject to forbearance compliant with GLs	27,127	8,024	19,103	–
b) Subject to other forbearance measures	58,181	15,744	42,437	55
c) New loans	5,150	1,691	3,459	–
C. **Non-performing past due exposures**	**217**	**15**	**201**	**–**
a) Subject to forbearance compliant with GLs	135	15	120	–
b) Subject to other forbearance measures	–	–	–	–
c) New loans	82	–	82	–
D. **Performing past due exposures**	**7,670**	**367**	**7,303**	**–**
a) Subject to forbearance compliant with GLs	2,570	193	2,377	–
b) Subject to other forbearance measures	3,929	168	3,761	–
c) New loans	1,171	6	1,165	–
E. **Other performing exposures**	**5,029,270**	**53,112**	**4,976,158**	**–**
a) Subject to forbearance compliant with GLs	3,051,381	49,101	3,002,280	–
b) Subject to other forbearance measures	220,997	2,865	218,132	–
c) New loans	1,756,892	1,146	1,755,746	–
TOTAL (A+B+C+D+E)	**5,127,615**	**78,953**	**5,048,662**	**55**

* amount to be shown for information purposes

A.1.9 Cash exposures to customers: dynamics of gross non-performing exposures

Categories	Bad loans	Unlikely-to-pay loans	Non-performing past due exposures
A. **Opening gross exposure**	**2,236,777**	**1,339,512**	**30,412**
– of which: sold but not eliminated from the balance sheet	–	7,887	850
B. **Increases**	**272,893**	**303,793**	**16,709**
B.1 transfers from performing loans	18,786	158,729	14,306
B.2 transfers from POCI financial assets	276	9,237	5
B.3 transfers from other categories of non-performing exposures	131,065	13,327	8
B.4 contractual amendments not resulting in derecognition	10	–	1
B.5 other increases	122,755	122,500	2,389
C. **Decreases**	**1,459,246**	**526,064**	**30,074**
C.1 transfers to performing loans	–	81,887	2,070
C.2 write-offs	90,573	59,087	–
C.3 collections	40,445	232,999	5,796
C.4 proceeds from disposals	290,388	17,082	–
C.5 losses on disposal	125,350	3,598	–
C.6 transfers to other categories of non-performing exposures	26	125,936	18,438
C.7 contractual amendments not resulting in derecognition	–	5,475	–
C.8 other decreases	912,464	–	3,770
D. **Closing gross exposure**	**1,050,424**	**1,117,241**	**17,047**
– of which: sold but not eliminated from the balance sheet	–	6,623	79

A.1.9bis Cash exposures to customers: dynamics of gross exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. **Opening gross exposure**	**1,030,440**	**725,808**
– of which: sold but not eliminated from the balance sheet	2,647	25,668
B. **Increases**	**251,474**	**241,407**
B.1 transfers from performing loans not subject to forbearance	19,872	83,538
B.2 transfers from performing loans subject to forbearance	57,035	–
B.3 transfers from exposures subject to forbearance and non-performing	–	62,658
B.4 transfers from non-performing exposures not subject to forbearance	108,064	528
B.5 other increases	66,504	94,683
C. **Decreases**	**366,212**	**299,263**
C.1 transfers to performing loans not subject to forbearance	–	108,340
C.2 transfers to performing loans subject to forbearance	62,658	–
C.3 transfers to loans subject to forbearance and non-performing	–	57,035
C.4 write-offs	60,798	–
C.5 collections	51,217	39,059
C.6 proceeds on disposal	41,616	–
C.7 losses on disposal	15,801	–
C.8 other decreases	134,121	94,829
D. **Closing gross exposure**	**915,702**	**667,952**
– of which: sold but not eliminated from the balance sheet	3,073	29,937

A.1.11 Non-performing cash exposures to customers: dynamics of total writedowns

Categories	Bad loans		Unlikely-to-pay loans		Non-performing past due exposures	
	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**	**1,570,148**	**178,062**	**517,380**	**297,649**	**3,274**	**429**
– of which: sold but not eliminated from the balance sheet	–	–	933	262	84	–
B. **Increases**	**277,383**	**76,806**	**171,176**	**111,599**	**2,208**	**470**
B.1 adjustments to POCI financial assets	276	–	3,918	–	–	–
B.2 other adjustments	92,077	22,618	156,038	83,169	1,754	284
B.3 losses on disposal	125,350	12,255	3,598	3,546	–	–
B.4 transfers from other categories of non-performing exposures	59,031	41,933	1,761	315	3	1
B.5 contractual amendments not resulting in derecognition	–	–	1,630	1,629	1	1
B.6 other increases	649	–	4,231	22,940	449	184
C. **Decreases**	**1,139,161**	**92,608**	**246,509**	**155,787**	**3,104**	**384**
C.1 write-backs on valuation	39,038	5,459	42,244	27,297	104	5
C.2 write-backs due to collections	26,923	9,044	61,005	33,765	422	71
C.3 gains on disposal	68,557	7,993	10,753	3,444	–	–
C.4 write-offs	90,573	20,174	59,087	40,624	–	–
C.5 transfers to other categories of non-performing exposures	11	7	58,540	41,933	2,245	308
C.6 contractual amendments not resulting in derecognition	–	–	77	77	–	–
C.7 other decreases	914,059	49,931	14,804	8,646	333	–
D. **Total closing adjustments**	**708,371**	**162,260**	**442,047**	**253,461**	**2,378**	**515**
– of which: sold but not eliminated from the balance sheet	–	–	2,201	950	7	–

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of financial assets, commitments to make loans and financial guarantees given: by external rating class (gross values)

	External rating classes							
Exposures	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	**Total 31/12/2020**
A. **Financial assets measured at amortised cost**	**5,156,057**	**1,269,141**	**1,011,164**	**286,413**	**87,100**	**67**	**28,855,441**	**36,665,316**
– First stage	5,156,057	1,264,145	1,001,261	255,506	72,044	67	23,460,039	31,209,052
– Second stage	–	4,996	9,903	30,907	15,056	–	3,252,545	3,313,407
– Third stage	–	–	–	–	–	–	2,142,857	2,142,857
B. **Financial assets measured at fair value through other comprehensive income**	**1,524,439**	**516,638**	**332,596**	**100,355**	**9,590**	**–**	**34,479**	**2,518,097**
– First stage	1,524,439	504,980	327,364	74,985	9,590	–	34,479	2,475,837
– Second stage	–	11,658	5,232	25,370	–	–	–	42,260
– Third stage	–	–	–	–	–	–	–	-
Total (A+B)	**6,680,496**	**1,785,779**	**1,343,760**	**386,769**	**96,690**	**67**	**28,889,920**	**39,183,413**
of which: POCI financial assets	–	–	–	–	–	–	260,832	260,832
C. **Commitments to make loans and financial guarantees given**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-**
– First stage	3,676	1,706	284,122	154	–	–	12,592,680	12,882,338
– Second stage	–	–	–	–	–	–	1,076,375	1,076,375
– Third stage	–	–	–	–	–	–	120,972	120,972
Total (C)	**3,676**	**1,706**	**284,122**	**154**	**–**	**–**	**13,790,027**	**14,079,685**
Total (A+B+C)	**6,684,172**	**1,787,485**	**1,627,882**	**386,924**	**96,690**	**67**	**42,679,947**	**53,263,099**

The distribution of exposures other than those in variable-yield securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Bank's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	From AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard & Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB	from B+ to B-	from CCC+ down
Fitch Ratings	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 financial assets, commitments to make loans and financial guarantees given: by internal rating class (gross values)

INDIVIDUALS

	Internal rating classes						
Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**20,798**	**32,936**	**93,456**	**348,141**	**788,785**	**685,802**	**544,695**
– First stage	20,798	32,273	92,428	340,754	765,641	643,877	500,352
– Second stage		663	1,028	7,387	23,144	41,925	44,343
– Third stage	–	–	–	–	–	–	–
B. **financial assets measured at fair value through other comprehensive income**	–	–	–	–	–	–	–
– First stage	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**20,798**	**32,936**	**93,456**	**348,141**	**788,785**	**685,802**	**544,695**
of which: POCI financial assets	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**34,015**	**34,321**	**58,542**	**93,870**	**106,032**	**67,796**	**77,676**
– First stage	34,009	34,031	57,916	90,145	104,708	66,346	76,541
– Second stage	6	290	626	3,725	1,324	1,450	1,135
– Third stage	–	–	–	–	–	–	–
Total (C)	**34,015**	**34,321**	**58,542**	**93,870**	**106,032**	**67,796**	**77,676**
Total (A+B+C)	**54,813**	**67,257**	**151,998**	**442,011**	**894,817**	**753,598**	**622,371**

SMEs

	Internal rating classes						
Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**170,192**	**491,115**	**874,579**	**989,644**	**1,058,232**	**1,078,840**	**863,017**
– First stage	169,107	481,342	861,225	955,796	929,732	937,176	711,206
– Second stage	1,085	9,773	13,354	33,848	128,500	141,664	151,811
– Third stage	–	–	–	–	–	–	–
B. **financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**20,218**	**–**	**–**	**–**
– First stage	–	–	–	20,218	–	–	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**170,192**	**491,115**	**874,579**	**1,009,862**	**1,058,232**	**1,078,840**	**863,017**
of which: POCI financial assets	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**377,570**	**952,285**	**935,540**	**747,168**	**619,904**	**447,650**	**256,092**
– First stage	377,570	860,423	905,883	679,750	566,997	406,228	235,367
– Second stage	–	91,862	29,657	67,418	52,907	41,422	20,725
– Third stage	–	–	–	–	–	–	–
Total (C)	**377,570**	**952,285**	**935,540**	**747,168**	**619,904**	**447,650**	**256,092**
Total (A+B+C)	**547,762**	**1,443,400**	**1,810,119**	**1,757,030**	**1,678,136**	**1,526,490**	**1,119,109**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
314,296	**258,578**	**118,311**	**112,664**	**100,894**	**55,956**	**315,624**	**3,790,936**
265,672	165,416	70,055	62,595	40,822	5,644	55	3,006,382
48,624	93,162	48,256	49,988	60,059	50,258	1	468,838
–	–	–	81	13	54	315,568	315,716
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
314,296	**258,578**	**118,311**	**112,664**	**100,894**	**55,957**	**315,624**	**3,790,936**
–	–	–	–	–	–	–	–
31,400	**13,208**	**5,135**	**2,436**	**1,936**	**1,869**	**5,559**	**533,795**
29,478	11,785	3,769	1,908	1,505	1,211	956	514,308
1,922	1,423	1,366	528	431	656	511	15,393
–	–	–	–	–	2	4,092	4,094
31,400	**13,208**	**5,135**	**2,436**	**1,936**	**1,869**	**5,559**	**533,795**
345,696	**271,786**	**123,446**	**115,100**	**102,830**	**57,825**	**321,183**	**4,324,731**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
523,433	**288,660**	**226,619**	**126,895**	**68,513**	**38,354**	**1,181,262**	**7,979,355**
348,225	152,025	97,755	41,735	28,326	3,322	33,247	5,750,219
175,208	136,635	128,864	85,160	40,187	35,032	2,876	1,083,997
–	–	–	–	–	–	1,145,139	1,145,139
–	**–**	**–**	**–**	**–**	**–**	**–**	**20,218**
–	–	–	–	–	–	–	20,218
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
523,433	**288,660**	**226,619**	**126,895**	**68,513**	**38,354**	**1,181,262**	**7,999,573**
–	–	–	–	–	–	–	–
136,721	**83,434**	**54,216**	**30,422**	**19,769**	**6,136**	**94,168**	**4,761,075**
104,410	69,635	37,445	19,554	11,452	1,794	17,509	4,294,017
32,311	13,799	16,771	10,868	8,317	4,342	17	390,416
–	–	–	–	–	–	76,642	76,642
136,721	**83,434**	**54,216**	**30,422**	**19,769**	**6,136**	**94,168**	**4,761,075**
660,154	**372,094**	**280,835**	**157,317**	**88,282**	**44,490**	**1,275,430**	**12,760,648**

SMALL BUSINESS

	Internal rating classes						
Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**47,681**	**56,702**	**134,160**	**206,546**	**262,185**	**291,449**	**266,440**
– First stage	47,607	54,479	126,954	179,384	221,999	235,241	198,444
– Second stage	74	2,223	7,206	27,162	40,186	56,208	67,996
– Third stage	–	–	–	–	–	–	–
B. **financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**47,681**	**56,702**	**134,160**	**206,546**	**262,185**	**291,449**	**266,440**
of which: POCI financial assets	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**150,827**	**104,482**	**138,516**	**133,479**	**114,020**	**98,242**	**68,065**
– First stage	145,509	99,604	133,654	119,578	100,807	85,692	56,082
– Second stage	5,318	4,878	4,862	13,901	13,213	12,550	11,983
– Third stage	–	–	–	–	–	–	–
Total (C)	**150,827**	**104,482**	**138,516**	**133,479**	**114,020**	**98,242**	**68,065**
Total (A+B+C)	**198,508**	**161,184**	**272,676**	**340,025**	**376,205**	**389,691**	**334,505**

SMALL ECONOMIC OPERATORS

	Internal rating classes						
Exposures	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**46,318**	**115,131**	**389,024**	**339,104**	**98,397**	**257,465**	**230,275**
– First stage	45,383	113,063	372,431	307,082	79,879	203,840	171,131
– Second stage	935	2,068	16,593	32,022	18,518	53,625	59,144
– Third stage	–	–	–	–	–	–	–
B. **financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**46,318**	**115,131**	**389,024**	**339,104**	**98,397**	**257,465**	**230,275**
of which: POCI financial assets	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**51,743**	**60,926**	**91,305**	**52,979**	**17,330**	**56,604**	**42,022**
– First stage	50,739	60,249	88,406	47,560	13,932	50,873	37,084
– Second stage	1,004	677	2,898	5,419	3,398	5,731	4,938
– Third stage	–	–	–	–	–	–	–
Total (C)	**51,743**	**60,926**	**91,304**	**52,979**	**17,330**	**56,604**	**42,022**
Total (A+B+C)	**98,061**	**176,057**	**480,328**	**392,083**	**115,727**	**314,069**	**272,297**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	Total (A+B+C)
209,455	**133,157**	**112,521**	**54,074**	**31,071**	**40,398**	**376,966**	**2,222,805**
137,099	72,306	51,036	22,754	7,613	3,380	2	1,358,298
72,356	60,802	61,485	31,261	23,458	37,018	-	487,435
-	49	-	59	-	-	376,964	377,072
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
209,455	**133,157**	**112,521**	**54,074**	**31,071**	**40,398**	**376,966**	**2,222,805**
-	-	-	-	-	-	-	-
48,890	**28,883**	**24,930**	**13,155**	**5,325**	**4,211**	**23,657**	**956,682**
38,517	20,246	17,337	9,036	2,521	834	1,046	830,463
10,373	8,632	7,593	4,049	1,694	3,377	116	102,539
-	5	-	70	1,110	-	22,495	23,680
48,890	**28,883**	**24,930**	**13,155**	**5,325**	**4,211**	**23,657**	**956,682**
258,345	**162,040**	**137,451**	**67,229**	**36,396**	**44,609**	**400,623**	**3,179,487**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	Total (A+B+C)
168,328	**131,689**	**79,014**	**80,931**	**66,082**	**53,509**	**246,777**	**2,302,044**
98,945	74,592	39,398	23,893	14,981	9,200	14	1,553,832
69,383	57,097	39,616	57,038	51,101	44,133	-	501,273
-	-	-	-	-	176	246,763	246,939
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
168,328	**131,689**	**79,014**	**80,931**	**66,082**	**53,509**	**246,777**	**2,302,044**
-	-	-	-	-	-	-	-
31,602	**18,038**	**11,847**	**11,731**	**5,919**	**4,525**	**4,621**	**461,191**
22,415	10,826	8,433	6,208	2,523	1,491	717	401,456
9,187	7,212	3,414	5,523	3,395	2,843	136	55,775
-	-	-	-	1	191	3,768	3,960
31,602	**18,038**	**11,847**	**11,731**	**5,919**	**4,525**	**4,621**	**461,191**
199,930	**149,727**	**90,861**	**92,662**	**72,001**	**58,034**	**251,398**	**2,763,235**

LARGE ENTERPRISES; PUBLIC ENTERPRISES

Exposures	Internal rating classes						
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**7,577**	**108,587**	**524,365**	**1,256,374**	**418,184**	**389,173**	**305,056**
– First stage	7,577	108,587	364,594	1,216,347	302,955	362,479	243,641
– Second stage	–	–	159,771	40,027	115,229	26,694	61,415
– Third stage	–	–	–	–	–	–	–
B. **financial assets measured at fair value through other comprehensive income**	**–**	**–**	**6,301**	**44,802**	**5,018**	**9,486**	**1,026**
– First stage	–	–	6,301	44,802	5,018	9,486	1,026
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**7,577**	**108,587**	**530,666**	**1,301,176**	**423,202**	**398,659**	**306,082**
of which: POCI financial assets	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**100,435**	**312,265**	**503,940**	**1,113,914**	**301,917**	**225,364**	**219,575**
– First stage	100,435	283,530	480,640	952,661	275,567	202,745	196,032
– Second stage	–	28,735	23,300	161,253	26,350	22,619	23,543
– Third stage	–	–	–	–	–	–	–
Total (C)	**100,435**	**312,265**	**503,940**	**1,113,914**	**301,917**	**225,364**	**219,575**
Total (A+B+C)	**108,012**	**420,852**	**1,034,606**	**2,415,090**	**725,119**	**624,023**	**525,657**

OTHER ENTITIES

Exposures	Internal rating classes						
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**–**	**9,216**	**32,210**	**27,460**	**23,759**	**72,142**	**145,970**
– First stage	–	9,216	32,210	24,432	16,184	52,347	105,697
– Second stage	–	–	–	3,028	7,575	19,795	40,273
– Third stage	–	–	–	–	–	–	–
B. **financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–
Total (A+B)	**–**	**9,216**	**32,210**	**27,460**	**23,759**	**72,142**	**145,970**
of which: POCI financial assets	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**–**	**45,398**	**23,221**	**190,347**	**16,736**	**98,614**	**135,586**
– First stage	–	40,398	23,221	181,095	14,756	75,550	97,617
– Second stage	–	5,000	–	9,252	1,980	23,064	37,969
– Third stage	–	–	–	–	–	–	–
Total (C)	**–**	**45,398**	**23,221**	**190,347**	**16,736**	**98,614**	**135,586**
Total (A+B+C)	**–**	**54,614**	**55,431**	**217,807**	**40,495**	**170,756**	**281,556**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
329,549	**104,344**	**15,233**	**-**	**88,999**	**33,416**	**26,451**	**3,607,308**
282,411	85,141	623	-	9,633	-	1	2,983,989
47,138	19,203	14,610	-	79,366	33,416	-	596,869
-	-	-	-	-	-	26,450	26,450
10,581	**-**	**-**	**-**	**-**	**-**	**-**	**77,214**
10,581	-	-	-	-	-	-	77,214
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
340,130	**104,344**	**15,233**	**-**	**88,999**	**33,416**	**26,451**	**3,684,522**
-	-	-	-	-	-	-	-
109,548	**114,406**	**9,296**	**-**	**13,999**	**4,624**	**28,887**	**3,058,170**
99,087	15,971	7,967		547	-	16,426	2,631,608
10,461	98,435	1,329	-	13,452	4,624	-	414,101
-	-	-	-	-	-	12,461	12,461
109,548	**114,406**	**9,296**	**-**	**13,999**	**4,624**	**28,887**	**3,058,172**
449,678	**218,750**	**24,529**	**-**	**102,998**	**38,040**	**55,338**	**6,742,692**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Unrated and insolvent	**Total (A+B+C)**
26,856	**54,707**	**18,774**	**314**	**6**	**2**	**16,351,454**	**16,762,870**
26,528	53,372	1,889	314	2	2	16,234,143	16,556,336
328	1,335	16,885	-	4	-	85,770	174,993
-	-	-	-	-	-	31,541	31,541
-	**-**	**-**	**-**	**-**	**-**	**2,420,664**	**2,420,664**
-	-	-	-	-	-	2,378,404	2,378,404
-	-	-	-	-	-	42,260	42,260
-	-	-	-	-	-	-	-
26,856	**54,707**	**18,774**	**314**	**6**	**2**	**18,772,118**	**19,183,534**
-	-	-	-	-	-	-	-
1,547	**1,100**	**1,355**	**460**	**2,175**	**-**	**3,792,238**	**4,308,777**
1,547	1,063	15	460	2,175	-	3,772,591	4,210,488
-	37	1,340	-	-	-	19,512	98,154
-	-	-	-	-	-	135	135
1,547	**1,100**	**1,355**	**460**	**2,175**	**-**	**3,792,238**	**4,308,777**
28,403	**55,807**	**20,129**	**774**	**2,181**	**2**	**22,564,356**	**23,492,311**

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 Bank uses internal ratings to calculate the capital requirements in relation to it corporate and retail portfolios, for which the related IRB models have been validated.

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 cash and off-balance sheet exposures to banks

			Secured guarantees (1)			
	Gross exposure	Net exposure	Buildings mortgaged	Property Financial leases	Securities	Other secured guarantees
1. **Guaranteed cash exposures**:	**31,746**	**31,723**	**–**	**–**	**112**	**–**
1.1. fully guaranteed	30,716	30,695	–	–	112	–
– of which: non-performing	–	–	–	–	–	–
1.2. partially guaranteed	1,030	1,028	–	–	–	–
– of which: non-performing	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures**:	**6,376**	**6,376**	**–**	**–**	**1,903**	**998**
2.1. fully guaranteed	4,049	4,049	–	–	673	998
– of which: non-performing	–	–	–	–	–	–
2.2. partially guaranteed	2,327	2,327	–	–	1,230	–
– of which: non-performing	–	–	–	–	–	–

Personal guarantees (2)									
Derivatives on loans					Guarantees given				
Other derivatives									
CLN	Central counter-parties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**930**	**–**	**30,674**	**–**	**31,716**
–	–	–	–	–	930	–	29,653	–	30,695
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	1,021	–	1,021
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**1,239**	**–**	**1,140**	**–**	**5,279**
–	–	–	–	–	1,239	–	1,140	–	4,049
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	1,230
–	–	–	–	–	–	–	–	–	–

A.3.2 Guaranteed cash and off-balance sheet exposures to customers

	Gross exposure	Net exposure	Secured guarantees (1) Buildings mortgaged	Property Financial leases	Securities	Other secured guarantees
1. **Guaranteed cash exposures**:	**14,715,338**	**13,717,256**	**8,626,686**	**–**	**419,596**	**282,145**
1.1. fully guaranteed	12,647,099	11,735,214	8,624,801	–	353,126	189,901
– of which: non-performing	1,672,039	864,463	740,765	–	4,451	5,582
1.2. partially guaranteed	2,068,239	1,982,042	2,485	–	66,470	92,244
– of which: non-performing	122,949	43,705	2,004	–	6,588	552
2. **Guaranteed off-balance sheet exposures**:	**3,458,497**	**3,440,284**	**353,363**	**–**	**138,018**	**104,409**
2.1. fully guaranteed	2,877,171	2,861,007	353,243	–	112,185	85,714
– of which: non-performing	96,518	86,297	9,530	–	678	1,285
2.2. partially guaranteed	581,326	579,277	120	–	25,833	18,695
– of which: non-performing	15,378	14,442	120	–	151	700

A.4 Financial and non-financial assets obtained by enforcing guarantees received

	Credit exposure cancelled	Gross value	Total writedowns	Carrying amount	of which obtained during the year
A. **Property, equipment and investment property**	**–**	**–**	**–**	**–**	**–**
A.1. For business purposes	–	–	–	–	–
A.2. For investment purposes	–	–	–	–	–
A.3. Inventories	–	–	–	–	–
B. **Variable-yield securities and fixed-yield securities**	**–**	**–**	**–**	**–**	**–**
C. **Other assets**	**160,978**	**61,259**	**–**	**61,259**	**61,259**
D. **Non-current assets and disposal groups held for sale**	–	–	–	–	–
D.1. Property, equipment and investment property	–	–	–	–	–
D.2. Other assets	–	–	–	–	–
Total 31/12/2020	**160,978**	**61,259**	**–**	**61,259**	**61,259**
Total 31/12/2019	**135,913**	**96,103**	**–**	**96,103**	**96,103**

B. Distribution and concentration of exposure

Preparation of this section has excluded in the exposures reported in tables A.1.6. and A.1.7., exposures to counterpart risk relating to loans of securities or goods, granted or received.

Personal guarantees (2)									
Derivatives on loans					Guarantees given				
	Other derivatives								
CLN	Central counter-parties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**1,894,570**	**15,036**	**190,375**	**1,944,119**	**13,372,526**
–	–	–	–	–	688,091	10,666	174,984	1,674,584	11,715,553
–	–	–	–	–	7,371	775	15,409	82,874	857,228
–	–	–	–	–	1,206,478	4,370	15,391	269,535	1,656,973
–	–	–	–	–	4,350	–	3,432	20,668	37,585
–	**–**	**–**	**–**	**–**	**19,630**	**5,928**	**142,952**	**2,385,182**	**3,149,181**
–	–	–	–	–	9,981	2,823	131,090	2,116,480	2,811,515
–	–	–	–	–	208	–	17,426	54,397	83,524
–	–	–	–	–	9,649	3,105	11,562	268,702	337,666
–	–	–	–	–	320	–	–	10,744	12,035

B.1 Distribution by sector of the cash and off-balance sheet exposures to customers

Exposures/Counterparties	Public administrations		Financial companies	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **On-balance sheet exposure**				
A.1 Non-performing loans	–	–	660	11,324
– of which exposures subject to forbearance	–	–	258	6,063
A.2 Unlikely-to-pay loans	–	–	10,197	9,766
– of which exposures subject to forbearance	–	–	8,035	6,651
A.3 Non-performing past due exposures	3	–	73	20
– of which exposures subject to forbearance	–	–	–	–
A.4 Performing exposures	8,321,152	4,444	4,986,602	19,163
– of which exposures subject to forbearance	19,161	240	753	5
Total (A)	**8,321,155**	**4,444**	**4,997,532**	**40,273**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	76	–	88	325
B.2 Performing exposures	800,491	412	2,374,971	8,617
Total (B)	**800,566**	**412**	**2,375,059**	**8,942**
Total (A+B) 31/12/20	**9,121,721**	**4,856**	**7,372,591**	**49,215**
Total (A+B) 31/12/19	**8,523,192**	**3,725**	**7,523,724**	**69,436**

B.2 Territorial distribution of cash and off-balance sheet exposures to customers

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **On-balance sheet exposure**				
A.1 Non-performing loans	338,215	694,251	3,764	14,073
A.2 Unlikely-to-pay loans	671,276	441,264	3,697	651
A.3 Non-performing past due exposures	14,614	2,361	47	15
A.4 Performing exposures	29,214,188	164,742	2,465,555	1,441
Total (A)	**30,238,293**	**1,302,618**	**2,473,063**	**16,180**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	213,737	27,739	87	30
B.2 Performing exposures	18,682,374	29,469	410,244	727
Total (B)	**18,896,111**	**57,208**	**410,331**	**757**
Total (A+B) 31/12/20	**49,134,404**	**1,359,826**	**2,883,393**	**16,938**
Total (A+B) 31/12/19	**46,035,912**	**2,195,064**	**2,591,434**	**31,013**

As regards the geographical distribution of exposures to customers resident in Italy, note that assets included under «Loans and receivables with customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West (73%) and Centre (13%), followed by the North East (11.7%) and the South and Islands (0.9%).

Financial companies (of which: insurance companies)		Non-financial companies		Households	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	230,200	480,887	111,193	216,159
–	–	51,962	110,376	23,040	45,821
–	–	512,335	356,698	152,663	75,583
–	–	313,293	201,663	99,423	45,146
–	–	4,599	800	9,995	1,556
–	–	1,092	146	2,363	368
14,778	254	12,604,575	91,198	5,852,612	51,651
–	–	417,983	16,214	203,581	10,014
14,778	**254**	**13,351,709**	**929,583**	**6,126,463**	**344,949**
–	–	205,563	26,279	8,096	1,165
6,280	–	14,370,933	15,780	1,572,416	5,617
6,280	**–**	**14,576,496**	**41,859**	**1,580,512**	**6,782**
21,058	**254**	**27,928,205**	**971,443**	**7,706,975**	**351,731**
23,491	**65**	**25,313,535**	**1,596,732**	**7,330,375**	**559,726**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
52	18	21	29	–	–
44	28	177	104	–	–
5	1	4	1	–	–
12,273	46	20,622	216	52,303	9
12,374	**93**	**20,824**	**350**	**52,303**	**9**
–	–	–	–	–	–
25,092	16	506	–	595	13
25,092	**16**	**506**	**–**	**595**	**13**
37,466	**109**	**21,330**	**350**	**52,898**	**22**
38,598	**566**	**22,512**	**3,961**	**2,369**	**17**

B.3 Territorial distribution of cash and off-balance sheet exposures to banks

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **On-balance sheet exposure**				
A.1 Non-performing loans	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Non-performing past due exposures	–	–	–	–
A.4 Performing exposures	3,608,136	8,706	1,824,178	689
Total (A)	**3,608,136**	**8,706**	**1,824,178**	**689**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	–	–	–	–
B.2 Performing exposures	109,332	49	840,802	253
Total (B)	**109,332**	**49**	**840,802**	**253**
Total (A+B) 31/12/20	**3,717,468**	**8,755**	**2,664,980**	**942**
Total (A+B) 31/12/19	**1,640,221**	**1,008**	**2,353,380**	**560**

B.4 Large exposures

	31/12/2020	31/12/2019
Number of positions	17	15
Exposure	22,598,680	15,239,966
Risk position	6,004,974	4,038,925

The exposure limit of 10% of capital for supervisory purposes – the threshold for inclusion of a counterparty in the category of «Large exposure» – 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 Large exposure, 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.

It should be noted that the positions shown above include the Italian Republic (nominal exposure, 7,891 million; Risk position, 0.3 million), purely on the basis of sovereign securities held in proprietary portfolios, and the Bank of Italy (nominal exposure, 6,425 million; risk position, 3.6 million), mainly for term deposits and the compulsory reserve.

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
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
12,284	10	10,402	5	28,528	5
12,284	**10**	**10,402**	**5**	**28,528**	**5**
–	–	–	–	–	–
–	–	–	–	–	–
3,459	–	22,429	3	5,889	–
3,459	**–**	**22,429**	**3**	**5,889**	**–**
15,743	**10**	**32,831**	**8**	**34,417**	**5**
22,795	**7**	**57,334**	**4**	**32,770**	**4**

C. Securitisations

QUALITATIVE INFORMATION

In line with the company's objectives of derisking and improving the quality of assets, during the course of 2020, as explained in the report on operations, the Bank completed two securitisations through the sale of non-performing loans called Diana and Luzzatti.

Note that the book value of the securitisations originated by third party companies, shown in the following table C.2, at 31 December 2020 amounts to 428 million euro.

Diana securitisation

The securitisation was completed for legal purposes on 1 June 2020 through the sale without recourse of a portfolio of non-performing loans pursuant to arts 1, 4 and 7.1 of Law 130 of 30 April 1999 to Diana S.P.V. S.r.l., for a gross book value at the date of sale of 872.231 million euro. The securitised portfolio at the effective date of 1 April 2019 included bad loans for 999.717 million euro and was made up of secured non-performing mortgage loans for 74% and unsecured positions for the other 26%.

On 17 June 2020, the payment of the purchase price by the SPV was financed through the issue of 3 classes of ABS securities, initially fully subscribed by Banca Popolare di Sondrio, for a total nominal value of € 273.651 million split as follows:

- a Senior tranche (Class A) for 235 million, with investment grade ratings (BBB assigned by DBRS Morningstar, Baa2 by Moody's and BBB by Scope Ratings) backed by the government guarantee (GACS), pursuant to Legislative Decree 18/2016, issued by a decree of the Ministry of Economy and Finance dated 12 August 2020. These securities provide a yield equal to the 6-month Euribor plus an annual spread of 0.5%.
- a Mezzanine tranche (Class B) of 35 million, unrated, with a yield equal to the sum of an annual spread of 9% and the lower of the 6-month Euribor and 0, to which has to be added the greater of the 6-month Euribor and 0.
- a Junior tranche (Class J) of 3.651 million, unrated, with a yield equal to the 6-month Euribor plus an annual spread of 15% and any variable yield depending on the performance of the securitisation.

The placement of 95% of the Mezzanine and Junior tranches with institutional investors was completed on 25 June 2020. In compliance with the retention rule in art. 6, paragraph 4, of the Securitisation Regulation, art. 51, paragraph (1), letter (a) of the AIFMD Regulation and art. 254, paragraph (2), letter (a) of the Solvency II Regulation, Banca Popolare di Sondrio has retained ownership of 5% of the Mezzanine securities (nominal value 1,750,000) and of the Junior securities (nominal value 182,550).

Consistently with the provisions of IFRS 9, as a result of the settlement of the sale of 95% of the aforementioned notes, the conditions for the derecognition from the financial statements of the bad loans sold have been met, as the rights and benefits relating to them have been substantially transferred. All senior securities are classified in the portfolio of «Financial assets valued at amortised cost», based on the reimbursements received in the second half of 2020, equal to 66 million, and the expected losses recognised on the basis of the IFRS 9 impairment model, the book value at the end of the year, gross of accruals, amounts to 169 million. Conversely, the portions of the mezzanine securities (fair value at 31 December 2020: 667,368 euro) and junior securities (fair value at 31 December 2020: 528 euro) have been recognised as «Financial assets mandatorily valued at fair value through profit or loss».

The SPV has entered into an Interest Rate Cap (IRC) type derivative contract in order to protect itself from interest rate risk. The Transferring Bank is not a «direct» or «indirect» counterparty (through an investee) of derivative instruments designed to attribute part of the risks assumed by the vehicle to the Transferring Bank.

The loss on sale, 45.105 million euro, which is included in «Gains (losses) from the sale or repurchase of financial assets measured at amortised cost», derives from the sale of non-performing loans and from the subsequent sale of the subordinated tranches. In addition, other charges of € 2.651 million connected with the sale are also added.

The credit management and recovery activity was entrusted by the Vehicle Company to Prelios Credit Servicing S.p.A., a servicer appointed in accordance with article 2, paragraphs 3 and 6-bis of Law 130/1999. For the sake of completeness of information, it should be noted that in the context of the transaction, Banca Popolare di Sondrio granted the vehicle Diana S.P.V. S.r.l. a «Limited Recourse Loan» of Euro 10.925 million, intended, on the date of issue of the securities, as a cash reserve available to the SPV to cover any misalignments between the recovery plan of the Transferred Portfolio and the payments to be made to the security holders. This loan, recorded under «Financial assets measured at amortised cost», will be repaid out of the liquidity available to the SPV according to the order of payment priority and, in any case, prior to repayment of the senior notes' principal, so it does not represent any form of credit support for the securitisation.

The main elements of the transaction described above are summarised:

Portfolio sale date	01/06/2020
Vehicle Company	Diana S.P.V. S.r.l.
Servicer	Prelios Credit Servicing S.p.A.
Securities issue date	17/06/2020
Type of transaction	Traditional with GACS guarantee from the Economic and Finance Ministry.
Assets transferred	NPLs made up of mortgage and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	10.925 million
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Bad loans
Amount of securitised assets	The total of the loans receivable from the transferred portfolio amounts to Euro 872 million.
Sale price of the securitised assets	The sale price is Euro 274 million.
Organisational structure	Prelios Credit Servicing S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The vehicle company has issued the following securities:

Seniority	Maturity	Issue amount	Rating by DBRS Morningstar	Rating by Moody's	Rating by Scope Ratings
Senior	December 2038	235,000,000	BBB	Baa2	BBB
Mezzanine	December 2038	35,000,000	N/A	N/A	N/A
Junior	December 2038	3,651,000	N/A	N/A	N/A
TOTAL		**273,651,000**			

Luzzatti securitisation

In December 2020, the bank carried out the second securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 15 banks, for a total value of 919.9 million in terms of gross book value, of which 371.8 million attributable to Banca Popolare di Sondrio (made up 66% of secured loans).

The payment of the purchase price by the SPV, specifically established pursuant to Law

130 of 30 April 1999, called «POP NPLs 2020 Srl» was financed by issuing asset-backed securities for a total nominal value of 276.5 million, split as follows:

- a Senior tranche (Class A) of 241.5 million, with investment grade ratings (BBB assigned by DBRS Morningstar and BBB by Scope Ratings) consistent with the requirements of the regulations for the issue of the government guarantee (GACS) by the Economic and Finance Ministry, pursuant to Legislative Decree 18/2016, for which the formal procedure has been started. These securities provide a yield equal to the 6-month Euribor plus an annual spread of 0.3%;
- a Mezzanine tranche (Class B) for 25 million, with investment grade ratings (CCC assigned by DBRS Morningstar and CC by Scope Ratings), with a yield equal to the sum of an annual spread of 12% and the 6-month Euribor;
- a Junior tranche (Class J) for 10 million, unrated, with a yield equal to the 6-month Euribor plus an annual spread of 15% and any variable yield based on the performance of the securitisation. In relation to any interest period, if a negative rate results from the sum of 6-month Euribor and the margins indicated above, the interest rate will be considered equal to zero.

On 23 December 2020, the issue date of the securities, the originating banks subscribed 100% of the Senior notes and in application of the retention rule provided for by Article 405 of the CRR, each of the originating banks maintained a stake of not less than 5% of the Mezzanine and Junior tranches. The rest of the Mezzanine and Junior securities were subscribed by third-party investors.

The SPV has entered into an Interest Rate Cap (IRC) type derivative contract in order to protect itself from interest rate risk. The originating banks are not a counterparty – neither «direct» nor «indirect» (through an investee) – of derivative instruments designed to attribute part of the risks assumed by the vehicle to the Originating Bank.

Consistently with the provisions of IFRS 9, due to the regulation of the sale of 95% of the said notes (Mezzanine and Junior), in compliance with the retention rule, pursuant to the provisions of Article 6, paragraph 4, of the Securitisation Regulation, the conditions for derecognition of the bad loans sold were met, as the related rights and benefits were substantially transferred.

The following table shows the securitisation positions held by Banca Popolare di Sondrio at the balance sheet date.

Seniority	Maturity	Nominal amount	Rating by DBRS Morningstar	Rating by Scope Ratings
Senior	November 2045	109,783,000	BBB	BBB
Mezzanine	November 2045	568,250	CCC	CC
Junior	November 2045	227,400	N/A	N/A
TOTAL		**110,578,650**		

All of the senior securities are classified as «Financial assets measured at amortised cost» for an amount net of expected losses son the basis of the IFRS 9 impairment model of € 109.8 million; conversely, the portions owned of the mezzanine (fair value 90,693 euro) and junior (fair value 227 euro) securities have been classified as «Financial assets mandatorily measured at fair value through profit or loss».

The loss on disposal, equal to 4.2 million euro, is included in «Gains (losses) from the sale or repurchase of financial assets measured at amortised cost». In addition, other charges of € 1.4 million connected with the sale are also added.

The credit management and recovery activity was entrusted by the Vehicle Company to Credito Fondiario S.p.A. and Fire S.p.A., servicers appointed in accordance with article 2, paragraphs 3 and 6-bis of Law 130/1999.

For the sake of completeness of information, it should be noted that as part of the securitisation, Banca Popolare di Sondrio granted the vehicle Diana S.P.V. S.r.l. a «Limited Recourse Loan» of Euro 9.910 million, intended, on the date of issue of the securities, as a cash reserve available to the SPV to cover any misalignments between the recovery plan of the Portfolio Sold and the payments to be made to the security holders. The «Limited Recourse Loan» made by Banca Popolare di Sondrio is equal to 4.505 million and is recorded under «Financial assets measured at amortised cost»; it will be repaid based on the available liquidity of the SPV in the order of priority of payments and, in any case, prior to the repayment of the principal of the senior securities, so it does not represent any form of credit support for the securitisation.

The main elements of the transaction described above are summarised below with reference to Banca Popolare di Sondrio:

Portfolio sale date	03/12/2020
Vehicle Company	POP NPLs 2020 S.r.l.
Servicers	Credito Fondiario S.p.A. and Fire S.p.A.
Securities issue date	23/12/2020
Type of transaction	Traditional multi-originator sale with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	The portfolio being sold is made up principally of corporate debtors.
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	4.505 million
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Bad loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to Euro 345 million.
Sale price of the securitised assets	The sale price is Euro 112 million
Organisational structure	Credito Fondiario S.p.a. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

QUANTITATIVE INFORMATION

C.1 Exposures deriving from the main «own» securitisations broken down by type of securitised assets and by type of exposure

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. **Fully derecognised from the financial statements**	–	–	–	–	–	–
Non-performing loans	278,938	196	758	–	1	–
B. **Partially derecognised from the financial statements**	–	–	–	–	–	–
C. **Not derecognised from the financial statements**	–	–	–	–	–	–

The table shows the on-balance sheet exposures assumed by Banca Popolare di Sondrio in relation to its Diana and Luzzatti securitisations. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.2 Exposures deriving from the main «third-party» securitisations broken down by type of securitised assets and by type of exposure

	On-balance sheet exposures					
	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	28,416	–	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045						
Lease contracts	399,857	197	–	–	–	–

The note linked with the securitisation by Bnt Portfolio Spv Srl is classified among the financial assets mandatorily measured at fair value through profit or loss. That fair value is indicated in the «Book value» column. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.3 Special purpose vehicle for securitisation

			Assets			Liabilities		
Name	Registered offices	Consolidation	Loans	Fixed-yield securities	Other	Senior	Mezzanine	Junior
Alba 6 Spv Srl	Conegliano (TV)	NO	636,005	–	1,766	400,056	–	126,632
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	163,024	–	14,066	270,359	–	–
Diana SPV	Conegliano (TV)	NO	202,617	–	17,173	169,352	35,000	3,651
Pop NPLs 2020 Srl	Conegliano (TV)	NO	229,449	–	70,092	241,500	25,000	10,120

C.4 Non-consolidated special purpose vehicle for securitisation

Pursuant to Circular 262 of the Bank of Italy, the information referred to in this section does not have to be provided by banks that prepare consolidated financial statements.

C.5 Servicer activities – own securitisations: collection of securitised loans and redemptions of securities issued by the vehicle company for the securitisation

At 31 December 2020, the bank does not perform any servicer activity for its own securitisations in which the assets sold have been derecognised in accordance with IFRS 9

D. Disclosure of non-consolidated structured entities (other than securitisation vehicle companies)

Pursuant to Circular 262 of the Bank of Italy, the qualitative and quantitative information referred to in this section does not have to be provided by banks prepare the consolidated financial statements.

Please refer to the corresponding part of the consolidated explanatory notes.

E. Disposals

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

Pursuant to IFRS 7, paragraph 42D, letters a), b) and c), the following table shows the book value of repurchase agreements on securities owned (mainly classified in the portfolio of «Financial assets measured at amortised cost») which did not lead to derecognition of the underlying financial assets from the financial statements.

The non-derecognition of the securities, with reference to repurchase agreements, is linked to the Bank retaining all the risks and benefits associated with the security, since there is an obligation to repurchase it forward at a contractually established price. Depending on the type of counterparty, the consideration for the sale is recognised under payables to banks or to customers, while the securities involved in the transaction remain recorded in their portfolios.

QUANTITATIVE INFORMATION

E.1 Financial assets sold and recognised in full and associated financial liabilities: book value

	Financial assets sold and recognised in full				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which: non-performing	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements
A. **Financial assets held for trading**	**1,101**	**-**	**1,101**	**-**	**1,101**	**-**	**1,101**
1. Fixed-yield securities	1,101	-	1,101	-	1,101	-	1,101
2. Variable-yield securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
4. Derivatives	-	-	-	-	-	-	-
B. **Other financial assets mandatorily measured at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Variable-yield securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
C. **Financial assets designated at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Variable-yield securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
E. **Financial assets measured at amortised cost**	**51,681**	**-**	**51,681**	**-**	**54,321**	**-**	**54,321**
1. Fixed-yield securities	51,681	-	51,681	-	54,321	-	54,321
2. Loans	-	-	-	-	-	-	-
Total 31/12/2020	**52,782**	**-**	**52,782**	**-**	**55,422**	**-**	**55,422**
Total 31/12/2019	**505,515**	**-**	**505,515**	**-**	**509,384**	**-**	**509,384**

E.2 Financial assets sold and recognised in full and associated financial liabilities: book value

In both the current and the previous year, the Bank has no financial assets sold but still partially recognised and associated financial liabilities.

E.3 Disposals with recourse limited solely to the assets sold and not eliminated from the balance sheet: fair value

	Recognised in full	Recognised in part	**Total 31/12/2020**	**Total 31/12/2019**
A. **Financial assets held for trading**	**1,101**	**–**	**1,101**	**51,668**
1. Fixed-yield securities	1,101	–	1,101	51,668
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
4. Derivatives	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	–	–	–	–
1. Fixed-yield securities	–	–	–	–
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Loans	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**189,020**
1. Fixed-yield securities	–	–	–	189,020
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
E. **Financial assets measured at amortised cost (fair value)**	**54,294**	**–**	**54,294**	**268,525**
1. Fixed-yield securities	54,294	–	54,294	268,525
2. Loans	–	–	–	–
Total financial assets	**55,395**	**–**	**55,395**	**509,213**
Total associated financial liabilities	**(55,422)**	**–**	**(55,422)**	**(509,383)**
Net book value 31/12/2020	**(27)**	**–**	**(27)**	**–**
Net book value 31/12/2019	**(170)**	**–**	**–**	**(170)**

B. Financial assets sold and fully derecognised with recognition of continued involvement

At 31 December 2020, there are no financial assets sold and fully derecognised with recognition of continued involvement.

C. Financial assets sold and fully derecognised

Pursuant to the provisions of the Communication of the Bank of Italy of 23 December 2019, the following section provides the qualitative and quantitative information regarding the only sale of non-performing loans, classified as «Unlikely to pay», carried out during the course of 2020 of a multi-originator type in favour of a mutual investment fund with simultaneous subscription of units issued by the fund.

IDEA CCR Corporate Credit Recovery II Fund – Credit Section

On 7 October 2020, the DeA Capital deal was completed with the transfer of loans with the status of «unlikely to pay» by Banca Popolare di Sondrio to the Italian alternative mutual investment fund (FIA) of the closed-end multi-sector type reserved for qualified investors, called «IDEA CCR (Corporate Credit Recovery) II» (hereinafter IDEA CCR II), managed by DeA Capital Alternative Funds SGR, which aims to contribute to the relaunch of Italian companies under financial stress, but with solid industrial foundations. Management of the credit sector is governed by the Fund Regulations and focuses on maximising the rate of recovery of the non-performing loans acquired and financial instruments invested. The body responsible for managing the Fund is the Board of Directors which makes use of an Advisory Board that can express a binding opinion to the Board of Directors only in the event of any investment or divestment or contract or other act in conflict of interest, actual or potential, between related parties and with other funds managed by the SGR. There is also a third decision-making body, namely the Shareholders' Meeting, in which all unit-holders of the Fund's Sub-Funds participate.

This deal was carried out through the contribution of non-performing loans at the price of 13.01 million, offsetting the sale price with the subscription price, for the same amount, of 337.543 class A units, of the Credit Section of the IDEA CCR Fund II. Taking into account the book value of the loans at 1 January 2020, the sale transaction resulted in the recognition of a positive economic effect of 8.4 million.

From an accounting point of view, in line with the provisions of IFRS 9, the aforementioned sale operation involved derecognition of the loans sold, as a counter-entry to the recognition of the shares attributed to the IDEA fund, as Banca Popolare di Sondrio substantially transferred all the risks and benefits deriving from the possession of the assets being sold and, moreover, did not retain any power of management over the fund, which was taken on by the fund management company.

The fund units have been booked to the portfolio of «Financial assets mandatorily valued at fair value through profit or loss», with a level 3 fair value of 12 million.

For further details on the determination of the fair value of the units, please refer to part A.4 of these notes.

The main elements of the transaction described above are summarised below:

Portfolio sale date	07/10/2020
SGR	DeA Capital Alternative Funds SGR
Fund name	IDeA Capital CCR II CREDITI
Securities issue date	07/10/2020
Type of transaction	Multi-originator
Assets sold	Non-performing exposures classified as «unlikely-to-pay»
Sector of the economy	Non-performing loans to corporate businesses
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to Euro 13.01 million.
Sale price of the securitised assets	The sale price is Euro 13.01 million.

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 1 June 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 sold 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 sale of performing loans totalling € 202 million took place on 5 December 2015, under the same contract.

Two additional sales were carried out in 2016. The first, on 1 February 2016, relating to a portfolio of performing loans totalling € 576 million 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 sale of performing loans for a total of € 307 million took place on 1 October 2017 under the same contract.

A sixth sale of performing loans for a total of € 323 million took place on 1 October 2018.

A seventh sale of performing loans for a total of € 352 million took place on 1 December 2019.

These 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 a non-recourse sale pursuant to IFRS 9. These loans were not therefore 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 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 bond 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	Serie 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

The first series of bonds, with ISIN Code IT0005039711, was repaid in full on 5 August 2019.

F. Models for the measurement of credit risk

The Bank does not use internal portfolio models for the assessment of credit risk (VaR methodology).

Section 2 Market risks

2.1 Interest rate risk and price risk – trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The securities classified among the «financial assets held for trading» are the principal source of interest rate risk and trading portfolio price risk. The downward trend in financial assets held for trading seen in recent years has continued, in accordance with the strategies adopted to rebalance the various portfolios. At year end, the financial assets held for trading (other than those held by the pension and real estate funds) comprise Italian government securities, 21%; shares, 54%; and mutual funds, 25%.

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 variable-yield securities largely comprise those issued by leading companies, with a large market.

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.

The fixed-yield securities classified as «financial assets held for trading» are the principal source of interest rate risk.

As regards the transactions in derivative instruments (derivatives in the strictest sense), the offices occasionally arrange interest rate options and interest rate swaps in order to satisfy the hedging needs of customers; these are then matched with operations of opposite sign arranged with leading financial counterparties.

The main source of price risk consists of variable-yield securities and units in mutual funds classified as «financial assets held for trading»; as regards derivatives, there have been transactions in equity options mostly listed on the IDEM market.

A1. Impacts resulting from the Covid-19 pandemic

During the first quarter, in the face of severe market turbulence linked to the outbreak of the pandemic that pushed share prices down and caused large swings in bond yields in a context of reduced liquidity, proprietary trading was temporarily suspended.

With the gradual abatement of the conditions of extreme volatility, also thanks to the ECB's decision to promote a substantial new programme of asset purchases, we began to operate on the markets again with an extremely prudent perspective, also evaluating partial hedges of the equity sector through index options.

The activity in derivative instruments on behalf of customers, with the related balancing operations, continued albeit at a slower pace than last year, reflecting the reduced level of customer activity.

B. Management and measurement of interest rate risk and price risk

The internal processes for the measurement, control and management of trading portfolio interest rate risk use two separate monitoring systems that are based respectively on:

- an internal model for the daily calculation of Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
- and analysis of sensitivity to interest rate based on the strategic Asset & Liability Management (ALM) methodologies detailed in section 2.2 below (interest rate risk and price risk of the bank book).

With reference to the model based on the calculation of VaR, the Bank adopts an overall system of limits for exposure to risks in the context of financial activities, in particular those of the market (interest rate in the risk-free and credit spread components, inflation, exchange rate, price, commodity and optionality). This system has the following characteristics: as part of its strategic supervision 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 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.

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 used is historical. On the basis of this methodology, the distribution of profits and losses of a portfolio is deduced from the actual historical observations of the returns of the elements that constitute it, obtained by carrying out the repricing of each position with application of the risk factors corresponding to each day falling within the time interval taken as a reference, using the full revaluation method. The VaR therefore corresponds to the worst value of the series of profits and losses thus obtained, chosen considering the desired confidence interval. At the balance sheet date, the following financial instruments of the regulatory trading book are included in the related risk measurements: 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 and options on shares. Apart from the instruments included in the following table 2, UCIs are also covered by the VaR model. Forward contracts on commodities negotiated by the Exchange Centre fall within the category dedicated to commodity risk.

For instruments with optionality, a specific VaR («optionality VaR») is calculated in order to capture the impact on the series of profits and losses of fluctuations in the volatility of the underlying.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of one year (corresponding to approximately 252 business days) with a decay factor of 0.99 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 internal policies and procedures for after-the-event verification of the results of the model with the real ones (so-called «back testing») are expressed in a comparison between the daily VaR and:

– the change in market value of the following day referring to the same positions on which the VaR was calculated («theoretical P&L»);
– the change in the hypothetical present value of the instrument/portfolio, calculated using the respective pricing model applied by the risk exposure calculation tool, of the following day referring to the same positions on which the VaR was calculated («theoretical P&L according to the model») ;
– the change in market value on the following day on the portfolio including the movements that have taken place («actual P&L»).

For back testing purposes, the VaR and P&L figures incorporate all of the risk factors impacting the positions under analysis.

With regard to risk exposure, measured in terms of VaR, the global VaR on interest rate risk at the end of the period amounted to 0.101 million (0.041 million for the risk free rate and 0.107 million for the credit spread), while the global VaR price at the end of the period amounted to 3.503 million. These figures are not directly comparable with those of last year (0.243 million the global VaR on the interest rate risk and 1.121 million for the price risk) given the change in the VaR model carried out at the beginning of 2020 (from parametric to historical) and the different composition by risk factor.

The internal model described is not used to determine the capital requirements for market risk reported for supervisory purposes. The Standardised Approach is used in this case.

With reference to the second method cited, based on sensitivity analyses, conducted through an ALM procedure, please refer to section 2.2 (Interest rate risk and price risk – Banking book), which also explains stress testing. With regard to the results, please refer to the contents of the following paragraph (Quantitative information).

B1. Impacts resulting from the Covid-19 pandemic

The situation of strong market disturbance has led to a sharp increase in VaR measures and put under tension the system of limits on the exposure to risk on the set of instruments held for trading purposes («trading portfolio»), with episodes of violation concentrated mainly between March and April. A restructuring of the system of internal limits and more reassuring news on the evolution of the epidemic in Italy helped to calm the situation in the latter part of the period.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	On demand	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**	**–**	**67,273**	**5,013**	**–**	**20,404**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	5,013	–	20,404	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	5,013	–	20,404	–	–	–
1.2 Other assets	–	67,273	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**1,101**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	1,101	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**3,095,193**	**477,075**	**122,262**	**1,004,649**	**221,803**	**111,430**	**–**
3.1 With underlying security	–	–	–	–	538	5,885	–	–
- Options	–	–	–	–	538	5,885	–	–
+ Long positions	–	–	–	–	538	–	–	–
+ Short positions	–	–	–	–	–	5,885	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	3,095,193	477,075	122,262	1,004,111	215,918	111,430	–
- Options	–	3,812	4,548	4,620	49,364	162,376	111,430	–
+ Long positions	–	1,906	2,274	2,310	24,682	81,188	55,715	–
+ Short positions	–	1,906	2,274	2,310	24,682	81,188	55,715	–
- Other derivatives	–	3,091,381	472,527	117,642	954,747	53,542	–	–
+ Long positions	–	1,547,799	236,247	58,895	477,374	26,771	–	–
+ Short positions	–	1,543,582	236,280	58,747	477,373	26,771	–	–

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**1,745,186**	**375,941**	**136,567**	**271,908**	**6,666**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	1,745,186	375,941	136,567	271,908	6,666	–	–
- Options	–	3,732	4,404	4,354	2,124	–	–	–
+ Long positions	–	1,866	2,202	2,177	1,062	–	–	–
+ Short positions	–	1,866	2,202	2,177	1,062	–	–	–
- Other derivatives	–	1,741,454	371,537	132,213	269,784	6,666	–	–
+ Long positions	–	868,662	185,768	66,108	134,892	3,333	–	–
+ Short positions	–	872,792	185,769	66,105	134,892	3,333	–	–

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of operations / Quotation index	Listed						Unlisted
	ITALY	FRANCE	SPAIN	NETHER-LANDS	GERMANY	OTHER COUNTRIES	
A. **Variable-yield securities**							
- long positions	47,989	7,725	3,741	3,239	3,308	969	–
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**							**11,162**
- long positions	–	–	–	–	–	–	5,885
- short positions	–	–	–	–	–	–	5,277
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**	**101**
1.1 Fixed-yield securities	101
1.2 Other assets	1
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**17**
3.1 With underlying security	5
- Options	5
+ Long positions	–
+ Short positions	5
- Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying security	12
- Options	–
+ Long positions	3
+ Short positions	4
- Other derivatives	12
+ Long positions	64
+ Short positions	25
Total interest rate risk	**101**
A. **variable-yield securities**	**3,085**
- long positions	3,085
- short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**–**
- long positions	–
- short positions	–
C. **Other derivatives on variable-yield securities**	**121**
- long positions	–
- short positions	121
D. **Derivatives on stock indices**	**–**
- long positions	–
- short positions	–
Total Price risk transactions tab.2	**2,826**
Mutual funds	**766**
Total Price risk	**3,503**
Global trading (net of exchange risk)	**3,574**

Interest rate risk

Information on average, minimum and maximum VaR is provided below.

Interest rate VaR

	(in thousands of euro)
average	747
minimum	101
maximum	1,681

With regard to the distribution of VaR during the year, the average interest rate VaR for each month in 2020 is shown below.

January	323
February	301
March	1,170
April	1,385
May	1,226
June	1,124
July	988
August	913
September	875
October	397
November	138
December	108

With reference to debt securities included in the trading book, the number of days in which actual losses exceeded the VaR was 3 out of 256 total observations, the number of days in which theoretical losses exceeded the VaR was 3 out of 256 total observations, the number of days in which theoretical losses according to the model exceeded the VaR was 2 out of 256 total 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. The following outcomes refer to hypothetical scenarios of rate movements described in the «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

For the observations at the end of 2020, following the resolution on the matter by the Board of Directors on 29 December 2020, the scope of recognition was extended to include the exposures classified as unlikely-to-pay loans and bad loans and the expected drawdowns on irrevocable fixed-rate lines of credit with the related hypothetical component of funding. An updated version was also adopted, following a thorough review, of the behavioural models relating, respectively, to asset and liability items repayable on demand, as well as mortgages and instalment loans. The new methodologies also include the adoption of a dedicated treatment for BTP-Italia and inflation-linked BTP-€i and the introduction of a spread component, for the purpose of calculating the interest margin and its potential variation, when simulating new fixed-rate operations.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be 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.

The figures given below do not include the effects generated by forward contracts on exchange rates.

In thousands of euro Exposure to risk	Change in interest margin from 01/01/2020 to 31/12/2020 at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	1,401	18,473	1,401	31,626	21,194
negative parallel shift	-303	-4,992	-8,324	-303	-6,557
parallel shock up	1,401	18,473	1,401	31,626	21,194
parallel shock down	-303	-4,992	-8,324	-303	-6,557
steepener shock	-303	-4,992	-8,323	-303	-6,556
flattener shock	948	12,764	948	22,040	14,687
short shock up	1,312	17,595	1,312	30,315	20,237
short shock down	-303	-4,992	-8,324	-303	-6,556
worst-case scenario	-303	-4,992	-8,324	-303	-6,557

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

The data presented below do not include the effects generated by forward contracts on exchange rates and only refer to 31/12/2020, which is the first date on which this type of analysis was performed.

In thousands of euro Exposure to risk	Change in profit from 01/01/2020 to 31/12/2020 at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	299	299	299	299	n.a.
negative parallel shift	-93	-93	-93	-93	n.a.
parallel shock up	299	299	299	299	n.a.
parallel shock down	-93	-93	-93	-93	n.a.
steepener shock	-93	-93	-93	-93	n.a.
flattener shock	504	504	504	504	n.a.
short shock up	568	568	568	568	n.a.
short shock down	-93	-93	-93	-93	n.a.
worst-case scenario	-93	-93	-93	-93	n.a.

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

In thousands of euro Exposure to risk	Change in equity value from 01/01/2020 to 31/12/2020 at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	-1,062	-1,718	-2,403	-1,062	-3,292
negative parallel shift	155	651	152	1,007	1,195
parallel shock up	-1,058	-1,711	-2,394	-1,058	-3,282
parallel shock down	155	651	151	1,007	1,195
steepener shock	212	537	208	742	917
flattener shock	-488	-688	-1,162	-399	-1,701
short shock up	-733	-1,342	-2,030	-733	-2,596
short shock down	155	652	151	1,008	1,198
worst-case scenario	-1,062	-1,718	-2,403	-1,062	-3,292

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(in thousands of euro)
average	8,598
minimum	2,068
maximum	18,852

With regard to the distribution of price VaR during the year, the average VaR for each month in 2020 is presented below.

January	2,444
February	3,788
March	14,543
April	18,318
May	16,433
June	12,409
July	9,600
August	7,820
September	6,359
October	4,904
November	3,463
December	3,219

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 the VaR was 3 out of 256 observations, the number of days on which theoretical losses according to the model exceeded the VaR was 3 out of 256 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

As already described in section 2.1 above, the internal processes for the measurement, control and management of the bank book interest rate risk also uses two distinct monitoring systems:

- an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
- an analysis of sensitivity to interest rate risk based on the strategic Asset & Liability Management (ALM) methodologies.

More specifically, the daily calculation of VaR is used to monitor the financial assets classified as «other financial assets mandatorily measured at fair value», the «financial assets measured at fair value through other comprehensive income» and the «financial assets measured at amortised cost», excluding the investments made by the pension funds; the internal process for the control and management of interest rate and price risk, as well as the related methodology, are much the same as those detailed in the qualitative information provided regarding the «Interest rate risk and price risk – trading book for supervisory purposes».

The analysis of sensitivity using strategic ALM methodologies is used to monitor the interest rate risk deriving from fair value and the interest rate risk deriving from cash flows»: the principal sources of interest rate risk deriving from fair value are funding transactions (especially demand deposits, but with appropriate modelling of the maturities) and fixed-rate lending (principally long-term loans and fixed-yield securities); the interest rate risk deriving from cash flows is also originated by other sight or indexed rate assets and liabilities.

The incremental improvements made to the internal processes for the management and control of interest-rate risk have expanded the set of risk indicators monitored. Following the related resolution adopted by the Board of Directors on 29 December, the system of indicators used at 31 December 2020 revolves around a first set of summary metrics comprising six «complementary» risk indicators whose respective systems of thresholds, where present, are defined by the Board of Directors in the Risk Appetite Framework, and a second set of metrics comprising three «operational» risk indicators whose limits, where present, are established by the Risks Committee, consistent with the risk appetite established by the main Board. The first pair of indicators in the first set of metrics monitors the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total own funds. The numerator of the quotient is obtained for both indicators using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating parallel shifts in the benchmark rate curves of +/- 200 basis points. The second pair of «complementary» indicators monitors the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator of the quotient is obtained using the «Interactive Simulation» method under static conditions with constant volumes, simulating parallel shifts in the benchmark curves of +/- 200 basis points. The denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third pair of «complementary» indicators monitors the exposure to interest-rate risk of the bank book calculating the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, to the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from a parallel movement of the reference curves alternatively equal to +/- 200 basis points, to which is added the variation in the value of instruments through profit or loss or the balance sheet – securities classified as «financial assets measured at fair value through other comprehensive income» (FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) – calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. The first indicator of the second set of metrics is calculated as the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total Tier 1 capital. The numerator of the indicator is obtained using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The second «operational» indicator is calculated as the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator is obtained using the «Interactive Simulation» method under static conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority; The denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third «operational» indicator is calculated as the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, and the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from the movements of the reference curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority, to which is added the change in the value of instruments through profit or loss or the balance sheet – securities classified in «financial assets measured at fair value through other comprehensive income» «(FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) – calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. These indicators are monitored 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 the Sensitivity Analysis in Full Evaluation method for analysing the sensitivity of equity and the Interactive Simulation method for analysing the sensitivity of net interest income, at constant volumes, considering solely the transactions outstanding at the reference date and the combination of both methods for the sensitivity analysis of profits. Specifically, the first methodology is used to determine the flows of principal and interest originated by the individual assets and liabilities held in the bank book applying, where necessary, the coupon rate for each instrument or, if that is not predetermined, the market curve associated with the risk factor to which the rate is 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, shocks to the benchmark curves are simulated, reflecting different scenarios that would cause market rates to change. 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.

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 caused by each scenario expressing movements 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 transactions, the borrower has an early repayment option and an option to renegotiate the contractual terms of the loan, both of which can be exercised at any time.

The adoption of a specific scenario-dependent model is the best way to address this phenomenon, known as «prepayment», which is negatively correlated with the level of interest rates. This model is defined using a historical series of a suitable length in terms of time, containing prepayment events, those of renegotiation and other variables that help to differentiate behaviours.

The above analyses are supplemented by the results of applying the "Interactive Simulation" analysis methodology that, following a shock to the market rate curves, 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 first 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 interest rates at the time of revision of the coupon rate.

The difference between the net interest income generated by each asset or liability item 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 measurements of interest-rate risk using fair value and using cash flows both consider any maximum cap or minimum floor on the coupon rate associated with bank book activities.

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 «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», excluding the investments that service employees' pension and similar obligations and real estate funds. The price risk on foreign currency mutual funds also includes exchange risk.

The strategies for governing interest-rate risk include, as part of the annual 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 the bank book;
- the performance of the total net interest income generated by the bank book and the trading portfolio.

Consistent with the «Sensitivity Analysis in Full Evaluation» and «Interactive Simulation» methods explained above, stress tests are carried out by performing simulations that include volume changes and the use of a set of scenarios regarding rate trends aimed at identifying the trend in the interest rate risk profile under 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.

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.

A1. Impacts resulting from the Covid-19 pandemic

With specific reference to securities in the bank book, similarly to what is reported in section 2.1 above, towards the end of the first quarter, the movement of portfolios was temporarily suspended and then resumed using the windows deemed most appropriate.

A strong increase in VaR measures was also observed on securities in the bank book which, together with the income trend, put the related system of limits under tension (monitored separately between positions at «fair value» and those at amortised cost), with episodes of violation concentrated mainly between March and April. A restructuring of the system of internal limits carried out at the end of May and more reassuring news on the evolution of the epidemic in Italy helped to calm the situation in the latter part of the period.

QUANTITATIVE INFORMATION

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: EURO

Type/Residual duration	On demand	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**	**1,022,728**	**135,281**	**8,806**	**20,376**	**92,571**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	1,022,728	135,281	8,806	20,376	92,571	-	-	-
- Options	1,022,728	135,281	8,806	20,376	92,571	-	-	-
+ Long positions	511,364	128,012	505	-	-	-	-	-
+ Short positions	511,364	7,269	8,301	20,376	92,571	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. **Other off-balance sheet transactions**	**1,491,454**	**140,483**	**72,886**	**10,183**	**83,206**	**97**	**1,095**	**-**
+ Long positions	591,752	140,483	72,886	10,183	83,206	97	1,095	-
+ Short positions	899,702	-	-	-	-	-	-	-

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 net interest income – except for the fixed-yield securities held in the trading book for supervisory purposes and lending and funding repos (with underlying fixed-yield securities in the trading book 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 book for supervisory purposes – as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

The following outcomes refer to hypothetical scenarios of rate movements described in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

For the observations at the end of 2020, following the resolution on the matter by the Board of Directors on 29 December 2020, the scope of recognition was extended to include the exposures classified as unlikely-to-pay loans and bad loans and the expected drawdowns on irrevocable fixed-rate lines of credit with the related hypothetical component of funding. An updated version was also adopted, following a thorough review, of the behavioural models relating, respectively, to asset and liability items repayable on demand, as well as mortgages and instalment loans. The new methodologies also include the adoption of a dedicated treatment for BTP-Italia and inflation-linked BTP-€i and the introduction of a spread component, for the purpose of calculating the interest margin and its potential variation, when simulating new fixed-rate operations.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be 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. The figures for the previous year have been restated for comparison purposes.

In thousands of euro Exposure to risk	Change in net interest income **from 01/01/2020 to 31/12/2020** at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	137,661	67,638	-236	137,842	15,698
negative parallel shift	28,616	6,285	-13,115	28,616	-13,293
parallel shock up	138,247	68,175	561	138,372	16,325
parallel shock down	28,615	6,283	-13,118	28,615	-13,293
steepener shock	31,140	10,486	-8,170	31,140	-8,633
flattener shock	73,660	45,991	17,217	83,096	13,633
short shock up	117,875	63,679	15,699	118,054	16,777
short shock down	28,693	6,388	-12,776	28,693	-12,748
worst-case scenario	28,615	6,283	-13,118	28,615	-13,293

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

The data presented below only refer to 31/12/2020, which is the first date on which this type of analysis was performed.

In thousands of euro Exposure to risk	Change in net interest income **from 01/01/2020 to 31/12/2020** at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	17,600	17,600	17,600	17,600	n.a.
negative parallel shift	57,721	57,721	57,721	57,721	n.a.
parallel shock up	18,186	18,186	18,186	18,186	n.a.
parallel shock down	57,721	57,721	57,721	57,721	n.a.
steepener shock	33,357	33,357	33,357	33,357	n.a.
flattener shock	60,885	60,885	60,885	60,885	n.a.
short shock up	63,131	63,131	63,131	63,131	n.a.
short shock down	57,759	57,759	57,759	57,759	n.a.
worst-case scenario	17,600	17,600	17,600	17,600	n.a.

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

In thousands of euro Exposure to risk	Change in equity value **from 01/01/2020 to 31/12/2020** at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	-169,460	-26,307	-169,460	65,199	-10,738
negative parallel shift	68,745	-17,560	-66,530	68,745	-97,725
parallel shock up	-167,107	-23,513	-167,107	68,073	-7,821
parallel shock down	68,745	-17,560	-66,530	68,745	-97,725
steepener shock	44,960	103,982	44,960	126,187	98,151
flattener shock	-11,826	-99,320	-184,726	-11,826	-151,049
short shock up	-74,649	-63,178	-107,462	-1,461	-76,888
short shock down	85,159	17,278	-2,428	85,159	7,761
worst-case scenario	-169,460	-99,320	-184,726	-11,826	-151,049

With respect to fixed-yield securities classified as «other financial assets mandatorily measured at fair value», «financial assets measured at fair value through other comprehensive income», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	24,329
minimum	6,696
maximum	42,074

With regard to the distribution of VaR during the year, the average VaR for each month in 2020 is presented below.

January	6,977
February	6,922
March	31,232
April	39,100
May	35,775
June	31,252
July	27,059
August	27,198
September	25,383
October	22,491
November	19,963
December	17,740

With respect to fixed-yield securities classified as «financial assets measured at amortised cost», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	75,242
minimum	20,155
maximum	133,711

With regard to the distribution of VaR during the year, the average VaR for each month in 2020 is presented below.

January	23,084
February	21,021
March	100,025
April	121,762
May	112,367
June	103,170
July	91,440
August	83,759
September	77,628
October	67,711
November	52,314
December	45,415

With reference to the fixed-yield securities included in the «other financial assets mandatorily measured at fair value», the «financial assets measured at fair value through other comprehensive income» and the «financial assets measured at amortised cost», the number of days in which actual losses exceeded the VaR was 2 out of 256 observations for Italian government securities and 1 our of 256 observations for the other fixed-yield securities. The same number of overruns were observed with reference to theoretical losses on Italian government bonds and other debt securities. With reference to the theoretical losses according to the model, the number of overruns was 3 out of 256 observations for both Italian government bonds and other debt securities.

Price risk

With reference to the closing date, we report below all the VaR figures of variable-yield securities (shares and mutual funds) classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», 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	3,734
Mutual funds.	3,516
Total	**6,925**
Equity investments	**25,519**

The following information is provided about the average, minimum and maximum VaR regarding the variable-yield securities (shares and mutual funds) classified among the «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding any relevant investments by the pension and real estate funds.

Price Value at Risk (VaR)

	(in thousands of euro)
average	12,896
minimum	3,852
maximum	25,517

With regard to the distribution of VaR during the year, the average VaR for each month in 2020 is presented below.

January	4,057
February	5,457
March	19,467
April	24,219
May	20,438
June	17,087
July	14,216
August	11,751
September	10,625
October	10,895
November	8,808
December	7,551

With reference to the perimeter indicated above, the theoretical and actual losses exceeded VaR once out of 256 observations, while there were 3 overruns with reference to theoretical losses according to the model.

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, if any, 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 assets and liabilities in foreign currency are shown in table 1 below; 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.

A1. Impacts resulting from the Covid-19 pandemic

Considering the predominantly commercial nature of transactions in foreign currencies, the pandemic did not entail any changes in the Bank's offer, except for lower volumes due to reduced customer operations. There were occasional tensions on some currencies which, however, did not have any impact on current operations.

At the level of risk, there were no significant impacts, thanks to the policy to limit open positions in foreign currency. In any case, there were still episodes of violation of the respective limit, due to erosion of the available margin by other types of risk. These overruns have fallen again, thanks to the remodelling of the internal limits system carried out at the end of May.

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».

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**	**650,533**	**64,856**	**22,290**	**452,040**	**6,076**	**63,350**
A.1 Fixed-yield securities	–	–	–	–	–	–
A.2 Equities	25,068	–	664	146,041	–	–
A.3 Loans to banks	404,069	58,061	18,936	4,810	6,076	62,984
A.4 Loans to customers	221,396	6,795	2,690	301,189	–	366
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**2,338**	**1,370**	**291**	**5,503**	**139**	**959**
C. **Financial liabilities**	**624,464**	**66,082**	**22,542**	**317,365**	**6,180**	**64,171**
C.1 Due to banks	167,787	27,071	775	224,660	1,927	41,335
C.2 Due to customers	456,677	39,011	21,767	92,705	4,253	22,836
C.3 Fixed-yield securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**2,642**	**129**	**–**	**83**	**–**	**–**
E. **Financial derivatives**	**1,251,945**	**308,863**	**2,126**	**74,840**	**2,183**	**118,282**
- Options	14,612	–	–	–	–	–
+ Long positions	7,306	–	–	–	–	–
+ Short positions	7,306	–	–	–	–	–
- Other derivatives	1,237,333	308,863	2,126	74,840	2,183	118,282
+ Long positions	617,331	154,369	1,060	36,698	1,069	59,223
+ Short positions	620,002	154,494	1,066	38,142	1,114	59,059
Total assets	**1,277,508**	**220,595**	**23,641**	**494,241**	**7,284**	**123,532**
Total liabilities	**1,254,414**	**220,705**	**23,608**	**355,590**	**7,294**	**123,230**
Net balance (+/-)	**23,094**	**(110)**	**33**	**138,651**	**(10)**	**302**

2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report above all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of year

	(in thousands of euro)
Fixed-yield securities	–
Variable-yield securities	1,350
Net balance between other assets and liabilities	59
Financial derivatives	33
- Options	–
+ Long positions	80
+ Short positions	82
- Other derivatives	33
+ Long positions	6,182
+ Short positions	6,672
Total transactions table 1	**1,337**
- Interest Rate Swap	4
+ Long positions	4
+ Short positions	–
Total	**1,341**
Details of the principal currencies	
US dollars	249
Sterling	–
Japanese yen	6
Swiss francs	1,300
Canadian dollars	–
Other currencies	2
Total	**1,341**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(in thousands of euro)
average	1,291
minimum	408
maximum	1,728

With regard to the distribution of VaR during the year, the average VaR for each month in 2020 is presented below.

January	900
February	893
March	976
April	966
May	1,247
June	1,544
July	1,461
August	1,563
September	1,561
October	1,522
November	1,443
December	1,350

Section 3 *Derivative instruments and related hedging policy*

3.1 Trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: notional values at period end

	Total 31/12/2020				Total 31/12/2019			
	Over the counter				Over the counter			
		Without Central Counterparties				Without Central Counterparties		
Underlying assets/Type of derivative	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**1,911,347**	**–**	**–**	**–**	**1,908,858**	**–**
a) Options	–	–	29,820	–	–	–	37,936	–
b) Swaps	–	–	1,881,527	–	–	–	1,870,922	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**26,500**	**–**	**–**	**–**	**19,500**	**–**
a) Options	–	–	26,500	–	–	–	19,500	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**1,726,119**	**–**	**–**	**–**	**2,019,495**	**–**
a) Options	–	–	42,195	–	–	–	26,974	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	1,683,924	–	–	–	1,992,521	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**34,196**	**–**	**–**	**–**	**34,495**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**3,698,162**	**–**	**–**	**–**	**3,982,348**	**–**

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.2 Financial trading derivatives: gross positive and negative fair value – breakdown by product

Types of derivatives	Total 31/12/2020				Total 31/12/2019			
	Over the counter				Over the counter			
		Without Central Counterparties				Without Central Counterparties		
	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **POSITIVE FAIR VALUE**								
a) Options	–	–	6,323	–	–	–	8,407	–
b) Interest rate swaps	–	–	18,277	–	–	–	23,258	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	13,023	–	–	–	11,291	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	1,318	–	–	–	525	–
Total	**–**	**–**	**38,941**	**–**	**–**	**–**	**43,481**	**–**
2. **NEGATIVE FAIR VALUE**								
a) Options	–	–	1,262	–	–	–	464	–
b) Interest rate swaps	–	–	16,417	–	–	–	21,958	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	12,810	–	–	–	10,934	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	1,295	–	–	–	510	–
Total	**–**	**–**	**31,784**	**–**	**–**	**–**	**33,866**	**–**

The fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

A.3 OTC Financial trading derivatives – notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counter-parties	Banks	Other financial companies	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	1,602,026	1,808	307,513
- positive fair value	–	13,081	6	5,220
- negative fair value	–	16,417	–	25
2) **Variable-yield securities and stock indices**				
- notional value	–	15,000	–	11,500
- positive fair value	–	5,885	–	60
- negative fair value	–	–	–	890
3) **Currency and gold**				
- notional value	–	1,301,588	–	424,532
- positive fair value	–	7,493	–	5,878
- negative fair value	–	10,531	–	2,626
4) **Commodities**				
- notional value	–	17,573	–	16,624
- positive fair value	–	659	–	660
- negative fair value	–	655	–	640
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
2) **Variable-yield securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Commodities**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–

A.4 Residual life of OTC financial trading derivatives: notional values

Underlyings/residual value	Within 1 year	1 to 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	262,045	1,570,485	78,817	1,911,347
A.2 Financial derivatives on variable-yield securities and stock indices	–	11,500	15,000	26,500
A.3 Financial derivatives on currency and gold	1,720,566	5,553	–	1,726,119
A.4 Financial derivatives on commodities	33,563	633	–	34,196
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2020	**2,016,174**	**1,588,171**	**93,817**	**3,698,162**
Total 31/12/2019	**2,309,656**	**1,609,799**	**62,892**	**3,982,348**

3.3 Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counter-parties	Banks	Other financial companies	Other parties
A. **Financial derivatives**				
1) Fixed-yield securities and interest rates				
- notional value	–	1,602,026	1,808	307,513
- net positive fair value	–	13,081	6	5,220
- net negative fair value	–	16,417	–	25
2) Variable-yield securities and stock indices				
- notional value	–	15,000	–	11,500
- net positive fair value	–	5,885	–	60
- net negative fair value	–	–	–	890
3) Currency and gold				
- notional value	–	1,301,588	–	424,532
- net positive fair value	–	7,493	–	5,878
- net negative fair value	–	10,531	–	2,626
4) Commodities				
- notional value	–	17,573	–	16,624
- net positive fair value	–	659	–	660
- net negative fair value	–	655	–	640
5) Other				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
B. **Credit derivatives**				
1) Purchase of protection				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
2) Sale of protection				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–

Section 4 *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 8.068 billion euro at 31 December 2020.

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; overall, the portfolio is highly liquid as it mostly comprises instruments that can easily be sold on the market or used, when liquidity is needed, either in repurchase agreements with banks or in refinancing operations arranged with the European Central Bank if, as in most cases, the securities held 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 twelve months, using operational treasury and similar data and the counterbalancing capacity. Similar information is made available to the Supervisory Authorities every week, focusing on the time horizon up to 3 months. In addition, contingency indicators are calculated every day in order to identify, on a timely basis, any internal or external tensions affecting operational liquidity. Operational liquidity is also subjected to specific stress tests every month, in order to verify the ability of the Group to survive, using expected cash flows and its counterbalancing capacity, unfavourable endogenous and exogenous events that increase in the liquidity requirement following the drawdown of lines of credit, downgrades of the Parent Company or the Italian State, or potential combinations of adverse events with cumulative effects. The Group is in fact able to survive independently such serious adverse events beyond the target time horizon established by the Board of Directors, while maintaining a «counterbalancing capacity» that is higher than the minimum threshold.

The long-term liquidity position is also monitored monthly, with no time limits, by reference to a dedicated diary of due dates and set of metrics designed to check the structural equilibrium of the consolidated balance sheet and measure specific aspects, including the concentration of funding.

The short and long-term regulatory indicators, Liquidity Coverage Ratio and Net Stable Funding Ratio, are also quantified monthly and quarterly, respectively; the same metrics are also quantified under stressed conditions, simulating the unfavourable events described above, in order to evaluate the potential risks that would emerge in those circumstances and prepare possible countermeasures. Also monitored on a monthly basis, as required by the supervisory regulations relating to the so-calledAdditional Liquidity Monitoring Metrics, are additional risk measures relating, inter alia, to the concentration of funding and its cost, as well as the composition of the «counterbalancing capacity»; the indicators relating to the intra-day liquidity risk provided by the Basel Committee for Banking Supervision are also quantified (the latter also subjected to stress tests, applying hypotheses in part specific and in part corresponding to those already mentioned above with reference to the position of operational liquidity).

The following disclosures are provided in accordance with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	On demand	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
A. **Cash assets**	**3,872,421**	**609,113**	**2,208,662**	**1,286,826**	**1,693,181**	**939,318**	**1,646,514**	**15,834,005**	**7,896,748**	**2,313,618**
A.1 Government securities	-	-	192	1,200	9,847	10,961	16,064	6,379,000	1,593,000	-
A.2 Other fixed-yield securities	183	-	135	1,240	2,804	8,136	17,824	909,617	1,367,401	-
A.3 Mutual funds	688,858	-	-	-	-	-	-	-	-	-
A.4 Loans	3,183,380	609,113	2,208,335	1,284,386	1,680,530	920,221	1,612,626	8,545,388	4,936,347	2,313,618
- Banks	46,593	376,424	901	20,757	218,646	26,995	304,870	750,649	-	2,271,762
- Customers	3,136,787	232,689	2,207,434	1,263,629	1,461,884	893,226	1,307,756	7,794,739	4,936,347	41,856
B. **Cash liabilities**	**28,799,315**	**59,288**	**3,036**	**63,327**	**243,397**	**118,705**	**239,237**	**10,440,994**	**361,882**	**-**
B.1 Deposits and current accounts	28,598,813	557	1,438	61,548	162,666	44,363	169,572	1,856	-	-
- Banks	242,307	-	-	-	-	-	-	-	-	-
- Customers	28,356,506	557	1,438	61,548	162,666	44,363	169,572	1,856	-	-
B.2 Fixed-yield securities	149,767	73	1,593	1,770	70,769	67,104	50,952	2,251,896	248,292	-
B.3 Other liabilities	50,735	58,658	5	9	9,962	7,238	18,713	8,187,242	113,590	-
C. **Off-balance sheet transactions**	**7,012,158**	**168,916**	**176,145**	**2,116,211**	**1,152,843**	**1,376,512**	**2,401,277**	**256,346**	**989,373**	**-**
C.1 Financial derivatives with exchange of capital	-	160,650	169,389	609,449	626,724	70,810	86,652	4,095	5,885	-
- Long positions	-	82,408	84,695	304,735	313,377	35,388	43,400	2,317	-	-
- Short positions	-	78,242	84,694	304,714	313,347	35,422	43,252	1,778	5,885	-
C.2 Financial derivatives without exchange of capital	23,231	-	-	-	-	-	-	-	-	-
- Long positions	12,354	-	-	-	-	-	-	-	-	-
- Short positions	10,877	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to make loans	6,988,927	8,266	6,756	1,506,762	526,119	1,305,702	2,314,625	252,251	983,488	-
- Long positions	42,478	8,266	6,756	1,506,762	526,119	1,305,702	2,314,625	252,251	983,488	-
- Short positions	6,946,449	-	-	-	-	-	-	-	-	-
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 «on demand» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Non-performing 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.

1. Distribution by residual duration of financial assets and liabilities

Currency: OTHER CURRENCIES

Items/Time bands	On demand	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
A. **Cash assets**	**249,866**	**91,708**	**136,165**	**171,773**	**208,439**	**25,381**	**25,533**	**85,766**	**133,768**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	33,049	-	-	-	-	-	-	-	-	-
A.4 Loans	216,817	91,708	136,165	171,773	208,439	25,381	25,533	85,766	133,768	-
- Banks	192,745	60,400	128,710	86,847	83,402	899	3,048	-	-	-
- Customers	24,072	31,308	7,455	84,926	125,037	24,482	22,485	85,766	133,768	-
B. **Cash liabilities**	**711,046**	**196,286**	**111,604**	**63,385**	**7,826**	**7,061**	**2,498**	**825**	**333**	**-**
B.1 Deposits and current accounts	711,046	196,231	111,604	63,385	7,826	7,010	2,396	139	-	-
- Banks	125,421	195,629	106,894	34,094	-	1,569	-	-	-	-
- Customers	585,625	602	4,710	29,291	7,826	5,441	2,396	139	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	55	-	-	-	51	102	686	333	-
C. Off-balance sheet transactions	**52,837**	**158,723**	**163,692**	**606,054**	**635,084**	**98,213**	**85,651**	**3,440**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	158,723	163,692	606,054	635,084	98,213	85,651	3,440	-	-
- Long positions	-	77,293	81,846	303,027	317,545	49,106	42,827	1,720	-	-
- Short positions	-	81,430	81,846	303,027	317,539	49,107	42,824	1,720	-	-
C.2 Financial derivatives without exchange of capital	14,133	-	-	-	-	-	-	-	-	-
- Long positions	7,271	-	-	-	-	-	-	-	-	-
- Short positions	6,862	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	4,596	-	-	-	-	-	-	-	-	-
- Long positions	2,298	-	-	-	-	-	-	-	-	-
- Short positions	2,298	-	-	-	-	-	-	-	-	-
C.4 Commitments to make loans	34,108	-	-	-	-	-	-	-	-	-
- Long positions	17,054	-	-	-	-	-	-	-	-	-
- Short positions	17,054	-	-	-	-	-	-	-	-	-
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 5 *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.

With reference to the governance of operational risks, the Risk Control Department is responsible for defining methodologies and coordinating execution of the management and control processes at Group level, as well as for preparing dedicated information flows for the competent business functions and bodies, in order to ensure full knowledge of the actual and potential risks faced by the Bank and, therefore, their governability.

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/or mitigation of risk situations;
- a process for measuring operational risk for regulatory purposes that is focused on adoption of the Traditional Standardised Approach (TSA), which envisages the application of different coefficients for each of the business lines making up the most recent three annual observations of the Significant Indicator, calculated in compliance with EU regulations;
- a process for measuring Operational risk exposure through the implementation of an internal statistical model aimed at calculating quantitative risk metrics (Operational VaR – OpVaR).

Overall, consistent with the best practices promoted at regulatory level, these processes assist monitoring of the historical and prospective exposure to operational risk and related trends, as well as the identification, guidance and control of coordinated action to prevent, mitigate and, if necessary, transfer risk.

Legal and conduct risks

Among the situations falling within the category of operational risks, particular attention is paid to the analysis of the economic manifestations attributable to violation of laws and regulations and legal disputes, not directly attributable to the area of credit recovery in which the Bank has carried out its operations or activated by it in order to have its own rights recognised. Given the peculiarity of these situations, the process of identifying, assessing and monitoring the risks in question is carried out in close and constant collaboration with the corporate structures responsible for overseeing specific regulatory areas or in charge of managing legal disputes.

Monitoring these types of risk consists of recording and assessing in prospective terms disbursements deriving from legal disputes, sanctioning procedures or out-of-court proceedings, including costs for external legal services and any accounting provisions of a prudential nature allocated to the provision for risks and charges, adjusted from time to time on the basis of the progress of the proceedings and the pronouncement of jurisprudential decisions of particular relevance.

This category includes risks associated with intentionally inadequate or negligent conduct, especially with reference to the provision of investment services, and/or failure to comply with professional obligations, codes and internal rules of conduct to protect customers (conduct risk).

IT risk

The information sources coming from the operational risk management system are integrated with the evidence derived from the risk management model associated with the use of information and communication technology, subject to specialist supervision by a dedicated specialist committee, composed of a number of transversal technical skills for integrated management purposes.

Specifically, this model is based on dynamic processes of:

- identification of the perimeter of IT resources that can be qualified as critical for the performance of company operations, taking into account the extent and number of historical incidents and the intrinsic vulnerabilities potentially compromising the achievement of strategic objectives, the fulfilment of business needs, operational continuity and/or compliance with sector regulatory requirements;
- identification of risk scenarios (and related threats) – collected starting from 2020 in a dedicated Register – potentially involving ICT resources previously identified as critical;
- expert assessment of risk scenarios, in terms of both probability of occurrence of the related threat, and of impact on different dimensions of analysis, in order to arrive at an estimate of residual exposure to risk, taking into account the effectiveness of the associated control measures.

The management of the risks in question also benefits from structured governance of the information system, with the task of directing a coordinated development of the corporate technology systems, through the definition of effective and efficient architectural and organisational models, guiding project initiatives and proposing suitable policies for outsourcing ICT services, in constant alignment with corporate strategies and in compliance with applicable regulations.

Impacts resulting from the Covid-19 pandemic

In the context of the pandemic emergency, the attention of the Bank – and of the Group as a whole – has been focused on scrupulous monitoring of operational risks deriving from the adaptation of management practices and application and technological measures to guarantee business continuity, also as a consequence the introduction of reinforced legislation on health and safety in the workplace and the definition of credit relief measures.

The main objective was to create the enabling conditions to ensure suitable standards of safety and functionality of remote working systems, activated in response to the need to reorganise face-to-face work, as well as the digital channels made available to customers, use of which was encouraged on the impulse of the regulatory limitations imposed for the purpose of containing the pandemic.

By making use of the methods and analytical tools described above, the Bank has also proceeded, for management purposes and in line with the guidelines expressed by the ECB, to monitor the exposure – both actual and prospective – of the entire Group to risky situations of an operational nature, attributable to the introduction of operational innovations and the provision of massive credit support measures because of the pandemic emergency.

As part of the process of Loss Data Collection, it is worth mentioning the importance of recording and classifying evidence of losses and extraordinary costs incurred to ensure operating efficiency and restore the situation prior to the lockdown (e.g. costs for the purchase of personal protective equipment, unbudgeted costs for adapting application and technological equipment).

QUANTITATIVE INFORMATION

The most significant impact in absolute terms is represented by the operational losses connected with the adoption of improper commercial and market practices and/or failure to respect the professional commitments made to customers, as evidenced most clearly by the prudent provisions made to cover legal proceedings.

Total operational risk losses also include the outlays due to weaknesses or errors in the performance of operations, especially in the execution and completion of transactions or in the handling of relations with counterparties other than customers, as well as losses deriving from exogenous events, such as bank robberies / ATM break-ins / counterfeiting / fraudulent collection of cheques and the theft / loss / cloning of payment cards, which are generally mitigated by specific insurance policies.

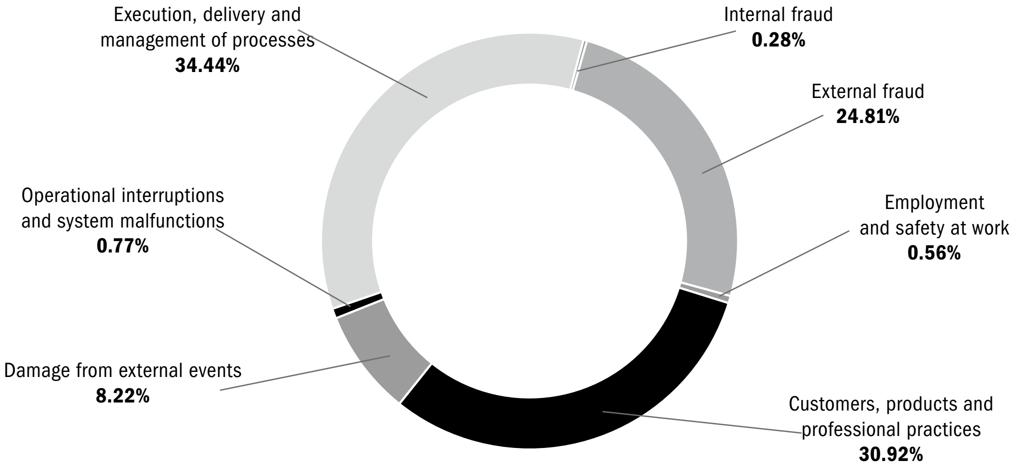
The following chart shows the operational losses recognised over the past five years (2016-2020) as part of the Loss Data Collection process, using the regulatory classification for operational risk events (Event Type):

- 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 attributable to interruption of business continuity and unavailability / malfunctioning of the information systems used to support company operations.
- 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).

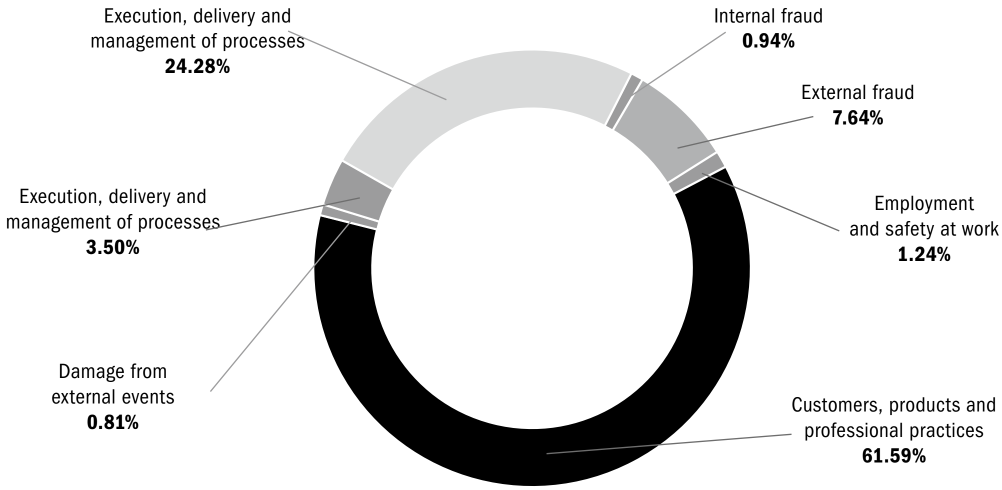
It should be noted that the total losses incurred by the Bank in 2020 in the face of the Covid-19 pandemic emergency can be qualified as one-off costs attributable to one type of operational risk event: Operational interruptions and system malfunctions.

Banca Popolare di Sondrio – Sources of operational losses (accounting period: 01/01/2016 – 31/12/2020)

Number of operational loss events – breakdown by Event Type



Impact of the events of operational losses – Breakdown by Event Type



Section 6 *Sovereign risk*

Information on exposure to sovereign debtors

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 31/12/2020 amounted to € 9,673 million and was structured as follows:

a) Italian government securities: € 5,837 million;

b) Securities of other issuers: € 2,463 million;

c) Loans to government departments: € 49 million;

d) Loans to state-owned or local government-owned enterprises: € 1,156 million;

e) Loans to other public administrations and miscellaneous entities: € 168 million.

PART F Information on equity

Section 1 Equity

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 losses also affect the bank's reputation.

The need for adequate capital was 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. Notably, the issues that have arisen in the financial markets, especially with regard to lending to customers, have adversely affected the profitability of banks and, consequently, the self-funding that in the past had always contributed significantly to their capitalisation. The ongoing difficulties experienced in recent years that have affected various banks have not, in the last analysis, facilitated the projects to strengthen the capital adequacy of the bank, despite the growth in operations designed to add specialist instruments in support of the real economy. In this context, we have acquired Factorit Spa, Banca della Nuova Terra spa and Prestinuova spa in recent years, while also increasing the equity interests held in companies with complementary activities. 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.

Capital adequacy is constantly checked and periodically brought to the attention of the Administrative and Control Bodies. Furthermore, in accordance with the CCRR and CRD regulations, it is also assessed in relation to the Bank's ability to resist in situations of hypothetical stress events in particularly adverse conditions.

The shareholders' meeting of 12 June 2020, adopting the recommendation of the European Central Bank regarding the need for banks to strengthen their assets to better cope with the risks associated with the ongoing pandemic, resolved to set aside the entire profit of 2019 in reserves.

B. QUANTITATIVE INFORMATION

The component parts and size of the Bank's capital and equity are described in Part B, Liabilities, Section 12 of these notes to the financial statements.

B.1 Equity: breakdown

Items/Amounts	**31/12/2020**	**31/12/2019**
1. **Share capital**	**1,360,157**	**1,360,157**
2. **Share premium reserve**	**79,005**	**79,005**
3. **Reserves**	**1,102,257**	**990,904**
- retained earnings	1,102,257	990,904
a) legal	426,779	356,292
b) statutory	567,678	537,470
c) treasury shares	30,000	30,000
d) other	77,800	67,142
- other	–	–
4. **Equity instruments**	**–**	**–**
5. **(Treasury shares)**	**(25,322)**	**(25,322)**
6. **Valuation reserves**:	**49,906**	**12,132**
- Variable-yield securities measured at fair value through other comprehensive income	74,330	43,767
- Hedge of variable-yield measured at fair value through other comprehensive income	–	–
- Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	25,700	12,844
- Property, equipment and investment property	–	–
- Intangible assets	–	–
- Hedges of foreign investments	–	–
- Cash-flow hedges	–	–
- Hedging instruments (non-designated elements)	–	–
- Exchange differences	–	–
- Non-current assets and disposal groups held for sale	–	–
- Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)	–	–
- Actuarial profits (losses) related to defined-benefit pension plans	(50,124)	(44,479)
- Portions of valuation reserves related to subsidiaries carried at equity	–	–
- Special revaluation regulations	–	–
7. **Profit (loss) for the year**	**75,045**	**100,695**
Total	**2,641,048**	**2,517,571**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

	Total 31/12/2020		Total 31/12/2019	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	25,844	(144)	16,357	(3,513)
2. Variable-yield securities	77,670	(3,340)	56,914	(13,147)
3. Loans	-	-		
Total	**103,514**	**(3,484)**	**73,271**	**(16,660)**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes during the year

	Fixed-yield securities	Variable-yield securities	Loans
1. **Opening balance**	**12,844**	**43,767**	**-**
2. **Positive changes**	**22,172**	**61,208**	**-**
2.1 Increases in fair value	22,147	50,071	-
2.2 Adjustments for credit risk	-	-	-
2.3 Transfer to income statement of negative reserves from disposals	25	-	-
2.4 Transfer to other components of equity (variable-yield securities)	-	11,137	-
2.5 Other changes	-	-	-
3. **Negative changes**	**(9,316)**	**(30,645)**	**-**
3.1 Reductions in fair value	(896)	(5,035)	-
3.2 Write-backs for credit risk	-	-	-
3.3 Transfer to income statement from positive reserves: from disposals	(8,420)	-	-
3.4 Transfer to other components of equity (variable-yield securities)	-	(25,610)	-
3.5 Other changes	-	-	-
4. **Closing balance**	**25,700**	**74,330**	**-**

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 €50.124 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*

The disclosure on own funds and capital adequacy is represented in the document «Disclosure to the Public - Pillar 3 at 31 December 2020» prepared on the basis of the regulatory provisions established by Circular no. 285 of 17 December 2013 and subsequent updates, issued by the Bank of Italy, and by Regulation (EU) no. 575/2013 of the European Parliament and Council of 26 June 2013 (CRR). The document contains consolidated information and is published together with the financial statements on the Parent Company's website.

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
FRANCESCO VENOSTA	Chairman	01/1/2020-31/12/2020	31/12/2021	251	-	-	107
LINO STOPPANI	Deputy Chairman	01/1/2020-31/12/2020	31/12/2022	130	-	-	15
MARIO ALBERTO PEDRANZINI	Director	01/1/2020-31/12/2020	31/12/2022	151	-	-	136
PAOLO BIGLIOLI	Director	01/1/2020-31/12/2020	31/12/2022	46	-	-	-
ALESSANDRO CARRETTA	Director	01/1/2020-31/12/2020	31/12/2020	45	-	-	-
CECILIA CORRADINI	Director	01/1/2020-31/12/2020	31/12/2022	46	-	-	-
LORETTA CREDARO	Director	01/1/2020-31/12/2020	31/12/2020	51	-	-	-
DONATELLA DEPPERU	Director	01/1/2020-31/12/2020	31/12/2020	48	-	-	-
FEDERICO FALCK	Director	01/1/2020-31/12/2020	31/12/2021	47	-	-	-
ATTILIO PIERO FERRARI	Director	01/1/2020-31/12/2020	31/12/2020	48	-	-	-
CRISTINA GALBUSERA	Director	01/1/2020-31/12/2020	31/12/2021	49	-	-	-
ADRIANO PROPERSI	Director	01/1/2020-31/12/2020	31/12/2020	49	-	-	80
ANNALISA RAINOLDI	Director	01/1/2020-31/12/2020	31/12/2022	52	-	-	-
SERENELLA ROSSI	Director	01/1/2020-31/12/2020	31/12/2021	47	-	-	-
DOMENICO TRIACCA	Director	01/1/2020-31/12/2020	31/12/2021	76	-	-	2
PIERGIUSEPPE FORNI	Chairman of the Board of Statutory Auditors	01/1/2020-31/12/2020	31/12/2020	97	-	-	11
LAURA VITALI	Serving Auditor	01/1/2020-31/12/2020	31/12/2020	75	-	-	-
LUCA ZOANI	Serving Auditor	01/1/2020-31/12/2020	31/12/2020	79	-	-	28
MARIO ALBERTO PEDRANZINI (*)	General Manager	01/1/2020-31/12/2020	-	-	89	80	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		01/1/2020-31/12/2020	-	-	104	239	1,430

(*) also Managing Director

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for €3.415 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes €0.073 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation.

Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

(thousands of euro)	Assets	Liabilities and equity	Income	Charges	Guarantees given and commitments	Guarantees received
Directors	834	8,551	16	23	135	1,537
Statutory auditors	338	207	8	0	558	595
Management	40	1,279	1	10	535	0
Family members	2,662	15,193	50	48	843	14,124
Subsidiaries	4,347,316	93,927	4,849	267	1,807,544	11,896
Associated companies	898,185	146,283	3,299	267	266,738	1,507
Other	45,827	22,843	615	11	206,220	14,465

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit spa and Banca della Nuova Terra spa, while loans to associated companies relate for €354.2 million to Alba Leasing.

PART M *Leasing disclosures*

Section 1 *Lessee*

QUALITATIVE INFORMATION

Contracts that fall within the application of IFRS 16 can be grouped into three distinct categories:

a) buildings, which are the most significant group;

b) cars;

c) other types, including the rental of IT equipment.

In accordance with IFRS 16, the rights held under licence agreements have been excluded from the scope of application of the standard. They continue to be recognised under IAS 38 – Intangible assets.

The lease contracts mainly relate to buildings used as bank branches and generally have a duration of more than 48 months, typically 72 or 108 months, with automatic renewal options. The policy for contracts with an indefinite useful life is to align their useful life with the history of the contract at the FTA date. If the contract has no history, the useful life is aligned with that of the contract to which it is mostly functionally related or, failing that, with that of other contracts with similar characteristics. Lease instalments are revised annually from the second year of the contract to reflect 75% or 100% of the change in the consumer price index for the families of blue- and white-collar workers.

Lease contracts for cars and IT equipment usually have a duration of four years, without any renewal and/or purchase options and with monthly payments.

As indicated in para. 33 of IFRS 16 and considering that the contracts were arranged on market terms, no impairment has been identified with reference to the qualitative criteria applied by the bank e.g. branch disposal or negotiation plans, out-of-use branches etc., that would require a reduction in the value of the related right-of-use assets.

In line with the disclosures required by paras. 51, 53 and 59 of IFRS 16, the following supplementary information is provided:

- variable lease payments: situations involving variable lease payments are marginal for disclosure purposes, as this practice is rare in contracts signed by the bank;
- extension and termination options: contracts signed by the bank generally envisage giving 6 months' notice of termination. The bank is required to pay 35% of the outstanding instalments if car leases are terminated early, while the lease instalments on contracts for IT equipment must be paid in full, regardless of any early termination. Most contracts for the lease of branch premises require payment of the cost of restoring them to their original condition if the lease is terminated. This amount is negligible for disclosure purposes;
- guarantee of residual value: the bank does not guarantee residual values;
- leases not yet signed: the bank has not made any lease commitments that might be considered material for disclosure purposes;
- sale and leaseback transactions: the bank is not party to transactions of this type;

Part B of the Notes to the financial statements provides information about leased right-to-use assets (Tables 8.1 - 8.6 Part B, Assets) and lease liabilities (Tables 1.1 - 1.2 - 1.6 Part B, Liabilities and equity). In particular, leased right-to-use assets total 192 million, while lease liabilities total 194 million.

Part C of the Notes to the financial statements contains the information required by para. 53 of IFRS 16 about the interest charged on lease liabilities and the income earned from sub-leasing transactions. See those sections for further details.

The Bank applies the exemptions allowed by IFRS 16 for short-term leases and low-value leases, the costs of which amounted to Euro 76,460 in 2020.

On 10 April 2020, following the advent of the COVID-19 pandemic, the IFRS Foundation clarified ("Accounting for COVID-19 related rent concessions applying IFRS 16 Leases») that in the event of changes in payments of lease instalments, also as a result of government interventions, it was necessary to assess whether or not they represented a modification of the contract with the appropriate accounting treatment and disclosure in the financial statements. Given the protraction of the emergency situation caused by Covid-19 and the consequent economic and financial effects, on 28 May 2020 the IASB published the amendment to IFRS 16 «Covid-19 Related Rent Concessions», approved on 9 October 2020 with Regulation (EU) 2020/1434, whose effects take effect from 1 June 2020 with the possibility of earlier application.

In this sense, the new paragraphs 46A and 46B introduced as a practical expedient the possibility for the lessee not to treat the unpaid rents, as a direct consequence of Covid-19, as modifications to the original contract and therefore not as a modification of the amortisation plan of the lease, with consequent recalculation of the liability.

In order to apply this exemption, all the following conditions must be met:

- the concession on payments is a direct consequence of the Covid-19 pandemic;
- the modification in payments left the same amount to be paid with respect to the original conditions or reduced the amount;
- the reduction in payments refers solely to those originally due until June 2021;
- there are no substantial changes to other contractual terms or conditions of the lease.

Taking the above into account, Banca Popolare di Sondrio did not request any suspension of payment of the lease instalments to deal with the emergency; furthermore, no branch closure was carried out that could have revealed signs of impairment of the rights of use.

QUANTITATIVE INFORMATION

As required by para. 53 of IFRS, the following information is provided:

Carrying amount of right-to-use assets at the reporting date and the depreciation charge on right-to-use assets by category of underlying asset.

	2020				2019
Asset / Amount	Buildings*	Cars	Other	Total	Total
Initial right-of-use	214,890	47	210	215,147	234,220
Depreciation	(20,111)	(14)	(95)	(20,220)	(20,702)
Other changes	(3,163)	17	58	(3,088)	1,629
Closing carrying amount	**191,616**	**50**	**173**	**191,839**	**215,147**

* Including financial leases under IAS 17

As regards the «Other changes», the impact is mainly linked to restatement of the right-of-use assets due to the ISTAT adjustments and to the opening and closing of contracts.

Section 2 ***Lessor***

QUALITATIVE INFORMATION

The bank is party to operational leases on buildings. These operational lease contracts do not transfer to the lessee substantially all the risks and benefits deriving from ownership of the assets, which remain with the lessor. In the case of operational lease contracts, the lessor recognises the lease instalments in the income statement on an accruals basis.

QUANTITATIVE INFORMATION

1. Balance sheet and income statement information

See Part C - Income statement, table 14.2 (Other operating income: breakdown) for information about the other income deriving from operational leases.

3. Operational leases

The maturities of the payments to be received are summarised below.

3.1 Maturities of payments to be received

Time band	2020 Lease payments to be received	2019 Lease payments to be received
Within 12 months	596	629
1 to 2 years	583	616
2 to 3 years	571	604
3 to 4 years	559	593
4 to 5 years	456	583
Over 5 years	986	1,434
Total	**3,751**	**4,459**

3.2 Other information

No other information to be reported.

APPENDICES

The appendices listed below contain additional information with respect to the notes to the financial statements, of which they form an integral part:

– list of revalued assets still owned by the Bank (article 10, Law 72 of 19/3/1983);

– schedule of the Independent Auditors' fees for the year as per art. 149 duodecies of the Issuers' Regulations;

– financial statements of the subsidiaries Banca Popolare di Sondrio (SUISSE) SA., Factorit spa, Banca della Nuova Terra Spa, Sinergia Seconda srl, Pirovano Stelvio spa.

LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)

(in euro)

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total at 31/12/2020	Accumulated depreciation as of 31/12/2020	Net carrying amount as of 31/12/2020
ABBADIA LARIANA - Via Nazionale 140/A	813,504	0	0	0	813,504	475,900	337,604
ABBIATEGRASSO - Via S. Maria Ang P. Garibaldi	2,261,103	0	0	0	2,261,103	476,899	1,784,204
ALBIATE - Via Trento, 35	661,052	0	0	0	661,052	422,303	238,749
APRICA - Corso Roma, 140	450,765	0	356,355	146,929	954,049	674,541	279,508
ARDENNO - Via Libertà, 24	561,355	0	0	0	561,355	412,596	148,759
BERBENNO DI VALTELLINA - Via Ranee', 542	21,501,341	0	0	99,417	21,600,758	7,597,998	14,002,759
BERGAMO - Via Broseta 64/B	3,794,327	0	0	0	3,794,327	1,452,355	2,341,972
BERGAMO - Via G. D'Alzano 5	2,324,744	0	0	0	2,324,744	619,763	1,704,981
BERGAMO - Via Ghislandi Vittore 4	1,288,525	0	0	0	1,288,525	326,436	962,089
BERZO DEMO - Via Nazionale 14	149,932	0	0	0	149,932	2,249	147,683
BONATE SOTTO - Via Vittorio Veneto 37/A	765,114	0	0	0	765,114	376,205	388,909
BORMIO - Via Roma 64	439,238	46,481	573,267	136,524	1,195,510	402,593	792,917
BORMIO - Via Roma Angolo - Via Don Peccedi	2,966,333	0	361,520	301,774	3,629,627	1,798,889	1,830,738
BRENO - Piazza Ronchi 4	1,529,470	0	0	87,467	1,616,937	994,453	622,484
BRESCIA - Via Crocifissa Di Rosa 1	1,619,343	0	0	0	1,619,343	63,163	1,556,181
BRESCIA AG.4 - Via Fratelli Ugoni 2	1,031,619	0	0	0	1,031,619	77,371	954,248
CAMOGLI - Via Cuneo 9	220,960	0	0	0	220,960	29,830	191,130
CHIAVENNA - Via Dolzino 67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	2,401,617	1,060,672
CHIESA VALMALENCO - Via Roma 138	800,867	17,560	664,795	133,250	1,616,472	797,895	818,577
COLICO - Piazza Cavour 11	177,749	0	0	96,488	274,237	274,237	0
COLICO - Via Nazionale 27	6,758,233	0	0	0	6,758,233	2,055,517	4,702,716
COMO - Via Giulini 12	1,370,193	0	0	0	1,370,193	674,005	696,188
COMO - Viale Innocenzo Xi 71	4,403,823	0	0	0	4,403,823	1,274,672	3,129,152
DARFO BOARIO TERME - Corso Italia 10/12	1,086,632	0	0	0	1,086,632	791,628	295,004
DARFO BOARIO TERME - Corso Italia 77	84,004	0	0	0	84,004	3,540	80,464
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	1,083,473	516,022
DOMASO - Via Statale Regina 71	584,106	0	0	53,817	637,923	233,169	404,754
DONGO - Piazza V. Matteri 14	3,273,702	0	0	415,551	3,689,253	1,580,426	2,108,827
EDOLO - Piazza Martiri Della Liberta' 16	1,058,736	0	0	509,161	1,567,897	1,567,897	0
GENOA - Via Xxv Aprile 7	10,239,131	0	0	0	10,239,131	3,484,750	6,754,381
GERA LARIO - Via Statale Regina 14	292,667	0	131,677	227,733	652,077	408,852	243,225
GRAVEDONA - Piazza Garibaldi 10/12	309,900	0	0	0	309,900	79,025	230,876
GRAVEDONA - Via Tagliaferri 5	3,400,647	0	0	223,957	3,624,604	1,354,478	2,270,126
GRAVELLONA TOCE - Corso Marconi 95	1,533,857	0	0	0	1,533,857	514,210	1,019,647
GROSIO - Via Roma 67	95,936	7,230	229,791	51,484	384,441	258,144	126,298
GROSOTTO - Via Statale 73	452,237	12,911	147,146	42,099	654,393	370,529	283,865
GRUMELLO DEL MONTE - Via Roma 133	1,809,670	0	0	0	1,809,670	686,656	1,123,014
ISOLACCIA VALDIDENTRO - Via Nazionale 31	403,787	0	290,229	272,602	966,618	633,512	333,106
LECCO - Corso Martiri Della Liberazione 63/65	9,574,332	0	351,191	2,124,557	12,050,080	8,290,672	3,759,408
LECCO - Via Galandra 28	168,623	0	0	41,959	210,582	183,206	27,376
LECCO - Viale Monte Grappa 18	999,369	0	0	0	999,369	519,915	479,454
LIVIGNO - Via S. Antoni 135 - Via Prestefan	5,946,629	0	345,487	358,828	6,650,944	2,471,286	4,179,658
LODI - Via Garibaldi 23/250 angolo - Via Marsala	3,677,949	0	0	0	3,677,950	504,032	3,173,917
MADESIMO - Via Carducci 3	493,542	0	0	203,733	697,275	697,275	0
MANTUA - Corso Vittorio Emanuele 26	7,496,770	0	0	0	7,496,770	1,031,330	6,465,440
MANTUA - Piazza Broletto 7	1,265,944	0	0	0	1,265,944	132,924	1,133,020
MARCHIROLO - Via Cav. Emilio Busetti 7/A	1,089,018	0	0	0	1,089,018	529,542	559,477
MAZZO VALTELLINA - Via S. Stefano 18	641,635	16,010	163,550	48,833	870,027	329,539	540,488
MELEGNANO - Piazza Garibaldi 1	3,257,871	0	0	0	3,257,871	613,435	2,644,436
MILAN - Piazza Borromeo 1	38,217	0	0	213,722	251,939	220,334	31,606
MILAN - Piazzale Cimitero Monumentale 23	1,392,686	0	0	0	1,392,686	145,907	1,246,779
MILAN - Via A. Messina 22	150,000	0	0	0	150,000	47,250	102,750
MILAN - Via Canova 39 Ang. - Corso Sempione	1,738,854	0	0	0	1,738,854	1,060,799	678,054
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	197,520	0
MILAN - Via Porpora 104	5,318,962	0	0	165,381	5,484,342	2,207,481	3,276,862
MILAN - Via S. Maria Fulcorina 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	6,726,149	9,823,700
MILAN - Via S. Maria Fulcorina 11	493,165	0	0	0	493,165	488,233	4,932
MILAN - Via Sangallo 16	4,752	0	0	11,915	16,667	16,667	0
MILAN - Via Sforza 48	3,197,671	0	0	0	3,197,671	498,700	2,698,971
MILAN - Via Solari 15	422,156	0	0	0	422,156	227,964	194,192

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total at 31/12/2020	Accumulated depreciation as of 31/12/2020	Net carrying amount as of 31/12/2020
MILAN - Viale Faenza 22	864,004	0	0	0	864,004	90,720	773,284
MONTAGNA IN VALTELLINA - Via Stelvio 30	472,050	0	328,458	398,008	1,198,516	731,095	467,421
MONZA - Via Cavallotti 5	7,934,824	0	0	0	7,934,824	464,345	7,470,478
MORBEGNO - Piazza Caduti Della Liberta' 6	2,101,004	0	1,088,606	704,283	3,893,893	2,440,395	1,453,498
MORBEGNO - Via Garibaldi 81	435,688	25,823	0	56,050	517,561	477,617	39,944
MORBEGNO - Via Nani 13	54,709	0	0	17,739	72,448	72,448	- 0
MORBEGNO - Via V Alpini 172	764,418	0	0	0	764,418	511,800	252,618
MOZZO - Via G. D'annunzio 4	26,424	0	0	14,259	40,683	36,615	4,068
NOVATE MEZZOLA - Via Roma 13	1,079,527	0	251,282	89,219	1,420,028	444,811	975,218
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	909,793	16,799
PESCATE	1,336	0	0	0	1,336	140	1,196
PESCATE - Via Roma 98/E	494,059	0	0	0	494,059	374,022	120,037
PONTE DI LEGNO - Piazzale Europa 8	3,670,347	0	0	0	3,670,347	1,692,348	1,977,999
PONTE VALTELLINA - Piazza Della Vittoria 1	833,767	12,911	258,098	86,540	1,191,317	347,449	843,868
REGOLEDO DI COSIO VALTELLINO - Piazza S.martino 14	132,135	0	0	0	132,135	17,838	114,297
REGOLEDO DI COSIO VALTELLINO - Via Roma 7	134,617	0	0	78,405	213,022	170,094	42,927
ROME - ag. 10 - Via Laurentina	2,360,894	0	0	0	2,360,894	35,413	2,325,481
ROME - ag. 2 - Via Gherardi 45	2,136,068	0	0	0	2,136,068	96,123	2,039,945
ROME - Piazza Filippo Il Macedone 75	2,400,000	0	0	0	2,400,000	1,188,000	1,212,000
ROME - Via Della Farnesina 154	1,011,345	0	0	0	1,011,345	351,806	659,539
ROME - Via Di Propaganda Fide 27	155,625	0	350,503	88,926	595,054	595,054	0
ROME - Ag. 37 - Via Tagliamento 37	1,752,535	0	0	0	1,752,535	131,440	1,621,095
ROME - Via Del Tritone 27	7,451,913	0	0	0	7,451,913	782,451	6,669,462
S. CASSIANO VALCHIAVENNA - Via Spluga 108	397,672	0	0	103,093	500,765	360,895	139,870
S. PIETRO BERBENNO - Via Nazionale Ovest 110	1,288,307	22,208	328,181	122,795	1,761,491	742,040	1,019,451
S. SIRO - Via Statale Regina 223	467,692	0	0	0	467,692	272,107	195,586
SALÒ - Viale De Gasperi 13	1,672,029	0	0	0	1,672,029	672,365	999,663
SEGRATE - Via Roma 96	1,070,468	0	0	0	1,070,468	45,649	1,024,819
SEREGNO - Via Wagner 137/A	123,950	0	0	13,282	137,232	135,860	1,372
SESTO CALENDE - Piazza Mazzini 10	443,111	0	0	0	443,111	99,700	343,411
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	2,049,756	1,003,716	1,046,040
SONDRIO - Largo Pedrini 8	363,862	0	0	22,527	386,389	259,874	126,515
SONDRIO - Lungo Mallero Cadorna 24	3,441,301	0	196,254	451,249	4,088,803	1,738,995	2,349,808
SONDRIO - Piazza Garibaldi 1	16,056,897	0	0	0	16,056,897	3,948,544	12,108,353
SONDRIO - Piazza Garibaldi 16	1,563,598	351,191	7,810,125	3,142,651	12,867,565	8,221,086	4,646,479
SONDRIO - Piazzale Bertacchi 57	2,613,732	0	0	0	2,613,732	1,751,368	862,365
SONDRIO - Piazzale Tocalli - Via Delle Prese	348,608	0	0	0	348,608	318,977	29,632
SONDRIO - Via Bernina 1	181,930	0	82,385	45,795	310,110	207,060	103,050
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	196,736	255,716
SONDRIO - Via Lusardi 53	247,506	0	0	0	247,506	215,330	32,176
SONDRIO - Via Pio Rajna 1	16,195	0	0	40,221	56,416	54,159	2,257
SONDRIO - Via Sertorelli 2	2,193,892	0	0	0	2,193,892	930,689	1,263,203
SONDRIO - Via Tonale 6	199,018	0	243,248	54,643	496,909	356,329	140,580
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	506,172	242,787
TIRANO - localita' Valchiosa	139,352	0	0	0	139,352	101,936	37,416
TIRANO - Piazza Cavour 20	392,572	0	1,736,322	718,576	2,847,470	1,973,760	873,710
TURIN - Via Xx Settembre 37	6,473,623	0	0	0	6,473,623	1,650,602	4,823,021
TRESCORE BALNEARIO - Piazza Cavour 6	1,292,789	0	0	0	1,292,789	290,878	1,001,911
TRESENDA DI TEGLIO - Via Nazionale 57	192,524	0	193,671	67,596	453,791	453,791	0
TREVISO - Corso Del Popolo 50	4,883,629	0	0	0	4,883,629	579,257	4,304,372
VALMADRERA - Via S.rocco 31/33	1,348,914	0	0	0	1,348,914	263,038	1,085,876
VARESE - Viale Belforte 151	4,711,611	0	0	0	4,711,611	1,640,430	3,071,181
VERCELLI - Piazza Mazzucchelli 12	1,773,241	0	0	0	1,773,241	345,782	1,427,459
VERDELLINO - Largo Luigi Einaudi 1/B	336,182	0	0	0	336,182	226,923	109,259
VERONA - Corso Cavour 45/47	2,172,112	0	0	0	2,172,112	196,878	1,975,234
VEZZA D'OGLIO - Via Nazionale 116	715,844	0	0	0	715,844	10,738	705,106
VILLA DI CHIAVENNA - Via Roma 39	197,712	0	0	7,639	205,351	205,351	0
VILLA DI TIRANO - traversa Foppa 25	440,816	0	0	7,651	448,467	303,717	144,750
VILLASANTA - Via Sciesa 7/9	952,439	0	0	0	952,439	608,483	343,956
VOGHERA - Via Emilia 49	1,997,543	0	0	0	1,997,543	401,730	1,595,813
Grand Total	**241,756,483**	**781,632**	**22,496,863**	**19,084,124**	**284,119,102**	**110,089,708**	**174,029,394**

SCHEDULE OF THE INDEPENDENT AUDITORS' FEES FOR THE YEAR (AS PER ART. 149 DUODECIES OF THE ISSUERS' REGULATIONS)

Amounts in euro	Banca Popolare di Sondrio		Group companies		Total		Total
Type of services	EY S.p.A.	EY Network	EY S.p.A.	EY Network	EY S.p.A.	EY Network	
Audit services	331,000	–	137,500	432,735	468,500	432,735	901,235
Certification services	295,000	–	–	1,852	295,000	1,852	296,852
Other services	25,000	103,400	–	10,000	25,000	113,400	138,400
Total	**651,000**	**103,400**	**137,500**	**444,587**	**788,500**	**547,987**	**1,336,487**

FINANCIAL STATEMENTS:

BANCA POPOLARE DI SONDRIO (SUISSE) SA
FACTORIT SPA
BANCA DELLA NUOVA TERRA SPA
SINERGIA SECONDA SRL
PIROVANO STELVIO SPA

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(in Swiss francs)

ASSETS	2020	2019
Liquid assets	867,648,993	730,903,289
Loans and receivables with banks	100,728,170	155,479,325
Loans and receivables with customers	521,394,939	506,656,397
Mortgage loans	4,287,733,483	3,991,200,561
Positive replacement value of derivative products	30,203,409	1,417,584
Financial assets	48,183,268	53,556,210
Accrued income and prepaid expenses	8,387,410	7,924,234
Equity investments	2,790,135	1,190,728
Property, equipment and investment property	17,280,021	17,913,958
Other assets	10,259,336	17,172,173
Total assets	**5,894,609,164**	**5,483,414,459**
Total subordinated receivables	0	0

LIABILITIES	2020	2019
Due to banks	1,659,145,097	1,428,019,594
Customer deposits	3,230,651,829	3,076,487,154
Negative replacement value of derivative products	15,955,958	60,675,249
Treasury liabilities	24,230,000	22,580,000
Due to issuers of construction bonds and loans	519,100,000	469,100,000
Accrued expenses and deferred income	22,002,891	22,046,598
Other liabilities	5,556,560	4,438,592
Reserves	8,634,258	6,862,383
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	194,154,889	181,440,942
Optional retained earnings	0	0
Profit for the year	20,177,682	16,763,947
Total liabilities	**5,894,609,164**	**5,483,414,459**
Total subordinated commitments	0	0

OFF-BALANCE SHEET TRANSACTIONS AT 31 DECEMBER 2020	2020	2019
Contingent liabilities	177,366,637	228,986,390
Irrevocable commitments	24,322,517	31,824,742
Derivative products	2,780,671,350	2,696,190,495
- Gross positive replacement value	30,203,409	1,417,584
- Gross negative replacement value	15,955,958	60,675,249
Fiduciary transactions	11,886,404	13,198,763

INCOME STATEMENT

(in Swiss francs)

	2020	2019
Interest income:		
- Interest income and discounts	70,828,259	69,044,105
- Interest income and dividends from equity investments	573,412	754,346
- Interest and dividends from trading activity	0	0
Interest expense	-11,435,606	-16,001,700
Gross interest income	**59,966,065**	**53,796,751**
Change in adjustments for loss risks and losses from interest-earning operations	-989,688	-2,624,165
Net interest income	**58,976,377**	**51,172,586**
Fee and commission income:		
- on trading in securities and investments	17,316,554	17,224,121
- on lending transactions	2,696,522	2,678,228
- on services	6,139,811	6,867,743
Fee and commission expense	-2,600,044	-2,806,758
Net fee and commission income and income from services	**23,552,843**	**23,963,334**
Profits from financial transactions and fair value option	**20,531,764**	**22,877,858**
Profit (loss) on disposal of financial assets	**913,612**	**-203,883**
Income from equity investments	11,374	11,374
Net proceeds from properties	116,277	131,708
Other ordinary income	1,147,104	1,392,765
Other ordinary charges	-3,154,627	-996,601
Other ordinary result	**-966,260**	**335,363**
Operating expenses		
Personnel costs	-49,316,473	-48,148,868
Other operating expenses	-21,388,479	-21,730,090
Operating expenses	**-70,704,952**	**-69,878,958**

	2020	2019
Adjustments to equity investments and depreciation of property, equipment and investment property and amortisation of intangible assets	-3,544,803	-3,411,799
Change in provisions and other adjustments and losses	-405,643	-3,219,005
Profit for the year	**27,439,326**	**21,839,379**
Extraordinary income	88,356	37,135
Extraordinary charges	0	-12,567
Change in reserve for general banking risks	0	0
Income taxes	-7,350,000	-5,100,000
Profit for the year	**20,177,682**	**16,763,947**
PROPOSED ALLOCATION OF PROFIT FOR THE YEAR (with 2019 comparison)		
Profit for the year	20,177,682	16,763,947
Retained earnings	–	–
Earnings available for allocation	**20,177,682**	**16,763,947**
The Board of Directors recommends the distribution of a dividend of 4,050,000 CHF and the allocation of 16,127,682 CHF to the legal reserve from profits.		
Retained earnings	**–**	**–**

FACTORIT SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(in euro)

	ASSET ITEMS		31-12-2020		31-12-2019
10.	Cash and cash equivalents		2,180		2,062
30.	Financial assets measured at fair value through other comprehensive income		835,935		65,076
40.	Financial assets measured at amortised cost		2,611,879,277		2,330,125,724
	a) loans and receivables with banks	68,493,514		12,752,502	
	b) loans and receivables with customers	2,543,385,763		2,317,373,222	
80.	Property, equipment and investment property		6,233,630		7,744,123
90.	Intangible assets		560,045		386,700
100.	Tax assets		21,826,006		25,459,393
	a) current	1,108,934		1,749,753	
	b) deferred	20,717,072		23,709,640	
120.	Other assets		4,600,937		3,256,131
	TOTAL ASSETS		**2,645,938,010**		**2,367,039,209**

EQUITY AND LIABILITY ITEMS			31-12-2020		31-12-2019
10.	Financial liabilities measured at amortised cost		2,378,212,343		2,099,070,293
	a) due to banks	2,368,029,528		2,029,755,516	
	b) customer deposits	10,182,815		69,314,777	
60.	Tax liabilities		2,583,632		2,784,267
	a) current	544,209		745,006	
	b) deferred	2,039,423		2,039,261	
80.	Other liabilities		13,093,955		20,728,391
90.	Reserve for termination indemnities		2,161,392		2,255,181
100.	Provisions for risks and charges		1,538,822		1,605,152
	a) commitments and guarantees given	536,243		642,509	
	c) other provisions for risks and charges	1,002,579		962,643	
110.	Valuation reserves		(550,766)		(337,081))
140.	Reserves		144,902,640		139,741,749
150.	Share premium reserve		11,030,364		11,030,364
160.	Share capital		85,000,002		85,000,002
180.	Profit (loss) for the period (+/-)		7,965,626		5,160,891
	TOTAL LIABILITIES AND EQUITY		**2,645,938,010**		**2,367,039,209**

	INCOME STATEMENT		31-12-2020		31-12-2019
10.	Interest and similar income		19,247,464		22,624,814
	of which: interest income calculated using the effective interest method		19,247,464		22,624,814
20.	Interest and similar expense		(1,692,979)		(2,946,662)
30.	**NET INTEREST INCOME**		**17,554,485**		**19,678,152**
40.	Fee and commission income		21,842,350		24,515,807
50.	Fee and commission expense		(3,143,908)		(3,141,050)
60.	**NET FEE AND COMMISSION INCOME**		**18,698,442**		**21,374,757**
80.	Net trading income		(58,240)		(5,317)
120.	**TOTAL INCOME**		**36,194,687**		**41,047,592**
130.	Net adjustments for credit risk:		(5,032,460)		(9,957,256)
	a) financial assets measured at amortised cost	(5,032,460)		(9,957,256)	
150.	**NET FINANCIAL INCOME**		**31,162,227**		**31,090,336**
160.	Administrative expenses:		(18,956,764)		(20,170,731)
	a) personnel expenses	(13,503,865)		(13,974,365)	
	b) other administrative expenses	(5,452,899)		(6,196,366)	
170.	Net accruals to provision for risks and charges		(99,712)		(3,350,082)
	a) commitments and guarantees given	106,266		542,888	
	b) other net provisions	(205,978)		(3,892,970)	
180.	Depreciation and net impairment losses on property, equipment and investment property		(1,657,392)		(1,670,134)
190.	Amortisation and net impairment losses on intangible assets		(121,835)		(86,205)
200.	Other operating income/expense		1,250,565		1,826,795
210.	**OPERATING COSTS**		**(19,585,138)**		**(23,450,357)**
250.	Net gains on sales of investments		6,528		8,772
260.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**11,583,617**		**7,648,751**
270.	Income taxes		(3,617,991)		(2,487,860)
280.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**7,965,626**		**5,160,891**
300.	**PROFIT (LOSS) FOR THE PERIOD**		**7,965,626**		**5,160,891**

BANCA DELLA NUOVA TERRA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(in euro)

ASSET ITEMS			31-12-2020		31-12-2019
10.	Cash and cash equivalents		238		244
40.	Financial assets measured at amortised cost		252,700,870		258,743,240
	a) loans and receivables with banks	17,330,106		27,631,959	
	b) loans and receivables with customers	235,370,764		231,111,281	
80.	Property, equipment and investment property		1,478,736		1,637,122
90.	Intangible assets		51,202		505,022
	of which:				
	- goodwill	–		–	
100.	Tax assets		13,562,615		15,561,167
	a) current	2,743,406		3,925,234	
	b) deferred	10,819,209		11,635,933	
120.	Other assets		1,159,038		855,800
	Total assets		**268,952,699**		**277,302,595**

EQUITY AND LIABILITY ITEMS			31-12-2020		31-12-2019
10.	Financial liabilities measured at amortised cost		186,637,413		197,571,945
	a) due to banks	186,301,586		186,512,957	
	b) customer deposits	335,827		11,058,988	
60.	Tax liabilities		1,794		733
	a) current	–		–	
	b) deferred	1,794		733	
80.	Other liabilities		6,188,700		5,854,692
90.	Reserve for termination indemnities		76,603		57,683
100.	Provisions for risks and charges:		1,045,719		581,560
	a) commitments and guarantees given	533		14,922	
	c) other provisions for risks and charges	1,045,186		566,638	
110.	Valuation reserves		(16,993)		(25,836)
140.	Reserves		41,946,497		40,343,237
160.	Share capital		31,315,321		31,315,321
180.	Profit (loss) for the period (+/-)		1,757,645		1,603,260
	Total liabilities and equity		**268,952,699**		**277,302,595**

INCOME STATEMENT			31-12-2020		31-12-2019
10.	Interest and similar income		11,712,058		7,823,762
	of which: interest income calculated using the effective interest method	11,712,058		7,823,762	
20.	Interest and similar expense		(289,475)		(238,030)
30.	**Net interest income**		**11,422,583**		**7,585,732**
40.	Fee and commission income		6,422		18,154
50.	Fee and commission expense		(31,583)		(232,960)
60.	**Net fee and commission income**		**(25,161)**		**(214,806)**
120.	**Total income**		**11,397,422**		**7,370,926**
130.	Net adjustments for credit risk:		(1,548,160)		(945,676)
	a) financial assets measured at amortised cost	(1,548,160)		(945,676)	
150.	**Net financial income**		**9,849,262**		**6,425,250**
160.	Administrative expenses:		(6,059,627)		(5,751,215)
	a) personnel expenses	(2,391,305)		(1,712,961)	
	b) other administrative expenses	(3,668,322)		(4,038,254)	
170.	Net accruals to provisions for risks and charges		(464,160)		(127,934)
	a) commitments and guarantees given	14,388		25,027	
	b) other net provisions	(478,548)		(152,961)	
180.	Depreciation and net impairment losses on property, equipment and investment property		(229,846)		(210,492)
190.	Amortisation and net impairment losses on intangible assets		(21,541)		(161,105)
200.	Other operating income/expense		(400,669)		1,936,940
210.	**Operating costs**		**(7,175,843)**		**(4,313,806)**
260.	**Pre-tax profit from continuing operations**		**2,673,419**		**2,111,444**
270.	Income taxes		(915,774)		(508,184)
270.	**Post-tax profit from continuing operations**		**1,757,645**		**1,603,260**
300.	**Profit (loss) for the period**		**1,757,645**		**1,603,260**

SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(in euro)

ASSETS	31/12/2020	31/12/2019
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	57,140,420	58,887,694
2) Equipment and machinery		
1 - owned	3,496	22,006
Total property, equipment and investment property	***57,143,916***	***58,909,700***
III - Financial assets		
1) equity investments in		
a) subsidiary companies	42,874,650	33,582,857
Total financial assets	***42,874,650***	***33,582,857***
TOTAL NON-CURRENT ASSETS	**100,018,567**	**92,492,557**
C) **CURRENT ASSETS**		
I - Inventories	0	0
II - Receivables		
1) loans and receivables with customers		
a) due within 12 months	122,316	24,331
2) due from subsidiary companies		
a) due within 12 months	37,222	37,222
5-bis) Due from tax authorities		
a) due within 12 months	583,877	686,861
5 quater) due from others		
a) due within 12 months	10,818	17,128
Total receivables	***754,233***	***765,542***
III - Financial assets not held as non-current assets	0	0
IV - Cash and banks		
3) cash and cash equivalents on hand	0	0
Total cash and banks	***0***	***0***
TOTAL CURRENT ASSETS	**754,233**	**765,542**
D) **ACCRUED INCOME AND PREPAID EXPENSES**		
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	**0**	**229**
TOTAL ASSETS	**100,772,799**	**93,258,328**

LIABILITIES AND EQUITY	31/12/2020	31/12/2019
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	2,196,494	2,169,841
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	6,645,621	6,139,217
IX - Profit for the year	-5,588,219	533,057
X - Negative reserve for treasury shares in portfolio	0	0
TOTAL EQUITY	**63,253,896**	**68,842,115**
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	108,159	158,115
9) due to subsidiary companies		
a) due within 12 months	335,587	345,098
11) due to parent companies		
a) due within 12 months	36,846,303	23,886,131
12) taxes payable		
a) due within 12 months	201,930	289
14) other payables		
a) due within 12 months	3,691	3,691
TOTAL PAYABLES	**37,495,670**	**24,393,324**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
1) Accrued expenses and deferred income	23,233	22,889
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**23,233**	**22,889**
TOTAL LIABILITIES AND EQUITY	**100,772,799**	**93,258,328**

INCOME STATEMENT	31/12/2020	31/12/2019
A) **PRODUCTION VALUE**		
1) revenues from sales and services		
d) residential rents	35,659	35,685
e) office rents	3,682,500	3,620,092
f) residential property expense reimbursements	357	357
g) office expense reimbursements	18,157	24,375
5) other revenues and income		
c) other revenues	274	31,376
TOTAL PRODUCTION VALUE	**3,736,947**	**3,711,885**
B) **PRODUCTION COSTS**		
7) for services		
c) residential property management expenses	713	713
d) office management expenses	488,689	419,897
10) depreciation, amortisation and writedowns		
b) depreciation of property, equipment and investment property	1,776,914	1,744,502
14) sundry operating costs		
a) other operating costs and charges	2,309	29,355
b) non-deductible charges	375,125	302,391
TOTAL PRODUCTION COSTS	**2,643,750**	**2,496,858**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**1,093,197**	**1,215,027**
C) **FINANCIAL INCOME AND CHARGES**		
17) interest and other financial charges		
c) from parent companies	471,242	389,808
d) from others	0	0
TOTAL FINANCIAL INCOME AND CHARGES	**-471,242**	**-389,808**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	**5,958,207**	**0**
19) Write-downs		
c) equity investments	-5,958,207	0
PRE-TAX PROFIT (LOSS)	**-5,336,253**	**825,219**
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	194,280	232,986
b) IRAP (regional business tax)	57,687	59,176
c) Deferred taxes	0	0
23) **PROFIT FOR THE YEAR**	**-5,588,219**	**533,057**

PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2020

(in euro)

ASSETS	31/12/2020	31/12/2019
B) **NON-CURRENT ASSETS**		
I Intangible assets		
3) Industrial patent rights and intellectual property rights	843	3,531
6) Assets in process of formation and advances	0	0
Total intangible assets	***843***	***3,531***
II Property, equipment and investment property		
1) Land and buildings	2,412,913	2,483,569
2) Equipment and machinery	95,248	63,390
3) Industrial and commercial equipment	13,954	22,887
4) Other assets	3,169	4,804
5) Assets under construction and advances	0	9,625
Total property, equipment and investment property	***2,525,284***	***2,584,275***
III Financial assets		
1) Equity investments		
b) associated companies	585,909	486,526
d-bis) other companies	1,992	1,992
Total 1) equity investments	*587,901*	*488,518*
Total financial assets	***587,901***	***488,518***
TOTAL NON-CURRENT ASSETS (B)	**3,114,028**	**3,076,325**
C) **CURRENT ASSETS**		
I INVENTORIES		
4) Finished products and merchandise	21,204	26,803
Total inventories	***21,204***	***26,803***
II RECEIVABLES		
1) Due from customers		
Due within 12 months	13,722	35,201
Total 1) Due from customers	*13,722*	*35,201*
4) Due from parent companies		
Due within 12 months	126,177	110,391
Total 4) Due from parent companies	*126,177*	*110,391*
5-bis) Due from tax authorities		
Due within 12 months	15,115	5,317
Total 5-bis) Due from tax authorities	*15,115*	*5,317*
5-quarter) Due from others		
Due within 12 months	2,421	8,972
Total 5-quarter) Due from others	*2,421*	*8,972*
Total receivables	***157,436***	***159,882***
IV Cash and banks		
1) Bank and post office deposits	507	644
3) Cash and cash equivalents on hand	33	933
Total cash and banks	***540***	***1,577***
TOTAL CURRENT ASSETS (C)	**179,180**	**188,262**
D) **ACCRUED INCOME AND PREPAID EXPENSES**		
TOTAL ACCRUED INCOME AND PREPAID EXPENSES (D)	**10,106**	**9,471**
TOTAL ASSETS	**3,303,314**	**3,274,057**

LIABILITIES AND EQUITY	31/12/2020	31/12/2019
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	0	1
Total other reserves	***232,397***	***232,398***
IX Profit (loss) for the year	(288,088)	(284,123)
TOTAL EQUITY	**2,206,372**	**2,210,338**
C) **POST-EMPLOYMENT BENEFITS**		
TOTAL POST-EMPLOYMENT BENEFITS	**215,744**	**204,748**
D) **PAYABLES**		
6) Advance payments		
Due within 12 months	1,894	8,540
Total 6) Advance payments	*1,894*	*8,540*
7) Due to suppliers		
Due within 12 months	53,341	42,478
Total 7) Due to suppliers	*53,341*	*42,478*
10) Due to associated companies		
Due within 12 months	0	10,647
Total 10) Due to associated companies	*0*	*10,647*
11) Due to parent companies		
Due within 12 months	764,198	736,444
Total 11) Due to parent companies	*764,198*	*736,444*
12) Taxes payable		
Due within 12 months	9,697	9,403
Total 12) Taxes payable	*9,697*	*9,403*
13) Due to social security institutions		
Due within 12 months	9,291	9,165
Total 13) Due to social security institutions	*9,291*	*9,165*
14) Other payables		
Due within 12 months	40,076	39,414
Total 14) Other payables	*40,076*	*39,414*
TOTAL PAYABLES	**878,498**	**856,091**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**2,700**	**2,880**
TOTAL LIABILITIES AND EQUITY	**3,303,314**	**3,274,057**

INCOME STATEMENT	31/12/2020	31/12/2019
A) **PRODUCTION VALUE**		
1) Revenues from sales and services	535,964	1,372,220
5) Other revenues and income		
Other	49,732	29,454
Total 5) Other revenues and income	*49,732*	*29,454*
TOTAL PRODUCTION VALUE	**585,696**	**1,401,674**
B) **PRODUCTION COSTS**		
6) Raw materials, consumables and goods	-120,748	-311,610
7) For services	-385,541	-661,546
8) Leases and rentals	-61,146	-57,788
9) Personnel costs		
a) Wages and salaries	-274,184	-488,587
b) Social security contributions	-87,582	-155,030
c) Post-employment benefits	-18,522	-29,142
e) Other costs	0	0
Total 9) Personnel costs	*-380,289*	*-672,759*
10) Depreciation, amortisation and writedowns		
a) Amortisation of intangible assets	-2,688	-6,192
b) Depreciation of property, equipment and investment property	-96,488	-98,229
Total 10) Depreciation, amortisation and writedowns	*-99,176*	*-104,421*
11) Change in raw materials, consumables and goods	-5,599	-5,219
14) Sundry operating costs	-39,640	-61,845
TOTAL PRODUCTION COSTS	**-1,092,139**	**-1,875,188**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)	**-506,443**	**-473,514**
C) **FINANCIAL INCOME AND CHARGES**		
15) Income from equity investments		
In associated companies	0	36,474
Total 15) Income from equity investments	*0*	*36,474*
17) Interest and other financial charges		
Parent companies	-6,341	-5,744
Other	-865	-824
Total 17) Interest and other financial charges	*-7,206*	*-6,568*
TOTAL FINANCIAL INCOME AND CHARGES (15+16-17+-17-BIS)	**-7,206**	**29,906**
D) **ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES**		
18) Revaluations		
a) of equity investments	99,383	49,094
Total 18) Revaluations	*99,383*	*49,094*
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES (18 - 19)	**99,383**	**49,094**
PRE-TAX PROFIT (LOSS) (A-B+-C+-D)	**-414,265**	**-394,514**
20) Current income taxes and change in deferred tax assets and liabilities		
Income (charges) from membership of tax consolidation/tax transparency	126,177	110,391
Total 20) Current income taxes and change in deferred tax assets and liabilities	*126,177*	*110,391*
21) **PROFIT (LOSS) FOR THE YEAR**	**-288,088**	**-284,123**

Attestation pursuant to art. 154-bis, para. 5, of Legislative Decree 58/98 on the separate financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Manager responsible for preparing the company's accounting documents of Banca Popolare di Sondrio S.c.p.a., 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 2020.
- the performance of analytical work with reference to the objectives identified for Company Level Controls.

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 2020:
- 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, 29 March 2021

The Managing Director

Mario Alberto Pedranzini

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

Banca Popolare di Sondrio S.C.p.A.

Financial statements at December 31, 2020

Independent auditor's report pursuant to 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, 2020, 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, 2020, 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 of 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.

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.

EY S.p.A.
Sede Legale: Via Lombardia, 31- 00187 Roma
Capitale Sociale Euro 2.525.000,00 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

A member firm of Ernst & Young Global Limited

We identified the following key audit matter:

Key audit matter	Audit response
Classification and measurement of loans to customers ("Loans")	
Loans measured at amortised cost, presented in item 40 b) of the balance sheet, amount to approximately Euro 23,037 million and represent about 51%of total assets. The classification and valuation of Loans is relevant for the audit both as the value of Loans is significant for the financial statements as a whole and as the value of the related impairment losses is determined by the directors through the use of estimates that have a high degree of complexity and subjectivity. In addition, these estimation processes have been updated to reflect the current context of uncertainty about the evolution of the macroeconomic framework due to the spread of the Covid-19 pandemic, as well as government measures to support the economy. Among these, the following matters are particularly relevant: • the identification and calibration of parameters for determining the significant increase in credit risk compared to the initial detection date, for the purpose of allocating exposures in Stage 1 and Stage 2 (performing loans); • the definition of probability of default (PD), loss given default (LGD) and exposure at default (EAD) models and parameters applied for the calculation of expected credit losses (ECL) to one year for stage 1 classified exposures and lifetime for stage 2 classified exposures based on historical observation of data for each risk class and forward looking factors, including those macroeconomic related;	In relation to these aspects, also considering changes made to the processes of estimating collective expected credit losses to reflect the growing uncertainty resulting from the spread of the Covid-19 pandemic, our audit procedures included, among others: • updating the understanding of the policies, processes and controls implemented by the Bank in relation to the classification and measurement of Loans and performing compliance procedures on the key controls, including those relating to IT safeguards, in order to verify its operational effectiveness; • performing substantive procedures, on sample basis, aimed at verifying the proper classification and measurement of Loans, with particular reference to exposures affected by the moratoria on payments measures; • understanding the methodology used for statistical assessments and the reasonableness of the assumptions adopted, including the new macroeconomic scenarios and their weighting; • performing compliance and substantive procedures, aimed at verifying the accurate determination of PD, LGD and EAD parameters relevant for the determination of expected credit loss adjustments; • performing of benchmarking procedures for the portfolio and its related coverage levels, with reference to the most significant deviations from the balances of the previous year;

- the identification of evidences that may suggest that the loan book value (impairment evidence) cannot be fully recoverable, with subsequent classification of exposures in Stage 3 (non-performing loans);

- for Loans classified in Stage 3, the determination of the criteria used for estimating the expected cash flows according to the recovery strategy.

Information on the evolution of the quality, classification and measurement of Loans is provided within Part A - Accounting Policies, in Part B - Information on the balance sheet, in Part C - Information on the Income Statement and in Part E - Information on risks and related hedging policy of the notes to the financial statements.

- the verification, through analysis of the supporting documentation, of the accounting of the disposal of non-performing loans carried out during the year, resulting from the fulfilment of the plan aimed at reducing the portfolio of non performing loans.

The procedures described above have also been carried out with the support of experts from the EY network on models for the evaluation of financial instruments and IT systems.

Finally, we have analysed 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 of the financial statements that give a true and fair view 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, and, 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.

The directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have 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, 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 consider this matter in forming 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 audits 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 pursuant to 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, 2020, 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, 2020 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, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by art. 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 16, 2021

EY S.p.A.
Signed by: Davide Lisi, auditor

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, 180,000,000 CHF, which is fully paid-up.

Factorit spa - Milan.

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

Sinergia Seconda Srl – Milan.

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

Banca della Nuova Terra spa - Sondrio

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

Popso Covered Bond srl - Conegliano

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

Equity investments are consolidated as follows:

FULLY CONSOLIDATED EQUITY INVESTMENTS:

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

* equity investments not included in the banking group
** held by Sinergia Seconda S.r.l.

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

Name	Location	Share capital (in thousands)	% held
Alba Leasing spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Arca Holding spa	Milan	50,000	34.715
Cossi Costruzioni spa	Sondrio	12,598	18.250
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Srgpa	Milan	5,200	19.600
Sofipo sa*	Lugano	(CHF) 2,000	30.000
Rajna Immobiliare srl	Sondrio	20	50.000
Rent2Go Srl	Bolzano	12,050	33.333

* 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 2020.

TERRITORIAL EXPANSION

Also in 2020, despite the limitations on access to banking branches introduced as a result of the Covid-19 pandemic, our Group strengthened and rationalised its network in the area, which, in contrast with the system, has grown slightly. Banca Popolare di Sondrio set up three new branches: in Parma, Imperia and Rome. For its part, Banca Popolare di Sondrio (SUISSE) SA established a branch in Vevey in the Canton of Vaud.

At the end of 2020, the Group had a total of 369 branches.

FUNDING

Concerns about the repercussions of the health crisis on the real economy and financial markets led to widely expansionary public policies and the decidedly accommodative action on the part of central banks, which maintained a high monetary supply in the system. Consequently, the cost of funding remained at minimum levels. On the other hand, customers' preference for liquidity increased, a symptom of growing worry about the future. In this context, our Group recorded a positive trend in deposits.

Direct funding from customers amounted to 35,560 million, +9.01%.

Indirect funding from customers amounted to 34,797 million, +3.06%.

Insurance premium income came to 1,717 million, +6.82%.

Total funding from customers therefore amounted to 72,074 million (+6.00%).

Amounts due to banks totalled 9,827 million, +127.06%. As in prior years, this total includes the refinancing operations arranged with the European Central Bank, which amounted to 8,068 million. Indirect funding from banks rose from 5,741 million to 6,541 million, +13.94%.

Total deposits from customers and banks therefore came to 88,442 million (+13.30%).

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 31,454 million, +13.89%, and make up 88.46% of all direct funding. Bonds have declined by 1.14%, to 2,681 million. Time deposit accounts have fallen to 492 million, -47.96%. Repo transactions have decreased from 509 to 55 million, -89.12%. Savings deposits have fallen slightly by 1.53% to 527 million. Certificates of deposit are essentially stable at 0.5 million, confirming their marginal status. Bank drafts amounted to 150 million, +63.59%. Lastly, the line item representing lease liabilities, deriving from the method of recognition specified in IFRS 16, amounts to 200 million, -11.08%.

DIRECT FUNDING FROM CUSTOMERS

(thousands of euro)	31/12/2020	%	31/12/2019	%	% change
Savings deposits	526,899	1.48	518,948	1.59	1.53
Certificates of deposit	471	–	1,391	–	-66.14
Bonds	2,680,983	7.54	2,711,880	8.31	-1.14
Repo transactions	55,422	0.16	509,383	1.56	-89.12
Bank drafts and similar	149,657	0.42	91,482	0.28	63.59
Current accounts	28,839,649	81.11	25,259,856	77.44	14.17
Time deposit accounts	491,941	1.38	945,335	2.90	-47.96
Current accounts in foreign currency	2,614,046	7.35	2,358,120	7.22	10.85
Lease liabilities	200,392	0.56	225,354	0.70	-11.08
Total	**35,559,460**	**100.00**	**32,621,749**	**100.00**	**9.01**

TOTAL FUNDING

(thousands of euro)	31/12/2020	%	31/12/2019	%	% change
Total direct funding from customers	35,559,460	40.21	32,621,749	41.78	9.01
Total indirect funding from customers	34,797,277	39.34	33,763,873	43.25	3.06
Total direct funding from insurance premiums	1,717,184	1.94	1,607,591	2.06	6.82
Total	**72,073,921**	**81.49**	**67,993,213**	**87.10**	**6.00**
Due to banks	9,826,687	11.11	4,327,709	5.54	127.06
Indirect funding from banks	6,541,248	7.40	5,740,763	7.35	13.94
Grand total	**88,441,856**	**100.00**	**78,061,685**	**100.00**	**13.30**

LOANS TO CUSTOMERS

The trend of the world economy has been largely conditioned by the epidemic crisis still in progress, which has had important negative repercussions on GDP both in Italy and in Switzerland, the two national markets in which our Group operates.

The dynamics of home purchase loans by households also remained weak, despite the low level of interest rates induced by the constantly expansive policy of the monetary authorities. Nonetheless, government support policies for households and businesses encouraged more lending. Even in a context of general difficulty, at system level the flow of new non-performing loans continued to decrease as a proportion of total loans.

For our Group, lending amounted to 29,380 million, up 7.27%. The disbursement of credit, both to new and pre-existing customers, was constant over the year. The ratio of loans to direct deposits from customers is 82.62% compared with 83.95% the previous period.

LOANS TO CUSTOMERS

(thousands of euro)	31/12/2020	%	31/12/2019	%	% change
Current accounts	3,086,892	10.51	3,929,023	14.35	-21.43%
Foreign currency loans	888,554	3.02	989,436	3.61	-10.20%
Advances	433,043	1.47	467,330	1.71	-7.34%
Advances subject to collection	190,531	0.65	239,783	0.88	-20.54%
Discounted portfolio	2,906	0.01	4,738	0.02	-38.67%
Artisan loans	66,463	0.23	59,767	0.22	11.20%
Agricultural loans	10,561	0.04	21,079	0.08	-49.90%
Personal loans	456,956	1.56	477,733	1.74	-4.35%
Other unsecured loans	9,545,580	32.49	6,344,987	23.17	50.44%
Mortgage loans	11,198,224	38.12	10,658,273	38.92	5.07%
Bad loans	345,812	1.18	668,059	2.44	-48.24%
Repo transactions	67,273	0.23	1,099,082	4.00	-93.88%
Factoring	2,378,958	8.08	2,222,085	8.11	7.06%
Fixed-yield securities	707,971	2.41	206,022	0.75	243.64%
Total	**29,379,724**	**100.00**	**27,387,397**	**100.00**	**7.27%**

Several different technical forms have contributed in varying degrees to the trend in loans. These items are equal to the sum of the loans included in line item «40. financial assets measured at amortised cost - b) loans and receivables with customers» and line item «20. financial assets measured at *fair value* through profit or loss - c) other financial assets mandatorily measured at *fair value*».

Other unsecured loans have increased: +50.44% to 9,546 million, equal to 32.49% of loans to customers. Mortgage loans performed well, coming in at 11,198 million, +5.07%; they are the main component of loans to customers with 38.12%. The increase in residential mortgage loans by the subsidiary Banca Popolare di Sondrio (SUISSE) SA was particularly significant.

Overall, this line item includes loans assigned but not derecognised of 1,485 million in relation to the issue of covered bonds. These loans have not been derecognised because the structure chosen for the operation does not meet the requirements of IAS 39. Factoring transactions have risen by 7.06% from 2,222 to 2,379 million. Foreign currency loans have decreased, -10.20% to 889 million, advances subject to collection, -20.54% to 191 million, and current accounts, down by 21.43%, going from 3,929 to 3,087 million. Repo transactions, which are a temporary investment of liquidity with institutional counterparties, also decreased from 1,099 to 67 million, -93.88%, as did personal loans, -4.35%, from 478 to 457 million. Fixed-yield securities, 708 million, +243.64%, derive from the securitisation of loans to customers made by Banca della Nuova Terra spa and Alba Leasing spa

NON-PERFORMING AND PERFORMING LOANS TO CUSTOMERS

(thousands of euro)		31/12/2020	31/12/2019	(+/-)	% change
Non-performing loans	Gross exposure	2,292,319	3,732,063	-1,439,744	-38.58%
	Adjustments	1,200,209	2,158,087	-957,878	-44.39%
	Net exposure	**1,092,110**	**1,573,976**	**-481,866**	**-30.61%**
– Bad loans	Gross exposure	1,078,268	2,264,503	-1,186,235	-52.38%
	Adjustments	732,456	1,596,444	-863,988	-54.12%
	Net exposure	**345,812**	**668,059**	**-322,247**	**-48.24%**
– Unlikely-to-pay loans	Gross exposure	1,154,066	1,401,400	-247,333	-17.65%
	Adjustments	459,409	552,225	-92,816	-16.81%
	Net exposure	**694,657**	**849,175**	**-154,517**	**-18.20%**
Past due and/or overdrawn exposures	Gross exposure	59,984	66,160	-6,176	-9.33%
	Adjustments	8,343	9,417	-1,074	-11.40%
	Net exposure	**51,641**	**56,742**	**-5,102**	**-8.99%**
Performing loans	Gross exposure	28,483,492	25,937,252	2,546,240	9.82%
	Adjustments	195,877	123,831	72,046	58.18%
	Net exposure	**28,287,615**	**25,813,421**	**2,474,194**	**9.58%**
Total loans and receivables with customers	Gross exposure	30,775,811	29,669,315	1,106,496	3.73%
	Adjustments	1,396,087	2,281,918	-885,832	-38.82%
	Net exposure	**29,379,724**	**27,387,397**	**1,992,327**	**7.27%**

and include the senior bonds deriving from the Diana and POP NPLS 2020 sales of non-performing loans.

Total net non-performing loans have fallen by 30.61% to 1,092 million, compared with 1,574 million; in the comparative period there was a decrease of 14.96%. This aggregate comes to 3.72% (5.75%) of loans to customers; its contraction is due to the sale of NPLs, as well as to the constant effort to strengthen the corporate structures responsible for granting, managing and monitoring credit.

The adjustments recorded for non-performing loans total 1,200 million, -44,39%, representing 52.36% of the gross amount compared with 57.82% last year. Adjustments for the period have remained substantially stable compared with those of the previous year.

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

Net bad loans amount to 346 million, -48.24% (-12.15% in the comparative period), corresponding to 1.18% of total loans and receivables with customers, compared with 2.44% at 31 December 2019. The adjustments to cover estimated losses on bad loans have decreased from 1,596 million to 732 million, -54.12%, representing 67.93% of the gross amount of such loans compared with 70.50% the previous year. It is one of the highest coverage percentages at national level. Considering the amounts written off in prior years against bad loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 85.18%.

Unlikely-to-pay loans are made up of exposures, other than bad loans and for which the debtor is unlikely to settle in full without the bank having to enforce guarantees or similar forms of protection. Net of adjustments, these have decreased to 695 million, -18.20%, corresponding to 2.36% of total loans to customers, compared with 3.10% the previous year. The related adjustments, with the current coverage ratio of 39.81%, amounted to 459 million, -16.81% on the comparative period, when they amounted to 552 million; the coverage ratio was 39.41% last year.

The decrease in unlikely-to-pay loans and the related provisions is due to the transfer to non-performing loans of the positions at greatest risk, the reduction of incoming flows with respect to those outgoing and to the closing of significant operations.

Non-performing past due and/or overdrawn exposures, other than those classified as bad loans or unlikely to pay, 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 52 million, -8.99%, and represent 0.18% of total loans to customers compared with 0.21% the previous year.

Performing loans amounted to 28,288 million, +9.58%, while the related provisions totalled 196 million, representing 0.69% compared with 0.48%. The increase in the coverage ratio particularly affected loans classified as stage 2 (increase in coverage for 50 million) which, from a prudential point of view, were subject to provisions in relation to the difficulties created by the Coronavirus pandemic. Adjustments totalled 1,396 million overall, -38.82%.

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 6,206 million negative at 31 December 2020, compared with 3,260 million negative at the end of 2019. Cash and liquid assets total 5,067 million, compared with 1,826 million.

At year end, there were three T-LTRO III outstanding with the ECB for a total of 8,068 million. The first operation still outstanding was launched with 1,600 million on 18 December 2019, expiring on 21 December 2022 and with the option of quarterly early repayment starting from September 2021. The second was completed on 25 March 2020 for 2,100 million with expiry on 29 March 2023 with the option of voluntary early repayment from September 2021. The third, of 4,368 million, began on 24 June 2020 and expires on 28 June 2023, with an early repayment option from September 2021. So, without these T-LTRO III operations, the balance would have been positive for 1,862 million.

Liquidity remained high throughout the year. The exposure to liquidity risk is monitored both in the short term, taking a 3-month view every day, and over the long term with a monthly check. The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are higher than the established minimums. The stock of high quality financial assets eligible for operations with the ECB was substantial and, net of the haircuts applied, amounted to 13,736 million, of which 4,980 free and 8,756 used as collateral or pledge.

Operations by the treasury, which was able to take advantage of the abundant liquidity of the Group combined with the liquidity of the system, which remained high due to the expansionary measures of the ECB, were intense as always, with an increase in the use of the Deposit Facility at the European Central Bank; operations on the money market were also lively despite the decline in the interbank market compared with the previous year.

At 31 December 2020 the portfolios of financial assets consisting of securities amounted to a total of 10,553 million, an increase of 8.54% compared with a decrease of 12.13% in the comparative period. The following table summarises the various amounts involved and the percentage changes.

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

(thousands of euro)	31/12/2020	31/12/2019	% change
Financial assets held for trading	190,545	214,466	-11.15
of which, derivatives	59,742	32,161	85.76
Other financial assets mandatorily measured at fair value	656,257	399,779	64.15
Financial assets valued at fair value through other comprehensive income	2,619,939	2,591,229	1.11
Financial assets measured at amortised cost	7,086,361	6,517,073	8.74
Total	**10,553,102**	**9,722,547**	**8.54**

As in the past, the portfolio mostly comprises domestic government securities, despite the sales especially of securities near to maturity. The year was characterised by a strong overall increase in trading.

Financial assets held for trading

While remaining at fairly insignificant levels compared with the years prior to the entry into force of IFRS 9, the trading portfolio recorded a moderate movement, with the generation of an appreciable trading result, albeit in sharp decline compared with the previous year; this portfolio totals 191 million, down 11.15% from 214 million previously.

(thousands of euro)	31/12/2020	31/12/2019	% change
Floating-rate Italian government securities	–	17,590	-100.00
Fixed-rate Italian government securities	25,440	65,108	-60.93
Variable-yield securities	66,970	57,212	17.06
Mutual funds	38,393	42,395	-9.44
Net book value of derivative contracts	59,742	32,161	85.76
Total	**190,545**	**214,466**	**-11.15**

The composition of the trading portfolio is simple and transparent. Sales of financial assets have continued, with government securities falling to 25 million from 83 million in the prior year (-69.24%) and now representing 13.35% of the portfolio compared with 38.56%. The quantity of equities has increased to 67 million, +17.06%, as has the net value of derivative contracts: 60 million, +85.76%, while mutual funds have decreased to 38 million, -9.44%. Despite the recoveries from the second quarter, the imbalance between capital gains and losses remains negative.

Other financial assets mandatorily measured at fair value

Financial assets valued at *fair value* increased by 64.15% and amounted to 656 million, compared with 400 million, with a strong increase in mutual funds and sicavs.

(thousands of euro)	31/12/2020	31/12/2019	% change
Bank bonds	16,009	17,061	-6.17
Other bonds	24,720	29,992	-17.58
Variable-yield securities	1	1	0.00
Mutual funds in euro	585,996	323,173	81.33
Mutual funds in foreign currency (USD)	29,531	29,552	-0.07
Total	**656,257**	**399,779**	**64.15**

Financial assets measured at *fair value* through other comprehensive income

The portfolio of financial assets measured at *fair value* through other comprehensive income (HTCS) totalled 2,620 million, +1.11%. Sales of short-term Italian government bonds in particular continued during the year, against an increase in those with a higher maturity. Spanish government securities, on the other hand, were increased, while bonds fell. During the year, the residual portion of the Nexi spa shares held was sold, generating a capital gain of 32.610 million (accrual for the year 5.890 million) which, in accordance with IFRS 9, was booked to reserves.The entire investment in Release Spa was also sold, after it had already been completely written down during the year for 9.194 million with a negative effect on reserves.

(thousands of euro)	31/12/2020	31/12/2019	% change
Floating-rate Italian government securities	1,039,429	650,637	59.76
Fixed-rate Italian government securities	431,999	785,471	-45.00
Foreign government securities	479,828	304,715	57.47
Bank bonds	372,950	639,045	-41.64
Other bonds	191,925	123,909	54.89
Variable-yield securities	103,808	87,452	18.70
Total	**2,619,939**	**2,591,229**	**1.11**

Financial assets measured at amortised cost

The securities measured at amortised cost comprise part of the financial assets measured at amortised cost (HTCS) and total 7,086 million, compared with 6,517 million, +8.74%. Following the substantial rise in the comparative period, holdings were further increased during the year as part of a reallocation of the portfolios.

(thousands of euro)	31/12/2020	31/12/2019	% change
LOANS AND RECEIVABLES WITH BANKS	**536,485**	**480,402**	**11.67**
Italian bank bonds	378,270	324,241	16.66
Foreign bank bonds	158,215	156,161	1.32
LOANS AND RECEIVABLES WITH CUSTOMERS	**6,549,876**	**6,036,671**	**8.50**
Floating-rate Italian government securities	1,054,114	808,060	30.45
Fixed-rate Italian government securities	3,306,303	3,623,653	-8.76
Foreign government securities	1,687,063	1,436,621	17.43
Other public administration bonds	107,397	93,266	15.15
Other bonds	394,999	75,071	426.17
Total	**7,086,361**	**6,517,073**	**8.74**

Asset management

The dynamics of the asset management industry were also conditioned by the trend in the Covid-19 pandemic and its path substantially followed that of the financial markets.

After a difficult first quarter, a gradual recovery began, which pushed volumes towards new all-time highs. Investors' preference for foreign products was also confirmed in 2020 and, by type of asset class, there was a tendency to go for equity and balanced funds.

For our Group, the assets managed in various forms totalled 5,970 million at the end of 2020, up by 2.23% since 31 December 2019, of which 4,360 million, +2.81%, relates to mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; the Group's asset management schemes came to 1,610 million, +0.76%.

BPS stock

BPS stock is listed on the Screen-Traded Market (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed 2020 up 4.36%, with a reference price at 30 December of 2.20 euro, compared with 2.108 euro at the end of 2019. The general FTSE Italia All-Share index recorded a decrease in the period of 5.56% and the FTSE Italia All-Share Banks sector index declined by 21.09%.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent Company holds 3,650,000 treasury shares with a carrying amount of 25.322 million, which is unchanged since the end of 2019, as no purchases or sales were made. There are also 29,959 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group's Compensation Policies.

EQUITY INVESTMENTS

Equity investments amount to 305 million. The increase of 11 million mainly reflects the measurement at equity of these investments, except for the least significant.

The reader is referred to the report accompanying the Parent Company's 2020 financial statements and to Part A, section 3 and Part B, section 7 of the explanatory notes.

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 2020, the competent bodies of the Parent Company approved the following transactions of greater importance with related parties (the other Group companies did not carry out any transactions of greater importance during 2020):

- Release spa, associated company; renewal of lines of credit totalling € 92,000,000 repayable on demand; resolution of 7/2/2020;
- Banca della Nuova Terra spa, subsidiary; revolving facility for the finance area of € 320,000,000 maturing on 21/12/2022; renewal of lines of credit totalling € 6,000 repayable on demand; resolution of 27/2/2020;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of currency conversion facilities of € 1,600,000,000; renewal of lines of credit totalling € 620,916,197 repayable on demand; resolutions of 29/5/2020;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; granting of an overdraft facility of € 81,000 repayable on 1/10/2020; resolution of 9/7/2020;
- Factorit spa, subsidiary; revolving facility for guarantees in favour of residents of up to € 20,000,000 repayable on demand; renewal of lines of credit totalling € 3,020,101,500 repayable on demand; resolution of 1/10/2020;
- Factorit spa, subsidiary; revolving facility for guarantees in favour of residents of up to € 45,000,000 repayable on demand; resolution of 1/12/2020;
- Alba Leasing spa, associated company; renewal of lines of credit totalling € 439,028,948 repayable on demand; resolution of 1/12/2020.

During 2020, no transactions of greater or lesser importance 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 2019 – 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 2020.

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 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 2020 and the current year, there have not been any positions or transactions deriving from atypical or unusual operations. According to Consob Circular 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.

TRANSACTIONS WITH NON-CONSOLIDATED SUBSIDIARY AND ASSOCIATED COMPANIES

(in thousands of euro)

(thousands of euro)	Associated companies of the parent company 31/12/2020	Associated companies of the parent company 31/12/2019	Associated companies of subsidiaries 31/12/2020	Associated companies of subsidiaries 31/12/2019
ASSETS	**820,684**	**590,550**	**77,501**	**81,004**
LIABILITIES AND EQUITY	**129,277**	**339,134**	**17,006**	**601**
GUARANTEES AND COMMITMENTS	**214,134**	**277,166**	**52,604**	**105,761**
Guarantees given	39,330	39,466	33,891	92,070
Commitments	174,804	237,700	18,713	13,690

GOODWILL

Intangible assets include goodwill for 12.632 million, of which 7.487 million relating to the acquisition of Factorit spa in 2010 and 4.785 million relating to the acquisition of PrestiNuova spa in 2018 and subsequently absorbed by Banca della Nuova Terra spa. 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 10 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 3,328 employees at the end of 2020, an increase of 26 persons from 3,302 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

Shareholders' equity at 31 December 2020, inclusive of valuation reserves and the profit for the year, amounts to 2,997.571 million. Compared with the total at 31 December 2019 of 2,841.780 million, this represents an increase of 155.791 million, +5.48%. The change derives from booking the profit for the year under review, as well as from the increase in reserves.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares, amounts to 1,360.157 million, which amount has remained unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million.

Equity reserves rose to 1,449.360 million, +11.71%; this increase of 151.918 million reflects allocation of the profit for 2019 and the recognition of capital gains/losses on the sale of variable-yield securities that were previously classified to the valuation reserves. In this regard, it is recalled that the Shareholders' Meeting of the Parent Company of 12 June 2020 resolved to allocate the profit entirely to reserves, in accordance with the recommendation made by the ECB.

The valuation reserves, representing the net unrealised gains and losses recorded on financial assets measured at *fair value* through other comprehensive income (FVOCI) and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a positive net balance of 27.840 million, an improvement on the end of 2019, when they were negative for 6.885 million; this progress was due to the favourable performance of the financial markets. Treasury shares in portfolio changed slightly to 25.388 million.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force as implemented by Regulation (EU) no. 575/2013 (CRR) and by EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios that came to 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio.

Using the information gathered in the context of the prudential review and assessment process, the ECB can set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the Parent Company was notified in a communication dated 13 December 2019 of the *Supervisory Board's* decision regarding the new minimum coefficients applicable from 1 January 2020.

The minimum capital levels required of our Banking Group are:

– a minimum Common Equity Tier 1 Ratio of 10% (formerly 9.25%), calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%, unchanged) and an additional Second Pillar requirement (3%, formerly 2.25%);

– Tier 1 Capital ratio of 11.5% (previously 10.75%), being the sum of the Pillar 3 regulatory minimum (6%), the Capital Conservation Buffer (2.5%) and an additional Pillar 2 requirement (3%, previously 2.25%);

– a minimum Total Capital Ratio of 13.50% (previously 12.75%), being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (3%, previously 2.25%).

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

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

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

«Pillar 2 Guidance», which provides a guide to the future evolution of the Group's capital, was added 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.

At the end of the annual SREP review and prudential assessment process carried out in 2020, the Parent Company has to go on complying with the capital requirements set last year at consolidated level, revised from 12 March 2020 by the ECB's decision regarding additional «P2R» coverage.

Starting from the reports at 30 June 2019, the Parent Company has been making use of the internal rating system (AIRB) for regulatory purposes to measure capital requirements on credit risk.

Consolidated own funds for supervisory purposes, including allocation of profit for the period, amount to 3,374 million at 31 December 2020.

In the interests of full disclosure, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their Tier 1 capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of IFRS 9, which came into force on 1 January 2018. With Regulation (EU) 2020/873 of 24 June 2020, changes were made to these transitional provisions, both with regard to the time frame and the computability percentages. The additional adjustments related to the entry into force of IFRS 9 will continue to be calculated on the basis of the percentages already provided, while for those related to the Covid-19 emergency, they will be applied to the value of CET 1 assets taking into account a percentage of declining computability over time, from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023, 25% in 2024, until it reaches zero in 2025.

Set out below are the Group's adequacy requirements at 31 December 2020:

Group's capital ratios	(phased-in)	(fully phased)
CET 1 Ratio	16.32%	16.20%
Tier 1 Capital Ratio	16.36%	16.25%
Total Capital Ratio	**18.55%**	**18.44%**

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 economic value of the Group was 3,937 million, which was 939 million more than its consolidated equity of 2,998 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 shown with comparative figures at 31 December 2019:

– *capital/direct funding from customers*
  8.43% versus 8.71%

– *capital/customer loans*
  10.20% versus 10.38%

– *capital/financial assets*
  28.40% versus 29.23%

– *capital/total assets*
  6.02% versus 6.91%

– *net bad loans/capital*
  11.54% versus 23.51%

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 thousands of euro)

(thousands of euro)	Equity	of which: Profit for the period
Equity of the Parent Company as of 31.12.2020	2,641,048	75,045
Consolidation adjustments	-15,466	-15,466
Difference with respect to the carrying amounts of equity investments in:		
- companies consolidated on a line-by-line basis	290,042	20,220
- companies valued using the equity method	81,947	26,798
Balance as of 31/12/2020, as reported in the consolidated financial statements	**2,997,571**	**106,597**

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group has been assessed by the rating agencies Fitch Ratings, DBRS Morningstar and Scope Ratings. For further information, see the directors' report accompanying the 2020 financial statements of the Parent Company.

INCOME STATEMENT

In 2020, the general economic trend was conditioned by the fallout of the Covid-19 pandemic, which put a strain on the stability of the productive and social fabric in Italy, in the euro area and throughout the world. The limitations on the free development of production activities, which the public authorities have had to resort to in order to contain the spread of infections, have inevitably triggered deeply recessive trends, only partially relieved by the numerous measures approved over time to support the economy.

In an undoubtedly difficult general context, our Group was able to achieve a satisfactory result. 2020 closed with a profit of 106.597 million, down by 22.44% compared with 137.435 million in 2019, which benefited from significant profits on securities operations.

The result derives, first of all, from the stability of the core business and from the substantial stability of adjustments on loans to customers, despite having done some important derisking.

The comments that follow refer to the figures shown in the «Summary income statement», which have been reclassified compared with those reported in the schedules required by Bank of Italy provision no. 262/2005. The reclassified consolidated income statement quarter by quarter shows the evolution of the income statement over the year.

Net interest income, which improved gradually during the year, recorded an increase of 6.44%, ending up at 490.010 million. The central banks' expansionary monetary policy aimed at guaranteeing abundant liquidity, which continued throughout the year, the targeted long-term refinancing operations and the purchases of securities have reduced bond rates to a minimum, in the same way that interbank rates have fallen to unprecedented levels, significantly impacting floating-rate loans to customers. The overall differential between lending and borrowing rates, while decreasing compared with the previous period, essentially stabilised during the year.

Interest income marked a reversal of the trend, with an increase of 3.59% to 594.400 million, mainly due to the recognition of negative interest for approximately 50 million relating to the T-LTRO refinancing operations with the ECB. This recognition in the financial statements was made as the dynamics of loan disbursements largely exceed the thresholds on which its payment depends. Interest expense amounted to 104.390 million, -7.97%. Despite the significant reduction in those connected with short-term funding, the latter's performance was affected by the cost of the bond issues; the cost of negative rates on liquidity holdings with the ECB remained high, albeit decreasing.

Net fee and commission income amounted to 316.416 million, -1.82%; a contraction that derives in particular from a reduction in those linked to the placement of financial products and to collection and payment activities. Commissions relating to order collection and loans have increased.

Dividends collected amounted to 4.375 million, compared with 3.554 million.

The result of financial activities, relating to the securities portfolio and currency and derivative transactions, contributed 58.270 million compared with 117.087 million. This sub-total represents the sum of income statement items 80 - 90 - 100 - 110, reclassified as detailed below. While fluctuating widely during the year, long-term yields in the Euro-area financial markets trended downwards,

KEY FIGURES OF THE CONSOLIDATED INCOME STATEMENT

(thousands of euro)	31/12/2020	31/12/2019	(+/-)	% change
Net interest income	490,010	460,375	29,635	6.44
Dividends	4,375	3,554	821	23.10
Net fee and commission income	316,416	322,277	-5,861	-1.82
Result of financial activities [a]	58,270	117,087	-58,817	-50.23
Total income	**869,071**	**903,293**	**-34,222**	**-3.79**
Net adjustments [a] [b] [c]	-217,169	-212,991	-4,178	1.96
Net financial income	**651,902**	**690,302**	**-38,400**	**-5.56**
Personnel expenses [d]	-247,019	-245,182	-1,837	0.75
Other administrative expenses	-278,943	-271,771	-7,172	2.64
Other operating income/expense [b] [d]	63,283	67,687	-4,404	-6.51
Net accruals to provisions for risks and charges [c]	2,036	-12,273	14,309	-
Adjustments to property, equipment and investment property and intangible assets	-60,676	-59,020	-1,656	2.81
Operating costs	**-521,319**	**-520,559**	**-760**	**0.15**
Operating profit (loss)	**130,583**	**169,743**	**-39,160**	**-23.07**
Net gains (losses) on equity investments and other investments	26,344	25,253	1,091	4.32
Profit (loss) before tax	**156,927**	**194,996**	**-38,069**	**-19.52**
Income taxes	-47,184	-55,522	8,338	-15.02
Profit (loss)	**109,743**	**139,474**	**-29,731**	**-21.32**
(Profit) loss attributable to non-controlling interests	-3,146	-2,039	-1,107	54.29
Profit (loss) attributable to the Parent Company	**106,597**	**137,435**	**-30,838**	**-22.44**

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Net adjustments consist of the sum of items 130 and 140 of the income statement.
The results at 31/12/2020 have been subjected to the following reclassifications:
[a] reclassified losses on disposal for € 49.394 million initially included in gains/losses on financial assets measured at amortised cost, showing them under net adjustments;
[b] reclassified charges connected with the sale transactions for € 4.035 million initially included in other operating income/expense, showing them under net adjustments;
[c] reclassified net credit risk provisions for commitments and guarantees given for € 15.078 million initially included in net provisions for risks and charges [a) commitments and guarantees given], showing them under net adjustments. The results at 31/12/2019 have been adjusted on a like-for-like basis with those of 2020;
[d] personnel expenses and other operating income have been reclassified, stating them net of the income generated by the post-employment benefits fund of € 3.864 million. The results at 31/12/2019 have been adjusted on a like-for-like basis with those of 2020.

together with risk premiums, due to expectations that the highly-accommodative monetary policies would continue for a long time to come.

The portfolio of assets held for trading (line item 80) generated a positive result of 12.473 million, compared with 69.248 million. Against gains from trading in securities of 18.813 million, losses of 15.919 million were recorded, while the foreign exchange and currency business made a contribution of 42.810 million, compared with 44.723 million. The net difference between capital gains and losses on securities was negative for 11.489 million compared with a positive one for 2.576 million. The result of the derivatives business was also negative for 2.637 million compared with a negative figure of 3.194 million. Exchange differences were also negative, going from 58 thousand to 292 thousand.

The profit from trading (line item 100), reclassified, was 48.677 million compared with 35.756 million. This amount does not include 49.394 million of losses from the sale of NPLs which have been reclassified under adjustments to loans and financial assets. Based on the new classification required by IFRS 9, this line item comprises: results from financial assets measured at amortised cost,

RECLASSIFIED CONSOLIDATED INCOME STATEMENT QUARTER BY QUARTER

	2020				2019			
(thousands of euro)	IV Qtr	III Qtr	II Qtr	I Qtr	IV Qtr	III Qtr	II Qtr	I Qtr
Net interest income	127,798	129,154	120,884	112,174	119,810	110,502	109,863	120,200
Dividends	267	1,158	2,218	732	215	171	2,607	561
Net fee and commission income	86,790	77,431	73,269	78,926	92,243	77,465	77,041	75,528
Result of financial activities [a]	54,247	19,178	43,979	-59,134	15,243	58,545	12,825	30,474
Total income	**269,102**	**226,921**	**240,350**	**132,698**	**227,511**	**246,683**	**202,336**	**226,763**
Net adjustments [a] [b] [c]	-76,612	-36,388	-38,870	-65,299	-84,659	-27,323	-60,363	-40,646
Net financial income	**192,490**	**190,533**	**201,480**	**67,399**	**142,852**	**219,360**	**141,973**	**186,117**
Personnel expenses [d]	-62,681	-62,595	-58,968	-62,775	-62,983	-61,565	-59,849	-60,785
Other administrative expenses	-68,447	-65,182	-67,084	-78,230	-66,103	-56,744	-70,901	-78,023
Other operating income/expense [b] [d]	15,815	18,183	13,094	16,191	18,369	16,212	17,046	16,060
Net accruals to provisions for risks and charges [c]	-963	-81	3,640	-560	-5,092	-388	-2,265	-4,528
Adjustments to property, equipment and investment property and intangible assets	-20,664	-13,815	-13,447	-12,750	-17,776	-14,971	-13,868	-12,405
Operating costs	**-136,940**	**-123,490**	**-122,765**	**-138,124**	**-133,585**	**-117,456**	**-129,837**	**-139,681**
Operating profit (loss)	**55,550**	**67,043**	**78,715**	**-70,725**	**9,267**	**101,904**	**12,136**	**46,436**
Net gains (losses) on equity investments and other investments	7,930	4,872	7,342	6,200	3,860	11,706	5,620	4,067
Profit (loss) before tax	**63,480**	**71,915**	**86,057**	**-64,525**	**13,127**	**113,610**	**17,756**	**50,503**
Income taxes	-21,303	-20,597	-24,445	19,161	1,656	-36,356	-5,403	-15,419
Profit (loss)	**42,177**	**51,318**	**61,612**	**-45,364**	**14,783**	**77,254**	**12,353**	**35,084**
(Profit) loss attributable to non-controlling interests	-30	-1,277	-691	-1,148	-591	-1,018	-247	-183
Profit (loss) attributable to the Parent Company	**42,147**	**50,041**	**60,921**	**-46,512**	**14,192**	**76,236**	**12,106**	**34,901**

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Net adjustments consist of the sum of items 130 and 140 of the income statement.
[a], [b], [c], [d] The figures are shown in accordance with the reclassifications presented in the summary of the reclassified consolidated income statement.

23.803 million; financial assets measured at *fair value* through other comprehensive income, 24.812 million; financial liabilities, 0.062 million.

The net result of other assets and liabilities valued at *fair value* through profit or loss (item 110) was negative for 2.845 million compared with a positive one of 12.072 million, while the net result of hedging activities (item 90) was negative for 35 thousand.

Income from banking activities amounted to 869.071 million, -3.79%, due in particular to the performance of the activity in securities. Within this aggregate, the weight of net interest income rose to 56.38% compared with 50.96%.

The risks and uncertainties to which the Group has been exposed due to the spread of the Covid-19 pandemic have led to the need to adequately reflect in the internal processes of risk measurement and management the impacts of unfavourable macroeconomic scenarios and to classify exposures based on the appropriate risk stages envisaged by IFRS 9, while also taking into account the future termination of the public support measures that are currently available. The models used in preparing the adjustments have incorporated this situation.

Adjustments/write-backs for credit risk on exposures to customers, banks and securities totalled 217.169 million, compared with 212.991 million, +1.96%. Following the reclassification as already mentioned above, this amount includes 49.394 million of losses on disposal deriving from the two sales of loans to customers completed during the year (Diana Project, POP NPLS 2020), 4.035 million of charges, again linked to the sale, and 15.078 million in provisions for guarantees given and commitments. Completion of the two NPL sales during the year is a positive response to the ECB's recommendations which with the publication of its «Guidelines on the Management of NPLs», invited banks that have accumulated high levels of non-performing loans (gross) to adopt clear and realistic strategies in order to reduce their stock of non-performing loans.

In its components, the sub-item adjustments to financial assets valued at amortised cost, which are given by the exposure to customers and banks in the form of both loans and securities, reclassified for the aforementioned losses on disposal, recorded 190.785 million compared with 214.073 million, -10.88%, which, net of provisions and net writebacks on securities and banks for modest amounts, refers to loans to customers.

Even in the presence of substantially stable adjustments on loans to customers, there is a slowdown in the dynamics of impaired loans, to be attributed, at least in part, to the various initiatives implemented both to improve credit quality and to refine the valuation processes of the loans themselves, in particular those posted in bad loans, unlikely-to-pay loans, overdue loans, determined in accordance with supervisory regulations, as well as performing positions.

Sub-item 130b, relating to financial assets valued at *fair value* through other comprehensive income, was negative for 0.856 million compared with a positive figure of 1.536 million.

Line item 140, comprising the gains/losses on contractual amendments to cash flows not resulting in derecognition, reported losses for the period of 6.415 million compared with losses of 3.288 million.

Provisions for commitments and guarantees given amounted to 15.078

million compared with a release of provisions for 2.834 million in the previous period.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has therefore fallen slightly from 0.78% to 0.74%.

Financial income has therefore decreased to 651.902 million, -5.56%.

Efforts have continued to improve the efficiency of the structures and contain costs, which is absolutely essentially given the continuing squeeze on net interest income. Operating costs amounted to 521.319 million, +0.15%, a modest increase due to opposing trends in the various components, largely deriving from the release of provisions for other net provisions and lower adjustments to property, equipment and investment property and intangible assets.

The ratio of operating costs to income from banking activities, otherwise known as the cost-income ratio, has risen to 59.99%, from 57.63% in the prior year, while the ratio of operating costs to total assets eased to 1.05% from 1.26%. Looking at costs in more detail, administrative expenses - normalised after excluding the deferral of the proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense - amounted to 525.962 million, +1.74%; of these, personnel costs went from 245.182 a 247.019 million, +0.75%, with other administrative expenses up from 271.771 to 278.943 million, +2.64%. Once again, other significant expenses included use of consultancy, IT costs and contributions to the National Resolution Fund and to the FITD. These last contributions totalled 35.259 million compared with 29.970 million.

The item «net accruals to provisions for risks and charges» has, as mentioned above, released funds of 2.036 million, compared with accruals of 12.273 million.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 60.676 million compared with 59.020 million.

Other income, stated after the two reclassifications mentioned above and net of other operating expenses, amounted to 63.283 million, -6.51%.

The aggregate profits/losses on equity and other investments shows a positive balance of 26.344 million, compared with 25.253 million, +4.32%.

Profit before income taxes therefore came to 156.927 million, -19.52%. After deducting income taxes of 47.184 million, down 15.02% on the previous year, and the non-controlling interest of 3,146 million, the profit for the year comes to 106.597 million, -22.44%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 30.07% compared with 28.47% in the previous year.

RESULTS IN BRIEF AND ALTERNATIVE PERFORMANCE INDICATORS

The Group's main balance sheet and income statement figures and indicators at 31 December 2020 are shown below, compared with what they were the previous year.

RESULTS IN BRIEF

(in millions of euro)	31/12/2020	31/12/2019	Change %
Balance sheet			
Loans to customers	29,380	27,387	7.27
Loans and receivables with customers measured at amortised cost	28,998	27,096	7.02
Loans and receivables with customers measured at fair value through profit or loss	382	291	31.04
Loans and receivables with banks	3,621	1,067	239.18
Financial assets that do not constitute loans	10,553	9,723	8.54
Equity investments	305	295	3.68
Total assets	49,808	41,146	21.05
Direct funding from customers	35,559	32,622	9.01
Indirect funding from customers	34,797	33,764	3.06
Direct funding from insurance premiums	1,717	1,608	6.82
Customer assets under administration	72,074	67,993	6.00
Other direct and indirect funding	16,368	10,068	62.57
Equity	2,998	2,842	5.49

(in millions of euro)	31/12/2020	31/12/2019	Change %
Income statement			
Net interest income	490	460	6.44
Total income*	869	903	-3.79
Profit from continuing operations	157	195	-19.52
Profit (loss) for the period	107	137	-22.44
Capital ratios (%)			
CET 1 capital ratio	16.32%	16.04% **	–
Total capital ratio	18.55%	18.93% **	–
Free capital	1,919	1,882 **	–
Other information on the banking group			
Number of employees	3,325	3,299	–
Number of branches	369	365	–

* The ratios indicated were calculated using the figures shown in the summary reclassified income statement
** Own funds at 31/12/2019 recalculated on the basis of the decision to suspend or cancel the payment of dividends, as recommended by the European Central Bank.
Loans to customers: this includes the portion of loans to customers held for the purpose of financing included in financial assets measured at amortised cost and financial assets mandatorily measured at fair value.
Direct funding: this brings together the items relating to funding from customers included in amounts due to customers at amortised cost and securities in issue.
Indirect funding: this represents the custody, administration and management activity - of securities, mutual funds, asset management - carried out by the Group on behalf of third parties or in connection with the management of financial portfolios. The stocks are marked to market.
Financial assets that do not constitute loans: this includes the portion of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets at amortised cost (banks and customers) that are not held for financing purposes. They therefore consist of debt securities, bonds, mutual funds, derivatives and equity securities that do not constitute equity investments.

The Alternative Performance Indicators (APIs) reported in this section take into account the Guidelines issued by ESMA on 5 October 2015, which Consob incorporated into its supervisory practices (Communication no. 0092543 of 3 December 2015). These Guidelines became applicable from 3 July 2016. It should be noted that, in line with the indications contained in the update of the document «ESMA32-51-370 – Questions and answers – ESMA Guidelines on Alternative Performance Measures (APMs)», published on 17 April 2020, no changes have been made to the APIs to take into account the effects of the Covid-19 crisis. Note that for APIs not directly attributable to financial statement items, an explanation is given of the definition and method of calculation; the figures used can be traced through the information contained in the previous tables or in the reclassified financial statements contained in this consolidated report on operations. 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

	31/12/2020	31/12/2019
Key ratios		
Equity/Direct funding from customers	8.43%	8.71%
Equity/Loans to customers	10.20%	10.38%
Equity/Financial assets	28.40%	29.23%
Equity/Total assets	6.02%	6.91%
Profitability indicators		
Cost/Income ratio	59.99%	57.63%
Net interest income/Total income	56.38%	50.97%
Administrative expenses/Total income	60.52%	57.23%
Net interest income/Total assets	0.98%	1.12%
Net financial income/Total assets	1.31%	1.67%
Net profit for the year of the Parent Company/Total assets	0.21%	0.33%
Asset quality indicators		
Texas ratio	36.78%	56.00%
Net bad loans/Equity	11.54%	23.51%
Net bad loans/Loans to customers	1.18%	2.44%
Loans to customers/Direct funding from customers	82.62%	83.95%
Cost of credit	0.74%	0.78%

The ratios indicated were calculated using the figures shown in the summary reclassified income statement.
Cost/Income ratio: the ratio between operating costs and total income
Texas ratio: the ratio between non-performing loans and the difference between equity and intangible assets, as the denominator.
Cost of credit: ratio of net adjustments to loans and financial assets to total loans to customers.

The health emergency caused by the pandemic affected both the performance of the financial markets and the commercial operations of the Group. In consideration of the economic consequences of the pandemic, in all the main countries the authorities have implemented strong expansionary measures to support households and businesses and to provide credit to the economy and liquidity to the markets. The various European institutions, each for their own area of competence, have also adopted a series of measures aimed at supporting banks in mitigating the economic impact of the Covid-19 pandemic. The actions taken by the Group, aimed at monitoring credit risk, were to provide timely support to households and businesses, to develop a monitoring system for significant credit aggregates, to adopt specific indicators for assessing the solvency of counterparties and to integrate the methodologies used in the management and accounting processes. As regards the Group's main balance sheet and income statement aggregates at 31 December 2020, it should be noted that the 2020 results were influenced by the effects linked to the health crisis caused by the spread of Covid-19 from the end of February 2020. In particular:

– net fee and commission income was affected by the reduction in branch operations following the restrictive measures, such as social distancing, that were introduced by the Italian government over time to limit the spread of the virus; the fees and commissions of the collection and payment system sector were significantly affected by this;
– the result of financial activities was negatively impacted by the tensions on financial markets, above all in the first part of the year, linked to the Covid-19 emergency. This heavily penalised total income;
– the cost of credit was penalised by the effects of the macroeconomic scenario created following the pandemic, which influenced the risk levels of the portfolio. This effect was partly offset by the positive impacts deriving from the lower transfers to default, thanks to the moratoria granted as part of the government support measures and the positive effects generated by the acquisition of state guarantees on the loans disbursed. For these reasons, there were no significant impacts on the indicators relating to NPLs, which however showed a significant improvement following the sale transactions completed during the year. The cost of credit for the previous year, on the other hand, included significant provisions in anticipation of the sale transactions that took place in the current year. On the other hand, a significant impact was had on performing loans: for details on the quantification of losses due to the impairment of loans, please refer to the paragraph relating to the relevant accounting policies and uncertainties on the use of estimates in the consolidated Explanatory Notes - Part A;
– loans to customers increased significantly at 31 December 2020, also thanks to the effect of the disbursements and the moratoria granted as part of the government decrees issued following the Covid-19 emergency, despite the decline in non-performing loans following the sale transactions. At 31 December 2020, the ratio of bad and non-performing loans, as well

as the Texas ratio, dropped significantly as a result. The coverage ratio also incorporates the effects of the increase in adjustments due to the change in macroeconomic scenario following the spread of the Covid-19 emergency.

– with reference to the other balance sheet aggregates, on the other hand, there has been an increase in direct deposits and, in particular, current accounts, following the prudent attitude of customers to face the uncertainty about the economic situation because of the spread of the Covid-19, an increase that has involved the entire banking system. Volumes of indirect deposits and other types of funding have also increased. Therefore, by comparing equity, which was most affected by the pandemic through the lower profits earned, with the main balance sheet figures, the balance sheet indicators show a general decrease compared with the previous year.

In summary, these impacts have had a significant impact, above all on economic indicators and those of credit quality. In particular, the profitability ratios that were affected the most relate to the Net financial income/Total assets and the Parent Company's profit for the year/Total assets. The activation of new loans by the ECB made it possible to maintain a good level of margins on lending and funding activities (net interest income), while the most significant impact was on the cost of credit, which was significantly higher; this then had repercussions on all of the profitability ratios.

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 2020.

There is nothing worth noting with regard to Banca Popolare di Sondrio (SUISSE) SA, Factorit spa, Banca della Nuova Terra spa and Sinergia Seconda srl.

On the macroeconomic front, the start of 2021 was below expectations of recovery due to the persistence of the pandemic and the consequent need to impose restrictions on business activities. On the other hand, the vaccination campaign currently being strengthened and the relevant financial support plans launched by the Authorities should progressively trigger a more sustained and lasting growth trend.

In this context, our Group expects an improvement in the results of the core banking business, cost containment aimed at pursuing efficiency objectives aligned with the best market standards and adequate credit coverage, in line with prudential policies adopted in previous years. On the investment front, the commitment to safeguard the operational efficiency of the Group will continue, paying particular attention to issues of digital and technological innovation.

On the basis of these assumptions, it is plausible that the Banking

Group can achieve higher levels of profitability than those of the last year, confirming its ability to generate value continuously and preserving its capital strength.

Sondrio, 30 March 2021

THE BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2020

CONSOLIDATED BALANCE SHEET

(thousands of euro)

	ASSET ITEMS		31/12/2020		31/12/2019
10.	CASH AND CASH EQUIVALENTS		**5,066,606**		**1,826,427**
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		**1,228,733**		**905,705**
	a) financial assets held for trading	190,545		214,466	
	c) other financial assets mandatorily measured at fair value	1,038,188		691,239	
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**2,619,939**		**2,591,229**
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST		**39,168,264**		**34,200,066**
	a) loans and receivables with banks	3,620,595		1,067,458	
	b) loans and receivables with customers	35,547,669		33,132,608	
70.	EQUITY INVESTMENTS		**305,444**		**294,609**
90.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**567,799**		**584,116**
100.	INTANGIBLE ASSETS		**28,328**		**31,186**
	OF WHICH:				
	– goodwill	12,632		12,632	
110.	TAX ASSETS		**423,785**		**419,295**
	a) Current	46,596		4,971	
	b) Deferred	377,189		414,324	
130.	OTHER ASSETS		**398,699**		**293,556**
	TOTAL ASSETS		**49,807,597**		**41,146,189**

THE CHAIRMAN
Francesco Venosta

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

	EQUITY AND LIABILITY ITEMS		31/12/2020		31/12/2019
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		**45,386,147**		**36,949,458**
	a) due to banks	9,826,687		4,327,709	
	b) customer deposits	32,728,348		29,816,997	
	c) debt securities in issue	2,831,112		2,804,752	
20.	FINANCIAL LIABILITIES HELD FOR TRADING		**33,816**		**67,019**
40.	HEDGING DERIVATIVES		**6,271**		**11,320**
60.	TAX LIABILITIES		**37,400**		**46,050**
	a) current	3,567		16,843	
	b) deferred	33,833		29,207	
80.	OTHER LIABILITIES		**914,191**		**821,434**
90.	RESERVE FOR TERMINATION INDEMNITIES		**42,341**		**43,789**
100.	PROVISIONS FOR RISKS AND CHARGES		**291,757**		**270,298**
	a) commitments and guarantees given	58,520		43,411	
	b) pension and similar obligations	189,873		179,965	
	c) other provisions for risks and charges	43,364		46,922	
120.	VALUATION RESERVES		**27,840**		**(6,885)**
150.	RESERVES		**1,449,360**		**1,297,442**
160.	SHARE PREMIUM RESERVE		**79,005**		**79,005**
170.	SHARE CAPITAL		**1,360,157**		**1,360,157**
180.	TREASURY SHARES (-)		**(25,388)**		**(25,374)**
190.	NON-CONTROLLING INTERESTS (+/-)		**98,103**		**95,041**
200.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**106,597**		**137,435**
	TOTAL LIABILITIES AND EQUITY		**49,807,597**		**41,146,189**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

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

CONSOLIDATED INCOME STATEMENT

(thousands of euro)

ITEMS		31/12/2020			31/12/2019
10.	INTEREST AND SIMILAR INCOME		594,400		573,801
	of which: Interest income calculated using the effective interest method	586,396		565,590	
20.	INTEREST AND SIMILAR EXPENSE		(104,390)		(113,426)
30.	**NET INTEREST INCOME**		**490,010**		**460,375**
40.	FEE AND COMMISSION INCOME		333,497		343,620
50.	FEE AND COMMISSION EXPENSE		(17,081)		(21,343)
60.	**NET FEE AND COMMISSION INCOME**		**316,416**		**322,277**
70.	DIVIDENDS AND SIMILAR INCOME		4,375		3,554
80.	NET TRADING INCOME		12,473		69,248
90.	NET HEDGING GAINS (LOSSES)		(35)		11
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF:		(717)		35,756
	a) financial assets measured at amortised cost	(25,591)		23,056	
	b) financial assets measured at fair value through other comprehensive income	24,812		12,286	
	c) Financial liabilities	62		414	
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		(2,845)		12,072
	b) Other financial assets mandatorily measured at fair value	(2,845)		12,072	
120.	**TOTAL INCOME**		**819,677**		**903,293**
130.	NET ADJUSTMENTS:				
	For credit risk related to:		(142,247)		(212,537)
	a) financial assets measured at amortised cost	(141,391)		(214,073)	
	b) financial assets measured at fair value through other comprehensive income	(856)		1,536	
140.	GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(6,415)		(3,288)
150.	**NET FINANCIAL INCOME**		**671,015**		**687,468**
180.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**		**671,015**		**687,468**
190.	ADMINISTRATIVE EXPENSES:		(529,826)		(525,460)
	a) personnel expenses	(250,883)		(253,689)	
	b) other administrative expenses	(278,943)		(271,771)	
200.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(13,042)		(9,439)
	a) commitments and guarantees given	(15,078)		2,834	
	b) other net provisions	2,036		(12,273)	
210.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(44,015)		(41,104)
220.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(16,661)		(17,916)
230.	OTHER OPERATING INCOME/EXPENSE		63,112		76,194
240.	**OPERATING COSTS**		**(540,432)**		**(517,725)**
250.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		26,997		25,529
260.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS		(707)		(290)
280.	NET GAINS ON SALES OF INVESTMENTS		54		14
290.	**PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**		**156,927**		**194,996**
300.	INCOME TAXES		(47,184)		(55,522)
310.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**109,743**		**139,474**
330.	**PROFIT (LOSS) FOR THE YEAR**		**109,743**		**139,474**
340.	PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		(3,146)		(2,039)
350.	**PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE PARENT COMPANY**		**106,597**		**137,435**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Items		2020	2019
10.	**Profit (loss) for the period**	**109,743**	**139,474**
	Other income items net of income taxes that will not be reclassified to profit or loss		
20.	Variable-yield securities measured at fair value through other comprehensive income	30,366	(17,833)
70.	Defined-benefit plans	(7,358)	(12,303)
90.	Share of valuation reserves of equity investments valued at net equity	(44)	(25)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
110.	Exchange differences	(584)	308
140.	Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	12,856	53,048
160.	Share of valuation reserves of equity investments valued at net equity	(596)	4,334
170.	**Total other income items net of income taxes**	**34,640**	**27,530**
180.	**Other comprehensive income (Items 10+170)**	**144,383**	**167,004**
190.	Consolidated other comprehensive income attributable to non-controlling interests	3,062	2,002
200.	**Consolidated other comprehensive income attributable to the parent company**	**141,321**	**165,001**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of euro)

				Allocation of prior year result			
	Opening balance at 31.12.2019	Change in opening balances	Opening balance at 1.1.2020	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	–
b) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	1,314,827	–	1,314,827	139,474	–	14,484	–
b) other	37,851	–	37,851	–	–	–	–
Valuation reserves	**(7,056)**	**–**	**(7,056)**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,374)**	**–**	**(25,374)**	**–**	**–**	**–**	**–**
Profit for the year	**139,474**	**–**	**139,474**	**(139,474)**	**–**	**–**	**–**
Equity attributable to the Group	**2,841,780**	**–**	**2,841,780**	**–**	**–**	**14,484**	**–**
Equity attributable to non-controlling interests	**95,041**	**–**	**95,041**	**–**	**–**	**–**	**–**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of euro)

				Allocation of prior year result			
	Opening balance at 31.12.2018	Change in opening balances	Opening balance at 1.1.2019	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,746	–	1,393,746	–	–	–	–
b) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	1,207,575	–	1,207,575	91,375		15,877	–
b) other	5,186	–	5,186			32,665	–
Valuation reserves	**(34,586)**	**–**	**(34,586)**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,375)**	**–**	**(25,375)**				**–**
Profit for the year	**113,962**	**–**	**113,962**	**(91,375)**	**(22,587)**	**–**	**–**
Equity attributable to the Group	**2,650,822**	**–**	**2,650,822**	**–**	**(22,587)**	**48,542**	**–**
Equity attributable to non-controlling interests	**93,049**	**–**	**93,049**	**–**	**–**	**–**	**–**

Changes during the year								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in interests held	Other comprehensive income at 31.12.2020	**Equity attributable to the group at 31.12.2020**	**Equity attributable to non-controlling interests at 31.12.2020**
–	–	–	–	–	–	–	1,360,157	33,579
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	1,413,466	55,319
–	–	–	–	–	–	–	35,894	1,957
–	**–**	**–**	**–**	**–**	**–**	**–**	**27,840**	**(256)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(14)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,388)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**109,743**	**106,597**	**3,146**
(14)	**–**	**–**	**–**	**–**	**–**	**141,321**	**2,997,571**	**–**
–	**–**	**–**	**–**	**–**	**–**	**3,062**	**–**	**98,103**

Changes during the year								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in interests held	Other comprehensive income at 31.12.2019	**Equity attributable to the group at 31.12.2019**	**Equity attributable to non-controlling interests at 31.12.2019**
(10)	–	–	–	–	–	–	1,360,157	33,579
–	–	–	–	–	–	–		
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	1,261,548	53,279
–	–	–	–	–	–	–	35,894	1,957
–	**–**	**–**	**–**	**–**	**–**	**27,529**	**(6,885)**	**(171)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1	**–**	**–**	**–**	**–**	**–**	**–**	**(25,374)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**139,474**	**137,435**	**2,039**
1	**–**	**–**	**–**	**–**	**–**	**165,001**	**2,841,780**	**–**
(10)	**–**	**–**	**–**	**–**	**–**	**2,002**	**–**	**95,041**

CONSOLIDATED CASH FLOW STATEMENT (indirect method)

	31/12/2020	31/12/2019
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**381,706**	**493,669**
- profit for the year (+/-)	106,597	137,435
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through profit or loss (-/+)	(315)	(31,386)
- net hedging gains (losses) (-/+)	35	(11)
- net adjustments for credit risk (+/-)	152,426	230,694
- depreciation, amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	61,383	59,309
- provisions for risks and charges and other costs/revenues (+/-)	35,860	24,307
- unpaid taxes, duties and tax credits (+)	47,183	55,522
- other adjustments (+/-)	(21,463)	17,799
2. **Cash generated/absorbed by financial assets**	**(5,546,481)**	**508,062**
- financial assets held for trading	63,854	61,825
- financial assets designated at fair value	–	–
- financial assets mandatorily measured at fair value through profit and loss	(377,673)	(69,327)
- financial assets measured at fair value through other comprehensive income	23,129	1,913,729
- financial assets measured at amortised cost	(5,108,865)	(1,452,935)
- other assets	(146,926)	54,770
3. **Cash generated/absorbed by financial liabilities**	**8,429,227**	**(670,211)**
- financial liabilities valued at amortised cost	8,416,528	(694,354)
- financial liabilities held for trading	(41,695)	(2,340)
- financial liabilities measured at fair value	–	–
- other liabilities	54,394	26,483
Net cash generated/absorbed by operating activities	**3,264,452**	**331,520**

	31/12/2020	31/12/2019
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**19,772**	**6,403**
- sales of equity investments	7,279	–
- dividends collected from equity investments	10,581	6,377
- sale of property, equipment and investment property	1,912	26
- sales of intangible assets	–	–
- sales of subsidiaries and business units	–	–
2. **Cash absorbed by**	**(46,779)**	**(89,675)**
- purchases of equity investments	(667)	(58,131)
- purchases of property, equipment and investment property	(32,090)	(16,076)
- purchases of intangible assets	(14,022)	(15,468)
- purchase of subsidiaries and business units	–	–
Net cash generated/absorbed by investing activities	**(27,007)**	**(83,272)**
C. **FUNDING ACTIVITIES**		
- issues/purchases of treasury shares	(14)	1
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	–	(22,487)
- sale/purchase of third party control	–	–
Net cash generated/absorbed by financing activities	**(14)**	**(22,486)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**3,237,431**	**225,762**

Key:
(+) generated (-) absorbed

Reconciliation

Line items	**31/12/2020**	**31/12/2019**
Cash and cash equivalents at beginning of year	1,826,427	1,577,163
Total net cash generated/absorbed in the period	3,237,431	225,762
Cash and cash equivalents: effect of change in exchange rates	2,748	23,502
Cash and cash equivalents at end of year	5,066,606	1,826,427

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 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 2020 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 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 and additions.

The consolidated financial statements at 31 December 2020 were approved by the Board of Directors on 30 March 2021.

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 funding, based essentially on T-LTRO III refinancing operations, customer current accounts, repurchase agreements and lending, mainly to retail customers and SMEs which the Group monitors constantly, as well as the prevalence of government securities and prime corporate bonds, management is of the opinion, even considering the difficulties encountered by sovereign debt securities in the recent past and the macroeconomic scenario created by the pandemic, that there are no critical areas that could adversely influence the Group's capital solidity and profitability, which are prerequisites for adopting the going concern basis. With reference to the information provided in Document no. 2 of 6 February 2009 and of Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP and subsequent updates, the Group has the reasonable expectation of continuing to operate as a going concern in the foreseeable future and has therefore prepared the financial statements as at 31 December 2020 on the assumption of business continuity. In this regard, management believes that, despite foreseeable

negative repercussions on certain types of revenues and the cost of credit and the elements of risk referred to in the section entitled «Risk Management», the Group can continue to operate as a going concern in the foreseeable future, with capital ratios that are higher than the regulatory minimum requirements. This conclusion also takes into account the significant government interventions in support of companies and households, the incisive monetary policy measures of central banks and the temporary easing of regulatory requirements.

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.

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 IAS. Accordingly, these financial statements reflect the requirements of Decree 136/2015, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

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

Section 3 ***Scope of consolidation and methodology***

The consolidated financial statements present the economic and financial position at 31.12.2020 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:

Names	Location	Type of relationship(1)	Share capital (in thousands)	Share 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 = majority of voting rights at ordinary shareholders' meeting.
* held by Sinergia Seconda S.r.l.
** equity investments not included in the Banking Group for supervisory purposes

The Parent Company holds 100% of Fondo Immobiliare Centro delle Alpi Real Estate and consolidates it line-by-line. The scope of the fully consolidated companies remained unchanged compared with the previous year.

Control, as defined by IFRS 10, is the power over the investee entity (i.e. holding valid rights that give the current capacity to direct the activities of the investee entity) and 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 can 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. The assets, liabilities, revenues and costs of the subsidiary acquired or sold during the year are included in the consolidated financial statements from the date on which the Group obtains control until the date on which the Group no longer exercises control over the company.

With line-by-line consolidation, the carrying amount 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.

All of the assets and liabilities, equity, revenues, costs and intercompany financial flows relating to transactions between group entities are completely eliminated on consolidation, except for income and charges of insignificant amount. 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.

There are no restrictions concerning Group assets/liabilities referred to in paragraph 13 of IFRS 12.

Changes in interests held in a subsidiary that do not result in a loss of control are recognised in equity.

If the Group loses control of a subsidiary, it must eliminate the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any gain or loss is recognised in the income statement. If an interest is maintained, it has to be shown at fair value.

The reference standard for the accounting treatment of joint control arrangements in the Group's consolidated financial statements is IFRS 11 «Joint arrangements». The arrangement entered into constitutes a joint venture, whereby the parties that have joint control thereof have rights to the net assets of the arrangement. 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. In accordance with this standard, the correct accounting treatment for such an arrangement requires the interest in the joint venture to be recognised as an investment and to be accounted for using the equity method in accordance with IAS 28 «Investments in associates and joint ventures». The joint ventures shown below are valued at equity:

Names	Location	Type of relationship (1)	Share capital (in thousands)	% held	% of votes
Rajna Immobiliare srl	Sondrio	7	20	50	50
Rent2Go S.r.l.	Bolzano	7	12,050	33.33	33.33

(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) the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;
b) the Bank takes part in the decision-making process, including decisions regarding dividends;
c) there are significant transactions between the parent company and the affiliate;
d) there is an exchange of managers;
e) essential technical information is being provided.

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 attributable to the bank is shown in a specific item in the income statement.

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

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not subject to a separate impairment test. After applying the equity method, the Group assesses whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. At each reporting date, the Group assesses whether there is objective evidence that the investments in associates or joint ventures have suffered impairment. In this case, the Group calculates the amount of the impairment as the difference between the recoverable value of the associate or joint venture and its carrying amount in its financial statements, recognising this difference in the profit or loss for the year under the heading «portion pertaining to the result of associates and joint ventures». Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Upon the loss of significant influence over an associate or joint control over a joint venture, the Group assesses and recognises the residual investment at fair value.

The difference between the carrying amount of the investment at the date of loss of significant influence or joint control and the fair value of the residual investment and the amounts received is recognised in the income statement.

The ownership percentages are specified in the following table:

Names	Location	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Arca Holding S.p.a.	Milan	50,000	34.715
Cossi Costruzioni S.p.a.	Sondrio	12,598	18.250
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi S.g.r.p.a.	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.

Special purpose vehicle for the securitisation of impaired loans

Based on the provisions of IFRS 10, the Vehicle Companies Diana S.P.V. S.r.l. and Pop Npls 2020 s.r.l., specifically established pursuant to Law 130/1999, do not fall within the scope of consolidation of Banca Popolare di Sondrio, as:

- Banca Popolare di Sondrio and the other Group companies have no shareholding relationship with the SPVs nor do they have the de facto or de iure to appoint the directors of the company.
- the SPVs are not a related party of Banca Popolare di Sondrio or of the other Group companies pursuant to IAS 24;
- Banca Popolare di Sondrio and the other Group companies have no power, whether de facto or de iure, to manage the key activities of the SPVs (credit recovery);
- the servicing contracts provide that investors (and therefore also Banca Popolare di Sondrio as the Transferring Bank) are not entitled to revoke the Master Servicer and/or the Special Servicers; with reference to the Master Servicer, the SPVs are the entity that will have the right or the obligation to revoke the assignment of the Master Servicer and to appoint another one;
- the structures of the securitisation allowed the derecognition from the financial statements of Banca Popolare di Sondrio of the loans sold as the rights to receive the financial flows were transferred to the SPVs (para. 3.2.4 (a) of IFRS 9) and the «substantially all of the risks and benefits» associated with them (para. 3.2.6 (a) of IFRS 9).

Please refer to Part E, Section 2, C. Securitisations of these notes, for more details regarding the securitisation completed during the period.

Business combinations

Business combinations are accounted for using the purchase method. The total cost of an acquisition is the sum of the consideration paid, measured at fair value at the acquisition date, and the non-controlling interest in the company acquired. For each business combination, the Group defines whether to measure the non-controlling interest at fair value or in proportion to the non-controlling interest in the identifiable net assets of the company acquired. Acquisition costs are written off during the year and classified under administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets acquired or the liabilities assumed in accordance with the contractual terms, the economic conditions and other pertinent conditions that exist at the acquisition date.

Any contingent consideration is recognised by the purchaser at fair value at the acquisition date. The contingent consideration classified as equity is not subject to re-measurement and its subsequent payment is accounted for with a contra-entry to equity. Any change in the fair value of the contingent consideration classified as an asset or liability, as a financial instrument that is covered by IFRS 9 Financial Instruments, must be recognised in the income statement in accordance with IFRS 9. Contingent consideration that does not fall within the scope of IFRS 9 is measured at fair value at the balance sheet date and changes in its fair value are recognised in the income statement.

Goodwill is initially recognised at cost represented by the excess of the sum paid and the amount recorded for non-controlling interests with respect to the identifiable net assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the sum paid, the Group checks again whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to determine the amount to be recognised at the acquisition date. If the new valuation still shows a fair value of the net assets acquired that is higher than the consideration, the difference (a gain) is recognised in the income statement. After initial recognition, goodwill is valued at cost net of accumulated impairment losses. For the purpose of the impairment test, the goodwill acquired in a business combination is allocated, from the acquisition date, to each cash generating unit (CGU) of the Group which is expected to benefit from the synergies of the combination, regardless of the fact that other assets or liabilities of the acquired entity may be assigned to these units.

If goodwill has been allocated to a CGU and the company disposes of part of its assets, the goodwill associated with the asset disposed of is included in the carrying amount of the asset when determining the gain or loss on disposal. The goodwill associated with the asset disposed of is determined on the basis of the relative values of the asset disposed of and the part maintained by the CGU.

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 in the statement of comprehensive income.

Section 4 *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 30 March 2021 that would require the adjustment of such approved information, and nothing of significance has occurred that would require changes in the figures of the financial statements.

On 25 January 2021, the application for the State guarantee (GACS) on the sale of NPLs in December was submitted.

Section 5 *Other aspects*

The following are the new documents issued by the IASB and endorsed by the EU, which have to be adopted from the financial statements for the years beginning on 1 January 2020:

- Amendments to references to the IFRS Conceptual Framework.
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Regulation (EU) 2020/34 dated 15 January 2020 which issued the «IBOR Reform» document modifying certain hedge accounting requirements. This enables entities to report useful information during the period of uncertainty caused by the gradual elimination of benchmark interest rates by the end of 2021. This regulation introduced a number of changes to hedge accounting in order to avoid uncertainties about the amount and timing of the cash flows deriving from the reform

of interest rates leading to the interruption of existing hedges and problems in designing new hedging relationships. See the paragraph 16 «Other information» in these explanatory notes for further information.

- Amendments to IFRS 3 – Business combinations. The amendments are to help determine whether a transaction is an acquisition of a business or of a group of assets that does not satisfy the definition of a business given in IFRS 3.
- Amendments to IAS 1 and IAS 8 - Definition of material. The amendments aim to clarify the definition of «material» in order to help companies assess whether a piece of information should be included in the financial statements.
- Amendments to IFRS 16 - on 10 April 2020, following the advent of the COVID-19 pandemic, the IFRS Foundation clarified («Accounting for COVID-19 related rent concessions applying IFRS 16 Leases») that in the event of changes in payments of lease instalments, also as a result of government interventions, it was necessary to assess whether or not they represented a modification of the contract with the appropriate accounting treatment and disclosure in the financial statements. Given the protraction of the emergency situation caused by Covid-19 and the consequent economic and financial effects, on 28 May 2020 the IASB published the amendment to IFRS 16 «Covid-19 Related Rent Concessions», approved on 9 October 2020 with Regulation (EU) 2020/1434, whose effects take effect from 1 June 2020 with the possibility of earlier application.
  In this sense, the new paragraphs 46A and 46B introduced as a practical expedient the possibility for the lessee not to treat the unpaid rents, as a direct consequence of Covid-19, as modifications to the original contract and therefore not as a modification of the amortisation plan of the lease, with consequent recalculation of the liability.
  In order to apply this exemption, all the following conditions must be met:

– the concession on payments is a direct consequence of the Covid-19 pandemic;
– the modification in payments left the same amount to be paid with respect to the original conditions or reduced the amount;
– the reduction in payments refers solely to those originally due until June 2021;
– there are no substantial changes to other contractual terms or conditions of the lease.

Taking into account the above, the Group did not request any suspension of payment of the lease instalments to deal with the emergency.

The changes to the international accounting standards did not have a significant impact on the consolidated financial statements.

The new accounting standards, amendments and interpretations, whose application will become mandatory after 31 December 2020, are listed below:

- EU Regulation 2021/25 of 13 January 2021. On 27 August 2020, the International Accounting Standards Board published its «Interest Rate Benchmark Reform — phase 2 — Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16» to take into account the consequences of the effective replacement of benchmark indices for the determination of existing interest rates with alternative benchmark rates.
- Amendments to IAS 1 Financial Statement Presentation: Classification of liabilities as current or non-current. On 23 January 2020 the IASB publish an amendment to IAS 1 which seeks to clarify one of the IAS 1 criteria for the classification of a liability as non-current, namely the requirement that the entity must have the right to defer settlement of the liability for at least 12 months after the end of the reporting period. The amendment includes:

– clarification that the right to defer settlement must exist at the end of the reporting period;
– clarification that classification is unaffected by management intentions or expectations about possible exercise of the deferral right;
– clarification about how loan conditions influence classification;
– clarification of the requirements for classifying a liability that the entity intends to settle or might settle by the transfer of its own equity instruments. It applies from 1 January 2022.

- IFRS 17 – Insurance contracts published on 18 May 2017 and the amendments to IFRS 17 published on 25 June 2020. This applies from 1 January 2023.
- Amendments to IFRS 4 Insurance contracts (Regulation (EU) 2020/2097 of 15 December 2020). The amendments to IFRS 4 extend the expiry of the temporary exemption from the application of IFRS 9 until 2023 in order to align the date of entry into force of IFRS 9 with the new IFRS 17 *Insurance Contracts*.
- On 14 May 2020, the IASB published a number of amendments to IFRS:
– amendments to IFRS 3 Business Combinations: to update the reference in IFRS 3 to the Conceptual Framework in the revised version, without this involving any changes to the standard; – amendments to IAS 16 Property, Plant and Equipment: not to allow the amount received from the sale of goods produced before the asset was ready for use to be deducted from the cost of the fixed asset. Such sales revenues and costs will be recognised in the income statement;
– amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: to clarify which cost items have to be considered to assess whether a contract will make a loss;
– Annual Improvements 2018 - 2020: amendments are made to IFRS 1 First-time Adoption of International Financial Reporting Standards, to IFRS 9 Financial Instruments, to IAS 41 Agriculture and to the Illustrative Examples accompanying IFRS 16 Leases.

The amendments will come into effect on 1 January 2022.

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 2020, 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 2020. It should be stated, however, that this valuation process was particularly complex in view of the current macroeconomic and market context, characterised by high levels of uncertainty about the prospects, 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 during a pandemic which could experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2020.

The consolidated financial statements are subject to audit 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

Classification of financial assets

Financial assets are classified with reference, on the one hand, to the contractual characteristics of the related cash flows i.e. whether or not they depend solely on the payment of principal and related interest (SPPI) and, on the other, the reason (business model) for which the instrument is held. The business model determines whether the cash flows derive from the collection of contractual cash flows, the sale of financial assets or both.

Held to Collect (HTC)

The objective of this business model is to hold financial assets to collect the contractual cash flows during the instrument's life.

Sales are only deemed to be eligible if they are frequent but not significant, or significant but not frequent, or if due to an increase in credit risk, or if close to the maturity date of the financial asset. Frequency is measured based on the number of sales made in the period, while significance is measured based on the total amount of sales compared to the portfolio at the beginning of the period. The criteria used to determine these requisites have been included by the Group in specific internal regulations.

Banca Popolare di Sondrio Group holds the following within an HTC business model:

- Almost the entire portfolio of loans to customers and banks, given that the Group mainly undertakes traditional banking activities and holds a loan portfolio that originates from finance granted to households, individuals and businesses;
- Fixed-yield securities that may be subjected to this business model's management logic.

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets. The Group has decided not to use the HTC&S business model for loans, but for securities (most of the securities already held as financial assets available for sale have been included here).

Others (FVTPL)

This business model is adopted when the Group takes decisions based on the fair value of financial assets and it manages them in order to realise the latter or when the objective of the business model does not fall within that of the previous two (HTC and HTC&S). Banca Popolare di Sondrio Group holds the following within an «Others» business model:

- Financial instruments held within a trading business model
- Financial instruments held within a fair value business model (that mostly include funds and SICAVs).

The Group does not require ex post monitoring for credit and loans to verify the consistency of the loan portfolio with the HTC business model within which they are held, while it is required for securities to verify the consistency of securities portfolio management with the HTC and HTC&S business models.

Solely Payment Principal Interest Test (SPPI test)

By means of an SPPI test, it is possible to check whether a financial asset may be considered to be a «basic lending arrangement», whereby the contractual cash flows consist solely of payments of principal and interest accrued on the principal amount outstanding. If the test of the characteristics of the contractual cash flows shows compliance with the requirements of IFRS 9 (SPPI test has been passed), the asset may be measured at amortised cost, provided that it is held within a business model the objective of which is to collect the contractual cash flows during the instrument's life (HTC business model), or at fair value through other comprehensive income (FVOCI), provided that the asset is held within a business model the objective of which is to collect contractual cash flows over the entire life of the asset and to sell the asset (HTC&S business model). If the test of the characteristics of the contractual cash flows from a financial asset does not show compliance with the requirements of IFRS 9 (SPPI test has not been passed), the asset is measured at fair value through profit or loss (FVTPL). In accordance with Group guidelines, the test is performed before a loan is granted or a security purchased (origination) in order to gain awareness of the accounting implications in terms of the classification of assets in accordance with IFRS 9. Test procedures make use of an SPPI tool.

For credit and loans, the approach for the execution of the SPPI test differs based on whether they consist of:

- Standard products (e.g. current accounts or loans), for which the test is performed at product level. Upon granting a loan, account is taken of the outcome of the SPPI test at product level, updated following verification of the remuneration of credit risk and a benchmark test, where required.
- Non-standard contracts, for which the test is performed individually for each amount.

For the securities portfolio, the results of the SPPI test and benchmark test are acquired for each ISIN from an external info provider. For amounts for which the results of the SPPI test and/or benchmark test obtained from an external info provider are not available and/or complete, the tests are performed within the Group, using the aforementioned tool.

1. Financial assets measured at fair value through profit or loss

Classification

Financial assets held for trading (fixed-yield securities, variable-yield securities, loans, mutual funds) have been allocated to this line item. It also includes the derivative contracts with a positive Fair value , except those offset pursuant to IAS 32. 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, is settled on maturity and requires a limited initial net investment. If the derivative qualifies as a hedging derivative, the applicable line item is «hedging derivatives». If a financial asset contains an embedded derivative, it is measured by measuring the entire asset at fair value. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This line item also includes financial assets designated at fair value (fixed-yield securities and loans) as the result of the exercise of the fair value option. For the time being, the Group has decided not to apply the fair value option, but does not exclude the exercise thereof in the future.

Lastly, it includes other financial assets mandatorily measured at fair value (fixed-yield securities, variable-yield securities, mutual funds and loans) or that do not meet the requirements for classification at amortised cost or at fair value through other comprehensive income, since they did not pass the contractual cash flow characteristics test (SPPI test), as well as variable-yield securities and mutual funds (that are not held for trading) and debt instruments held within a fair value business model.

Recognition

Assets measured at fair value through profit or loss are recognised at the settlement date at fair value, which normally corresponds to the consideration paid, with the exception of transaction costs and revenues that are recognised directly in profit or loss. 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 recognition, financial assets measured at fair value through profit or loss are measured at fair value at the reporting 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 data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity; cost, in the event that this is the best approximation of fair value).

As regards loans and receivables (due from banks and customers), the models used differ based on the nature and the characteristics of the instruments being measured. Currently, three main base models are applied:

- Discounted Cash Flow Model (DCF)
- Reverse mortgage model
- ABS model

The above models are used to measure performing exposures.

In the event of non performing loans or loans repayable on demand, the fair value equates to the gross balance adjusted for impairment.

Recognition of components affecting the income statement

Income statement components generated by changes in fair value of financial assets measured at fair value through profit or loss are recognised in the income statement in the period they arise under «Net trading income» and «Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss» split between the sub-items: «financial assets and liabilities designated at fair value» and «other financial assets mandatorily measured at fair value».

Interest income and dividends are reported in the income statement under «Interest and similar income» and «Dividends and similar income» respectively.

Derecognition

Financial assets measured at fair value through profit or loss are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

2. Financial assets measured at fair value through other comprehensive income

Classification

This line item includes all financial assets (fixed-yield securities, variable-yield securities and loans) classified in the portfolio measured at fair value through other comprehensive income, distinguishing between those that will subsequently be reclassified to the income statement (fixed-yield securities and loans) and that will not (variable-yield securities). The following are classified in the portfolio measured at fair value through other comprehensive income:

- fixed-yield securities and loans held within an HTC&S business model and that pass the SPPI test;

– variable-yield securities for which the FVOCI option has been irrevocably exercised upon recognition.

Recognition

The assets classified in this caption are recorded on the settlement date. Financial assets measured at fair value through other comprehensive income are initially recognised at fair value, which normally corresponds to the fair value of the consideration paid to acquire them.

With regard to fixed-yield securities and loans, the Group requires any changes in the business model due to inconsistency between the way that the portfolio is managed and the business model that was chosen, or to significant changes in the strategic decisions made, to be decided by the Boards of Directors of each Group member, which will determine if, in rare circumstances, reclassification is needed.

No possibility exists for the reclassification of variable-yield securities. The exercise of the FVOCI option, being the option envisaged by the standard that permits equity instruments to be designated at fair value through other comprehensive income upon initial recognition, is in fact irrevocable.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value in the same manner as financial assets measured at fair value through profit or loss.

The line item «Financial assets measured at fair value through other comprehensive income» comprises 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 represent the majority in this portfolio. For these investments and in consideration of the fact that the application of valuation techniques would use significant discretionary factors, valuation at cost is considered the best expression of their fair value.

At each year end or interim reporting date, fixed-yield securities classified at «fair value through other comprehensive income» are subject to impairment testing based on a calculation framework similar to the one used for financial instruments measured at amortised cost. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

As regards variable-yield securities classified in the line item «Financial assets measured at fair value through other comprehensive income» no impairment testing is required, since changes in fair value due to a deterioration in credit status are recognised in an equity reserve named «Valuation reserves».

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 a change in fair value are, net of deferred tax effect, classified in separate line items within shareholders' equity: «Valuation reserves: Variable-yield securities measured at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income». As an exception for fixed-yield securities, changes in fair value triggered by changes in risk are recognised in profit or loss in the line item 130 b) «Net impairment adjustments/ write-backs relating to credit risk» in relation to financial assets measured at fair value through other comprehensive income. Upon derecognition of fixed-yield securities, accumulated gains or losses pertaining thereto are recognised in profit or loss.

Upon derecognition of variable-yield securities, accumulated gains or losses pertaining thereto are recognised in an equity reserve (line item 150).

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

Financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

3. Financial assets measured at amortised cost

Classification

This line item includes fixed-yield securities and loans allocated to the portfolio measured at amortised cost. To qualify for inclusion in the portfolio measured at amortised cost, a financial asset must be held within an HTC business model and have passed the SPPI test. The following are recognised in this line item:

a) due from banks (current accounts, guarantee deposits, fixed-yield securities, etc.). These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, the distribution of financial products). They also include deposits with Central Banks other than sight deposits included in the line item «Cash and cash equivalents» (for example, mandatory reserve);
b) loans and receivables with customers (mortgage loans, finance leases, factoring, fixed-yield securities, etc.). These also include deposits with post offices and Cassa Depositi e Prestiti, variation margins with clearing houses arising from derivative transactions and operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, servicing activities).

Also included are:

- finance leases relating to assets under construction and assets about to be leased under «transfer of risks» contracts, whereby the risks are transferred to the lessee prior to delivery of the asset and the start of lease instalments;
- loans granted through government or other public entity funding in connection with particular lending transactions provided for and governed by specific laws («loans through third-party funds under administration»), provided that the loans and funds bear interest due and payable to the lender;
- trade notes and documents that the banks receive subject to collection or subsequent to collection and for which the banks handle the collection service on behalf of assignors (recognised only upon settlement of the related amounts).

Recognition

Financial assets measured at amortised cost are recognised on the settlement date at fair value, which normally coincides with the amount paid, including transaction costs.

Financial assets measured at amortised cost include 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 acquired by the bank, and booked in the name of the assigned debtor, for which the related risks and benefits have all been substantially transferred to the bank.

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.

The Group requires any changes in the business model due to inconsistency between the way that the portfolio is managed and the business model that was chosen, or to significant changes in the strategic decisions made, to be decided by the Boards of Directors of each Group member, which will determine if, in rare circumstances, reclassification is needed.

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 (less than 12 months) without a specific repayment date and loans repayable on demand are recognised at historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this amount. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount expected cash flows, even if there has been a credit change associated with the loan triggered by loan forbearance that has led to a change in the contractual rate.

For measurement purposes, financial assets measured at amortised cost are classified in one of 3 different stages as follows:

- Stage 1: performing positions for which there has been no significant increase in credit risk since the date of initial recognition
- Stage 2: performing positions for which there has been a significant increase in credit risk since the date of initial recognition
- Stage 3: positions classified in one of the credit-impaired categories (overdrawn for more than 90 days, unlikely-to-pay, non-performing)

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts». At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, POCI and use of the low credit risk exemption for limited and particular types of counterparties and technical forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric («Probability of Default»), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard. Such a case would result in a transfer between stages: this model is symmetrical and assets may be moved from one stage to another. In particular, consistent with the prudent principles of forbearance, an observation period of at least two years is applied before returning the position to a better stage.

The measurement of financial assets carried at amortised cost is based on a computation of expected credit loss, which is defined as an estimate of the weighted probability of credit losses over the expected life of the financial instrument weighted for the probability of occurrence and is calculated based on the classification in stages as indicated above.

In particular:

- 12-month expected credit losses, for assets classified in stage 1. 12-month expected credit losses are those that result from default events that are possible within 12 months (or within a shorter period if the expected life is less than 12 months), weighted for the probability of occurrence of the default event.
- Lifetime expected credit losses, for assets classified in stage 2 and 3. Lifetime expected credit losses are those that result from all possible default events over the expected life of the financial instrument, weighted for the probability of occurrence of the default event.

  For stage 2 positions, the provisions relating to each counterparty may be amended manually to a level considered appropriate by the competent business functions, based on the results of applying the statistical methodology defined by the Group and specific operational information, if the theoretical expected loss does not accurately reflect the level of risk identified.

  As regards performing positions, measurement is performed on an overall basis, taking account of the risk parameters consisting of probability of default (PD) and loss given default (LGD), as well as exposure at default (EAD).

  As regards credit-impaired positions, measurement may be performed on an overall or detailed basis. More specifically:
- Bad loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.
- Exposures classified as unlikely-to-pay loans are 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 those classified as non-performing or unlikely-to-pay, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 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.

Impairment of individual assets measured at amortised cost is 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:

- 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;
- expected timing of recoveries, considering the progress made by recovery procedures;
- internal rate of return.

Bad loans are assessed on either a detailed or an overall basis. The specific analysis of non-performing financial assets measured at amortised cost takes the following parameters into account:

- recoveries forecast by the account managers;
- expected timing of recoveries based on historical-statistical data;
- 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:

– recoveries forecast by the offices concerned;
– expected timing of recoveries based on historical-statistical data;
– original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of bad loans for which no specific estimate has been made of the loss attributable to each individual relationship.

These financial assets are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Past due and/or impaired overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters established by regulations in force from time to time.

For the positions in question, it is not possible to quantify expected losses on a detailed basis at the level of individual position. The measurement of the level of impairment thereof – and, thus, of the impairment adjustments to be applied on an overall basis – is performed by taking account of the possibility of return to performing of the positions or of a further deterioration of default and, accordingly, of the amount of the estimated expected loss arising from the established recovery process. Measurement is also performed based on the availability of appropriate information of a macroeconomic and prospective nature that is deemed significant for the estimation of the adjustments.

It should be noted that the impairment model relating to impaired loans (Stage 3) envisaged by IFRS 9 is based on an estimate of the difference between the original contractual flows and expected cash flows. So, in determining the expected flows, it is necessary to include estimates at the reporting date of the various expected scenarios, including any loan disposal programmes. If the entity expects to recover a portion of the cash flow of the exposures through sales procedures, these can be included in the calculation of the Expected Credit Losses verified under certain conditions.

The Group incorporates the various recovery strategies considering the different probabilities that they will take place according to the IFRS 9 impairment model.

In the context of calculating the ECL, internal regulations require the expected loss and the recoverable value of bad loans to be estimated in disposal scenarios in accordance with a specific procedure, comprising several phases, that starts with identification of the scenarios.

In general, the accounting rules require the estimate of the loss on non-performing loans to reflect a range of possible outcomes for different scenarios, each associated with a specific probability of occurrence.

Currently, the following possible scenarios have been identified, each with different models and estimated outcomes:

- internal management of credit recovery activities;
- disposal to third parties of impaired exposures.

The next phase consists in identifying the portfolio to be sold, based on knowledge of its characteristics, the existence of any internal and/or external constraints, the monitoring of market conditions and any more complex strategic and operational objectives. The aggregate is defined with reference to the specific factors attributed to each position, such as their contractual characteristics (e.g. type of guarantee, ageing, size of the exposure etc.) and relevant operational information, including the type of recovery procedures already in progress, the geographical location of the counterparty, any impediments or obstacles to disposal, the strategic orientation of the group, the conditions existing from time to time in the market for the disposal of loans, the strategies adopted by competitors, and any other internal and/or external factors that can be explained appropriately.

Each operational scenario identified is assigned a specific probability of occurrence. This probability is determined after considering both quantitative and qualitative elements that can be supported by factual data and documented analysis; for example, the probability of occurrence of the external disposal scenario considers such qualitative elements as the progress made on preparations for the sale and the stage reached in the approval process.

The next phase involves estimating the expected loss for each scenario. The estimate of losses on non-performing loans must reflect reasonable and well-founded information, available without excessive cost or effort, including details of past events, current conditions and the economic situation expected in future. In line with the internal regulations for quantifying the loss expected on non-performing exposures, an estimate is made of the cash flows expected from each operational scenario identified. Without prejudice to specific regulatory instructions, the estimate of cash flows from internal credit management scenarios takes account of macroeconomic and sector information, the situation faced by the debtor, the cash flows expected from the restructuring of unlikely-to-pay exposures, any secured and unsecured guarantees, the period for which the position has been impaired and the expected time to obtain recovery.

The estimate of cash flow from loan disposal scenarios takes account of any similar transactions carried out in the past by the group, as well as specific information available about the underlying (situation faced by the borrower and any loan guarantees obtained) and the market for the disposal of non-performing loans (e.g. historical and forecast market curves, positioning analyses, discount rates based on current and expected conditions in the market for impaired loans an receivables).

The expected loss on each impaired position is therefore determined using the following formula:

Expected Loss - Individual position	=	Expected Loss - Disposal Scenario * Probability of occurrence of Disposal	+	Expected Loss - Internal Management Scenario * Probability of occurrence of Internal Management

Recognition of components affecting the income statement

Interest income on financial assets measured at amortised cost is classified in the line item «interest and similar income».

Reductions or recoveries of partial or entire amounts previously written down are booked to the income statement.

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the line item «interest and similar income».

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

IFRS 9 confirms the rules for derecognition of financial assets already established by IAS 39. Accordingly, financial assets measured at amortised cost are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

However, the standard includes new guidance on:

– Write-offs of financial assets: when an entity does not reasonably expect to fully or partly recover contractual cash flows from a financial asset, it must directly reduce the gross carrying amount of the financial asset. This writedown constitutes partial or total derecognition of the asset.
– Modification of contractual cash flows: when a modification of contractual cash flows occurs, an entity must assess whether the modification would lead to derecognition, that is, whether the modification is substantial.

When the modification of contractual cash flows from a financial asset leads to the derecognition of a financial asset in compliance with the present standard, an entity should derecognise the existing financial asset and subsequently recognise the modified financial asset: the modified financial asset is deemed to be a «new» financial asset for the purpose of this standard. (IFRS 9 B5.5.25).

When the modification of contractual cash flows from a financial asset does not lead to the derecognition thereof, an entity should redetermine whether there has been a significant increase in credit risk and/or whether the financial asset should be reclassified to stage 3.

At the time of a modification that does not lead to derecognition, the Group adjusts their carrying amount to the present value of the modified cash flows determined using the original effective interest rate, with a matching entry to the income statement.

3.1 Commitments and guarantees given

Classification

These comprise all the secured and unsecured guarantees given for third-party obligations and commitments to disburse funds.

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. The impairment model envisaged for this category of financial assets is the same as that for financial assets measured at amortised cost (see paragraph 3 above).

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 reversals, are booked to the income statement under «net provisions for risks and charges» with a contra-entry to «Provisions for risks and charges - a) Commitments and guarantees given».

4. Hedging transactions

Classification and recognition

Financial and credit derivatives held for hedging purposes with a positive or negative fair value are recognised in the corresponding balance sheet line item. The IASB is still developing new macro hedging requirements to complete the hedge accounting requirements already included in IFRS 9, which will replace the rules set out in IAS 39 and, accordingly, until the completion and publication of the new standard, the Group has decided to continue to apply the hedge accounting requirements set out in IAS 39, as this option is allowed under IFRS 9.

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:

- fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

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.

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.

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- 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;
- 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 to match the change in the carrying value of the hedged item.

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:

- 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;
- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

If the hedging instrument expires or is sold, cancelled or exercised without replacement (as part of the hedging strategy), or if it ceases to be designated as a hedging instrument, or if the hedge no longer satisfies hedge accounting criteria, any gains or losses previously recognised as components of other comprehensive income remain classified separately within equity until the expected transaction takes place or the commitment made in relation to foreign currency is called upon.

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.

5. Equity investments

Classification

The portfolio of equity investments comprises holdings in subsidiary companies, associated companies and companies under joint control, other than those included in the line item «financial assets measured at fair value through profit or loss» in accordance with IAS 28 and IFRS 11.

Recognition

Reference should be made to Section «Scope and methods of consolidation».

Accounting policies

Reference should be made to Section «Scope and methods of consolidation».

Measurement and recognition of components affecting the income statement

Reference should be made to Section «Scope and methods of consolidation».

Derecognition

Reference should be made to Section «Scope and methods of consolidation».

6. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery. The rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

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.

According to IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset for the duration of the lease.

When the asset is made available to the lessee for its use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

The start of the lease term is the date from which the lessee is authorised to exercise his right to use the leased asset, it corresponds to the date of initial recognition of the lease and also includes the so-called rent-free period, or those contractual periods in which the lessee makes use of the asset free of charge. At the time the contract begins, the lessee recognises:

– an asset consisting of the right to use the asset underlying the lease contract.

The asset is recognised at cost, determined by the sum of:

- the financial liability for the lease;
- payments for the lease paid before or on the date on which the lease takes effect (net of the lease incentives already received);

- initial direct costs;
- any (estimated) costs for the dismantling or restoration of the underlying leased asset.

– A financial liability deriving from the lease agreement corresponding to the present value of the payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise the lessee's incremental borrowing rate is used. If a lease contract contains «non-lease components» (for example services, such as routine maintenance, to be recorded according to the provisions of IFRS 15) the lessee has to account for «lease components» and «non-lease components» separately and split the contract consideration between the various components based on their relative prices.

The lease term is determined by taking into account:

– periods covered by a lease extension option, if it is reasonably certain to be exercised;
– periods covered by a lease termination option, if it is reasonably certain to be exercised.

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 measured 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 amount with respect to their recoverable amount 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.

With regard to lease contracts, the lessee must:

– assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36 «Impairment of assets», adjusted to take into account any restatements of the lease liability;
– increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the incremental borrowing rate and reduce it for payments of principal and interest. In the event of changes in payments due for leases, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

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.

With regard to buildings held for investment purposes, the net result of their measurement at fair value is recorded separately in the income statement.

In the lessee's income statement, the payment of the fee, previously shown under «Other administrative expenses», is now accounted for:

– under «Net interest» for the portion of interest expense relating to the financial liability in relation to the lease contract;
– under «Adjustments to property, equipment and investment property and intangible assets» for the depreciation charge relating to the right of use of the asset.

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.

The right of use deriving from lease contracts is eliminated from the financial statements at the end of the lease term.

7. 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.

Accounting policies

Subsequent to initial recognition, intangible assets except for goodwill 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 amount 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 amount 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.

8. Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally from sale rather than from continuous use. Non-current assets are only classified in this item when disposal is considered very probable, and the asset or disposal group is available for immediate sale in its current condition, given that management is committed to making the sale, which should be scheduled for completion within one year of the classification date. 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.

9. 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, if these amounts are likely to be recovered from or paid to the tax authorities. Tax liabilities are determined by applying the current tax rates and regulations.

When estimating tax assets and liabilities, any charges deriving from disputes notified by the Tax Authorities and not yet settled or whose outcome is uncertain, as well as any contingent charges, however remote, connected to the tax treatment adopted by the Company and other Group companies, which may not be accepted by the Tax Authorities, are taken into account.

If there are deductible or taxable temporary differences at the reporting date between the value of assets and liabilities for tax purposes and the related carrying amounts, the corresponding deferred tax assets and liabilities are recognised using the liability method. Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions: – they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes; – the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future. Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions: – the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes; – in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them. 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 only recognised when 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 their recovery is probable; this probability is assessed by carrying out a probability test, based on the Group's ability to continue generating positive taxable income or, as a result of the Tax Consolidation option, based on that generated by the tax group member companies. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal. Deferred tax assets and liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date. 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 comprehensive income or equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This caption comprises the following provisions:

- The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to disburse loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.
- Sub-item «Pensions and similar obligations» only includes the supplementary defined benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other «external» supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed. These include:
- • Parent Company's pension plan. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Bank is responsible for any unfunded liabilities.
- • Actuarial liabilities pertaining to BPS (Suisse) SA arising from supplementary pension costs for the employees thereof. For further details, see the specific accounting method explained below.
- The sub-item «Other provisions for risks and charges» includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
- • the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
- • it is likely that settlement of the obligation will involve the use of economic resources;
- • 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).

11. Financial liabilities measured at amortised cost

Classification

This line item includes amounts due to banks and due to customers, regardless of their technical form (deposits, current accounts, loans, securities), other than those recognised in line items 20 «Financial liabilities held for trading» and 30 «Financial liabilities designated at fair value». It also includes operating payables linked to the financial services and activities defined in the Consolidated Banking Act and the Consolidated Finance Act, variation margins with clearing houses arising from derivative transactions and other operating payables associated with the provision of financial services. 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. They also include payables recorded by the company as a lessee in the context of lease transactions.

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. 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. Amortised cost is calculated after identifying the acquisition discount or premium and the fees or costs that are an integral part of the effective interest rate. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are measured in accordance with the regulations applying to such transactions.

Lease payables are revalued when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest and similar expense». The amortization charged using the effective interest rate is recognised among the financial charges in the income statement. Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses from sale or repurchase of financial liabilities».

Interest expense on the financial liability under the lease contract is recorded in «Interest and similar expense».

Derecognition

Financial liabilities are derecognised when the underlying obligations expire or are settled, cancelled or satisfied. Funding liabilities that are subsequently repurchased are eliminated from the financial statements.

12. 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.

13. Financial liabilities carried at fair value

The financial statements do not include any financial liabilities measured at fair value.

14. Currency transactions

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 in which they arise. Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the 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.

15. Termination indemnities

Post-employment benefits (i.e. 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, for the portion of the amount accrued. Under the projected unit credit method, 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.

The termination indemnities earned after 31 December 2006 are part of defined contributions plans. The contributions payable to these plans are recognised as a liability on an accruals basis, after deducting any contributions already paid to supplementary pension funds and to the INPS treasury fund in relation to the work performed by employees, with a matching entry to the income statement.

16. Other information

16.1 Share-based payments – Transactions settled using equity instruments

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. The cost of transactions settled using equity instruments is represented by their fair value at the grant date, as determined using an appropriate method of measurement.

This cost and the corresponding increase in equity is recognised as a payroll cost over the period in which the conditions for achieving the objectives and/or providing the service are satisfied. The transaction costs already accumulated at each reporting date prior to the vesting date are projected forward to the vesting date, together with the best estimate of the number of equity instruments that will actually vest. The cost or income recognised in the income statement represents the change in accumulated cost between the start and the end of the year.

The service or performance conditions are ignored when the fair value of the plan is determined at the grant date. However, the probability that these conditions will be satisfied is considered when estimating the number of equity instruments that will actually vest. Market conditions are reflected in the fair value determined at the grant date. All other plan conditions that do not involve a service obligation are not considered to be vesting conditions. Non-vesting conditions are reflected in the fair value of the plan and result in immediate recognition of the cost of the plan, unless service or performance conditions must also be satisfied.

16.2 Interest Rate Benchmark Reform

The so-called «IBOR reform» follows the recommendations of the Financial Stability Board (FSB) following the G20 request for a radical revision of the main benchmark interest rates. The request is a direct consequence of the loss of reliability of certain benchmark rates following their alleged manipulation, corroborated by the scarcity of liquidity in interbank markets in the period after the economic crisis.

At the European level, this reform was translated into the European Union Regulation 2016/1011 of 8 June 2016 (the so-called Benchmarks Regulation, BMR) in force since January 2018, implemented in Italy by Legislative Decree 19 of 13 February 2019. The regulation defined the new regulatory framework on reference rates, EURIBOR, LIBOR and EONIA, creating uncertainty about the long-term availability of some Benchmarks. In this context, the Banca Popolare di Sondrio group has launched an assessment project in order to have a clear vision of the «magnitude» of the phenomenon with regard to the following areas of investigation: products, contracts, models and information systems.

With reference to the euribor, the reference rate used for numerous types of funding and lending transactions and derivative products, calculated for different maturities and administered by the European Money Markets Institute (EMMI), from 28 November 2019 it is calculated using a new methodology in order to adapt to this regulation. This innovative methodology does not change the economic variable that the index represents, which remains the cost of funding for the contributing European banks. The change relates to the figure being measured, which now consists of the actual cost of funding recorded by the transactions effectively concluded and no longer, as was previously the case, from that relating to the purchase or sale proposals declared by the contributing banks.

Publication of the EONIA benchmark rate as previously calculated ceased as of 1 October 2019. The publication of € STR (Euro Short-Term Rate) replaced this parameter from 2 October 2019. As regards the € STR rate, of the Banca Popolare di Sondrio Group's exposure appears to have no impact given the absence of products indexed to the new €STR rate.

In the end of the day, publication of LIBOR will cease from the end of 2021 and in the individual countries concerned there are already alternative risk-free rates that will replace LIBOR.

From an accounting point of view, Regulation 34/2020 of 15 January 2020 which endorsed the amendments to IFRS 9, IAS 39 and IFRS 7 issued by the IASB as part of the «Interest Rate Benchmark Reform» is to be applied. This document modifies certain requirements relating to hedge accounting to allow entities to provide useful information in the period of uncertainty resulting from the phasing out of benchmark interest rates by 2021. The principal points of this document relate to the highly-probable requirement for the hedging of cash flows (i.e. if the hedged element consists of a programmed operation, the entity must determine if that operation is highly probable, assuming that the benchmark interest rate underlying the hedged cash flows does not change as a result of the reform), to assessment of the relation between the hedged element and the hedging instrument (the entity must assume that the benchmark interest rate underlying the hedged cash flows and/or the hedged risk or the cash flows of the hedging instrument do not change as a result of the reform), to forward-looking and retrospective assessments (the entity must presume that the benchmark interest rate underlying the hedged cash flows and/or the hedged risk or the cash flows of the hedging instrument will not change as a result of the reform), and to the designation of a component of risk as the hedged element (the entity must apply the specific provisions of IFRS 9/IAS 39 if the risk component affected by the reform is only identifiable separately at the start of the hedging relationship; it is not necessary to remeasure or redesignate a hedging relationship if the hedge is dynamic).

Please see Part E, 1.3 Derivative instruments and related hedging policy, 1.3.2. Accounting hedges in these explanatory notes for further information.

16.3 TLTRO III

The Governing Council of the European Central Bank (ECB) launched a new series of seven targeted longer-term refinancing operations (TLTRO III). The new financing operations, based on what is indicated in the ECB decision of 07/03/2019:

- envisaged auctions from September 2019 to March 2021 on a quarterly;
- have a duration of three years, with the possibility of voluntary early repayment (total or partial) starting one year after the settlement of each transaction.

During the meetings of 12 March and 30 April 2020, as a result of the Covid-19 emergency, the Governing Council of the ECB revised the parameters of the TLTRO III operations with reference to the maximum amount that can be financed and the related remuneration.

TLTRO III operations are indexed to the average interest rate on the main refinancing operations (MRO) , currently equal to 0%, or alternatively, depending on the achievement of certainbenchmarks, at the average interest rate on overnight deposits at the central bank's Deposit Facility (DF).

Following the crisis linked to Covid-19, for the period between 24 June 2020 and 23 June 2021, a cut in these rates of 50 basis points has been envisaged.

Application of the DF rate (currently -0.50%) is tied to the condition that eligible net loans between 1 March 2020 and 31 March 2021 are higher than benchmark net lending. Taking into account that for the Bank benchmark net lending is negative and that eligible net loans show a development that makes it reasonably certain that the benchmark net lending will be exceeded, interest was recognised on the basis of the minimum deposit rate (equal to -0.50% and a further reduction of 50 bps). Consequently, the value of the maximum benefit is lower than the market interest rate (MRO).

Given that the funding is granted not at market terms, TLTRO III transactions qualify as a loan from a government whose benefit is treated as a government grant under IAS 20. In line with the provisions of paragraph 8 of IAS 20, a public grant cannot be recognized until there is reasonable certainty that the entity complies with the required conditions.

From an accounting point of view, in consideration of paragraph 12 of IAS 20, the recognition of the benefit must be made in the years in which the entity recognizes as costs the related expenses that the contributions are intended to offset. Considering that the benefit was granted to the banks in order to support the provision of loans during the pandemic which, for the Bank, mainly consisted of granting of new loans directly linked to the pandemic, it can be concluded that the «higher cost» incurred by the Bank is attributable to both the cost of the new funding to finance new disbursements, and to a loss of cash flow on transactions subject to a moratorium for the period of the suspension, which resulted in an additional financial requirement.

At 31 December 2020, the book value of the TLTRO III liabilities amounted to € 8,068 million and the related accounted interest amounted to € 51 million.

16.4 Revenue from contracts with customers

In compliance with IFRS 15, revenue arises from the transfer of goods or services to the customer and is recognised at an amount that reflects the consideration that the Group deems it is entitled to in exchange for the above goods or services using a five-step model (identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue when the entity satisfies a performance obligation).

Revenue from contracts with customers is recognised in profit or loss when it is probable that an entity will receive the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. The consideration is allocated to individual performance obligations in the contract and is recognised in profit or loss based on the timing of the satisfaction of performance obligations. More specifically, revenue is recognised in profit or loss either at a point in time or over time as and when the entity satisfies its performance obligations. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both. The contractual consideration may vary as a result of price concessions, discounts, rebates, incentives or other similar items and may be contingent on the occurrence or non-occurrence of a future event. In the presence of variable consideration, revenue is recognised in profit or loss if it is possible to reliably estimate the revenue and only if it is highly probable that the entire consideration, or a significant part thereof, will not be subsequently reversed from profit or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements. The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to.

The amount of commission recognised on the placement of products is adjusted to take account of any variable revenues that might have to be returned in future. The revenues earned on current accounts are recognised after allocation to the individual products or services comprising the stand-alone package.

16.5 Accounting treatment of tax credits connected with the «Cura Italia» and «Relaunch» «Decrees».

Decree Laws 18/2020 («Cura Italia») and 34/2020 («Relaunch») have introduced into the Italian law incentive tax measures connected with both investment expenses (e.g. Ecobonus and Sismabonus) and with current expenses (e.g. rental fees for non-residential premises). These tax incentives are applied to households or businesses, they are commensurate with a percentage of the expenditure incurred (which in some cases even reaches 110%) and are disbursed in the form of tax credits or tax deductions (with an option to convert them into tax credits). For the Ecobonus and Sismabonus, in addition to the other incentives for building interventions, it is also possible to take advantage of the incentive through a discount on the amount due to the supplier, who will be granted a tax credit. Most of the tax credits subject to the incentives are transferable to third-party purchasers, including banks, who will use them according to specific rules.

With a view to helping to support families and businesses, the Group launched a specific project aimed at acquiring these tax credits in the second half of 2020. As of 31 December, the amount of these acquired tax credits was limited. They were accounted for in compliance with the provisions of the international accounting standards. In this sense, consistently with the provisions of the Bank of Italy/Consob/Ivass Document no. 9, the purchased tax credits do not represent tax assets, government grants, intangible assets or financial assets, so the most appropriate classification in the balance sheet is «other assets». At the time of initial recognition, the tax credit is recognized at the price of the transaction (value corresponding to its fair value). For subsequent valuations, application of IFRS 9 to the Hold To Collect business model is envisaged, with measurement at amortised cost. As for how it should be presented in the income statement, the related income is recognised under interest.

16.6 Income from dividends

Dividends are recognised when the right to collect them arises.

16.7 Treasury shares

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

16.8 Covered bond

See Part E, section D.4, of these notes to the financial statements.

16.9 Interbank Deposit Protection Fund - Voluntary Scheme

In December 2015, the Parent Company 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. The Fund intervened in support of Banca Carige in 2018, resulting in a payment by the Bank of 5.257 million matched by the recognition of a financial asset represented by securities measured at fair value through profit and loss. This financial asset was written down in full in the 2018 financial statements. No other charges for other interventions were accounted for during 2019 and the period under review.

16.10 Information pursuant to art. 1, paras. 125-129 of Law 124 dated 4 August 2017 «Annual law for the market and competition - Measures on the transparency of public payments» as amended by art. 35 of Legislative Decree 34 dated 30/04/2019 (so-called «Growth decree»)

With regard to the above legislation, the contributions or aid received by the bank in cash or kind, that were not generally available and did not represent consideration, remuneration or reimbursements, have been published on the National Register of State Aid, to which reference is made pursuant to art. 125-quinquies of that law.

16.11 Significant accounting policies and uncertainties about the use of estimates when preparing the consolidated financial statements (pursuant to IAS 1 and the recommendations contained in Bank of Italy/Consob/Isvap documents 2 dated 6 February 2009 and 4 dated 3 March 2010)

As stated previously, the adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the financial statements and the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Group considers all available information at the reporting date, as well as any reasonable assumptions based on external evidence and its own historical experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the Group. The results reported in future might, in fact, differ significantly from the estimates made when preparing the interim financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities might become necessary that are currently unforeseeable and cannot be estimated.

The principal uncertainties at this time, with a potential impact on the future operating scenarios that unfold for the Group, include the direct and indirect adverse consequences for the Italian and global economies of the COVID-19 pandemic.

Based on the provisions of the ESMA document on common European supervisory priorities 2020 of 28 October 2020 («European common enforcement priorities for 2020 annual financial reports») and CONSOB reference 1/21 of 16/02/2021, containing the recommendations concerning the implications of the COVID-19 pandemic on the annual financial reports of listed issuers, the essential aspects of the information regarding the impacts of the COVID-19 epidemic on the assessment of the recoverability of the assets, on the significant uncertainties and risks as well as the impacts of the pandemic on the economic results of the period are shown below.

A. Economic results

The dynamics of the main economic aggregates of the Group recorded at 31 December 2020 are summarized below, highlighting those most affected by the effects linked to the health crisis caused by the spread of COVID-19. In particular, the net interest income benefited from the positive effects deriving from the expansion of loan volumes, in particular those that benefited from government measures. Net fee and commission income was affected by the reduction in branch operations following the restrictive measures introduced to limit the spread of the virus, with a negative impact on those relating to the collection and payment system. The results of the financial activity were negatively impacted by the tensions on financial markets recorded above all in the first part of the year and not fully recovered by the end of the year. The cost of credit was influenced by the effects deriving from the changed macroeconomic scenario that emerged with the spread of the pandemic, which led to an increase in coverage levels. This effect was partly offset by the positive impacts deriving from the lower transfers to default, thanks to the moratoria granted and the positive effects generated by the acquisition of state guarantees on the loans disbursed. In the following paragraph, more detail is provided on the impacts on the quantification of expected losses, also highlighting the quantitative ones. Overall, this negatively impacted the partial and total economic results, with a consequent negative effect also on profitability and credit quality indicators. Please refer to the chapter «Results of brief and alternative performance indicators» contained in the consolidated report on operations for more details and quantitative data.

B. ECL – Expected credit losses

During the 2020, to calculate expected losses on performing loans and to update the historical series of risk parameters and macroeconomic factors based on the latest available forecasts, including the effects of the COVID-19 pandemic, we continued to make improvements to our models with a view to making better estimates of expected losses, in line with the requirements of IFRS 9.

With specific reference to the explicit modelling of the scenario-dependency component as postulated by the accounting standard, we would point out that we adopted to calculate the loan loss adjustments made in December 2020 different macro-scenarios, including COVID effects.

On the other hand, as regards the SICR thresholds to be used in the absolute staging criteria, they were recalibrated on the basis of the new macro-economic scenarios carried out according to the usual methods. Furthermore, in light of the macroeconomic context and from a prudential and prospective point of view, a working group dedicated to the analysis of loans that benefited from the COVID-19 moratoria was set up; this analysis aims to identify any signs of increased credit risk, segmenting the portfolio on the basis of certain driver risks such as the sector to which it belongs and the borrower's rating.

Lastly, again from a prudential point of view and considering the high uncertainty of the current macroeconomic context, a specific expert-based overlay framework was applied, aimed at best capturing the risks associated with the pandemic.

Overall, these revisions resulted in higher collective loan loss adjustments, going from 124 million euro at 31 December 2019 to 196 million euro at 31 December 2020.

In any case, it cannot be excluded that the introduction of different methodologies, parameters and assumptions in determining the recoverable value of the Group's performing credit exposures – also influenced by the evolution of the economic-financial and regulatory context of reference – could lead to valuations that are different from those carried out for the purpose of these consolidated financial statements at 31 December 2020.

For further details on the incorporation of the COVID-19 effects in the calculation of value adjustments on loans and on the sensitivity analysis, please refer to paragraphs «2.3 Methods for measuring expected losses» and «5. Impacts deriving from the COVID-19 pandemic» contained in the section on credit risk of «Part E - Information on risks and related hedging policies» of the notes to the separate financial statements.

C. Moratoria and other support measures

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

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

Through the Communication of 30 June 2020 «Guidelines of the European Banking Authority relating to the reporting and disclosure obligations to the public on exposures subject to measures applied in light of the COVID-19 crisis» and of 15 December 2020, the Bank of Italy implemented the Guidelines of the European Banking Authority (EBA) relating to the reporting and disclosure obligations to the public on exposures subject to measures applied in light of the COVID-19 crisis. In detail, the integration of the provisions governing the financial statements of banks (Circular 262 of 2005) was envisaged to provide the market with information on the effects that COVID-19 and the measures to support the economy have produced on strategies, risk management objectives and policies, as well as on the financial situation of intermediaries.

The accounting classification criteria for loans remained unchanged compared with the financial statements as at 31 December 2019, with the exception of the following. Given the exceptional nature of the situation caused by the COVID-19 pandemic and the guidelines of the Supervisory Authorities, aimed at using the margins of flexibility existing in the accounting and prudential regulations, during the 2020 it was decided to make some changes to the accounting classification, such as:

1) loan suspensions and concessions (e.g. restructuring/rescheduling) according to a specific law or allowed by the banking system for the purpose of providing lines of credit to cope with COVID-19 are not to be identified as forborne exposures, unless otherwise indicated;
2) suspensions and concessions other than those in point 1) are subject to specific assessment and considered forborne, with consequent transfer to stage 2, in all cases in which the financial difficulty and/or type of support granted is not exclusively attributable to the COVID-19 pandemic and/or are not sufficient to cope with its effects.

For more information on the actions taken by the Group for a correct classification of the support measures, please refer to the specific paragraphs «Impacts deriving from the COVID-19 pandemic» in the qualitative section on the general aspects of each risk.

Lastly, for details in terms of gross exposure, impairment adjustments (overall and for the year), inter-stage transfers of the support measures granted to the Group at 31 December 2020, please refer to the following tables:

- 4.4a of «Section 4 - Financial assets measured at amortised cost», contained in «Part B - Information on the balance sheet» of these Notes;
- 8.1a and 8.2a of «Section 8 – Net adjustments for credit risk» contained in «Part C – Information on the income statement» of these Notes;
- A.1.3a and A.1.5a included in the quantitative information of the section related to credit risk of «Part E – Information on risks and related hedging policy» of these Notes.

D. Impairment test on goodwill

Checks are carried out periodically to ensure that there are no indicators of permanent losses on intangible assets with an indefinite useful life (goodwill) and equity investments recorded under assets. Impairment testing is carried out annually by determining the value in use or the fair value of the assets and verifying that the value at which the intangible asset or investment is recorded in the financial statements is lower than the value in use or the fair value, whichever is the higher, net of selling costs. At 31 December, goodwill on the books related to Factorit S.p.A., acquired in 2010, and Prestinuova S.p.a. acquired on 23 July 2018, total 12.6 million.

The impairment test of these assets did not highlight the need to carry out any write-down of the carrying amounts. Part B of these Notes to the Consolidated Financial Statements, section 10 – «Intangible assets» – item 100, provides the main assumptions underlying the verification of the recoverability of goodwill and the related results.

E. Financial instruments (measurement of financial assets, equity investments and models for determining the fair value of instruments not listed in active markets)

Financial instruments not listed in active markets and illiquid and complex instruments are measured using specific complex models and/or parameters not observable in the market. These measurements are therefore highly complex, as highlighted by their classification in the fair value hierarchy. See Part A.4 – «Information on fair value» in these notes to the financial statements for qualitative and quantitative information on the methods adopted to determine the carrying amounts of instruments measured at fair value and those measured at amortised cost.

With regard to equity investments, the draft financial statements and updated business plans of the companies concerned might not be available when preparing the financial statements of the bank, which would increase the uncertainties involved in measuring their value. In such cases, the carrying amounts assigned to the equity investments concerned, based on the available information, might differ from subsequent measurements made on the basis of different information that becomes available.

F. Deferred tax assets

The assets shown in the Group's balance sheet include deferred tax assets, which principally derive from temporary differences between the date of recognition of costs in the income statement and the date on which they become tax deductible and, to a lesser extent, from tax losses carried forward. The recognition of these assets and their subsequent retention in the balance sheet is dependent on verification of their recoverability. This involves the performance of a probability test that, inter alia, takes account of the tax regulations in force at the reporting date. At 31 December, the group has recognised deferred tax asset totalling about 299 million that satisfy the requirements of Law 214 dated 22 December 2011, which are transformable into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value of production» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. For the residual tax assets that cannot be converted into tax credits, on the basis of the provisions of accounting standard IAS 12 and the considerations formulated by ESMA in the document of 15 July 2019, the required verification of recoverability was carried out by analysing the probability of having sufficient taxable income in the future. In particular, the forecast of profitability that underpins the opinion on recoverability is based on reasonable and realistic hypotheses and assumptions. It also applies a weighting factor that expresses the relative degree of uncertainty, which increases along with the estimation time horizon. At 31 December, among the assumptions that most influenced the aforementioned estimate, it is necessary to mention the potential negative impacts that the COVID-19 pandemic will have on the future profitability of the Group. Lastly, the recoverability of all the deferred tax assets might be adversely influenced by further changes in the current tax regulations, which are not foreseeable at this time. Section 11 – «Tax assets and tax liabilities», contained in Part B – Assets of these notes to the financial statements, provides information about the nature of DTAs and the checks carried out on their recoverability, as well as about the results of the sensitivity analysis carried out on the time horizon for their recoverability, considering reasonable changes in the expected cash flows.

G. The measurement of the liability for employee benefits

The measurement of the liability for employee benefits involves a certain degree of complexity, especially with regard to defined benefit plans and other long-term benefits, given that this involves making actuarial assumptions of a demographic (e.g. mortality rate, employee turnover) and financial (e.g. discount rates and inflation rates) nature. Part B of these notes to the financial statements contains separate analyses covering the sensitivity of the provision for employee termination indemnities and the provision for defined benefit pensions to changes in the actuarial assumptions included in the model.

A.3 TRANSFER OF FINANCIAL ASSETS HELD FOR TRADING

As in the previous year, the Group did not carry out any reclassifications of financial assets.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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 Credit Value Adjustment (CVA) and represents the potential loss associated with the counterparty credit risk, while the Debit Value Adjustment (DVA) 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 Group 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, 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 portfolio of financial assets largely comprise securities carried at cost, or through prices of previous transactions, 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.

As regards the Asset Backed Securities (ABS) present in portfolio, deriving from the «Diana» and «Luzzatti» securitisations of non-performing loan portfolios, the analyses and assessments were carried out on the basis of the most recent information available and following the so-called waterfall structure for modelling the cash flows of the securitisations. From our analyses, no elements emerged that would justify a change in the fair value of the tranches with respect to the values currently recorded in the financial statements. There are also in portfolio units of funds deriving from corporate loan restructurings, whose measurement at fair value is carried out on the basis of the NAV, corrected if necessary to take into account the investment's poor liquidity.

The Level 3 instruments whose Fair value is determined by processing unobservable quantitative inputs largely relate to those financial instruments that did not pass the SPPI test envisage in IFRS 9 for classification as financial assets. The fair value of the majority of these financial instruments is determined using a DCF model or, for demand products, stated at the gross exposure net of any impairment due to credit risk. The economic results do not fluctuate significantly on changes in the unobservable risk parameters. In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.10% under the adverse scenario and higher by 0.05% under the favourable scenario). The changes were very limited because the credit risk associated with most of these instruments is low.
b) analysis of the sensitivity to changes in the LGD (Loss Given default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (fair value lower by 0.34% under the adverse scenario and higher by 0.19% under the favourable scenario). Here too, the changes were very limited because the credit risk associated with most of these instruments is low.
c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by 1.23% following an increase in the rate curves and, conversely, increased by 4.52% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The shocked and non-shocked fair value may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low.
d) sensitivity analysis to quantify the effect of modelling explicitly the illiquidity and funding spread component. If this component is not modelled explicitly, the change in fair value is +6.50%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is 0.04% if the rate curves are shifted up, and +0.01% if they are shifted down.

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 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.

A4.4. 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

	31/12/2020			31/12/2019		
Financial assets/liabilities carried at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Financial assets measured at fair value through profit or loss**	**154,914**	**624,957**	**448,862**	**211,483**	**340,948**	**353,274**
a) financial assets held for trading	117,984	66,616	5,945	170,496	35,865	8,105
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	36,930	558,341	442,917	40,987	305,083	345,169
2. **Financial assets measured at fair value through other comprehensive income**	**2,475,922**	**-**	**144,017**	**2,517,070**	**-**	**74,159**
3. **Hedging derivatives**	**-**	**-**	**-**	**-**	**-**	**-**
4. **Property, equipment and investment property**	**-**	**-**	**62,080**	**-**	**-**	**62,787**
5. **Intangible assets**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,630,836**	**624,957**	**654,959**	**2,728,553**	**340,948**	**490,220**
1. **Financial liabilities held for trading**	**-**	**32,926**	**890**	**-**	**66,829**	**190**
2. **Financial liabilities designated at fair value**	**-**	**-**	**-**	**-**	**-**	**-**
3. **Hedging derivatives**	**-**	**6,271**	**-**	**-**	**11,320**	**-**
Total	**-**	**39,197**	**890**	**-**	**78,149**	**190**

There were no transfers between fair value levels during the year.

The impact of the CVA and DVA on the determination of the fair value of derivative products is not significant, not least because most 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 measured at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. **Opening balance**	**353,307**	**8,105**	**-**	**345,202**	**74,157**	**-**	**62,787**	**-**
2. **Increases**	**243,203**	**-**	**-**	**243,203**	**103,546**	**-**	**46**	**-**
2.1. Purchases	228,001	-	-	228,001	6,607	-	-	-
2.2. Income booked to:	7,903	-	-	7,903	54,349	-	46	-
2.2.1. Income statement	7,903	-	-	7,903	20	-	46	-
- of which realized gains	6,340	-	-	6,340	-	-	46	-
2.2.2. Equity	-	-	-	-	54,329	-	-	-
2.3. Transfers from other levels	-	-	-	-	29,867	-	-	-
2.4. Other increases	7,299	-	-	7,299	12,723	-	-	-
3. **Decreases**	**147,648**	**2,160**	**-**	**145,488**	**33,686**	**-**	**753**	**-**
3.1. Sales	13,324	-	-	13,324	2,604	-	-	-
3.2. Reimbursements	116,997	-	-	116,997	264	-	-	-
3.3. Losses booked to:	9,474	2,160	-	7,314	27,088	-	753	-
3.3.1. Income statement	9,474	2,160	-	7,314	1,009	-	753	-
- of which realized losses	8,890	1,585	-	7,305	-	-	753	-
3.3.2. Equity	-	-	-	-	26,079	-	-	-
3.4. Transfers from other levels	-	-	-	-	2,657	-	-	-
3.5. Other decreases	7,853	-	-	7,853	1,073	-	-	-
4. **Closing balance**	**448,862**	**5,945**	**-**	**442,917**	**144,017**	**-**	**62,080**	**-**

The increase during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (loans in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This line item also includes the units in mutual funds not held for trading that were previously classified as «financial assets carried at fair value» and «financial assets available for sale».

A.4.5.3 Annual changes in liabilities carried at fair value on a recurring basis (Level 3)

	Financial liabilities held for trading	Financial liabilities measured at fair value	Hedging derivatives
1. **Opening balance**	**190**	**–**	**–**
2. **Increases**	**700**	**–**	**–**
2.1 Issues	–	–	–
2.2. Losses booked to:	700	–	–
2.2.1. Income statement	700	–	–
- of which realized losses	700	–	–
2.2.2. Equity	–	–	–
2.3. Transfers from other levels	–	–	–
2.4. Other increases	–	–	–
3. **Decreases**	**–**	**–**	**–**
3.1. Reimbursements	–	–	–
3.2. Repurchases	–	–	–
3.3. Income booked to:	–	–	–
3.3.1. Income statement	–	–	–
- of which realized gains	–	–	–
3.3.2. Equity	–	–	–
3.4. Transfers to other levels	–	–	–
3.5. Other decreases	–	–	–
4. **Closing balance**	**890**	**–**	**–**

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	31/12/2020				31/12/2019			
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	39,168,264	7,203,151	-	33,166,713	34,200,066	6,403,705	-	28,795,515
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**39,168,264**	**7,203,151**	**-**	**33,166,713**	**34,200,066**	**6,403,705**	**-**	**28,795,515**
1. Financial liabilities measured at amortised cost	45,386,147	2,614,567	284,068	42,555,036	36,949,458	2,598,332	247,560	34,144,708
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**45,386,147**	**2,614,567**	**284,068**	**42,555,036**	**36,949,458**	**2,598,332**	**247,560**	**34,144,708**

A.5 – INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IFRS 9 para. B5.1.2A 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

	31/12/2020	31/12/2019
a) Cash	124,841	153,362
b) Demand deposits with central banks	4,941,765	1,673,065
Total	**5,066,606**	**1,826,427**

Section 2 Financial assets measured at fair value through profit or loss - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2020			31/12/2019		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	25,441	–	–	82,698	–	–
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	25,441	–	–	82,698	–	–
2. Variable-yield securities	66,970	–	–	57,212	–	–
3. Mutual funds	25,573	12,819	–	30,586	11,808	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total (A)	**117,984**	**12,819**	**–**	**170,496**	**11,808**	**–**
B. **Derivatives**						
1. Financial derivatives	–	53,797	5,945	–	24,057	8,105
1.1 for trading	–	53,797	5,945	–	24,057	8,105
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)	**–**	**53,797**	**5,945**	**–**	**24,057**	**8,105**
Total (A+B)	**117,984**	**66,616**	**5,945**	**170,496**	**35,865**	**8,105**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparties

Items/Amounts	31/12/2020	31/12/2019
A. **Cash assets**		
1. Fixed-yield securities	25,441	82,698
a) Central banks	–	–
b) Public administrations	25,441	82,698
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
2. Variable-yield securities	66,970	57,212
a) Banks	16,152	7,288
b) Other financial companies	7,570	4,314
of which: insurance companies	6,405	3,249
c) Non-financial companies	43,248	45,610
d) Other issuers	–	–
3. Mutual funds	38,392	42,394
4. Loans	–	–
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**130,803**	**182,304**
B. **Derivatives**		
a) Central Counterparties	–	–
b) other	59,742	32,162
Total (B)	**59,742**	**32,162**
Total (A+B)	**190,545**	**214,466**

2.5 Other financial assets mandatorily measured at fair value: breakdown by sector

	31/12/2020			31/12/2019		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**36,873**	**–**	**33,032**	**40,846**	**–**	**37,335**
1.1 Structured securities	–	–	33,032	–	–	37,132
1.2 Other fixed-yield securities	36,873	–	–	40,846	–	203
2. **Variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Mutual funds**	**57**	**558,341**	**57,130**	**141**	**305,083**	**47,502**
4. **Loans**	**–**	**–**	**352,755**	**–**	**–**	**260,332**
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	352,755	–	–	260,332
Total	**36,930**	**558,341**	**442,917**	**40,987**	**305,083**	**345,169**

Loans classified under this item are financial instruments that have not passed the SPPI test. The fixed-yield securities classified under this item are instruments that are part of a business model of financial instruments managed at fair value and not held for trading.

Mutual funds are made up of: equity funds and sicavs for € 54.610 million, bond funds for € 502.504 million, balanced funds for € 54.695 million and real estate funds for € 3.721 million.

With regard to mutual funds acquired as part of transactions for the sale of receivables included among bond funds, please refer to the specific paragraph reported in Part E of these Explanatory Notes (Subsection D «Disposals» point «D.3 Consolidation for supervisory purposes - Financial assets sold and fully cancelled»).

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

	31/12/2020	31/12/2019
1. **Variable-yield securities**	**–**	**–**
of which: banks	–	–
of which: other financial companies	–	–
of which: non-financial companies	–	–
2. **Fixed-yield securities**	**69,904**	**78,181**
a) Central banks	–	–
b) Public administrations	20,863	23,785
c) Banks	16,009	17,061
d) Other financial companies	29,175	31,331
of which: insurance companies	–	–
e) Non-financial companies	3,857	6,004
3. **Mutual funds**	**615,530**	**352,726**
4. **Loans**	**352,754**	**260,332**
a) Central banks	–	–
b) Public administrations	92	93
c) Banks	–	–
d) Other financial companies	5,287	50
of which: insurance companies	–	–
e) Non-financial	223,320	177,997
f) Households	124,055	82,192
Total	**1,038,188**	**691,239**

Section 3 *Financial assets measured at fair value through other comprehensive income - line item 30*

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by sector

	31/12/2020			31/12/2019		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**2,472,575**	**–**	**43,556**	**2,489,354**	**–**	**14,423**
1.1 Structured securities	418,402	–	42,727	369,387	–	10,677
1.2 Other fixed-yield securities	2,054,173	–	829	2,119,967	–	3,746
2. **Variable-yield securities**	**3,347**	**–**	**100,461**	**27,716**	**–**	**59,736**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**2,475,922**	**–**	**144,017**	**2,517,070**	**–**	**74,159**

The fixed-yield securities portfolio is made up mostly of Italian government securities held with the intent of receiving cash flows and benefiting from any gains deriving from their sale. For unlisted equities with observable inputs, but for which the most recent information available to measure their fair value is insufficient, the best estimate was made considering their adjusted equity value.

Equity securities also include equity investments held with a view to supporting the typical business and supporting the development of the territorial realities in which the Group operates.

The increase in equities in level 3 mainly derives from the revaluation of the interest in Nexi Payments S.p.a. for approximately 45 million euro, with an effect on the valuation reserve. The revaluation was carried out on the basis of the assessments emerging as part of the purchase by Nexi Payments of Intesa Sanpaolo's merchant acquiring activities and of the partnership with the same bank to become its sole partner in acquiring activities.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	31/12/2020	31/12/2019
1. **Fixed-yield securities**	**2,516,131**	**2,503,777**
a) Central banks	–	–
b) Public administrations	1,956,408	1,745,832
c) Banks	376,001	639,046
d) Other financial companies	86,368	67,878
of which: insurance companies	–	–
e) Non-financial companies	97,354	51,021
2. **Variable-yield securities**	**103,808**	**87,452**
a) Banks	7,966	9,517
b) Other issuers:	95,842	77,935
– other financial companies	73,134	65,287
of which: insurance companies	–	–
– non-financial companies	22,708	12,648
– other	–	–
3. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**2,619,939**	**2,591,229**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total impairment adjustments

	Gross value				Total impairment adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Total partial write-offs
Fixed-yield securities	2,475,838	–	42,260	–	1,427	540	–	–
Loans	–	–	–	–	–	–	–	–
Total 31/12/2020	**2,475,838**	**–**	**42,260**	**–**	**1,427**	**540**	**–**	**–**
Total 31/12/2019	**2,497,785**	**–**	**7,104**	**–**	**1,063**	**49**	**–**	**–**
of which: acquired or originated impaired financial assets	–	–	–	–	–	–	–	–

3.3a Loans measured at fair value through other comprehensive income object of Covid–19 support measures: gross amount and total impairment adjustments.

As of 31 December 2020, there are no loans measured at fair value through comprehensive income subject to Covid-19 support measures.

Section 4 *Financial assets measured at amortised cost - line item 40*

4.1 Financial assets measured at amortised cost: breakdown of loans and receivables with banks

	Total 31/12/2020						Total 31/12/2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
Type of transaction/Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**2,274,668**	**-**	**-**	**-**	**-**	**2,274,664**	**83,529**	**-**	**-**	**-**	**-**	**83,529**
1. Fixed-term deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	2,271,762	-	-	-	-	-	80,548	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	2,906	-	-	-	-	-	2,981	-	-	-	-	-
B. **Loans and receivables with banks**	**1,345,927**	**-**	**-**	**528,437**	**-**	**839,993**	**983,929**	**-**	**-**	**335,862**	**-**	**655,323**
1. Loans	809,448	-	-	-	-	809,657	503,533	-	-	-	-	503,604
1.1 Current accounts and sight deposits	271,272	-	-	-	-	-	191,760	-	-	-	-	-
1.2. Fixed-term deposits	447,920	-	-	-	-	-	270,009	-	-	-	-	-
1.3. Other loans:	90,256	-	-	-	-	-	41,764	-	-	-	-	-
- Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
- Leases	-	-	-	-	-	-	-	-	-	-	-	-
- Other	90,256	-	-	-	-	-	41,764	-	-	-	-	-
2. Fixed-yield securities	536,479	-	-	528,437	-	30,336	480,396	-	-	335,862	-	151,719
2.1. Structured securities	248,789	-	-	245,020	-	15,336	115,632	-	-	110,773	-	6,268
2.2. Other fixed-yield securities	287,690	-	-	283,417	-	15,000	364,764	-	-	225,089	-	145,451
Total	**3,620,595**	**-**	**-**	**528,437**	**-**	**3,114,657**	**1,067,458**	**-**	**-**	**335,862**	**-**	**738,852**

These receivables are not specifically hedged.

The fair value of short-term loans or loans that are repayable on demand is assumed to be the same as their carrying amount.

4.2 Financial assets measured at amortised cost: breakdown of loans and receivables with customers

	Total 31/12/2020						Total 31/12/2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
Type of transaction/ Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
1. **Loans**	**27,254,332**	**1,064,666**	**158,179**	**-**	**-**	**29,358,318**	**25,382,603**	**1,538,441**	**185,895**	**-**	**-**	**27,863,530**
1.1. Current accounts	2,847,201	414,726	55,774	-	-	-	3,468,586	619,158	68,596	-	-	-
1.2. Repo transactions	67,273	-	-	-	-	-	1,099,082	-	-	-	-	-
1.3. Mortgage loans	16,548,599	573,223	87,440	-	-	-	13,869,982	805,069	100,614	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	448,747	9,688	794	-	-	-	492,614	22,784	2,195	-	-	-
1.5 Leases	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	2,376,027	3,057	-	-	-	-	2,210,498	11,821	-	-	-	-
1.7. Other loans	4,966,485	63,972	14,171	-	-	-	4,241,841	79,609	14,490	-	-	-
2. **Fixed-yield securities**	**7,228,671**	**-**	**-**	**6,674,714**	**-**	**693,738**	**6,211,564**	**-**	**-**	**6,067,843**	**-**	**193,133**
2.1. Structured securities	1,967,436	-	-	1,308,945	-	693,738	1,402,490	-	-	1,212,684	-	193,133
2.2. Other fixed-yield securities	5,261,235	-	-	5,365,769	-	-	4,809,074	-	-	4,855,159	-	-
Total	**34,483,003**	**1,064,666**	**158,179**	**6,674,714**	**-**	**30,052,056**	**31,594,167**	**1,538,441**	**185,895**	**6,067,843**	**-**	**28,056,663**

Loans and receivables are specifically hedged.

Mortgage loans include € 1.467 million of residential mortgages, which were the subject of covered bond transactions by the Parent Company.

The securities issued under the covered bond programme were placed with institutional customers.

Given that the Parent Company maintained all of the risks and benefits of these mortgage 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 Group.

The difference between fair value and carrying amount is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

As a result of the derisking operations that took place during the year, non-performing loans (third stage) amounted to € 1,064.666 million, down on the previous year (€ 1,538.441 million). Line item 2. Fixed-yield securities includes for € 278.938 million, senior securities issued by Diana S.p.V. and POP NPLs 2020 S.p.V. as part of the two sales of NPLs completed during the year. See Part E, Section 1, «C. Securitisation transactions» for further information.

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans and receivables with customers

Type of transaction/Amounts	31/12/2020 First and second stage	31/12/2020 Third stage	31/12/2020 of which: impaired assets purchased or originated	31/12/2019 First and second stage	31/12/2019 Third stage	31/12/2019 of which: impaired assets purchased or originated
1. **Fixed-yield securities**	**7,228,671**	**–**	**–**	**6,211,564**	**–**	**–**
a) Public administration	6,154,877	–	–	5,961,600	–	–
b) Other financial companies	997,945	–	–	215,246	–	–
of which: insurance companies	6,121	–	–	8,286	–	–
c) Non-financial companies	75,849	–	–	34,718	–	–
2. **Loans to:**	**27,254,332**	**1,064,666**	**158,179**	**25,382,603**	**1,538,441**	**185,895**
a) Public administration	548,070	278	–	261,852	193	–
b) Other financial companies	2,068,532	11,123	2	3,067,054	22,829	475
of which: insurance companies	10,610	–	–	7,483	–	–
c) Non-financial companies	15,323,427	732,646	114,105	13,179,308	1,065,784	125,798
d) Households	9,314,303	320,619	44,072	8,874,389	449,635	59,622
Total	**34,483,003**	**1,064,666**	**158,179**	**31,594,167**	**1,538,441**	**185,895**

4.4 Financial assets measured at amortised cost: gross amount and total impairment adjustments

	Gross value				Total impairment adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Total partial write-offs
Fixed-yield securities	7,715,551	–	60,062	–	5,244	5,219	–	–
Loans	27,075,874	–	3,439,003	2,250,465	61,343	115,086	1,185,799	195,711
Total 31/12/2020	**34,791,425**	**–**	**3,499,065**	**2,250,465**	**66,587**	**120,305**	**1,185,799**	**195,711**
Total 31/12/2019	**29,392,329**	**–**	**3,374,733**	**3,683,410**	**40,179**	**65,256**	**2,144,969**	**343,073**
of which: impaired financial assets purchased or originated	–	–	53,524	207,308	–	2,911	99,742	–

4.4a Loans measured at amortised cost subject to COVID-19 support measures: gross amount and total impairment adjustments

	Gross value				Total impairment adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Total partial write-off*
1. Loans subject to forbearance complying with the GL	1,889,158	–	1,141,987	26,811	3,065	46,229	7,782	–
2. Loans subject to other forbearance measures	152,414	–	70,997	58,181	156	2,877	15,744	–
3. New loans	1,638,217	–	131,696	5,338	549	603	1,691	–
Total 31/12/2020	**3,679,789**	**–**	**1,344,680**	**90,330**	**3,770**	**49,709**	**25,217**	**–**
Total 31/12/2019	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

* amounts to be displayed for information purposes

Section 7 *Equity investments - line item 70*

7.1 Equity investments: disclosure

Name	Registered offices	Operational office	Type of relationship	Parent company	% holding	% of votes
A. **Investments in companies under joint control**						
RAJNA IMMOBILIARE SRL	Sondrio	Sondrio	7	Banca Popolare di Sondrio SCPA	50.000	50.000
RENT2GO	Bolzano	Bolzano	7	Banca Popolare di Sondrio SCPA	33.333	33.333
B. **Associated companies (subject to significant influence)**						
ALBA LEASING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.264	19.264
ARCA VITA SPA	Verona	Verona	8	Banca Popolare di Sondrio SCPA	14.837	14.837
ARCA HOLDING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	34.715	34.715
UNIONE FIDUCIARIA SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	24.000	24.000
POLIS FONDI SGR	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.600	19.600
SOFIPO SA	Lugano	Lugano	8	Banca Popolare di Sondrio (SUISSE) SA	30.000	30.000
BORMIO GOLF SPA	Bormio	Bormio	8	Banca Popolare di Sondrio SCPA	25.237	25.237
LAGO DI COMO GAL SCRL	Canzo	Canzo	8	Banca Popolare di Sondrio SCPA	28.953	28.953
ACQUEDOTTO DELLO STELVIO SRL	Bormio	Bormio	8	Pirovano Stelvio spa	27.000	27.000
SIFAS SPA	Bormio	Bormio	8	Pirovano Stelvio spa	21.614	21.614
COSSI COSTRUZIONI SPA	Sondrio	Sondrio	8	Banca Popolare di Sondrio SCPA	18.250	18.250

Key
7 = joint control.
8 = associated companies.

7.2 Significant equity investments: carrying amount, fair value and dividends received

Name	Carrying amount	Fair value	Dividends received
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S.r.l.	363	–	50
2. RENT2GO	4,488	–	–
B. **Associated companies (subject to significant influence)**			
1. ALBA LEASING S.p.A.	78,441	–	–
2. ARCA VITA S.p.A.	72,439	–	7,725
3. ARCA HOLDING S.p.A.	135,078	–	2,762
4. UNIONE FIDUCIARIA S.p.A.	9,865	–	–
5. POLIS FONDI SGR PA	1,560	–	–
6. COSSI COSTRUZIONI S.p.A.	2,535	–	–
7. SOFIPO SA	–	–	–
Total	**304,769**	**–**	**–**

The fair value is not indicated for companies not listed on active markets.

7.3 Significant equity investments: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenue
A. **Companies under joint control**						
1. RAJNA IMMOBILIARE S.r.l.	167	–	576	–	17	131
2. RENT2GO S.r.l.	976	–	96,358	62,229	21,642	16,071
B. **Associated companies (subject to significant influence)**						
1. ALBA LEASING S.p.A.	9	5,101,743	186,341	4,693,725	186,922	112,003
2. ARCA VITA S.p.A.	76,168	11,341,635	776,774	1,552,573	10,173,826	660,613
3. ARCA HOLDING S.p.A.	2	305,845	187,043	55,102	48,687	326,945
4. UNIONE FIDUCIARIA S.p.A.	14,001	1,384	54,569	–	19,605	21,809
5. POLIS FONDI SGR PA	1	9,001	3,373	2,022	2,394	4,979
6. COSSI COSTRUZIONI SPA	405	–	49,951	5,402	36,499	61,447

The above figures are taken from the most recent available accounting situations.

A reconciliation of the accounting information, reported in the financial statements of the investee companies, with the carrying amount of the equity investments, as required by IFRS 12 is shown below.

Name	Equity value	Share of equity value	Carrying amount	Dividends
A. **Companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l.	725	363	363	50
2. RENT2GO	13,463	4,488	4,488	–
B. **Associated companies (subject to significant influence)**				
1. ALBA LEASING S.p.A.	407,195	78,441	78,441	–
2. ARCA VITA S.p.A.	488,239	72,439	72,439	7,725
3. ARCA HOLDING S.p.A.	389,100	135,078	135,078	2,762
4. UNIONE FIDUCIARIA S.p.A.	41,104	9,865	9,865	–
5. POLIS FONDI SGR PA	7,959	1,560	1,560	–
6. COSSI COSTRUZIONI SPA	13,891	2,535	2,535	–
7. SOFIPO SA	–	–	–	–

7.4 Insignificant equity investments: accounting information

Name	Carrying amount of equity investments	Total assets	Total liabilities
Associated companies	675	4,950	1,887

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 (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Profit (loss) of disposal groups net of taxes	Profit (loss) for the year (1)	Other comprehensive income net of taxes (2)	Statement of comprehensive income (3) = (1)+(2)
–	(37)	53	38	–	38	–	38
(741)	(6,583)	(82)	(82)	–	(82)	–	(82)
90,886	(3,886)	7,635	4,825	–	4,825	(75)	4,750
120,762	–	40,549	26,664	–	26,664	(11,612)	15,052
(154)	(2,941)	80,555	56,668	–	56,668	(27)	56,641
14,965	(3,709)	4,201	6,202	–	6,202	–	6,202
–	(317)	576	385	–	385	–	385
589	(3,263)	21,574	12,692	–	12,692	–	12,692

Total revenue	Post-tax profit from continuing operations	Post-tax profit of disposal groups held for sale	Profit (Losses) f or the year	Total other income items net of taxes	Statement of comprehensive income
3,202	445	–	445	–	445

7.5 Equity investments: changes during the year

	31/12/2020	31/12/2019
A. **Opening balance**	**294,609**	**220,957**
B. **Additions**	**18,107**	**75,561**
B.1 Purchases	667	56,730
B.2 Write-backs	–	–
B.3 Revaluations	99	49
B.4 Other changes	17,341	18,782
C. **Decreases**	**7,272**	**1,909**
C.1 Disposals	5,985	1,301
C.2 Adjustments	–	–
C.3 Writedowns	–	–
C.4 Other changes	1,287	608
D. **Closing balance**	**305,444**	**294,609**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(447)**	**(447)**

This item passes from € 294.609 million to € 305.444 million.

Purchases refer for € 0.667 million to the increase in share capital of Rent2Go S.r.l.

Other increases and decreases derive from the measurement of affiliates under the equity method, as well as from the calling up of tenths to be paid.

Sales refer to the disposal of part of the interest in Arca Holding S.p.A. for € 5.985 million.

7.6 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

7.7-7.8 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 9 *Property, equipment and investment property - line item 90*

9.1 Property, equipment and investment property used for business purposes: analysis of assets valued at cost

Assets/Values	31/12/2020	31/12/2019
1. **Owned assets**	**263,240**	**262,571**
a) land	70,103	69,390
b) buildings	175,415	175,213
c) furniture	5,383	5,228
d) IT equipment	2,865	2,606
e) other	9,474	10,134
2. **Rights of use assets acquired through leases**	**199,167**	**222,814**
a) land	–	–
b) buildings	198,629	222,362
c) furniture	–	–
d) IT equipment	173	210
e) other	365	242
Total	**462,407**	**485,385**
of which: obtained by enforcing guarantees received	–	–

The figures for the previous year have been restated for comparison purposes.

9.4 Investment property: analysis of assets carried at fair value

	31/12/2020			31/12/2019		
Assets/Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Owned assets**	**–**	**–**	**62,080**	**–**	**–**	**62,787**
a) land	–	–	–	–	–	–
b) buildings	–	–	62,080	–	–	62,787
2. **Rights of use assets acquired through leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**62,080**	**–**	**–**	**62,787**
of which: obtained by enforcing guarantees received	–	–	–	–	–	–

These are owned buildings of the Fondo Immobiliare Centro delle Alpi Real Estate, which was fully consolidated.

9.5 Property, equipment and investment property held as inventory governed by IAS 2: composition

Assets/Values	31/12/2020	31/12/2019
1. **Property, equipment and investment property held as inventory obtained by enforcing guarantees received**	**43,312**	**35,944**
a) land	181	181
b) buildings	43,131	35,763
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
2. **Other property, equipment and investment property held as inventory**	**–**	**–**
Total	**43,312**	**35,944**
of which: measured at fair value net of costs to sell	–	–

The figures for the previous year have been restated for comparison purposes, following the reclassification of the carrying amounts of property goods included under other assets in the previous year.

9.6 Property, equipment and investment property used for business purposes: changes during the year

	Land	Buildings	Furniture	IT equipment	Other	**Total**
A. **Opening gross amount**	**69,472**	**549,781**	**38,608**	**32,892**	**96,899**	**787,652**
A.1 Total net reductions in value	(82)	(152,205)	(33,380)	(30,076)	(86,524)	(302,267)
A.2 Opening net amount	69,390	397,576	5,228	2,816	10,375	485,385
B. **Additions:**	**713**	**11,595**	**1,476**	**1,380**	**5,359**	**20,523**
B.1 Purchases	700	6,788	1,473	1,318	5,285	15,564
B.2 Capitalised improvement expenditure	–	4,547	–	–	–	4,547
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	13	214	3	4	8	242
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	46	–	58	66	170
C. **Decreases**:	**–**	**35,127**	**1,321**	**1,158**	**5,895**	**43,501**
C.1 Disposals	–	–	–	–	37	37
C.2 Depreciation	–	29,729	1,319	1,158	5,848	38,054
C.3 Impairment charges booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value attributable to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) investment property	–	–	–	–	–	–
b) non-current assets and disposal groups held for sale	–	–	–	–	–	–
C.7 Other changes	–	5,398	2	–	10	5,410
D. **Closing net amount**	**70,103**	**374,044**	**5,383**	**3,038**	**9,839**	**462,407**
D.1 Total net reductions in value	82	184,263	34,729	31,242	89,824	340,140
D.2 Closing gross amount	70,185	558,307	40,112	34,280	99,663	802,547
E. **Valuation at cost**	**70,103**	**374,044**	**5,383**	**3,038**	**9,839**	**462,407**

9.7 Investment property: changes during the year

	Total 31/12/2020	
	Land	Buildings
A. **Opening balance**	**–**	**62,787**
B. **Additions**	**–**	**46**
B.1 Purchases	–	–
B.2 Capitalised improvement expenditure	–	–
B.3 Positive changes in fair value	–	46
B.4 Write-backs	–	–
B.5 Exchange gains	–	–
B.6 Transfer of buildings for business purposes	–	–
B.7 Other changes	–	–
C. **Decreases**	**–**	**753**
C.1 Disposals	–	–
C.2 Depreciation	–	–
C.3 Negative changes in fair value	–	753
C.4 Impairment writedowns	–	–
C.5 Exchange losses	–	–
C.6 Transfers to:	–	–
a) assets used in business	–	–
b) non-current assets and disposal groups held for sale	–	–
C.7 Other changes	–	–
D. **Closing balance**	**–**	**62,080**
E. **Valuation at fair value**	**–**	**62,080**

9.8 Property, equipment and investment property held as inventories governed by IAS 2: changes during the year

	Property, equipment and investment property as inventories obtained by enforcing guarantees received					Other inventory of property, equipment and investment property	
	Land	Buildings	Furniture	IT equipment	Other		**Total**
A. **Opening balance**	**181**	**35,763**	**–**	**–**	**–**	**–**	**35,944**
B. **Additions**	**–**	**15,194**	**–**	**–**	**–**	**–**	**15,194**
B.1 Purchases	–	12,947	–	–	–	–	12,947
B.2 Write-backs	–	–	–	–	–	–	–
B.3 Exchange gains	–	–	–	–	–	–	–
B.4 Other changes	–	2,247	–	–	–	–	2,247
C. **Decreases**	**–**	**7,826**	**–**	**–**	**–**	**–**	**7,826**
C.1 Disposals	–	1,865	–	–	–	–	1,865
C.2 Impairment writedowns	–	5,961	–	–	–	–	5,961
C.3 Exchange losses	–	–	–	–	–	–	–
C.4 Other changes	–	–	–	–	–	–	–
D. **Closing balance**	**181**	**43,131**	**–**	**–**	**–**	**–**	**43,312**

9.9 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 13.030 million.

Section 10 *Intangible assets - line item 100*

10.1 Intangible assets: breakdown by type

	31/12/2020		31/12/2019	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**12,632**	**–**	**12,632**
A.1.1 attributable to the banking group	–	12,632	–	12,632
A.1.2 attributable to minority interests	–	–	–	–
A.2 **Other intangible assets**	**15,696**	**–**	**18,554**	**–**
A.2.1 Carried at cost:	15,696	–	18,554	–
a) Intangible assets generated internally	414	–	248	–
b) Other assets	15,282	–	18,306	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**15,696**	**12,632**	**18,554**	**12,632**

Intangible assets comprise € 15.696 million mainly for the cost of purchasing software with a finite life that is amortised over that same period, normally 3 years, and goodwill for € 12.632 million. The accounting treatment of goodwill 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.

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. Goodwill concerns:

- Factorit S.p.a., acquired in 2010. The Parent Company 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.
- Prestinuova S.p.a., acquired on 23 July 2018. This company operates in the granting of loans repayable by assigning a fifth of one's salary or pension. The acquisition took place on payment of a consideration of € 53 million. The company's equity on acquisition amounted to € 40 million with a difference of € 14 million. After an initial recognition in the consolidated interim report at 30 September 2018 of a provisional goodwill of € 14 million, in the months following the acquisition, the Group carried out the activities to determine the fair value of assets and liabilities, which led to the recognition of effective goodwill of € 5 million on the acquisition.

After 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 the various items of goodwill that had been booked.

No impairment of goodwill has been recorded as the tests carried out in accordance with IAS 36, which requires annual impairment testing of goodwill to identify any impairment, did not reveal 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 1.5% per year and a cost of capital used to discount future dividends of 7.23% for Factorit Spa and 8.58% for Prestinuova Spa. The value in use amounted to € 218.4 million, with a surplus over its share of equity plus goodwill of € 60.3 million for Factorit Spa. The value in use of Prestinuova S.p.A. amounted to € 94.1 million, with a surplus of € 11.8 million.

In line with the warnings issued by CONSOB, and with ESMA's statements, aimed at underlining the importance of providing updated information due to the complexity of the current situation, characterised by the presence of elements of uncertainty inherent in the duration and size of the negative impacts of the pandemic on the macro-economy, specific sensitivity analyses were carried out to assess the effects on the values in use and, consequently, on the results of the impairment tests on the main parameters underlying the valuation model (cost of capital and medium-long term growth rate).

These analyses highlighted differences between the values in use during the year and the extreme values, that did not reveal any particular «prospective» critical issues regarding the successful outcome of the assessments.

In particular, the impacts on the values in use, namely +/- 25 and 50 basis points in the cost of capital and +/- 25 and 50 basis points in the medium/long term growth rate, were verified and for all the assumed combinations the values in use were higher than the comparative values.

In order not to jeopardise the positive outcome of these valuation exercises, the maximum sustainable level in terms of cost of capital (discount rate) was quantified. In the impairment test on the goodwill of Factorit S.p.A. and Prestinuova S.p.A., the tolerance margin on the cost of capital was equal to around 2.8 percentage points in the first case and around 2.1 percentage points in the second.

10.2 Intangible assets: change in the year

	Goodwill	Other intangible assets generated internally FIN	Other intangible assets generated internally IND	Other intangible assets: other FIN	Other intangible assets: other IND	**Total**
A. **Opening balance**	**12,632**	**256**	**–**	**213,637**	**–**	**226,525**
A.1 Total net reductions in value	–	(8)	–	(195,331)	–	(195,339)
A.2 Opening net amount	12,632	248	–	18,306	–	31,186
B. **Additions**	**–**	**196**	**–**	**14,272**	**–**	**14,468**
B.1 Purchases	–	–	–	14,022	–	14,022
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	–	–	–	7	–	7
B.6 Other changes	–	196	–	243	–	439
C. **Decreases**	**–**	**30**	**–**	**17,296**	**–**	**17,326**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	30	–	16,621	–	16,651
– Amortisation		30	–	16,621	–	16,651
– 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	–	–	–	–	–	–
C.6 Other changes	–	–	–	675	–	675
D. **Closing net amount**	**12,632**	**414**	**–**	**15,282**	**–**	**28,328**
D.1 Total net reductions in value	–	(38)	–	(211,952)	–	(211,990)
E. **Closing gross amount**	12,632	452	–	227,234	–	240,318
F. **Valuation at cost**	**12,632**	**414**	**–**	**15,282**	**–**	**28,328**

Key
FIN: finite life
IND: unspecified duration

Section 11 *Tax assets and liabilities- asset line item 110 and liability line item 60*

11.1 Deferred tax assets: breakdown

	31/12/2020	31/12/2019
Loan write-downs	315,262	338,394
Provisions for risks and charges	32,501	28,816
Deferred charges	96	117
Securities and equity investments	925	2,705
Administrative expenses, amortisation and depreciation	23,489	39,615
Tax losses	4,916	4,677
Total	**377,189**	**414,324**

In accordance with IAS 12 and the ESMA communication dated 15 July 2019, the Group has recognised deferred tax assets (DTA) totalling € 377.189 million. Of these, € 24.273 million relate to equity accounts, € 299.481 million comply with the requirements of Law 214 dated 22 December 2011 and may be transformed into tax credits in the event of a «reported loss», a «tax loss» for IRES purposes or a «negative net value» of production» for IRAP purposes); their recovery is therefore certain, as unrelated to the ability to generate future taxable income. The other tax assets not transformable into tax credits, € 53.435 million, have been recognised after checking their recoverability, which is supported by a probability opinion expressed after performing the so-called probability test. This opinion was expressed after analysing the likelihood that sufficient taxable income will be generated in future. In particular, the estimate of future profitability underling the recoverability opinion was based on reasonable and realistic hypotheses and assumptions, after weighting the various degrees of uncertainty. The ability of future taxable income to absorb the recovery of tax assets was checked over a reference period ending in 2027, with economic projects for 2021-2025 deriving from the latest business plan approved by the Board of Directors. The profitability expected in 2026 and 2027 was estimated with reference to a prudent projection of the results expected in 2025. The incidence of permanent IRES and IRAP adjustments on pre-tax income and total income was calculated with reference to historical data for 2015-2020, applying normalisation rules to the tax disallowances in prior years in order to determine a pro forma taxable income for those years consistent with the current tax regulations, while also eliminating any non-recurring or extraordinary components from the prior-year taxable amounts. The probability test relating to the deferred tax assets was carried out separately, due to the different conditions of use of the underlying temporary differences, for the Group entities participating in the tax consolidation: the parent company, Banca della Nuova Terra S.p.a. and Factorit S.p.a.

The figures for the previous year have been restated for comparison purposes.

11.2 Deferred tax liabilities: breakdown

	31/12/2020	31/12/2019
Owned buildings	8,721	8,851
Revaluation of securities and gains	17,774	12,002
Loans	7,338	8,354
Total	**33,833**	**29,207**

11.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2020	31/12/2019
1. **Opening balance**	**390,222**	**393,219**
2. **Increases**	**26,226**	**11,472**
2.1 Deferred tax assets arising during the year	26,082	10,056
a) relating to prior years	–	–
b) due to changes in accounting policies	1,122	732
c) write-backs	–	–
d) other	24,960	9,324
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	144	1,416
3. **Decreases**	**63,530**	**14,469**
3.1 Deferred tax assets eliminated during the year	63,495	10,853
a) reversals	63,354	10,853
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	141	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases:	35	3,616
a) transformation into tax credits of which as per Law 214/2011	–	–
b) other	35	3,616
4. **Closing balance**	**352,918**	**390,222**

11.4 Changes in deferred tax assets as per Law 214/2011

	31/12/2020	31/12/2019
1. **Opening balance**	**338,418**	**335,960**
2. **Increases**	**–**	**2,458**
3. **Decreases**	**38,937**	**–**
3.1 Reversals	38,937	–
3.2 Transformation into tax credits	–	–
a) resulting from operating losses	–	–
b) arising from tax losses	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**299,481**	**338,418**

11.5 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2020	31/12/2019
1. **Opening balance**	**15,387**	**17,437**
2. **Increases**	**1,153**	**1,283**
2.1 Deferred tax liabilities arising during the year	1,130	1,121
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	1,130	1,121
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	23	162
3. **Decreases**	**2,340**	**3,333**
3.1 Deferred tax liabilities eliminated during the year	2,340	3,065
a) reversals	2,340	3,065
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases		268
4. **Closing balance**	**14,200**	**15,387**

11.6 Change in deferred tax assets (with contra-entry to equity)

	31/12/2020	31/12/2019
1. **Opening balance**	**24,102**	**39,987**
2. **Increases**	**2,746**	**4,982**
2.1 Deferred tax assets arising during the year	2,287	3,569
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	2,287	3,569
2.2 New taxes or increases in tax rates	426	1,200
2.3 Other increases	33	213
3. **Decreases**	**2,575**	**20,867**
3.1 Deferred tax assets eliminated during the year	2,575	20,818
a) reversals	2,575	20,818
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	–	49
4. **Closing balance**	**24,273**	**24,102**

This amount relates to losses on securities measured at fair value through other comprehensive income and 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.

11.7 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2020	31/12/2019
1. **Opening balance**	**13,820**	**8,078**
2. **Increases**	**11,126**	**9,461**
2.1 Deferred tax liabilities arising during the year	11,126	9,461
a) relating to prior years	-	-
b) due to changes in accounting policies	-	-
c) other	11,126	9,461
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. **Decreases**	**5,313**	**3,719**
3.1 Deferred tax liabilities eliminated during the year	5,313	3,719
a) reversals	5,313	3,719
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. **Closing balance**	**19,633**	**13,820**

This amount relates to the tax on the unrealised gains recognised in equity on financial assets measured at fair value through other comprehensive income.

Section 13 *Other assets - line item 130*

13.1 Other assets: breakdown

	31/12/2020	31/12/2019
Advances paid to tax authorities	54,691	48,867
Withholdings on interest due to customers	170	141
Tax credits and related interest	6,423	6,545
Current account cheques drawn on third parties	17,680	21,689
Current account cheques drawn on Group banks	221	309
Transactions in customers' securities	76,671	5,547
Inventories	1,149	1,126
Advances to suppliers	663	1,200
Advances to customers awaiting collections	19,120	19,475
Miscellaneous debits in transit	31,303	29,672
Liquid assets serving pension and similar obligations	15,002	11,582
Accrued income not allocated	39,234	46,616
Prepayments not allocated	21,451	23,413
Differences on elimination	2,048	1,553
Residual items	112,873	75,821
Total	**398,699**	**293,556**

The prior year figures have been restated on a like-for-like basis following the reclassification of inventories as explained in the comment to table 9.5 Inventories of tangible assets governed by IAS 2.

Liabilities and equity

Section 1 *Financial liabilities measured at amortised cost - line item 10*

1.1 Financial liabilities measured at amortised cost: breakdown of loans and receivables with banks

	31/12/2020				31/12/2019			
	Carrying	Fair value			Carrying	Fair value		
Type of transaction/Amounts	amount	Level 1	Level 2	Level 3	amount	Level 1	Level 2	Level 3
1. **Due to central banks**	**8,082,531**	**–**	**–**	**–**	**2,713,646**	**–**	**–**	**–**
2. **Due to banks**	**1,744,156**	**–**	**–**	**–**	**1,614,063**	**–**	**–**	**–**
2.1 Current accounts and sight deposits	535,893	–	–	–	449,969	–	–	–
2.2 Fixed-term deposits	809,135	–	–	–	748,455	–	–	–
2.3 Loans	394,554	–	–	–	412,998	–	–	–
2.3.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.3.2 Other	394,554	–	–	–	412,998	–	–	–
2.4 Payables for commitments to repurchase own equity instruments	–	–	–	–	–	–	–	–
2.5 Payables for leases	229	–	–	–	194	–	–	–
2.6 Other payables	4,345	–	–	–	2,447	–	–	–
Total	**9,826,687**	**–**	**–**	**9,826,687**	**4,327,709**	**–**	**–**	**4,327,709**

These payables are not specifically hedged.

Amounts due to central banks comprise three loans from the ECB totalling Euro 8.068 million as part of its «Targeted Longer-Term refinancing operations» (TLTRO III).

The first was signed in December 2019 for € 1,600 million with a maturity on 21 December 2022. During 2020 another two loans were stipulated, one in March 2020 of € 2.100 million, repayable on 29 March 2023, the other one obtained in June 2020, of € 4,368 million, repayable on 28 June 2023.

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 carrying amount as the amounts are short-term or due on demand.

1.2 Financial liabilities measured at amortised cost: breakdown of loans and receivables with customers

	31/12/2020				31/12/2019			
	Carrying	Fair value			Carrying	Fair value		
Type of transaction/Amounts	amount	Level 1	Level 2	Level 3	amount	Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**31,758,829**	**–**	**–**	**–**	**27,760,407**	**–**	**–**	**–**
2 **Fixed-term deposits**	**665,874**	**–**	**–**	**–**	**1,201,862**	**–**	**–**	**–**
3. **Loans**	**56,377**	**–**	**–**	**–**	**514,100**	**–**	**–**	**–**
3.1 Repurchase agreements	55,422	–	–	–	509,383	–	–	–
3.2 Other	955	–	–	–	4,717	–	–	–
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Payables for leases**	**200,392**	**–**	**–**	**–**	**222,603**	**–**	**–**	**–**
6. **Other payables**	**46,876**	**–**	**–**	**–**	**118,025**	**–**	**–**	**–**
Total	**32,728,348**	**–**	**–**	**32,728,348**	**29,816,997**	**–**	**–**	**29,816,997**

These payables are not specifically hedged.

The fair value is assumed to be the same as the carrying amount as the amounts are short-term or due on demand.

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

	31/12/2020				31/12/2019			
	Carrying	Fair value			Carrying	Fair value		
Type of transaction/Amounts	amount	Level 1	Level 2	Level 3	amount	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	2,680,984	2,614,567	133,940	–	2,711,879	2,598,332	154,687	–
1.1 structured	812,072	748,303	99,794	–	833,882	732,310	122,070	–
1.2 others	1,868,912	1,866,264	34,146	–	1,877,997	1,866,022	32,617	–
2. other securities	150,128	–	150,128	–	92,873	–	92,873	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 others	–	–	–	–	–	–	–	–
Total	**2,831,112**	**2,614,567**	**284,068**	**–**	**2,804,752**	**2,598,332**	**247,560**	**–**

The fair value of the sub-item other securities is equal to the carrying amount 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-MTF market (Multilateral Trading Facility).

1.4 Detail of subordinated payables/securities

Subordinated securities amount to € 699.189 million and are made up of the loans indicated below:

- bond loan of € 3.709 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 3.50%.
- bond loan of € 5.612 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 3.50%.
- bond loan of € 6.001 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 3%.
- a bond of € 203.478 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 € 275.633 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%:
- a bond of € 204.756 million from 30/07/2019 and maturity on 30/07/2029 with repayment in full on maturity. It bears a fixed interest rate of 6.25%.

1.6 Payables for leases

Financial outflows for leasing

	2020				2019
	Buildings*	Cars	Other	Total	Total
Initial Lease Liability	222,359	232	206	222,797	224,696
Financial flows	(23,472)	(177)	(95)	(23,744)	(23,805)
Interest	3,573	2	1	3,576	3,927
Other changes	(2,344)	279	57	(2,008)	17,979
Closing carrying amount	**200,116**	**336**	**169**	**200,621**	**222,797**

* Including finance leases under IAS 17

As regards the Other changes during the year, the impact is mainly due to recalculation of the Lease Liability following the ISTAT changes and the opening and closing of contracts.

As of 31.12.2020, the lessee's weighted average marginal borrowing rate of the rates used to discount the lease liabilities is 1.70%.

Analysis of leasing liability maturities

	within 1 year	1 to 5 years	5 to 10 years	over 10 years
Buildings*	22,058	85,327	78,175	28,417
Cars	16	35	–	–
Other types	86	84	–	–
Total	**22,160**	**85,446**	**78,175**	**28,417**

* Including finance leases under IAS 17

The amounts reported pursuant to paras. 39 and B11 of IFRS 7 «Financial instruments» represent non-discounted cash flows.

Section 2 *Financial liabilities held for trading - line item 20*

2.1 Financial liabilities held for trading: breakdown by sector

	31/12/2020					31/12/2019				
		Fair value					Fair value			
Type of transaction/Amounts	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	–	–	32,926	890	–	–	–	66,829	190	–
1.1 for trading	–	–	32,926	890	–	–	–	66,829	190	–
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	**–**	**–**	**32,926**	**890**	**–**	**–**	**–**	**66,829**	**190**	**–**
Total (A+B)	**–**	**–**	**32,926**	**890**	**–**	**–**	**–**	**66,829**	**190**	**–**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
NV = Nominal or notional value

Section 4 *Hedging derivatives - line item 40*

4.1 Hedging derivatives: breakdown by type of hedge and by level

	Nominal value 31/12/2020	Fair value 31/12/2020			**Nominal value 31/12/2019**	Fair value 31/12/2019		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A) **Financial derivatives**	**196,352**	**–**	**6,271**	**–**	**274,553**	**–**	**11,320**	**–**
1) Fair value	196,352	–	6,271	–	274,553	–	11,320	–
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B) **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**196,352**	**–**	**6,271**	**–**	**274,553**	**–**	**11,320**	**–**

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

	Fair value							Financial flows		
	Micro									
Transaction/ Type of hedge	fixed-yield securities and interest rates	variable-yield securities and stock indices	currency and gold	loans and receivables	commodities	other	Macro	Micro	Macro	Foreign investments
1. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–	–
2. Financial assets measured at amortised cost	6,271	–	–	–	–	–	–	–	–	–
3. Portfolio	–	–	–	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–	–	–	–
Total assets	**6,271**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	–	–	–	–	–	–	–
2. Portfolio	–	–	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	–	–	–	–	–	–	–	–	–	–
2. Portfolio of financial assets and liabilities	–	–	–	–	–	–	–	–	–	–

Section 6 *Tax liabilities*

The line item amounts to € 37.400 million and relates for € 3.567 million to current taxes and for € 33.833 million to deferred taxes.

As regards the composition and amount of deferred taxes, please read Assets Section 11 of these notes. With regard to the fiscal situation of the Bank, it should be noted that Law Decree no. 34/2020 (the so-called Relaunch Decree) has ordered the extension of the terms of notification by the Tax Authorities of the assessment documents for the financial year 2015, therefore the financial years up to 2014 are to be considered fiscally closed.

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. The Bank has made the tax group election in relation to the Bank, Factorit S.p.a., Banca della Nuova Terra S.p.a. and Pirovano S.p.a. The Group will not have to pay any fees as the conditions for payment have not been met.

The real estate company Borgo Palazzo is in a dispute about a VAT refund currently pending at the Court of Cassation following a sentence by the Lombardy Regional Tax Commission that was unfavourable to the company.

Section 8 *Other liabilities*

8.1 Other liabilities: breakdown

	31/12/2020	31/12/2019
Amounts at the disposal of third parties	434,996	397,067
Taxes to be paid on behalf of third parties	57,287	49,011
Taxes to be paid	1,677	2,723
Employee salaries and contributions	24,195	23,025
Suppliers	20,353	19,118
Transit accounts for sundry entities	39,345	18,790
Invoices to be received	16,550	18,235
Credits in transit for financial transactions	2,015	2,024
Value date differentials on portfolio transactions	177,613	155,232
Directors' and statutory auditors' emoluments	1,263	1,167
Loans disbursed to customers to be finalised	6,734	9,895
Miscellaneous credit items being settled	17,460	26,806
Accrued expenses not allocated	19,666	15,545
Deferred income not allocated	12,877	16,530
Differences on elimination	31,649	2,387
Residual items	50,511	63,879
Total	**914,191**	**821,434**

This line item shows an increase of 11.29%.

The «value date differentials on portfolio transactions» relate to the notes received and sent for collection with recourse or for crediting after collection, which are only recognised in the balance sheet on settlement. The value date differences between the related assets and liabilities give rise to the above differentials.

Section 9 *Post-employment benefits - line item 90*

9.1 Termination indemnities: change in the year

	Total 31/12/2020	Total 31/12/2019
A. **Opening balance**	**43,789**	**43,222**
B. **Additions**	**8,643**	**10,596**
B.1 Provisions for the period	7,853	7,975
B.2 Other changes	790	2,621
C. **Decreases**	**10,091**	**10,029**
C.1 Payments made	2,397	2,501
C.2 Other changes	7,694	7,528
D. **Closing balance**	**42,341**	**43,789**
Total	**42,341**	**43,789**

Section 10 *Provisions for risks and charges - line item 100*

10.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2020	31/12/2019
1. **Provisions for credit risk related to commitments and financial guarantees given**	**39,726**	**20,439**
2. **Provisions on other commitments and other guarantees given**	**18,794**	**22,972**
3. **Pension and similar obligations**	**189,873**	**179,965**
4. **Other provisions for risks and charges**	**43,364**	**46,922**
4.1 legal disputes	23,602	26,185
4.2 personnel expenses	15,103	17,200
4.3 other	4,659	3,537
Total	**291,757**	**270,298**

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 include, in addition to the Parent Company's fund, the accounting of the «Swiss BVG pension» according to IAS 19, which entailed recognition of a liability.

10.2 Provisions for risks and charges: change in the year

	Provisions on other commitments and other guarantees given	Pension and similar obligations	Other provisions for risks and charges	Total
A. **Opening balance**	**22,972**	**179,965**	**46,922**	**249,859**
B. **Additions**	**3,949**	**15,983**	**18,717**	**38,649**
B.1 Provisions during the year	3,949	4,171	18,559	26,679
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to variations in the discount rate	-	8,424	-	8,424
B.4 Other changes	-	3,388	158	3,546
C. **Decrease**	**8,127**	**6,075**	**22,275**	**36,477**
C.1 Utilisations during the year	-	6,070	16,540	22,610
C.2 Changes due to variations in the discount rate	-	-	-	-
C.3 Other changes	8,127	5	5,735	13,867
D. Closing balance	**18,794**	**189,873**	**43,364**	**252,031**

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given			
	First stage	Second stage	Third stage	**Total**
Commitments to make loans	19,894	9,072	281	29,247
Financial guarantees given	521	356	9,602	10,479
Total	**20,415**	**9,428**	**9,883**	**39,726**

10.5 Defined-benefit pension plans

10.5.1. Characteristics of the plans and related risks

The pension fund of 189.873 million consists of the pension fund for the Parent Company's personnel of 162.296 million and the actuarial liabilities linked to the supplementary pension plan for employees of BPS Suisse SA of 27.577 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 335 employees and 309 pensioners. Since 28/04/1993, employees have been given the chance to join another supplementary pension scheme as laid down by law and by contract. 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.

10.5.2 Changes in net (assets) liabilities and redemption rights

	31/12/2020	31/12/2019
At 1 January	**179,965**	**160,734**
service cost	5,540	6,094
Interest cost	1,081	2,232
actuarial gains/losses	10,441	14,044
payments	(9,495)	(8,906)
other provisions	2,341	5,767
At 31 December	**189,873**	**179,965**

10.5.3 Information on the fair value of plan assets

Details of the assets of the Parent Company's pension plan are summarised in the following table:

	31/12/2020	31/12/2019
Fixed-yield securities	106,951	102,311
Variable-yield securities	2,396	3,670
Mutual funds invested in shares	8,139	10,921
Mutual funds invested in property	12,798	17,100
Balanced mutual funds	17,010	6,942
Other assets	15,002	11,582
Total	**162,296**	**152,526**

The amount of the fund increases by € 9.770 million, +6.41%.

Payments of benefits amount to € 4.041 million compared with € 3.842 million. The contributions paid by the employees totalled € 0.214 million (€ 0.223 million in the prior year).

10.5.4 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 Scpa

	31/12/2020	31/12/2019
Discount rate	0.36%	0.73%
Expected increase in salaries	0.25%	0.50%
Rate of inflation		1.50%
– 2021	0.00%	
– 2022	0.80%	
– 2023	1.20%	
subsequent	1.50%	
Underlying rate of pension increases	0.50%*	0.77%*

* average equalisation rate

See the Bank's financial statements for an explanation of how the discount rate was chosen.

Banca Popolare di Sondrio (Suisse) SA

	31/12/2020	31/12/2019
discount rate	0.10%	0.20%
expected increase in salaries	0.85%	0.85%
rate of inflation	0.85%	0.85%
underlying rate of pension increases	0.00%	0.00%

The discount rate has been chosen according to Swiss high standing corporate bonds with a duration between 15 and 20 years.

10.5.5 Information on the amount, timing and uncertainties of cash flows

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 Scpa and Banca Popolare di Sondrio (Suisse) SA:

Sensitivity

Banca Popolare di Sondrio Scpa

+0.25% increase in the discount rate, liability of € 141.491 million
-0.25% decrease in the discount rate, liability of € 153.497 million
+0.25% increase in the inflation rate, liability of € 149.289 million
-0.25% decrease in the inflation rate, liability of € 145.538 million

Banca Popolare di Sondrio (Suisse) SA

+0.50% change in the discount rate, liability of € 20.655 million
-0.50% change in the discount rate, liability of € 35.349 million
+0.50% change in rate of salary increase, liability of € 28.063 million
-0.50% change in rate of salary increase, liability of € 26.970 million

10.6 Provisions for risks and charges – other provisions

Items/Amounts	31/12/2020	31/12/2019
Legal disputes	23,602	26,185
Personnel expenses	15,103	17,200
Other provisions	4,659	3,537
Total	**43,364**	**46,922**

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 duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

This decrease of € 2.583 million arises from the difference between the provision of the year and the release of provisions set aside in prior years.

The Group recognizes liabilities for legal disputes in accordance with the provisions of IAS 37. No provision or disclosure is made for potential liabilities for which there is a remote risk of disbursement. Potential liabilities that are considered possible are subject to disclosure, if material. For potential liabilities for which there is a probable risk, provisions are made in agreement with the lawyers.

At 31 December 2020, a number of disputes, other than tax-related ones, were pending, with a total petitum of about Euro 155 million. This amount includes all existing disputes regardless of the estimate of the risk of disbursement of economic resources deriving from the potential loss. It therefore also includes disputes with a remote risk.

The following paragraphs give summary information on the various types of disputes and those with a petitum exceeding Euro 5 million and with a risk of disbursement that is deemed «possible».

Disputes relating to compound interest and usury

In 2020, the disputes falling within this line of litigation, which for years represented a significant part of the litigation brought against the Italian banking system, have decreased. For disputes relating to compound interest, the petitum is equal to approximately Euro 6.85 million, with provisions for 1.7 million, while for those relating to usury, the petitum is equal to 6.8 million, with provisions for 0.81 million.

Clawback actions in insolvency proceedings

19 disputes were pending for a petitum of 7.72 million, with a provision of 2.79 million. None with a request for a refund of a particularly significant amount.

AMA – Azienda Municipale Ambiente s.p.a.

In December 2020 the bank was notified of the summons before the Court of Rome, concerning the requests for assessment and declaration of the nullity or cancellation of the transaction in financial instruments called «Interest Rate Swap» stipulated on 30 September 2010 and the repayment of amounts unduly received by the Bank for € 20.67 million. The bank will appear in court at the hearing scheduled for 11 May 2021. At present, the risk of losing appears «possible».

Bankruptcy of Interservice s.r.l. in liquidation

In February 2015, the bankruptcy procedure sued the bank before the Court of Milan with a request for compensation for the damage caused to the company by the illegal conduct of its director, quantified at Euro 14.65 million. With a sentence published on 26 May 2020, the Court rejected the plaintiff's request, but the plaintiff has filed an appeal. The risk of losing appears «possible».

Ginevra s.r.l.

In January 2019, the company and the shareholders Giuliana Piovan and Gianpiero De Luca sued the Bank before the Court of Genoa with a request for compensation, quantified at Euro 11.39 million, for contractual liability for failure to grant credit, compound interest and usury. The Judge has already set a hearing for the clarification of the conclusions on 11 April 2022. The risk of losing appears «possible».

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 € 2.097 million, -12.19%.

Other provisions include the Parent Company's provision for charitable donations consisting of an allocation of profits authorised by the shareholders which is used to make approved payments. It decrease by € 0.220 for donations made during the year.

Section 13 *Group equity - line items 120, 130, 140, 150, 160, 170 and 180*

13.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2020.

At the period-end, the Bank held treasury shares with a carrying value of € 25.388 million.

13.2 Share capital - Number of shares of the Parent Bank: change during the year

Items/Type	Ordinary	Other
A. **Shares at the beginning of the year**	**453,385,777**	**–**
– fully paid	453,385,777	–
– not fully paid	–	–
A.1 Treasury shares (–)	3,674,431	–
A.2 Shares in circulation: opening balance	449,711,346	–
B. **Additions**	**–**	**–**
B.1 New issues	–	–
– for payment:	–	–
– conversion of bonds	–	–
– exercise of warrants	–	–
– other	–	–
– free of charge:	–	–
– to employees	–	–
– to directors	–	–
– other	–	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**5,528**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	5,528	–
C.3 Business disposals	–	–
C.4 Other changes	–	–
D. **Shares in circulation: closing balance**	**449,705,818**	**–**
D.1 Treasury shares (+)	3,679,959	–
D.2 Shares in existence at the end of the year	453,385,777	–
– fully paid	453,385,777	–
– not fully paid	–	–

13.3 Share capital: other information

It amounts to € 79.005 million, unchanged on last year.

13.4 Revenue reserves: other information

Line item 150. «Reserves» amounts to € 1,449.360 million with an increase of 11.71% also include the reserve for the purchase of treasury shares, 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 circulation of shares. This reserve amounts to € 30 million (it has been used for € 25.322 million).

Section 14 Minority interests - Line item 190

14.1 Detail of line item 210 «Minority interests»

The line item equity of minority interests amounts to € 98.103 million and is made up of the share capital of € 33.579 million, the share premium reserve of € 4.358 million, reserves of € 57.275 million, valuation reserves of € -0.255 million and profits of € 3.146 million.

14.2 Equity instruments: breakdown and changes during 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. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given				
	First stage	Second stage	Third stage	**Total 31/12/2020**	**Total 31/12/2019**
1. **Commitments to make loans**	**11,964,922**	**1,022,978**	**104,802**	**13,092,702**	**12,633,878**
a) Central banks	–	–	–	–	–
b) Public administrations	705,971	717	76	706,764	419,442
c) Banks	25,135	–	–	25,135	129,327
d) Other financial companies	1,087,475	1,355	11	1,088,841	1,032,052
e) Non-financial companies	8,928,785	905,056	97,853	9,931,694	9,836,392
f) Households	1,217,556	115,850	6,862	1,340,268	1,216,665
2. **Financial guarantees issued**	**504,098**	**64,873**	**16,493**	**585,464**	**631,557**
a) Central banks	–	–	–	–	–
b) Public administrations	7,066	2	–	7,068	7,842
c) Banks	12,759	–	–	12,759	17,588
d) Other financial companies	134,036	363	210	134,609	180,044
e) Non-financial companies	297,471	46,519	15,424	359,414	351,332
f) Households	52,766	17,989	859	71,614	74,751

2. Other commitments and other guarantees given

	Nominal value	**Nominal value**
	Total 31/12/2020	**Total 31/12/2019**
Other guarantees given	**3,103,099**	**2,837,143**
of which: impaired loans	60,894	65,653
a) Central banks	–	–
b) Public administrations	65,380	37,338
c) Banks	83,785	93,634
d) Other financial companies	34,178	58,279
e) Non-financial companies	2,719,444	2,465,000
f) Households	200,312	182,892
Other commitments	**3,142,004**	**3,256,864**
of which: impaired loans	59,727	109,366
a) Central banks	–	–
b) Public administrations	27,026	46,666
c) Banks	212,505	207,281
d) Other financial companies	67,014	49,879
e) Non-financial companies	2,736,293	2,872,969
f) Households	99,166	80,069

3. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	Amount 31/12/2020	Amount 31/12/2019
1. Financial assets measured at fair value through profit or loss	76,359	75,173
2. Financial assets measured at fair value through other comprehensive income	467,839	510,383
3. Financial assets measured at amortised cost	10,424,545	7,325,983
4. Property, equipment and investment property	–	–
of which: property, equipment and investment property held as inventory	–	–

The assets measured at fair value through other comprehensive income and those measured at amortised include securities assigned to customers under repurchase agreements, assigned to guarantee loans from central banks (TLTRO) and to guarantee the operations of the Swiss subsidiary. The assets measured at amortised cost also include loans that guarantee the funding provided by the Central Bank (ABACO loans) and residential mortgages guaranteeing the covered bonds issued by the Bank.

5. Management and intermediation for third parties

Type of service	Amount
1. **Execution of orders on behalf of customers**	**1,373,088**
a) purchases	732,212
1. settled	730,200
2. not settled	2,012
b) sales	640,876
1. settled	640,574
2. not settled	302
2. **Portfolio management**	**1,605,028**
a) individual	1,605,028
b) collective	–
3. **Custody and administration of securities**	**50,826,809**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	2,722,222
1. securities issued by consolidated companies	–
2. other securities	2,722,222
b) third-party securities on deposit (excluding portfolio management): other	17,243,148
1. securities issued by consolidated companies	2,065,800
2. other securities	15,177,348
c) third-party securities on deposit with third parties	19,791,742
d) own securities on deposit with third parties	11,069,697
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 the 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 (f=c–d–e) 31/12/2020**	**Net amount (f=c–d–e) 31/12/2019**
1. Derivatives	33,749	–	33,749	11,927	21,515	307	1,571
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2020	**33,749**	**–**	**33,749**	**11,927**	**21,515**	**307**	**–**
Total 31/12/2019	**6,988**	**–**	**6,988**	**4,462**	**955**	**–**	**1,571**

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 derivatives subject to agreements of this type and reported herein are measured at fair value.

7. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of the 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 (f=c–d–e) 31/12/2020**	**Net amount (f=c–d–e) 31/12/2019**
1. Derivatives	28,541	–	28,541	11,927	15,723	891	17
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2020	**28,541**	**–**	**28,541**	**11,927**	**15,723**	**891**	**–**
Total 31/12/2019	**71,340**	**–**	**71,340**	**5,760**	**65,563**	**–**	**17**

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 31/12/2020**	**Total 31/12/2019**
1. **Financial assets measured at fair value through profit or loss**:	**1,458**	**6,544**	**-**	**8,002**	**8,588**
1.1 Financial assets held for trading	244	-	-	244	599
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	1,214	6,544	-	7,758	7,989
2. **Financial assets measured at fair value through other comprehensive income**	**12,184**	**-**	**-**	**12,184**	**15,127**
3. **Financial assets measured at amortised cost**:	**33,901**	**486,020**	**-**	**519,921**	**529,080**
3.1 Loans and receivables with banks	7,810	4,149	-	11,959	12,423
3.2 Loans and receivables with customers	26,091	481,871	-	507,962	516,657
4. **Hedging derivatives**	**-**	**-**	**-**	**-**	**-**
5. **Other assets**	**-**	**-**	**-**	**-**	**-**
6. **Financial liabilities**	**-**	**-**	**-**	**54,293**	**21,006**
Total	**47,543**	**492,564**	**-**	**594,400**	**573,801**
of which: interest and similar income on impaired financial assets	-	35,382	-	35,382	43,723
of which: interest income on finance leases	-	-	-	-	-

The interest earned on financial liabilities relates almost entirely to longer-term refinancing operations (T-LTRO). For more information please reed the Parent Company's explanatory notes.

1.2 Interest and similar income: other information

1.2.1 Interest and similar income on foreign currency assets

Items	**31/12/2020**	**31/12/2019**
Interest and similar income on foreign currency assets	78,261	85,711

1.3 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2020**	**Total 31/12/2019**
1. **Financial liabilities measured at amortised cost**	**(22,282)**	**(63,358)**	**–**	**(85,640)**	**(89,256)**
1.1 Due to central banks	(26)	–	–	(26)	(115)
1.2 Due to banks	(5,767)	–	–	(5,767)	(11,443)
1.3 Due to customers	(16,489)	–	–	(16,489)	(20,539)
1.4 Securities issued	–	(63,358)	–	(63,358)	(57,159)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**–**	**–**	**–**
5. **Hedging derivatives**	**–**	**–**	**(5,151)**	**(5,151)**	**(7,031)**
6. **Financial assets**	**–**	**–**	**–**	**(13,599)**	**(17,139)**
Total	**(22,282)**	**(63,358)**	**(5,151)**	**(104,390)**	**(113,426)**
of which: interest expense relating to lease liabilities	(3,576)	–	–	(3,576)	(3,927)

1.4 Interest and similar expense: other information

1.4.1 Interest and similar expense on foreign currency liabilities

Items	**31/12/2020**	**31/12/2019**
Interest and similar expense on foreign currency liabilities	(13,714)	(23,007)

1.5 Differentials relating to hedging transactions

Items	**31/12/2020**	**31/12/2019**
A. Positive differentials relating to hedging transactions	–	–
B. Negative differentials relating to hedging transactions	(5,151)	(7,031)
C. Balance (A–B)	(5,151)	(7,031)

Section 2 *Commissions - line items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2020	31/12/2019
a) **guarantees given**	**24,220**	**25,172**
b) **credit derivatives**	**-**	**-**
c) **management, intermediation and consultancy services:**	**93,491**	**96,257**
1. trading in financial instruments	3,520	3,190
2. trading in foreign currencies	-	-
3. portfolio management	9,908	9,922
3.1. individual	9,908	9,922
3.2. collective	-	-
4. custody and administration of securities	8,790	8,376
5. custodian bank	4,652	4,034
6. placement of securities	32,799	38,166
7. order receipt and transmission	12,354	9,158
8. consultancy	-	-
8.1. investments	-	-
8.2. corporate finance	-	-
9. distribution of third-party services	21,468	23,411
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	19,233	20,190
9.3. other products	2,235	3,221
d) **collection and payment services**	**83,802**	**93,055**
e) **services for securitisation transactions**	**-**	**-**
f) **services for factoring transactions**	**19,813**	**22,384**
g) **tax collection services**	**-**	**-**
h) **management of multilateral trading systems**	**-**	**-**
i) **management of current accounts**	**35,473**	**36,036**
j) **other services**	**76,698**	**70,716**
Total	**333,497**	**343,620**

«Other services» mainly consist of loan commissions and international/foreign exchange fees.

The prior year figures have been restated for comparison purposes due to the reclassification to a more appropriate item of collection fees on coupons.

2.2 Fee and commission expense: breakdown

Services/Amounts	31/12/2020	31/12/2019
a) **guarantees received**	**(353)**	**(613)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(5,844)**	**(5,842)**
1. trading in financial instruments	(3,247)	(3,444)
2. trading in foreign currencies	–	–
3. portfolio management:	–	–
3.1 own	–	–
3.2 delegated to third parties	–	–
4. custody and administration of securities	(2,597)	(2,398)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(7,622)**	**(11,707)**
e) **other services**	**(3,262)**	**(3,181)**
Total	**(17,081)**	**(21,343)**

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	31/12/2020		31/12/2019	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,654	194	1,648	58
B. Other financial assets mandatorily measured at fair value	–	1,401	–	693
C. Financial assets measured at fair value through comprehensive income	1,115	11	1,106	13
D. Equity investments	–	–	36	–
Total	**2,769**	**1,606**	**2,790**	**764**

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gain (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit (loss) [(A+B) – (C+D)]
1. **Financial assets held for trading**	**20,468**	**27,805**	**(12,963)**	**(19,908)**	**15,402**
1.1 Fixed-yield securities	403	1,793	(26)	(45)	2,125
1.2 Variable-yield securities	670	1,792	(12,056)	(18,232)	(27,826)
1.3 Mutual funds	389	404	(869)	(1,631)	(1,707)
1.4 Loans	–	–	–	–	–
1.5 Other	19,006	23,816	(12)	–	42,810
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
Financial assets and liabilities: exchange differences	**–**	**–**	**–**	**–**	**(292)**
3. **Derivatives**	**1,606**	**33,298**	**(3,648)**	**(33,917)**	**(2,637)**
3.1 Financial derivatives:	1,606	33,298	(3,648)	(33,917)	(2,637)
– On debt securities and interest rates	812	5,696	–	(5,252)	1,256
– On equities and equity indices	–	16,642	(2,861)	(17,813)	(4,032)
– On currency and gold	–	–	–	–	24
– Other	794	10,960	(787)	(10,852)	115
3.2 Credit derivatives	–	–	–	–	–
of which: natural hedges linked to the fair value option	–	–	–	–	–
Total	**22,074**	**61,103**	**(16,611)**	**(53,825)**	**12,473**

The net trading gain (loss) passes from € 69.248 million to € 12.473 million.

The net result from trading on «other» financial assets is mainly made up of exchange gains.

This table does not include the result of the securities in the post-employment fund, which is shown under another item.

Section 5 *Net hedging gain (loss) - line item 90*

5.1 Net hedging gain (loss): breakdown

Income items/Amounts	31/12/2020	31/12/2019
A. **Income related to:**		
A.1 Fair value hedging derivatives	4,652	5,633
A.2 Hedge financial assets (fair value)	–	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Financial derivatives - Cash-flow hedges	–	–
A.5 Assets and liabilities in currency	–	–
Total income from hedging activities (A)	**4,652**	**5,633**
B. **Charges relating to:**		
B.1 Fair value hedging derivatives	–	–
B.2 Hedged financial assets (fair value)	(4,687)	(5,622)
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Financial derivatives - Cash-flow hedges	–	–
B.5 Assets and liabilities in currency	–	–
Total hedging charges (B)	**(4,687)**	**(5,622)**
C. **Net hedging gain (loss) (A – B)**	**(35)**	**11**
of which: result of hedging on net positions	–	–

The income consists of 4.652 million from the fair value valuation of hedging derivatives against a negative valuation of 4.687 million of the fair value of the loans being hedged. The net result of the measurement at fair value of the hedging structure is therefore negative for € 0.035 million.

Section 6 *Gains (losses) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases: breakdown

	31/12/2020			31/12/2019		
Items/income items	Gains	Losses	Gain (loss)	Gains	Losses	Net gain (loss)
A. **Financial assets**						
1. Financial assets measured at amortised cost	23,806	(49,397)	(25,591)	23,056	–	23,056
1.1 Loans and receivables with banks	40	(3)	37	–	–	–
1.2 Loans and receivables with customers	23,766	(49,394)	(25,628)	23,056	–	23,056
2. Financial assets measured at fair value through other comprehensive income	24,812	–	24,812	12,896	(610)	12,286
2.1 Fixed-yield securities	24,812		24,812	12,896	(610)	12,286
2.2 Loans	–	–	–	–	–	–
Total assets (A)	**48,618**	**(49,397)**	**(779)**	**35,952**	**(610)**	**35,342**
B. **Financial liabilities measured at amortised cost**	**–**	**–**	**–**	**–**	**–**	**–**
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	91	(29)	62	417	(3)	414
Total liabilities (B)	**91**	**(29)**	**62**	**417**	**(3)**	**414**

The loss of line item «1.2 Loans and receivables with customers» records the effects of the derisking with the two sales of NPLs carried out by the Parent Company during 2020. For more details, please refer to what is indicated in part E of these consolidated notes in the section «C. Securitisation transactions».

Section 7 *Net gains/losses on financial assets and liabilities measured at fair value through profit or loss - line item 110*

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit of loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Profit (loss) [(A+B)-(C+D)]
1. **Financial assets**	**28,452**	**2,117**	**(32,238)**	**(83)**	**(1,752)**
1.1 Fixed-yield securities	–	2,002	(3,890)	(64)	(1,952)
1.2 Variable-yield securities	25	9	-	(6)	28
1.3 Mutual funds	8,187	106	(6,141)	(13)	2,139
1.4 Loans	20,240	–	(22,207)	–	(1,967)
2. **Financial assets: exchange differences**	**–**	**–**	**–**	**–**	**(1,093)**
Total	**28,452**	**2,117**	**(32,238)**	**(83)**	**(2,845)**

Section 8 *Net adjustments for credit risk - line item 130*

8.1 Net adjustments for credit risk related to financial assets measured at amortised cost: breakdown

Transactions/Income items	Adjustments (1)			Write-backs (2)		**Total 31/12/2020**	**Total 31/12/2019**
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. **Loans and receivables with banks**	**(8,059)**	**–**	**–**	**330**	**–**	**(7,729)**	**(502)**
– Loans	(1,860)	–	–	318	–	(1,542)	(15)
– Fixed-yield securities	(6,199)	–	–	12	–	(6,187)	(487)
of which: impaired loans acquired or originated	–	–	–	–	–	–	-
B. **Loans and receivables with customers**	**(112,913)**	**(20,057)**	**(216,030)**	**53,506**	**161,832**	**(133,662)**	**(213,571)**
– Loans	(111,851)	(20,057)	(216,030)	53,506	161,832	(132,600)	(213,661)
– Fixed-yield securities	(1,062)	–	–	–	–	(1,062)	90
of which: impaired loans acquired or originated	(2,047)	–	(13,936)	2,303	9,084	(4,596)	(18,625)
Total	**(120,972)**	**(20,057)**	**(216,030)**	**53,836**	**161,832**	**(141,391)**	**(214,073)**

8.1a Net adjustments for credit risk related to financial assets measured at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income items	Net impairment losses			Total
	First and second stage	Third stage		31/12/2020
		Write-off	Other	
1. Loans subject to forbearance complying with the GL	(26,880)	(52)	(7,449)	(34,381)
2. Loans subject to other forbearance measures	(1,331)	-	(7,156)	(8,487)
3. New loans	(1,178)	-	(1,686)	(2,864)
Total	**(29,389)**	**(52)**	**(16,291)**	**(45,732)**

8.2 Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income items	Adjustments (1)			Write-backs (2)		Total 31/12/2020	Total 31/12/2019
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. **Debt securities**	**(1,400)**	**-**	**-**	**544**	**-**	**(856)**	**1,536**
B. **Loans**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Customers	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-
of which: impaired financial assets purchased or originated	-	-	-	-	-	-	-
Total	**(1,400)**	**-**	**-**	**544**	**-**	**(856)**	**1,536**

Value adjustments relate to the measurement of credit risk on debt securities classified under financial assets measured at fair value through other comprehensive income. Any value adjustments on equities are recorded directly in equity.

8.2a Net adjustments for credit risk relating to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

During 2020, no credit risk adjustments were made on loans measured at fair value through other comprehensive income subject to Covid-19 support measures.

Section 9 *Gains/losses on contractual changes not resulting in derecognition - line item 140*

9.1 Gains/losses on contractual changes: breakdown

Contractual amendments not resulting in derecognition amount to € 6.415 million.

Section 12 *Administrative expenses - line item 190*

12.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2020	31/12/2019
1) **Employees**	**(247,948)**	**(250,984)**
a) Wages and salaries	(163,590)	(160,967)
b) Social security contributions	(40,402)	(39,647)
c) post-employment benefits	(7)	(17)
d) pension expenses	(5,729)	(5,136)
e) provision for employee termination indemnities	(7,812)	(7,975)
f) provision for pension and similar obligations	(7,035)	(11,351)
– defined contribution	–	–
– defined benefits	(7,035)	(11,351)
g) payments to external supplementary pension funds:	(3,989)	(3,866)
– defined contribution	(3,970)	(3,856)
– defined benefits	(19)	(10)
h) costs deriving from payment agreements based on own capital instruments	–	–
i) other personnel benefits	(19,384)	(22,025)
2) **Other working personnel**	**(192)**	**(113)**
3) **Directors and Statutory Auditors**	**(2,743)**	**(2,592)**
4) **Retired personnel**	**–**	**–**
Total	**(250,883)**	**(253,689)**

12.2 Average number of employees by category

	31/12/2020	31/12/2019
1) **Employees**	**3,286**	**3,234**
a) managers	37	39
b) officials	811	787
c) other employees	2,438	2,408
2) **Other personnel**	**5**	**4**

	31/12/2020	31/12/2019
– Number of employees at year-end	3,328	3,302
– Other personnel	6	4

12.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2020	31/12/2019
Service cost	2,319	2,276
Interest cost	1,021	2,074
Contributions from employees	(215)	(222)
Reductions and payments	3,910	7,223
Total charge to income statement (A)	**7,035**	**11,351**
Yield from assets servicing the fund (B)	3,864	8,507
Total charge (A-B)	**3,171**	**2,844**

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 10.5 of the notes to the financial statements. The cost for the Parent Company consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations.

An additional provision of € 3.864 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». The actuarial loss of € 8.424 million has not been charged to the income statement; rather, in accordance with IAS 19, it has been deducted from equity as shown in the statement of comprehensive income.

12.4 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.

12.5 Other administrative expenses: breakdown

Type of service/Amounts	31/12/2020	31/12/2019
Telephone, post and data transmission	(14,430)	(14,527)
Maintenance of property, equipment and investment property	(9,167)	(9,799)
Rent of buildings	(465)	(555)
Security	(4,232)	(5,155)
Transportation	(2,945)	(3,552)
Professional fees	(45,004)	(40,383)
Office materials	(2,004)	(2,251)
Electricity, heating and water	(5,413)	(5,713)
Advertising and entertainment	(3,255)	(3,969)
Legal	(15,538)	(15,678)
Insurance	(2,029)	(1,934)
Company searches and information	(7,542)	(7,594)
Indirect taxes and dues	(57,211)	(55,967)
Software and hardware rental and maintenance	(22,149)	(20,671)
Data entry by third parties	(2,728)	(2,194)
Cleaning	(6,220)	(6,065)
Membership fees	(2,025)	(2,130)
Services received from third parties	(8,257)	(10,149)
Outsourced activities	(22,879)	(23,052)
Deferred charges	(1,350)	(991)
Goods and services for employees	(635)	(1,411)
Other	(43,465)	(38,031)
Total	**(278,943)**	**(271,771)**

Other expenses include € 35.259 million comprising the ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

Section 13 *Net accruals to provisions for risks and charges - line item 200*

13.1 Net provisions for the credit risk on commitments to make loans on financial guarantees given: breakdown

The line item is negative for € 19.256 million made up of the difference between provisions for the year and reallocations.

13.2 Net provisions for other commitments to disburse funds and other guarantees given: breakdown

The line item is positive for € 4.178 million made up of the difference between provisions for the year and reallocations.

13.3 Net accruals to other provisions for risks and charges: breakdown

The line item is positive for € 2.036 million made up of the difference between provisions for the year and reallocations.

Section 14 *Depreciation and net impairment losses/write backs on property, equipment and investment property - line item 210*

14.1. 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)**
A. **Property, equipment and investment property**				
1. For business purposes	(38,054)	–	–	(38,054)
– Owned	(16,209)	–	–	(16,209)
– Rights of use acquired through leases	(21,845)	–	–	(21,845)
2. Investment property	–	–	–	–
– Owned	–	–	–	–
– Rights of use acquired through leases	–	–	–	–
3. Inventories	–	(5,961)	–	(5,961)
Total	**(38,054)**	**(5,961)**	**–**	**(44,015)**

Section 15 *Amortisation and net impairment losses/write backs on intangible assets - line item 220*

15.1 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)**
A. **Intangible assets**				
A.1 Owned	(16,661)	–	–	(16,661)
– Internally generated	(30)	–	–	(30)
– Other	(16,631)	–	–	(16,631)
A.2 Acquired through financial leases	–	–	–	–
Total	**(16,661)**	**–**	**–**	**(16,661)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer EDP. There were no significant impairment losses relating to intangible assets during the year, so the disclosures required by IAS 36 paragraphs 130 letters a) c) d) f) g) and 131 are not provided.

Section 16 *Other operating income and expense - line item 230*

16.1 Other operating expenses: breakdown

	31/12/2020	**31/12/2019**
Out-of-period expense	(1,720)	(3,905)
Other	(4,962)	(702)
Consolidation differences	(1,822)	(1,368)
Total	**(8,504)**	**(5,975)**

16.2 Other operating income: breakdown

	31/12/2020	**31/12/2019**
Recovery of charges on deposits and overdrafts	987	487
Recovery of expenses	371	309
Rental income from buildings	5,996	6,327
Recovery of taxes	47,685	45,494
Financial income of pension and similar obligations plan	3,140	7,546
Out-of-period income - other	1,688	4,428
Other	9,833	14,768
Consolidation differences	1,916	2,410
Total	**71,616**	**82,169**

Rental income from buildings includes € 0.158 million from the sub-lease of right-to-use assets.

Section 17 *Net gains (losses) on equity investments - line item 250*

17.1 Net (losses) on equity investments: breakdown

Income statement/Sectors	31/12/2020	31/12/2019
1) **joint control companies**		
A. **Income**	**19**	**15**
1. Revaluations	19	15
2. Gains on disposal	–	–
3. Write-backs	–	–
4. Other income	–	–
B. **Charges**	**(28)**	**(440)**
1. Write-downs	(28)	(440)
2. Impairment writedowns	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Net gain (loss)	**(9)**	**(425)**
2) **Associated companies (subject to significant influence)**		
A. **Income**	**27,207**	**25,954**
1. Revaluations	27,101	25,954
2. Gains on disposal	106	–
3. Write-backs	–	–
4. Other income	–	–
B. **Charges**	**(201)**	**–**
1. Write-downs	(196)	–
2. Impairment writedowns	(5)	–
3. Losses on disposal	–	–
4. Other charges	–	–
Net gain (loss)	**27,006**	**25,954**
Total	**26,997**	**25,529**

Section 18 *Net gain (loss) property, equipment and investment property and intangible assets measured at fair value - line item 260*

18.1 Net result of the valuation at fair value (or revalued amount) or at the estimated realisable value of property, equipment and investment property and intangible assets: breakdown

Assets/Income elements	Revaluations (a)	Write-downs (b)	Exchange gains (c)	Exchange losses (d)	**Gains (loss) (a–b+c–d)**
A. **Property, equipment and investment property**	**46**	**(753)**	**–**	**–**	**(707)**
A.1 For business purposes:	–	–	–	–	–
– Owned	–	–	–	–	–
– Rights of use acquired through leases	–	–	–	–	–
A.2 Investment property:	46	(753)	–	–	(707)
– Owned	46	(753)	–	–	(707)
– Rights of use acquired through leases	–	–	–	–	–
A.3 Inventories	–	–	–	–	–
B. **Intangible assets**	**–**	**–**	**–**	**–**	**–**
B.1 Owned:	–	–	–	–	–
– Internally generated	–	–	–	–	–
– Other	–	–	–	–	–
B.2 Rights of use acquired through leases	–	–	–	–	–
Total	**46**	**(753)**	**–**	**–**	**(707)**

Section 20 *Gains (losses) on sale of investments - line item 280*

20.1 Gains (losses) on sale of investments: breakdown

Income item/amount	31/12/2020	31/12/2019
A. **Buildings**	**35**	**–**
– Gains on disposal	102	–
– Losses on disposal	(67)	–
B. **Other assets**	**19**	**14**
– Gains on disposal	29	16
– Losses on disposal	(10)	(2)
Net gain (loss)	**54**	**14**

Section 21 *Income taxes - line item 300*

21.1 Income taxes: breakdown

Income elements/Sectors	31/12/2020	31/12/2019
1. Current taxes (–)	(11,355)	(54,529)
2. Change in prior period income taxes (+/–)	103	(2,323)
3. Reduction in current taxes (+)	208	155
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4. Change in deferred tax assets (+/–)	(37,349)	(914)
5. Change in deferred tax liabilities (+/–)	1,209	2,089
6. Income taxes for the year (–) (–1+/–2+3+3bis+/–4+/–5)	(47,184)	(55,522)

This item came in at € 47.184 million, showing a decrease of 15.02%. The tax rate, intended as a simple comparison between income taxes and the result of current operations, stood at 30.07% compared with 28.48%.

21.2 Reconciliation between the theoretical and current tax burden

Taxes are calculated for each company based on the specific legislation of the country of residence.

The total tax charge for the year is reconciled as follows:

Profit before tax	**156.927**
DIRECT TAXES	–
Theoretical taxation	39,950
Dividends (–)	(4,033)
Gains/losses on sale of equity investments (PEX) (+/–)	(338)
Maxi depreciation	(437)
ACE	(331)
Other changes (+/–)	2,847
TOTAL DIRECT TAXES	**37,658**

IRAP (Regional business tax)	
Theoretical taxation	7,173
Dividends	(476)
Personnel expenses	699
Administrative expenses	1,369
Depreciation and amortisation	270
Other operating income/expense	221
Other items	270
TOTAL IRAP	**9,526**
TOTAL INCOME TAXES	**47,184**

Section 23 *Profit (Loss) for the year attributable to non-controlling interests – line item 340*

23.1 Details of line item 330 «Profit (Loss) for the year attributable to non-controlling interests»

Company names	**31/12/2020**	**31/12/2019**
Equity investments in consolidated companies with significant non-controlling interests		
FACTORIT SPA	(3,146)	(2,039)
Total	**(3,146)**	**(2,039)**

Section 25 *Earnings per share*

25.1 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.

	31/12/2020	**31/12/2019**
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.

25.2 Other information

IAS 33 requires that earnings per share (EPS) 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.

	31/12/2020	**31/12/2019**
Basic EPS – €	0.235	0.303
Diluted EPS – €	0.235	0.303

PART D Consolidated other comprehensive income

Analysis of consolidated statement of other comprehensive income

Items		31/12/2020	31/12/2019
10.	**Profit (loss) for the year**	**109,743**	**139,474**
	Other items of comprehensive income that will not be reclassified to profit or loss	22,964	(30,159)
20.	**Variable-yield securities measured at fair value through other comprehensive income:**	**32,570**	**(19,163)**
	a) change in fair value	48,123	21,580
	b) transfer to other components of equity	(15,553)	(40,743)
30.	**Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness):**	**-**	**-**
	a) change in fair value	-	-
	b) transfer to other components of equity	-	-
40.	**Hedge of variable-yield measured at fair value through other comprehensive income:**	**-**	**-**
	a) change in fair value (hedged instrument)	-	-
	b) change in fair value (hedging instrument)	-	-
50.	**Property, equipment and investment property**	**-**	**-**
60.	**Intangible assets**	**-**	**-**
70.	**Defined-benefit plans**	**(9,844)**	**(16,363)**
80	**Non-current assets and disposal groups held for sale**	**-**	**-**
90.	**Share of valuation reserves of equity investments valued at net equity**	**(59)**	**(34)**
100.	**Income taxes on other items of comprehensive income that will not be reclassified to profit or loss**	**297**	**5,402**
	Other items of comprehensive income that may be reclassified subsequently to profit or loss	11,676	57,688
110.	**Hedges of foreign investments:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
120.	**Exchange differences:**	**(584)**	**308**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	(584)	308
130.	**Cash-flow hedges:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
140.	**Hedging instruments (non-designated elements):**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
150.	**Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income:**	**18,785**	**80,018**
	a) changes in fair value	30,473	69,901
	b) transfer to income statement	(11,688)	10,117
	- adjustments for credit risk	856	(1,536)
	- gains/losses on disposals	(12,544)	11,653
	c) other changes	-	-
160.	**Non-current assets and disposal groups held for sale:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
170.	**Share of valuation reserves of equity investments valued at net equity:**	**(822)**	**5,976**
	a) changes in fair value	(822)	5,976
	b) transfer to income statement	-	-
	- adjustments for impairment	-	-
	- gains/losses on disposals	-	-
	c) other changes	-	-
180.	**Income taxes on other items of comprehensive income that may be reclassified subsequently to profit or loss**	**(5,703)**	**(28,614)**
190.	**Total other income items**	**34,640**	**27,530**
200.	**Other comprehensive income (Item 10+190)**	**144,383**	**167,004**
210.	**Consolidated other comprehensive income attributable to non-controlling interests**	**3,062**	**2,002**
220.	**Consolidated other comprehensive income attributable to the Parent Company**	**141,321**	**165,001**

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 carrying amount 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 «Investor relations» 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 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 accounting consolidation*

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Non-performing and performing loans: size, adjustments, trends, economic distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (carrying amounts)

Portfolio/quality	Bad loans	Unlikely-to-pay loans	Non-performing past due exposures	Performing past due exposures	Other performing exposures	**Total 31/12/2020**
1. Financial assets measured at amortised cost	345,812	667,696	51,158	99,281	38,004,317	39,168,264
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,516,131	2,516,131
3. Financial assets designated at fair value	–	–	–	–	–	-
4. Other financial assets mandatorily measured at fair value	–	26,960	484	1,668	393,546	422,658
5. Financial assets being sold	–	–	–	–	–	-
Total 31/12/2020	**345,812**	**694,656**	**51,642**	**100,949**	**40,913,994**	**42,107,055**
Total 31/12/2019	**668,058**	**849,381**	**56,537**	**304,045**	**35,165,334**	**37,042,355**

A.1.2 Distribution of credit exposures by portfolio and asset quality (gross and net values)

	Non-performing				Performing			
Portfolio/quality	Gross exposure	Total impairment adjustments	Net exposure	Total partial write-offs	Gross exposure	Total impairment adjustments	Net exposure	**Total (net exposure)**
1. Financial assets measured at amortised cost	2,250,466	1,185,799	1,064,667	195,711	38,290,468	186,870	38,103,598	39,168,265
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,518,098	1,967	2,516,131	2,516,131
3. Financial assets designated at fair value	–	–	–	–	–	–	–	-
4. Other financial assets mandatorily measured at fair value	41,856	14,411	27,445	13	–	–	395,214	422,659
5. Financial assets being sold	–	–	–	–	–	–	–	-
Total 31/12/2020	**2,929,322**	**1,200,210**	**1,092,112**	**195,724**	**40,808,566**	**188,837**	**41,014,943**	**42,107,055**
Total 31/12/2019	**3,732,063**	**2,158,087**	**1,573,976**	**341,863**	**35,271,911**	**106,511**	**35,468,379**	**37,042,355**

* amount to be shown for information purposes

The word exposures is understood as excluding equities and mutual funds.

The gross carrying amount of financial assets measured at fair is exposed at the value resulting from the evaluation at year end.

Partial write-offs recorded over the years in relation to the above portfolios total € 195.711 million, reflecting the bad loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» shows the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the remaining financial assets.

	Assets obviously of poor quality		Other assets
Portfolio/quality	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	16	331	57,222
2. Hedging derivatives	–	–	-
Total 31/12/2020	**16**	**331**	**57,222**
Total 31/12/2019	**8**	**96**	**113,694**

B. Disclosure of structured entities (other than SPV companies)

The Group has no structured entities for which this information is applicable.

B.1 Consolidated structured entities

At 31 December 2020, there are no structured entities consolidated in the accounts, as defined by IFRS 12, other than the securitised companies, falling within the scope of the Banca Popolare di Sondrio Group.

B.2 Structured entities not consolidated in the accounts

B.2.1 Prudentially consolidated structured entities

At 31 December 2020, there are no prudentially consolidated structured entities falling within the scope of the Banca Popolare di Sondrio Group.

B.2.2 Other structured entities

The Banca Popolare di Sondrio Group holds interests in UCITs (mutual funds and SICAVs) for long-term investment purposes or for trading purposes, which include the units of funds held following multi-originator sales of non-performing credit exposures of the Group.

For further information, please refer to what is indicated below in the section D.3 «Consolidation for supervisory purposes - Disposals with recourse limited solely to the assets sold and not derecognised: fair value» and the information provided for the tables in Section 2: «Financial assets measured at fair value through profit or loss - item 20», in part B of these explanatory notes.

Section 2 Risks of consolidation for supervisory purposes

1.1 Credit risk

QUALITATIVE INFORMATION

1. General matters

As part of its functions of strategic guidance and coordination of the subsidiaries, the

Parent Company ensures that uniform credit policies are adopted at Group level and a standard approach taken to risk assessment and monitoring.

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 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 it applies to customer loans. This system is based entirely on the subjective assessment and discretion of the credit and loans department: this approach involves gathering various set indicators and information of a financial and qualitative nature, depending on the type of customer. The combined evaluation of these elements results in a score, which is used by the person making the final evaluation to assign a rating. This methodology has been analysed by the independent auditors, who consider it appropriate given the scale, complexity and risks involved in the activities performed. Factorit, on the other hand, does not have its own rating system. The company does however make reference to the ratings assigned by the Parent Company to common customers and, for these, can check their risk status and trends at any time.

2.3 Methods for measuring expected losses

The methodological framework implemented by Banca Popolare di Sondrio to calculate the Expected Credit Loss (ECL) on its loan portfolio, in accordance with the requirements of IFRS 9 that came into force on 1 January 2018, is explained in the notes to the financial statements.

As part of its coordination activities, the Parent Company requires the subsidiaries to apply consistent methodology, also by using the same IT tools. Lastly, with regard to subsidiaries, the models developed to calculate writedowns applied logic that, while consistent with the methodological framework developed by the Parent Company to comply with the key aspects of the new standard (e.g. estimation of risk parameters over long-term time horizons considering different scenarios, with writedown time horizon dependent on the staging of the position), takes account of their specific characteristics, such as the geographical and economic context in which they operate, the nature and level of diversification of their core businesses, and the complexity and scale of their control structures.

The principal innovation contained in the new standard is to replace the concept of incurred credit losses with an expected loss approach. In order to comply as closely as possible with the new requirements when calculating writedowns, the Group defined a specific methodological framework. Building on a suite of models already used in other business areas and processes, this activity involved developing various methodologies – statistical, econometric and, more generally, quantitative and data driven – for modelling the usual credit risk parameters – PD, LGD, EAD – and methodologies relevant to the calculation of impairment, such as stage allocation methodologies and the specific methodology of forward-looking type element, as well as the micro-modelling of scenario dependency and the calculation of a multi-period ECL that takes account of the above key aspects.

In order to quantify the variability to which the final write-downs are subject, given all the scenario -dependent factors considered explicitly in the methodological framework , the Group has carried out specific sensitivity analyses in accordance with sector best practices and the most recent recommendations issued by the Supervisory Authorities (paper ESMA32 - 63 – 791 of 22 October 2019.

Given the importance that the Parent Company has to the Group numbers (the Parent Company's loss forecasts represent more than 95% of the Group's overall figures), please refer to the information already presented with reference to the separate financial statements.

As regards the other relevant subsidiaries, also in consideration of the characteristics of their credit portfolios and the reference geographical contexts, the analyses carried out do not show different results from those shown for the Parent Company.

See «Part A – Accounting policies» for information about the determination of expected losses on stage 3 exposures i.e. non-performing loans. More specifically, the expected losses on non-performing loans at 31 December 2020 are determined analytically with reference to expected recoveries, which are discounted using the original effective interest rates over the collection period. Given that the expected recoveries are determined with reference to the specific circumstances of each debtor, it is not considered meaningful to analyse the sensitivity of the ECL identified.

2.4 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.

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. Note that lending with mortgage backing or financial collateral is long-standing practice in Switzerland: in confirmation, more than 80% of loans to customers are guaranteed by mortgages, almost exclusively on residential property.

As regards Factorit's operations, on the other hand, particular tools for mitigating the risk assumed by the factor can be found in the techniques used to consolidate the transfer of risk versus the assigned debtor and in fragmenting it over the series of other persons or entities, a typical approach in operations of this kind. The shorter average maturity and, therefore, faster turnover of factoring loans with respect to normal banking transactions ensures a certain flexibility in the recovery of the resources invested.

3. Non-performing exposures

3.1 Strategies and operational policies

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.

3.2 Write-offs

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their write-off classification and management criteria into line with those of the Parent Company, as explained in the notes on the Bank.

3.3 Purchased or originated credit-impaired financial assets

Also in this area, the Parent Company requires that the subsidiaries comply with the principles adopted by the Parent Company, which are adequately described in the notes on the Bank.

3.4 New Definition of Default (New DoD)

Also in this context, reference should be made to the corresponding Section of these explanatory notes relating to the company.

4. Financial assets subject to commercial renegotiation and exposures subject to forbearance

Please refer to the notes on the Bank, which explain the specific management and monitoring policies for these exposures that the Parent Company has extended to the subsidiaries.

5. Impacts resulting from the Covid-19 pandemic

Please refer to the corresponding Section of these explanatory notes relating to the company.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Non-performing and performing loans: size, adjustments, trends, economic distribution

A.1.1 Consolidation for supervisory purposes – Distribution of financial assets by past due bands (carrying amounts)

	First stage			Second stage			Third stage		
	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days
1. Financial assets measured at amortised cost	32,120	3,960	4,469	14,537	24,016	20,214	37,273	16,234	671,998
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–
3. Financial assets being sold	–	–	–	–	–	–	–	–	–
Total 31/12/20	**32,120**	**3,960**	**4,469**	**14,537**	**24,016**	**20,214**	**37,273**	**16,234**	**671,998**
Total 31/12/19	**115,598**	**28,503**	**4,377**	**34,874**	**64,125**	**46,321**	**13,358**	**33,493**	**1,074,374**

A.1.2 Consolidation for supervisory purposes – Financial assets, commitments to make loans and financial guarantees given: dynamics of total writedowns and provisions

	Total impairment adjustments							
	Assets included in the first stage					Assets included in the second stage		
Reasons/stages of risk	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold
Total opening adjustments	**40,179**	**1,062**	**-**	**-**	**41,241**	**65,257**	**49**	**-**
Increases in financial assets purchased or originated	–	–	–	–	–	18	–	–
Derecognition other than write-offs	(10,514)	(644)	–	–	(11,158)	(4,663)	(36)	–
Net adjustments for credit risk	33,286	2,071	–	–	35,357	60,007	576	–
Contractual amendments not resulting in derecognition	(2)	–	–	–	(2)	53	–	–
Changes in estimation methodology	–	–	–	–	–	–	–	–
Write-offs recognised directly in the income statement	–	–	–	–	–	–	–	–
Other changes	3,638	(1,061)	–	–	2,577	(367)	(51)	–
Total closing adjustments	**66,587**	**1,428**	**-**	**-**	**68,015**	**120,305**	**538**	**-**
Recoveries on financial assets subject to write-offs	–	–	–	–	–	–	–	–
Write-offs recognised directly in the income statement	–	–	–	–	–	–	–	–

		Total impairment adjustments						Total provisions on commitments to grant loans and financial guarantees given			
		Assets included i in the third stage									
of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets being sold	of which: individual writedowns	of which: collective writedowns	Of which: POCI financial assets	First stage	Second stage	Third stage	**Total 31/12/2020**
-	**65,306**	**2,144,969**	**-**	**-**	**2,144,969**	**-**	**111,501**	**7,357**	**2,047**	**11,035**	**2,271,956**
-	18	4,197	-	-	4,197	-	4,213	-	-	-	4,215
-	(4,699)	(968,865)	-	-	(968,865)	-	(7,584)	(11)	-	-	(984,733)
-	60,583	154,398	-	-	154,398	-	4,585	13,069	7,381	(1,152)	269,636
-	53	1,553	-	-	1,553	-	-	-	-	-	1,604
-	-	-	-	-	-	-	-	-	-	-	-
-	-	(153,180)	-	-	(153,180)	-	-	-	-	-	(153,180)
-	(418)	2,727	-	-	2,727	-	(10,061)	-	-	-	4,886
-	**120,843**	**1,185,799**	**-**	**-**	**1,185,799**	**-**	**102,654**	**20,415**	**9,428**	**9,883**	**1,414,384**
-	-	18,474	-	-	18,474	-	-	-	-	-	18,474
-	-	(19,770)	-	-	(19,770)	-	-	-	-	-	(19,770)

A.1.3 Financial assets, commitments to grant loans and financial guarantees given: transfers between the various stages of credit risk (gross and nominal amounts)

Portfolios/stages of risk	Gross exposure/nominal value					
	Transfers between first stage and second stage		Transfers between Stages 2 and 3		Transfers between first stage and third stage	
	From first to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	2,173,391	1,026,490	107,572	56,919	167,717	18,512
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Financial assets being sold	–	–	–	–	–	–
4. Commitments to make loans and financial guarantees given	979,545	101,689	5,785	1,180	84,633	6,072
Total 31/12/2020	**3,152,936**	**1,128,179**	**113,357**	**58,099**	**252,350**	**24,584**
Total 31/12/2019	**1,447,478**	**1,449,986**	**151,903**	**106,336**	**129,770**	**24,372**

A.1.3a Loans subject to Covid-19 support measures: transfers between the different stages of credit risk (gross amounts)

Portfolio/quality	Gross amounts/nominal amounts					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
	From first to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
A. **Loans valued at amortised cost**	**855,175**	**226,566**	**21,503**	**11,205**	**17,238**	**29**
A.1 subject to forbearance compliant with GLs	682,978	212,747	19,058	10,494	7,471	29
A.2 subject to other forbearance measures	41,313	13,813	2,445	711	4,503	–
A.3 new loans	130,884	6	–	–	5,264	–
B. **Loans measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 subject to forbearance compliant with GLs	–	–	–	–	–	–
B.2 subject to other forbearance measures	–	–	–	–	–	–
B.3 new loans	–	–	–	–	–	–
Total 31/12/2020	**855,175**	**226,566**	**21,503**	**11,205**	**17,238**	**29**

A.1.4 Consolidation for supervisory purposes - On- and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure		Total adjustments and provisions	Net exposure	Total partial write-off*
	Non-performing	Performing			
A **On-balance sheet exposure**					
a) Bad loans	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
c) Non-performing past due exposures	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	–	–	–	–	–
– of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	–	4,021,827	9,223	4,012,604	–
– of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**–**	**4,021,827**	**9,223**	**4,012,604**	**–**
B. **Off-balance sheet credit exposures**					
a) Non-performing	–	–	–	–	–
b) Performing	–	381,570	58	381,512	–
Total (B)	**–**	**381,570**	**58**	**381,512**	**–**
Total (A+B)	**–**	**4,403,397**	**9,281**	**4,394,116**	**–**

* amount to be shown for information purposes

Cash exposures include loans and receivables with banks shown in item 40 a) as well as other financial assets represented by bank securities included in items 20 c), 30 and 40 of the assets side of the balance sheet, excluding equities. The off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

A.1.5 Consolidation for supervisory purposes - On- and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure		Total adjustments and provisions	Net exposure	Total partial write-off*
	Non-performing	Performing			
A **On-balance sheet exposure**					
a) Bad loans	1,078,268	–	732,457	345,811	174,700
– of which: exposures subject to forbearance	237,519	–	162,260	75,259	10,616
b) Unlikely-to-pay loans	1,154,067	–	459,410	694,657	21,024
– of which: exposures subject to forbearance	674,346	–	253,509	420,837	55
c) Non-performing past due exposures	59,985	–	8,344	51,641	–
– of which: exposures subject to forbearance	14,603	–	2,468	12,135	–
d) Performing past due exposures	–	104,047	3,098	100,949	–
– of which: exposures subject to forbearance	–	12,139	687	11,452	–
e) Other performing exposures	–	37,103,346	176,517	36,926,829	2
– of which: exposures subject to forbearance	–	697,884	26,064	671,820	–
Total (A)	**2,292,320**	**37,207,393**	**1,379,826**	**38,119,887**	**195,726**
B. **Off-balance sheet credit exposures**					
a) Non-performing	241,915	–	27,973	213,942	–
b) Performing	–	20,330,245	30,491	20,299,754	–
Total (B)	**241,915**	**20,330,245**	**58,464**	**20,513,696**	**–**
Total (A+B)	**2,534,235**	**57,537,638**	**1,438,290**	**58,633,583**	**195,726**

* amount to be shown for information purposes

Cash exposures include the customer loans shown in item 40b as well as other financial assets represented by non-bank securities included in items 20c, 30 and 40 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.1.5a On-balance sheet credit exposures to customers subject to Covid-19 support measures: gross and net amounts

Type of exposure/Amounts	Gross exposure	Total adjustments and provisions	Net exposure	Total partial write-offs*
A. **Exposures classified as bad loans**	**–**	**–**	**–**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–
b) Subject to other forbearance measures	–	–	–	–
c) New loans	–	–	–	–
B. **Exposures classified as unlikely-to-pay loans**	**90,458**	**25,459**	**64,999**	**55**
a) Subject to forbearance compliant with GLs	27,127	8,024	19,103	–
b) Subject to other forbearance measures	58,181	15,744	42,437	55
c) New loans	5,150	1,691	3,459	–
C. **Non-performing past due exposures**	**290**	**15**	**275**	**–**
a) Subject to forbearance compliant with GLs	135	15	120	–
b) Subject to other forbearance measures	–	–	–	–
c) New loans	155	–	155	–
D. **Performing past due exposures**	**7,670**	**367**	**7,303**	**–**
a) Subject to forbearance compliant with GLs	2,570	193	2,377	–
b) Subject to other forbearance measures	3,929	168	3,761	–
c) New loans	1,171	6	1,165	–
E. **Other performing exposures**	**5,070,276**	**53,112**	**5,017,164**	**–**
a) Subject to forbearance compliant with GLs	3,051,381	49,101	3,002,280	–
b) Subject to other forbearance measures	220,997	2,865	218,132	–
c) New loans	1,797,898	1,146	1,796,752	–
Total (A+B+C+D+E)	**5,168,694**	**78,953**	**5,089,741**	**55**

* amount to be shown for information purposes

A.1.7 Consolidation for supervisory purposes – On-balance sheet exposures to customers: dynamics of gross impaired loans

Categories	Bad loans	Unlikely-to-pay loans	Non-performing past due exposures
A. **Opening gross exposure**	**2,264,502**	**1,401,606**	**65,955**
– of which: sold but not derecognised	–	7,887	850
B. **Increases**	**278,902**	**320,073**	**49,408**
B.1 transfers from performing loans	20,283	164,440	45,645
B.2 transfers from POCI financial assets	328	9,237	589
B.3 transfers from other categories of non-performing exposures	134,850	18,010	64
B.4 contractual amendments not resulting in derecognition	10	–	1
B.5 other increases	123,431	128,386	3,109
C. **Decreases**	**1,465,136**	**567,612**	**55,378**
C.1 transfers to performing loans	–	83,844	10,752
C.2 write–offs	93,221	79,715	–
C.3 collections	43,663	249,500	14,875
C.4 proceeds from disposals	290,388	17,082	–
C.5 losses on disposal	125,350	3,598	–
C.6 transfers to other categories of non-performing exposures	27	127,272	25,626
C.7 contractual amendments not resulting in derecognition	–	5,475	–
C.8 other decreases	912,487	1,126	4,125
D. **Closing gross exposure**	**1,078,268**	**1,154,067**	**59,985**
– of which: sold but not derecognised	–	6,623	79

A.1.7 bis Consolidation for supervisory purposes – On-balance sheet exposures to customers: dynamics of gross exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. **Opening gross exposure**	**1,034,984**	**766,313**
– of which: sold but not derecognised	2,647	25,668
B. **Increases**	**260,864**	**303,038**
B.1 transfers from performing loans not subject to forbearance	27,284	144,076
B.2 transfers from performing loans subject to forbearance	58,929	–
B.3 transfers from exposures subject to forbearance and non-performing	–	63,679
B.4 transfers from non-performing exposures not subject to forbearance	108,064	528
B.5 other increases	66,587	94,755
C. **Decreases**	**369,380**	**359,328**
C.1 transfers to performing loans not subject to forbearance	–	118,674
C.2 transfers to performing loans subject to forbearance	63,679	–
C.3 transfers to loans subject to forbearance and non-performing	–	58,929
C.4 write-offs	60,798	–
C.5 collections	53,349	86,747
C.6 proceeds from disposals	41,616	–
C.7 losses on disposal	15,801	–
C.8 other decreases	134,137	94,978
D. **Closing gross exposure**	**926,468**	**710,023**
– of which: sold but not derecognised	3,073	29,937

A.1.9 Consolidation for supervisory purposes – Impaired on-balance sheet exposures to customers: dynamics of total writedowns

	Bad loans		Unlikely-to-pay loans		Non-performing past due exposures	
Categories	**Total**	Of which: exposures subject to forbearance	**Total**	Of which: exposures subject to forbearance	**Total**	Of which: exposures subject to forbearance
A. **Total opening adjustments**	**1,596,444**	**178,062**	**552,225**	**297,858**	**9,418**	**654**
– of which: sold but not derecognised	–	–	933	262	84	–
B. **Increases**	**280,777**	**76,805**	**181,180**	**111,646**	**5,366**	**2,285**
B.1 adjustments to POCI financial assets	276	–	3,918	–	1	–
B.2 other adjustments	93,706	22,617	164,376	83,216	4,371	1,945
B.3 losses on disposal	125,350	12,255	3,598	3,546	–	–
B.4 transfers from other categories of non-performing exposures	60,572	41,933	2,582	315	4	1
B.5 contractual amendments not resulting in derecognition	–	–	1,630	1,629	–	–
B.6 other increases	873	–	5,076	22,940	990	339
C. **Decreases**	**1,144,764**	**92,607**	**273,995**	**155,995**	**6,440**	**471**
C.1 write-backs on valuation	39,204	5,459	42,718	27,299	195	5
C.2 write-backs due to collections	29,448	9,044	65,957	33,972	1,578	144
C.3 gains on disposal	68,557	7,993	10,753	3,444	–	–
C.4 write-offs	93,221	20,174	79,715	40,624	–	–
C.5 transfers to other categories of non-performing exposures	11	7	58,828	41,933	4,319	308
C.6 contractual amendments not resulting in derecognition	–	–	77	77	–	–
C.7 other decreases	914,323	49,930	15,947	8,646	348	14
D. **Total closing adjustments**	**732,457**	**162,260**	**459,410**	**253,509**	**8,344**	**2,468**
– of which: sold but not derecognised	–	–	2,201	950	7	–

A.2.1 Consolidation for supervisory purposes: distribution of financial assets, commitments to make loans and financial guarantees given by internal rating class (gross values)

	External rating classes							Total
Exposures	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Unrated	**31/12/2020**
A. **Financial assets measured at amortised cost**	**5,192,011**	**1,557,900**	**1,354,050**	**419,764**	**112,347**	**170**	**31,891,603**	**40,527,845**
– First stage	5,192,011	1,552,904	1,341,982	385,633	81,360	170	26,223,515	34,777,575
– Second stage	–	4,996	12,068	34,131	30,987	–	3,416,883	3,499,065
– Third stage	–	–	–	–	–	–	2,251,205	2,251,205
B. **financial assets measured at fair value through other comprehensive income**	**1,524,439**	**516,638**	**332,596**	**100,355**	**9,590**	**–**	**34,479**	**2,518,097**
– First stage	1,524,439	516,638	327,364	74,985	9,590	–	34,479	2,475,837
– Second stage	–	–	5,232	25,370	–	–	–	42,260
– Third stage	–	–	–	–	–	–	–	–
C. **Financial assets being sold**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–	–	–	–
– Second stage	–	–	–	–	–	–	–	–
– Third stage	–	–	–	–	–	–	–	–
Total (A+B+C)	**6,716,450**	**2,074,538**	**1,686,646**	**520,119**	**121,937**	**170**	**31,926,082**	**43,045,942**
of which: POCI financial assets	–	–	–	–	–	–	260,832	260,832
D. **Commitments to make loans and financial guarantees given**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– First stage	10,278	121,017	425,735	42,359	9,427	–	11,860,204	12,469,020
– Second stage	–	–	1,097	3,087	842	–	1,082,825	1,087,851
– Third stage	–	–		–	–	–	121,295	121,295
Total (D)	**10,278**	**121,017**	**426,832**	**45,446**	**10,269**	**–**	**13,064,324**	**13,678,166**
Total (A+B+C+D)	**6,726,728**	**2,195,555**	**2,113,478**	**565,565**	**132,206**	**170**	**44,990,406**	**56,724,108**

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 banking group's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	From AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard &Poor's Rating Services	from AAA to AA–	from A+ to A–	from BBB+ to BBB–	from BB+ to BB	from B+ to B–	from CCC+ down–
Fitch Ratings	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

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 it 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.

	Rating 1	Rating 2	Rating 3	Rating 3G	Rating 4
A. **Financial assets measured at amortised cost**	**–**	**1,101**	**658,412**	**620,291**	**2,247,330**
– First stage	–	1,101	657,438	620,291	2,243,187
– Second stage	–	–	974	–	4,143
– Third stage	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**
– First stage	–	–	–	–	–
– Second stage	–	–	–	–	–
– Third stage	–	–	–	–	–
Total (A+ B)	–	1,101	658,412	620,291	2,247,330
of which: POCI financial assets	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	–	–	690	6	57,676
– First stage	–	–	690	6	57,676
– Second stage	–	–	–	–	–
– Third stage	–	–	–	–	–
Total (C)	**–**	**–**	**690**	**6**	**57,676**
Total (A+B+C)	**–**	**1,101**	**659,102**	**620,297**	**2,305,006**

The Parent Company uses internal ratings to calculate the capital requirements in relation to it corporate and retail portfolios, for which the related IRB models have been validated.

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.

Internal rating classes							
Rating 4G	Rating 5	Rating 6	Rating 6G	Rating 7	Rating 8	Unrated	**Total 31/12/20**
777,038	**108,007**	**29,803**	**12,032**	**19,553**	**16,712**	**47,265**	**4,537,545**
775,877	–	–	–	–	–	47,265	4,345,160
1,161	108,007	–	–	–	–	–	114,285
–	–	29,803	12,032	19,553	16,712	–	78,100
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
777,038	108,007	29,803	12,032	19,553	16,712	47,265	4,537,545
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3,818	–	9	–	–	–	236,356	298,555
3,818	–	–	–	–	–	236,356	298,546
–	–	–	–	–	–	–	–
–	**–**	**9**	**–**	**–**	**–**	**–**	**9**
3,818	**–**	**9**	**–**	**–**	**–**	**236,356**	**298,555**
780,856	**108,007**	**29,812**	**12,032**	**19,553**	**16,712**	**283,622**	**4,836,100**

A.3.1 Consolidation for supervisory purposes – Guaranteed on- and off-balance sheet exposures to banks

	Gross exposure	net exposure	Secured guarantees (1) Buildings mortgaged	Financial leases of Buildings	Securities	Other secured guarantees
1. **Guaranteed cash exposures**:	**31,746**	**31,723**	**–**	**–**	**112**	**–**
1.1. fully guaranteed	30,716	30,695	–	–	112	–
– of which: non-performing	–	–	–	–	–	–
1.2. partially guaranteed	1,030	1,028	–	–	–	–
– of which: non-performing	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures**:	**6,376**	**6,376**	**–**	**–**	**1,903**	**998**
2.1. fully guaranteed	4,049	4,049	–	–	673	998
– of which: non-performing	–	–	–	–	–	–
2.2. partially guaranteed	2,327	2,327	–	–	1,230	–
– of which: non-performing	–	–	–	–	–	–

A.3.2 Consolidation for supervisory purposes - Guaranteed on- and off-balance sheet exposures to customers

	Gross exposure	net exposure	Secured guarantees (1) Buildings mortgaged	Financial leases of Buildings	Securities	Other secured guarantees
1. **Guaranteed cash exposures**:	**21,266,920**	**20,233,408**	**12,595,490**	**–**	**755,499**	**2,112,201**
1.1. fully guaranteed	19,138,149	18,194,555	12,593,005	–	689,029	2,019,957
– of which: non-performing	1,745,404	917,261	786,752	–	6,220	10,149
1.2. partially guaranteed	2,128,771	2,038,853	2,485	–	66,470	92,244
– of which: non-performing	127,751	44,809	2,004	–	6,588	552
2. **Guaranteed off-balance sheet exposures**:	**3,677,177**	**3,658,824**	**363,645**	**–**	**138,018**	**130,592**
2.1. fully guaranteed	3,092,851	3,076,547	363,525	–	112,185	111,897
– of which: non-performing	96,527	86,306	9,539	–	678	1,284
2.2. partially guaranteed	584,326	582,277	120	–	25,833	18,695
– of which: non-performing	15,378	14,442	120	–	151	701

Personal guarantees (2)									
Derivatives on loans									
Other derivatives					Guarantees given				
CLN	Central counterparties	Banks	Other financial companies	Other parties	Public Administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**930**	**–**	**30,674**	**–**	**31,716**
–	–	–	–	–	930	–	29,653	–	30,695
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	1,021	–	1,021
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**1,239**	**–**	**1,140**	**–**	**5,280**
–	–	–	–	–	1,239	–	1,140	–	4,050
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	1,230
–	–	–	–	–	–	–	–	–	–

Personal guarantees (2)									
Derivatives on loans									
Other derivatives					Guarantees given				
CLN	Central counterparties	Banks	Other financial companies	Other parties	Public Administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**1,935,657**	**320,886**	**190,426**	**1,953,754**	**19,863,913**
–	–	–	–	–	729,179	284,470	175,035	1,684,219	18,174,894
–	–	–	–	–	7,477	808	15,409	83,210	910,025
–	–	–	–	–	1,206,478	36,416	15,391	269,535	1,689,019
–	–	–	–	–	4,350	–	3,423	20,668	37,585
–	**–**	**–**	**–**	**–**	**19,630**	**118,005**	**143,823**	**2,452,992**	**3,366,705**
–	–	–	–	–	9,981	114,900	132,261	2,181,992	3,026,741
–	–	–	–	–	208	–	17,426	54,397	83,532
–	–	–	–	–	9,649	3,105	11,562	271,000	339,964
–	–	–	–	–	320	–	–	10,744	12,036

A.4 Consolidation for supervisory purposes - Financial and non-financial assets obtained by enforcing guarantees received

	Credit exposure cancelled	Gross value	Total impairment adjustments	Carrying amount	of which obtained during the year
A. **Property, equipment and investment property**	**–**	**–**	**–**	**–**	**–**
A.1. For business purposes	–	–	–	–	–
A.2. For investment purposes	–	–	–	–	–
A.3. Inventories	–	–	–	–	–
B. **Variable-yield securities and fixed-yield securities**	**–**	**–**	**–**	**–**	**–**
C. **Other assets**	**169,723**	**70,004**	**2,789**	**67,215**	**63,388**
D. **Non-current assets and disposal groups held for sale**	**–**	**–**	**–**	**–**	**–**
D.1. Property, equipment and investment property	–	–	–	–	–
D.2. Other assets	–	–	–	–	–
Total 31/12/2020	**169,723**	**70,004**	**2,789**	**67,215**	**63,388**
Total 31/12/2019	**135,913**	**106,840**	**2,499**	**104,341**	**97,301**

B. Distribution and concentration of lending

Preparation of this section has excluded in the exposures reported in tables A.1.4. and A.1.5., exposures to counterpart risk relating to loans of securities or goods, granted or received.

B.1 Consolidation for supervisory purposes - Distribution by sector of the on- and off-balance sheet exposures to customers

	Public administrations		Financial companies	
Exposures/Counterparties	Net exposure	Total impairment adjustments	Net exposure	Total impairment adjustments
A. **On-balance sheet exposure**				
A.1 Bad loans	–	397	854	11,352
– of which exposures subject to forbearance	–	–	258	6,063
A.2 Unlikely-to-pay loans	275	132	10,197	9,766
– of which exposures subject to forbearance	–	–	8,035	6,651
A.3 Non-performing past due exposures	3	–	73	20
– of which exposures subject to forbearance	–	–	–	–
A.4 Performing exposures	8,684,887	4,719	3,187,308	19,301
– of which exposures subject to forbearance	19,161	240	755	5
Total (A)	**8,685,165**	**5,248**	**3,198,432**	**40,439**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	76	–	97	325
B.2 Performing exposures	803,894	417	1,278,552	8,467
Total (B)	**803,970**	**417**	**1,278,649**	**8,792**
Total (A+B) 31/12/2020	**9,489,135**	**5,665**	**4,477,081**	**49,231**
Total (A+B) 31/12/2019	**8,586,413**	**3,955**	**4,697,366**	**69,497**

Financial companies (of which: insurance companies)		Non-financial companies		Households	
Net exposure	Total impairment adjustments	Net exposure	Total impairment adjustments	Net exposure	Total impairment adjustments
–	–	233,078	501,214	111,879	219,494
–	–	51,962	110,376	23,040	45,821
–	–	515,468	365,372	168,717	84,140
–	–	313,378	201,711	99,423	45,147
–	–	7,153	2,235	44,412	6,089
–	–	2,699	1,158	9,437	1,309
13,926	259	15,700,752	97,779	9,433,968	57,816
–	–	425,053	16,273	238,303	10,233
13,926	**259**	**16,456,452**	**966,600**	**9,758,976**	**367,539**
9	–	205,637	26,455	8,132	1,193
6,280	–	15,379,785	15,934	1,641,406	5,673
6,289	**–**	**15,585,422**	**42,389**	**1,649,538**	**6,866**
20,215	**259**	**32,041,874**	**1,008,989**	**11,408,514**	**374,405**
24,373	**67**	**29,910,725**	**1,652,359**	**10,900,040**	**581,312**

B.2 Consolidation for supervisory purposes - Territorial distribution of on- and off-balance sheet exposures to customers

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total impairment adjustments	Net exposure	Total impairment adjustments
A. **On-balance sheet exposure**				
A.1 Bad loans	1	703,915	6,711	28,495
A.2 Unlikely-to-pay loans	677,539	452,265	16,895	7,012
A.3 Non-performing past due exposures	15,573	2,828	36,055	5,513
A.4 Performing exposures	29,792,404	169,193	7,026,073	10,076
Total (A)	**30,824,543**	**1,328,201**	**7,085,734**	**51,096**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	213,847	27,942	95	31
B.2 Performing exposures	18,471,809	29,553	602,363	906
Total (B)	**18,685,656**	**57,495**	**602,458**	**937**
Total (A+B) 31/12/2020	**49,510,199**	**1,385,696**	**7,688,192**	**52,033**
Total (A+B) 31/12/2019	**46,754,157**	**2,237,740**	**7,081,240**	**64,644**

B.3 Consolidation for supervisory purposes - Territorial distribution of on- and off-balance sheet exposures to banks

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total impairment adjustments	Net exposure	Total impairment adjustments
A. **On-balance sheet exposure**				
A.1 Bad loans	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Non-performing past due exposures	–	–	–	–
A.4 Performing exposures	3,492,330	8,954	457,028	242
Total (A)	**3,492,330**	**8,954**	**457,028**	**242**
B. **Off-balance sheet credit exposures**				
B.1 Non-performing exposures	–	–	–	–
B.2 Performing exposures	116,314	49	233,421	6
Total (B)	**116,314**	**49**	**233,421**	**6**
Total (A+B) 31/12/2020	**3,608,644**	**9,003**	**690,449**	**248**
Total (A+B) 31/12/2019	**1,486,250**	**987**	**575,834**	**72**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total impairment adjustments	Net exposure	Total impairment adjustments	Net exposure	Total impairment adjustments
52	18	21	29	–	–
46	29	177	104	–	–
9	2	4	1	–	–
106,309	81	34,641	230	68,352	35
106,416	**130**	**34,843**	**364**	**68,352**	**35**
–	–	–	–	–	–
25,214	16	3,558	3	663	13
25,214	**16**	**3,558**	**3**	**663**	**13**
131,630	**146**	**38,431**	**367**	**69,015**	**48**
140,127	**630**	**48,023**	**3,977**	**70,997**	**132**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total impairment adjustments	Net exposure	Total impairment adjustments	Net exposure	Total impairment adjustments
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
14,585	10	10,402	5	28,519	12
14,585	**10**	**10,402**	**5**	**28,519**	**12**
–	–	–	–	–	–
3,459	–	22,429	3	5,889	–
3,459	**–**	**22,429**	**3**	**5,889**	**–**
18,044	**10**	**32,831**	**8**	**34,408**	**12**
30,131	**7**	**57,334**	**4**	**32,772**	**9**

B.4 Large exposure

	31/12/2020	31/12/2019
Number of positions	17	14
Exposure	22,821,057	15,159,408
Risk position	6,199,279	3,940,622

The exposure limit of 10% of capital for supervisory purposes – the threshold for inclusion of a counterparty in the category of «Large exposure» – 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. It should be noted that the positions shown above include the Italian Republic (nominal exposure, 7,925 million; Risk position, 6.5 million), purely on the basis of sovereign securities held in proprietary portfolios, and the Bank of Italy (nominal exposure, 6,425 million; risk position, 3.6 million), mainly for term deposits and the compulsory reserve.

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. Securitisations

QUALITATIVE INFORMATION

In line with the company's objectives of derisking and improving the quality of assets, during the course of 2020, as explained in the report on operations, the Group completed two securitisations through the sale of bad loans called Diana and Luzzatti.

Note that the carrying amount of the securitisations originated by third party companies, shown in the following table C.2, at 31 December 2020 amounts to 428 million euro.

Diana securitisation

The securitisation was completed for legal purposes on 1 June 2020 through the sale without recourse of a portfolio of bad loans pursuant to arts 1, 4 and 7.1 of Law 130 of 30 April 1999 to Diana S.P.V. S.r.l., for a gross carrying amount at the date of sale of 872.231 million euro. The securitised portfolio at the effective date of 1 April 2019 included bad loans for 999.717 million euro and was made up of secured non-performing mortgage loans for 74% and unsecured positions for the other 26%.

On 17 June 2020, the payment of the purchase price by the SPV was financed through the issue of 3 classes of ABS securities, initially fully subscribed by Banca Popolare di Sondrio, for a total nominal value of € 273.651 million splitted as follows:

- a Senior tranche (Class A) for 235 million, with investment grade ratings (BBB assigned by DBRS Morningstar, Baa2 by Moody's and BBB by Scope Ratings) backed by the government guarantee (GACS), pursuant to Legislative Decree 18/2016, issued by a decree of the Ministry of Economy and Finance dated 12 August 2020. These securities provide a yield equal to the 6-month Euribor plus an annual spread of 0.5%
- a Mezzanine tranche (Class B) of 35 million, unrated, with a yield equal to the sum of an annual spread of 9% and the lower of the 6-month Euribor and 0, to which has to be added the greater of the 6-month Euribor and 0.
- a Junior tranche (Class J) of 3.651 million, unrated, with a yield equal to the 6-month Euribor plus an annual spread of 15% and any variable yield depending on the performance of the securitisation.

The placement of 95% of the Mezzanine and Junior tranches with institutional investors was completed on 25 June 2020. In compliance with the retention rule in art. 6, paragraph 4, of the Securitisation Regulation, art. 51, paragraph (1), letter (a) of the AIFMD Regulation and art. 254, paragraph (2), letter (a) of the Solvency II Regulation, Banca Popolare di Sondrio has retained ownership of 5% of the Mezzanine securities (nominal value 1,750,000) and of the Junior securities (nominal value 182,550).

Consistently with the provisions of IFRS 9, as a result of the settlement of the sale of 95% of the aforementioned notes, the conditions for the derecognition from the financial statements of the bad loans sold have been met, as the rights and benefits relating to them have been substantially transferred. All senior securities are classified in the portfolio of «Financial assets valued at amortised cost», based on the reimbursements received in the second half of 2020, equal to 66 million, and the expected losses recognised on the basis of the IFRS 9 impairment model, the carrying amount at the end of the year, amounts to 169 million. Conversely, the portions of the mezzanine securities (fair value at 31 December 2020: 667,368 euro) and junior securities (fair value at 31 December 2020: 528 euro) have been recognised as «Financial assets mandatorily valued at fair value through profit or loss».

The SPV has entered into an Interest Rate Cap (IRC) type derivative contract in order to protect itself from interest rate risk. The Transferring Bank is not a «direct» or «indirect» counterparty (through an investee) of derivative instruments designed to attribute part of the risks assumed by the vehicle to the Transferring Bank.

The loss on sale, 45.105 million euro, which is included in «Gains (losses) from the sale or repurchase of financial assets measured at amortised cost», derives from the sale of bad loans and from the subsequent sale of the subordinated tranches. In addition, other charges of € 2.651 million connected with the sale are also added.

The credit management and recovery activity was entrusted by the Vehicle Company to Prelios Credit Servicing S.p.A., a servicer appointed in accordance with article 2, paragraphs 3 and 6-bis of Law 130/1999. For the sake of completeness of information, it should be noted that in the context of the transaction, Banca Popolare di Sondrio granted the vehicle Diana S.P.V. S.r.l. a «Limited Recourse Loan» of Euro 10.925 million, intended, on the date of issue of the securities, as a cash reserve available to the SPV to cover any misalignments between the recovery plan of the Transferred Portfolio and the payments to be made to the security holders. This loan, recorded under «Financial assets measured at amortised cost», will be repaid out of the liquidity available to the SPV according to the order of payment priority and, in any case, prior to repayment of the senior notes' principal, so it does not represent any form of credit support for the securitisation.

The main elements of the transaction described above are summarised below:

Portfolio sale date	01/06/2020
Vehicle Company	Diana S.P.V. S.r.l.
Servicers	Prelios Credit Servicing S.p.A.
Securities issue date	17/06/2020
Type of transaction	Traditional with GACS guarantee from the Economic and Finance Ministry.
Assets transferred	NPLs made up of secured and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	10.925 million
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Bad loans
Amount of securitised assets	The total of the loans receivable from the transferred portfolio amounts to Euro 872 million.
Sale price of the securitised assets	The sale price is Euro 274 million.
Organisational structure	Prelios Credit Servicing S.p.A. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

The vehicle company has issued the following securities:

Seniority	Maturity	Issue amount	Rating by DBRS Morningstar	Rating Moody's	Rating Scope Ratings
Senior	December 2038	235,000,000	BBB	Baa2	BBB
Mezzanine	December 2038	35,000,000	N/A	N/A	N/A
Junior	December 2038	3,651,000	N/A	N/A	N/A
Total		**273,651,000**			

Luzzatti securitisation

In December 2020, the bank carried out the second securitisation through a multi-originator sale, relating to exposures classified as bad loans originating from 15 banks, for a total value of 919.9 million in terms of gross carrying amount, of which 371.8 million attributable to the Banca Popolare di Sondrio Group (made up 66% of secured loans).

The payment of the purchase price by the SPV, specifically established pursuant to Law 130 of 30 April 1999, called «POP NPLs 2020 Srl» was financed by issuing asset-backed securities for a total nominal value of 276.5 million, splitted as follows:

- a Senior tranche (Class A) of 241.5 million, with investment grade ratings (BBB assigned by DBRS Morningstar and BBB by Scope Ratings) consistent with the requirements of the regulations for the issue of the government guarantee (GACS) by the Economic and Finance Ministry, pursuant to Legislative Decree 18/2016, for which the formal procedure has been started. These securities provide a yield equal to the 6-month Euribor plus an annual spread of 0.3%;
- a Mezzanine tranche (Class B) for 25 million, with investment grade ratings (CCC assigned by DBRS Morningstar and CC by Scope Ratings), with a yield equal to the sum of an annual spread of 12% and the 6-month Euribor;
- a Junior tranche (Class J) for 10 million, unrated, with a yield equal to the 6-month Euribor

plus an annual spread of 15% and any variable yield based on the performance of the securitisation

In relation to any interest period, if a negative rate results from the sum of 6-month Euribor and the margins indicated above, the interest rate will be considered equal to zero.

On 23 December 2020, the issue date of the securities, the originating banks subscribed 100% of the Senior notes and in application of the retention rule provided for by Article 405 of the CRR, each of the originating banks maintained a stake of not less than 5% of the Mezzanine and Junior tranches. The rest of the Mezzanine and Junior securities were subscribed by third-party investors.

The SPV has entered into an Interest Rate Cap (IRC) type derivative contract in order to protect itself from interest rate risk. The originating banks are not a counterparty – neither «direct» nor «indirect» (through an investee) – of derivative instruments designed to attribute part of the risks assumed by the vehicle to the Originating Bank.

Consistently with the provisions of IFRS 9, due to the regulation of the sale of 95% of the said notes (Mezzanine and Junior), in compliance with the retention rule, pursuant to the provisions of Article 6, paragraph 4, of the Securitisation Regulation, the conditions for derecognition of the bad loans sold were met, as the related rights and benefits were substantially transferred.

The following table shows the securitisation positions held by the Banca Popolare di Sondrio Group at the balance sheet date.

Seniority	Maturity	Nominal amount	Rating DBRS Morningstar	Rating Scope Ratings
Senior	November 2045	109,783,000	BBB	BBB
Mezzanine	November 2045	568,250	CCC	CC
Junior	November 2045	227,400	N/A	N/A
Total		**110,578,650**		

All of the senior securities are classified as «Financial assets measured at amortised cost» for an amount net of expected losses on the basis oppure based on of the IFRS 9 impairment model of € 109.8 million; conversely, the portions owned of the mezzanine (fair value 90,693 euro) and junior (fair value 227 euro) securities have been classified as «Financial assets mandatorily measured at fair value through profit or loss».

The loss on disposal, equal to 4.2 million euro, is included in «Gains (losses) from the sale or repurchase of financial assets measured at amortised cost». In addition, other charges of € 1.4 million connected with the sale are also added.

The credit management and recovery activity was entrusted by the Vehicle Company to Credito Fondiario S.p.A. and Fire S.p.A., servicers appointed in accordance with article 2, paragraphs 3 and 6-bis of Law 130/1999.

For the sake of completeness of information, it should be noted that as part of the securitisation, Banca Popolare di Sondrio granted the vehicle Diana S.P.V. S.r.l. a «Limited Recourse Loan» of Euro 9.910 million, intended, on the date of issue of the securities, as a cash reserve available to the SPV to cover any misalignments between the recovery plan of the Portfolio Sold and the payments to be made to the security holders. The «Limited Recourse Loan» made by Banca Popolare di Sondrio is equal to 4.505 million and is recorded under «Financial assets measured at amortised cost»; it will be repaid based on the available liquidity of the SPV in the order of priority of payments and, in any case, prior to the repayment of the principal of the senior securities, so it does not represent any form of credit support for the securitisation.

The main elements of the transaction described above are summarised below with reference only to the Banca Popolare di Sondrio Group:

Portfolio sale date	03/12/2020
Vehicle Company	POP NPLs 2020 S.r.l.
Servicers	Credito Fondiario S.p.A. and Fire S.p.A.
Securities issue date	23/12/2020
Type of transaction	Traditional multi-originator sale with GACS guarantee from the Economic and Finance Ministry.
Assets sold	NPLs made up of secured and unsecured credit exposures
Sector of the economy	The portfolio being sold is made up principally of corporate debtors.
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Subordinated loan (Cash reserve)	4.505 million
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Bad loans
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to Euro 345 million.
Sale price of the securitised assets	The sale price is Euro 111.6 million
Organisational structure	Credito Fondiario S.p.a. prepares a quarterly report containing all the information relating to the receivables of each debtor position.
Internal risk measurement and control systems	The settlement or judicial recovery of non-performing loans assigned is entrusted solely to the Servicers appointed by the SPV. Banca Popolare di Sondrio has not maintained any role or involvement in the management of credit recovery.

QUANTITATIVE INFORMATION

C.1 Consolidation for supervisory purposes - Exposures deriving from the main «own» securitisation transactions broken down by type of securitised assets and by type of exposure

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Carrying amount	Writedowns/ writebacks	Carrying amount	Writedowns/ writebacks	Carrying amount	Writedowns/ writebacks
A. **Fully derecognised from the financial statements**	**-**	**-**	**-**	**-**	**-**	**-**
Non-performing loans	278,938	196	758	-	1	-
B. **Partially derecognised from the financial statements**	**-**	**-**	**-**	**-**	**-**	**-**
C. **Not derecognised from the financial statements**	**-**	**-**	**-**	**-**	**-**	**-**

The table shows the on-balance sheet exposures assumed by the Banca Popolare di Sondrio Group in relation to its Diana and Luzzatti securitisations. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.2 Consolidation for supervisory purposes - Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Carrying amount	Writedowns/ writebacks	Carrying amount	Writedowns/ writebacks	Carrying amount	Writedowns/ writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042						
Mortgage loans	28,416	-	-	-	-	-
Alba 6 Spv 27.06.2014/25.10.2045						
Lease contracts	399,857	197	-	-	-	-

The note linked with the securitisation by Bnt Portfolio Spv Srl is classified among the financial assets mandatorily measured at fair value through profit or loss. That fair value is indicated in the «Carrying amount» column. The parts of the table relating to guarantees issued and credit lines are not shown as these situations do not apply in this case.

C.3 Consolidation for supervisory purposes – Interests in special purpose securitisation vehicles

			Assets			Liabilities		
Names	Registered offices	Consolidation	Loans	Fixed-yield securities	Other	Senior	Mezzanine	Junior
Alba 6 Spv Srl	Conegliano (TV)	NO	636,005	-	1,766	400,056	-	126,632
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	163,024	-	14,066	270,359	-	-
Diana SPV	Conegliano (TV)	NO	202,617	-	17,173	169,352	35,000	3,651
Pop Npls 2020 Srl	Conegliano (TV)	NO	229,449	-	70,092	241,500	25,000	10,120

C.4 Consolidation for supervisory purposes – Non-consolidated special purpose vehicle for securitisation

The following companies have not been consolidated as there is not control as defined by IFRS 10: Alba 6 Spv Srl, BNT Portfolio Spv Srl, Diana SPV Srl and Pop NPLs 2020 Srl. Please refer to Part A of these explanatory notes.

As part of the Diana and Luzzatti operations, the Group issued limited-recourse loans to the vehicle companies, for Euro 15.43 million, intended at the issue date of the securities to constitute a cash reserve available to the SPV to cover any misalignments between the recovery plan of the portfolio sold to it and the payments to be made in favour of the security holders, shown under «Financial assets measured at amortised cost». The Banca Popolare di Sondrio Group's maximum exposure to the risk of loss is equal to the sum of the carrying amount of the notes (279.7 million euro) and the carrying amount of the limited-recourse loans. Taking into account that the government guarantee only covers the senior tranches, we believe that the exposure to the risk of loss is reduced to 16.189 million euro.

C.5 Consolidation for supervisory purposes -Servicer activities - own securitisations: collection of securitised loans and redemptions of securities issued by the vehicle company for the securitisation

At 31 December 2020, the Group does not perform any servicer activity for its own securitisations in which the assets sold have been derecognised in accordance with IFRS 9.

C.6 Consolidation for supervisory purposes - Consolidated special purpose vehicle for

At 31 December 2020, there were no transactions that use consolidated special vehicle companies for securitisation.

D. Disposals

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

Pursuant to IFRS 7, paragraph 42D, letters a), b) and c), the following table shows the carrying amount of repurchase agreements on securities owned (mainly classified in the portfolio of «Financial assets measured at amortised cost») which did not lead to derecognition of the underlying financial assets from the financial statements.

The non-derecognition of the securities, with reference to repurchase agreements, is linked to the Group retaining all the risks and benefits associated with the security, since there is an obligation to repurchase it forward at a contractually established price. Depending on the type of counterparty, the consideration for the sale is recognised under payables to banks or to customers, while the securities involved in the transaction remain recorded in their portfolios.

QUANTITATIVE INFORMATION

D.1 Consolidation for supervisory purposes - Financial assets sold and recognised in full and associated financial liabilities: carrying amounts

	Financial assets sold and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which: non-performing	Carrying amount	of which: subject to securitisation transactions	of which: subject to repurchase agreements
A. **Financial assets held for trading**	**1,101**	**-**	**1,101**	**-**	**1,101**	**-**	**1,101**
1. Fixed-yield securities	1,101	-	1,101	-	1,101	-	1,101
2. Variable-yield securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
4. Derivatives	-	-	-	-	-	-	-
B. **Other financial assets mandatorily measured at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Variable-yield securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
C. **Financial assets designated at fair value**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. **Financial assets measured at fair value through other comprehensive income**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fixed-yield securities	-	-	-	-	-	-	-
2. Variable-yield securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
E. **Financial assets measured at amortised cost**	**51,681**	**-**	**51,681**	**-**	**54,321**	**-**	**54,321**
1. Fixed-yield securities	51,681	-	51,681	-	54,321	-	54,321
2. Loans	-	-	-	-	-	-	-
Total 31/12/2020	**52,782**	**-**	**52,782**	**-**	**55,422**	**-**	**55,422**
Total 31/12/2019	**505,515**	**-**	**505,515**	**-**	**509,384**	**-**	**509,384**

D.2 Consolidation for supervisory purposes - Financial assets sold and recognised in full and associated financial liabilities: carrying amounts

In both the current and the previous year, the Group has no financial assets sold but still partially recognised and associated financial liabilities.

D.3 Consolidation for supervisory purposes - Disposals with recourse limited solely to the assets sold and not eliminated from the balance sheet: fair value

	Recognised in full	Recognised in part	**Total 31/12/2020**	**Total 31/12/2019**
A. **Financial assets held for trading**	**1,101**	**–**	**1,101**	**51,668**
1. Fixed-yield securities	1,101	–	1,101	51,668
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
4. Derivatives	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
C. **Financial assets designated at fair value**	–	–	–	–
1. Fixed-yield securities	–	–	–	–
2. Loans	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**189,020**
1. Fixed-yield securities	–	–	–	189,020
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
E. **Financial assets measured at amortised cost (fair value)**	**54,294**	**–**	**54,294**	**268,525**
1. Fixed-yield securities	54,294	–	54,294	268,525
2. Variable-yield securities	–	–	–	–
Total financial assets	**55,395**	**–**	**55,395**	**509,213**
Total associated financial liabilities	**(55,422)**	**–**	**(55,422)**	**(509,383)**
Net carrying amount 31/12/2020	**(27)**	**–**	**(27)**	**–**
Net carrying amount 31/12/2019	**(170)**	**–**	**–**	**(170)**

B. Financial assets sold and fully derecognised with recognition of continued involvement

At 31 December 2020, there are no financial assets sold and fully derecognised with recognition of continued involvement.

D.3 Consolidation for supervisory purposes - Financial assets sold and fully derecognised

Pursuant to the provisions of the Communication of the Bank of Italy of 23 December 2019, the following section provides the qualitative and quantitative information regarding the only sale of non-performing loans, classified as «Unlikely to pay», carried out during the course of 2020 of a multi-originator type in favour of a mutual investment fund with simultaneous subscription of units issued by the fund.

IDEA CCR Corporate Credit Recovery II Fund - Credit Section

On 7 October 2020, the DeA Capital deal was completed with the transfer of loans with the status of «unlikely to pay» by Banca Popolare di Sondrio to the Italian alternative mutual investment fund (FIA) of the closed-end multi-sector type reserved for qualified investors, called «IDEA CCR (Corporate Credit Recovery) II» (hereinafter IDEA CCR II), managed by DeA Capital Alternative Funds SGR, which aims to contribute to the relaunch of Italian companies under financial stress, but with solid industrial foundations. Management of the credit sector is governed by the Fund Regulations and focuses on maximising the rate of recovery of the non-performing loans acquired and financial instruments invested. The body responsible for managing the Fund is the Board of Directors which makes use of an Advisory Board that can express a binding opinion to the Board of Directors only in the event of any investment or divestment or contract or other act in conflict of interest, actual or potential, between related parties and with other funds managed by the SGR. There is also a third decision-making body, namely the Shareholders' Meeting, in which all unit-holders of the Fund's Sub-Funds participate.

This deal was carried out through the contribution of non-performing loans at the price of 13.01 million, offsetting the sale price with the subscription price, for the same amount, of 337,543 class A units, of the Credit Section of the IDEA CCR Fund II. Taking into account the carrying amount of the loans at 1 January 2020, the sale transaction resulted in the recognition of a positive economic effect of 8.4 million.

From an accounting point of view, in line with the provisions of IFRS 9, the aforementioned sale operation involved derecognition of the loans sold, as a counter-entry to the recognition of the shares attributed to the IDEA fund, as the Group substantially transferred all the risks and benefits deriving from the possession of the assets being sold and, moreover, did not retain any power of management over the fund, which was taken on by the fund management company.

The fund units have been booked to the portfolio of «Financial assets mandatorily valued at fair value through profit or loss», with a level 3 fair value of 12 million. For further details on the determination of the fair value of the units, please refer to part A.4 of these consolidated notes.

The main elements of the transaction described above are summarised below:

Portfolio sale date	07/10/2020
SGR	DeA Capital Alternative Funds SGR
Fund name	IDeA Capital CCR II CREDITI
Securities issue date	07/10/2020
Type of transaction	Multi-originator
Assets sold	Non-performing exposures classified as «unlikely-to-pay»
Sector of the economy	Non-performing loans to corporate businesses
Geographical breakdown	The loans subject to securitisation refer to parties resident in Italy.
Amount of securitised assets	The total of the loans receivable from the portfolio sold amounts to Euro 13 million.
Sale price of the securitised assets	The sale price is Euro 13 million.

D4. Covered bond transactions

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 1 June 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 sold 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 sale of performing loans totalling € 202 million took place on 5 December 2015, under the same contract.

Two additional sales were carried out in 2016. The first, on 1 February 2016, relating to a portfolio of performing loans totalling € 576 million 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 sale of performing loans for a total of € 307 million took place on 1 October 2017 under the same contract.

A sixth sale of performing loans for a total of € 323 million took place on 1 October 2018.

A seventh sale of performing loans for a total of € 352 million took place on 1 December 2019.

These 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 a non-recourse sale pursuant to IFRS 9. These loans were not therefore 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 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 bond 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 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

The first series of bonds, with ISIN Code IT0005039711, was repaid in full on 5 August 2019.

E. Consolidation for supervisory purposes - models for the measurement of credit risk

The Group does not use internal portfolio models for the assessment of credit risk (VaR methodology).

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

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

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 forward contracts on exchange rates. As regards the transactions in derivative instruments (derivatives in the strictest sense), the offices occasionally arrange interest rate options and interest rate swaps in order to satisfy the hedging needs of customers; these are then matched with operations of opposite sign arranged with leading financial counterparties. Consequently, such transactions do not generate any risk.

The Swiss investee is not exposed to the price risk deriving from the trading book.

A1. Impacts resulting from the Covid-19 pandemic

For the impacts deriving from the pandemic, please refer to what is indicated for the Parent Company in the corresponding section of the Company's notes, given that the subsidiaries' contributions are not material.

B. Management and measurement of interest rate risk and price risk

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements:

- an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
- an analysis of sensitivity to interest rate based on the strategic Asset & Liability Management (ALM) methodologies detailed in section 1.2.2 below (interest rate risk and price risk of the bank book).

As regards the model based on the calculation of VaR, the Bank adopts an overall system of limits on the exposure to risks from financial assets at a consolidated level similar to what was explained in the notes to the separate financial statements, to which reference should be made also for the characteristics of the internal model used for calculating Value at Risk (VaR).

In particular, in addition to the financial instruments exposed to interest rate risk and price risk included in the Parent Company's trading portfolio for supervisory purposes, the model used covers forward exchange rate contracts and derivatives in the strict sense (foreign exchange and commodity options) of the subsidiary.

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.

As regards the second methodology, based on sensitivity analyses carried out through an Asset & Liability Management (ALM) procedure, please refer to the notes to the separate financial statements of the Company, where the «stress testing» activities are also explained. With regard to the results, please refer to the contents of the following paragraph (Quantitative information).

B1. Impacts resulting from the Covid-19 pandemic

Similarly to what is stated in the corresponding section of the company's notes to the financial statements, the situation of strong market disturbance has led to a sharp increase in VaR measures and put under tension the system of limits on the exposure to risk on the set of instruments held for trading purposes («trading portfolio»), with episodes of violation concentrated mainly between March and April. A restructuring of the system of internal limits and more reassuring news on the evolution of the epidemic in Italy helped to calm the situation in the latter part of the period.

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	On demand	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**	**-**	**67,273**	**5,013**	**-**	**20,404**	**-**	**-**	**-**
1.1 Fixed-yield securities	-	-	5,013	-	20,404	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	5,013	-	20,404	-	-	-
1.2 Other assets	-	67,273	-	-	-	-	-	-
2. **Cash liabilities**	**-**	**1,101**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	1,101	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. **Financial derivatives**	**-**	**3,910,230**	**1,150,126**	**768,694**	**1,004,649**	**221,803**	**111,430**	**-**
3.1 With underlying security	-	-	-	-	538	5,885	-	-
- Options	-	-	-	-	538	5,885	-	-
+ Long positions	-	-	-	-	538	-	-	-
+ Short positions	-	-	-	-	-	5,885	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	3,910,230	1,150,126	768,694	1,004,111	215,918	111,430	-
- Options	-	3,812	4,548	4,620	49,364	162,376	111,430	-
+ Long positions	-	1,906	2,274	2,310	24,682	81,188	55,715	-
+ Short positions	-	1,906	2,274	2,310	24,682	81,188	55,715	-
- Other derivatives	-	3,906,418	1,145,578	764,074	954,747	53,542	-	-
+ Long positions	-	2,386,971	908,676	700,543	477,374	26,771	-	-
+ Short positions	-	1,519,447	236,902	63,531	477,373	26,771	-	-

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
– with early repayment option	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**2,564,458**	**814,813**	**772,762**	**3,440**	**1**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	2,564,458	814,813	772,762	3,440	1	–	–
– Options	–	5,652	4,558	4,940	2,124	–	–	–
+ Long positions	–	2,826	2,279	2,470	1,062	–	–	–
+ Short positions	–	2,826	2,279	2,470	1,062	–	–	–
– Other derivatives	–	2,558,806	810,255	767,822	1,316	1	–	–
+ Long positions	–	848,482	74,679	66,744	658	–	–	–
+ Short positions	–	1,710,324	735,576	701,078	658	1	–	–

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of operations/Quotation index	Listed						Unlisted
	ITALY	FRANCE	SPAIN	NETHERLANDS	GERMANY	OTHER COUNTRIES	
A. **variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– long positions	47,989	7,725	3,741	3,239	3,308	969	–
– short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– long positions	–	–	–	–	–	–	–
– short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**	–	–	–	–	–	–	11,162
– long positions	–	–	–	–	–	–	5,885
– short positions	–	–	–	–	–	–	5,277
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 splitted 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**	**101**
1.1 Fixed-yield securities	101
1.2 Other assets	1
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**154**
3.1 With underlying security	5
– Options (on variable-yield securities)	5
+ Long positions	–
+ Short positions	5
– Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying security	152
– Options	–
+ Long positions	3
+ Short positions	4
– Other derivatives	152
+ Long positions	215
+ Short positions	25
Total interest rate risk	**202**
A. **Variable-yield securities**	**3,085**
– long positions	3,085
– short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**–**
– long positions	–
– short positions	–
C. **Other derivatives on variable-yield securities**	**121**
– long positions	–
– short positions	**121**
D. **Derivatives on stock indices**	**–**
– long positions	–
– short positions	–
Total Price risk transactions tab.2	**2,826**
Mutual funds	**766**
Total Price risk	**3,503**
Global trading (net of exchange)	**3,592**

Interest rate risk

Information on average, minimum and maximum VaR is provided below.

Global Value at Risk (VaR)

	(in thousands of euro)
average	954
minimum	192
maximum	1,968

With regard to the distribution of VaR during the year, the average, total, general and specific interest rate VaR for each of the twelve months in 2020 is shown below.

January	338
February	333
March	1,377
April	1,685
May	1,509
June	1,386
July	1,275
August	1,174
September	1,153
October	608
November	335
December	245

With reference to debt securities included in the trading book, the number of days in which actual losses exceeded the VaR was 2 out of 256 total observations, the number of days in which theoretical losses exceeded the VaR was 3 out of 256 total observations, the number of days in which theoretical losses according to the model exceeded the VaR was 2 out of 256 total 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 1.2.2 below in relation to the bank book. The following outcomes refer to hypothetical scenarios of rate movements described in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

For the observations at the end of 2020, following the resolution on the matter by the Board of Directors on 29 December 2020, the scope of recognition was extended to include the exposures classified as unlikely-to-pay loans and bad loans and the expected drawdowns on irrevocable fixed-rate lines of credit with the related hypothetical component of funding. An updated version was also adopted, following a thorough review, of the behavioural models relating, respectively, to asset and liability items repayable on demand, as well as mortgages and instalment loans. The new methodologies also include the adoption of a dedicated treatment for BTP-Italia and inflation-linked BTP-€i and the introduction of a spread component, for the purpose of calculating the interest margin and its potential variation, when simulating new fixed-rate operations.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be 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.

The figures given below do not include the effects generated by forward contracts on exchange rates.

In thousands of euro Exposure to risk	Change in interest margin from 01/01/2020 to 31/12/2020 at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	1,401	18,473	1,401	31,626	21,194
negative parallel shift	–303	–4,992	–8,324	–303	–6,557
parallel shock up	1,401	18,473	1,401	31,626	21,194
parallel shock down	–303	–4,992	–8,324	–303	–6,557
steepener shock	–303	–4,992	–8,323	–303	–6,556
flattener shock	948	12,764	948	22,040	14,687
short shock up	1,312	17,595	1,312	30,315	20,237
short shock down	–303	–4,992	–8,324	–303	–6,556
worst-case scenario	–303	–4,992	–8,324	–303	–6,557

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

The data presented below do not include the effects generated by forward contracts on exchange rates and only refer to 31/12/2020, which is the first date on which this type of analysis was performed.

In thousands of euro Exposure to risk	Change in profit from 01/01/2020 to 31/12/2020 at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	299	299	299	299	n.a.
negative parallel shift	–93	–93	–93	–93	n.a.
parallel shock up	299	299	299	299	n.a.
parallel shock down	–93	–93	–93	–93	n.a.
steepener shock	–93	–93	–93	–93	n.a.
flattener shock	504	504	504	504	n.a.
short shock up	568	568	568	568	n.a.
short shock down	–93	–93	–93	–93	n.a.
worst-case scenario	–93	–93	–93	–93	n.a.

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

In thousands of euro Exposure to risk	Change in equity value from 01/01/2020 to 31/12/2020 at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	–1,216	–1,596	–2,256	–1,172	–2,986
negative parallel shift	2,187	4,178	2,187	5,867	4,051
parallel shock up	–9,538	–12,363	–14,797	–9,538	–10,113
parallel shock down	2,186	4,178	2,186	5,865	4,049
steepener shock	2,245	3,993	2,245	5,707	3,553
flattener shock	–6,520	–8,115	–9,291	–6,520	–6,587
short shock up	–8,243	–10,582	–12,268	–8,243	–8,669
short shock down	2,186	4,231	2,186	5,866	4,405
worst-case scenario	–9,538	–12,363	–14,797	–9,538	–10,113

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(in thousands of euro)
average	8,598
minimum	2,068
maximum	18,852

With regard to the distribution of VaR during the year, the average VaR for each month in 2020 is presented below.

January	2,444
February	3,788
March	14,543
April	18,318
May	16,433
June	12,409
July	9,600
August	7,820
September	6,359
October	4,904
November	3,463
December	3,219

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 the VaR was 3 out of 256 observations,the number of days on which theoretical losses xceeded the VaR was 2 out of 256 observations, the number of days on which theoretical losses according to the model exceeded the VaR was 3 out of 256 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

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

For Factorit Spa, interest rate risk is caused by the different times and methods used in repricing the interest rate on assets and liabilities. The presence of diversified fluctuations in interest rates leads to a variation in the expected interest margin, as well as a change in the present value of the assets and liabilities; this in turn alters the economic value of the items at risk. Note that the characteristics of Factorit's assets and liabilities mean that the impact of a change in market rates on the present value of its assets and liabilities is quite marginal. The high level of rotation of the loans and receivables and the fact that the funding is exclusively short-term, which ensure frequent repricings very close to each other, make it possible to maintain lending and funding terms in line with current market conditions.

Banca della Nuova Terra s.p.a. is exposed to interest rate risk linked to its lending operations to customers and to its limited investment in securities, partially offset by fixed-term deposits with the Parent Company.

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, although with a minimal part, 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, from fixed-term deposits from banks and from sight deposits from customers with appropriate modelling of maturities.

From a Group perspective, the internal processes for measuring, controlling and managing the interest rate risk of the banking portfolio make use of two separate monitoring systems managed by the Parent Company, using an integrated database at consolidated level, based respectively on:

- an internal model for the daily calculation of the Value at Risk (VaR), which is also used for the analysis of exposure to price risk;
- an analysis of sensitivity to interest rate risk based on the strategic Asset & Liability Management (ALM) methodologies.

The daily calculation of VaR is used to monitor the consolidated financial assets classified as «other financial assets mandatorily measured at fair value», the «financial assets measured at fair value through other comprehensive income» and the «financial assets measured at amortised cost», excluding the investments made by the pension funds; the internal process for the control and management of interest rate and price risk, as well as the related methodology, are much the same as those detailed in company's explanatory notes.

The analysis of sensitivity using strategic ALM methodologies read the corresponding section of the explanatory notes. Similarly, the incremental improvements made to the internal processes for the management and control of interest-rate risk have expanded the set of risk indicators monitored. Following the related resolution adopted by the Board of Directors on 29 December, the system of indicators used at 31 December 2020 revolves around a first set of summary metrics comprising seven «complementary» risk indicators whose respective systems of thresholds, where present, are defined by the Board of Directors in the Risk Appetite Framework on a consolidated level, and a second set of metrics comprising four «operational» risk indicators whose limits, where present, are established by the Risks Committee, consistent with the risk appetite established by the main Board. The first pair of indicators in the first set of metrics monitors the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total own funds. The numerator of the quotient is obtained for both indicators using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating parallel shifts in the benchmark rate curves of +/- 200 basis points. The second pair of «complementary» indicators monitors the exposure to interest-rate risk of the bank book by assigning a value limit to the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator of the quotient is obtained using the «Interactive Simulation» method under static conditions with constant volumes, simulating parallel shifts in the benchmark curves of +/- 200 basis points. The denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third pair of «complementary» indicators monitors the exposure to interest-rate risk of the bank book calculating the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, to the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from a parallel movement of the reference curves alternatively equal to +/- 200 basis points, to which is added the variation in the value of instruments through profit or loss or the balance sheet - securities classified as «financial assets measured at fair value through other comprehensive income» (FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) - calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. The other indicator of the first set of metrics is represented by the «Supervisory Outlier Test» described in paragraphs 113, 115 and 116 of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The first indicator of the second set of metrics is calculated as the percentage ratio of the minimum between the change in equity and zero, expressed in absolute terms, to total Tier 1 capital. The numerator of the indicator is obtained using the «Sensitivity Analysis in Full Evaluation» method under inertial conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority. The second «operational» indicator is calculated as the percentage ratio of the minimum between the change in interest margin over a one-year time horizon and zero, expressed in absolute terms, to the net interest income expected over the same time period. The numerator is obtained using the «Interactive Simulation» method under static conditions, simulating the changes in the benchmark curves contained in «Annex III – The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority; The denominator is also calculated using the «Interactive Simulation» method under static conditions with constant volumes in the current rates scenario. The third «operational» indicator is calculated as the percentage ratio of the minimum between the change in profit over a one-year time horizon and zero, expressed in absolute terms, and the profit expected over the same time period. The numerator of the ratio is obtained through the «Interactive Simulation» method in static conditions at constant volumes to simulate the variation in the interest margin deriving from the movements of the reference curves contained in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority, to which is added the change in the value of instruments through profit or loss or the balance sheet - securities classified in «financial assets measured at fair value through other comprehensive income «(FVOCI) and «other financial assets mandatorily measured at fair value» (FVTPLM) - calculated using the «Sensitivity Analysis in Full Evaluation» assuming the previous movements of the reference curves. The denominator coincides with the expected profit declared in the most recent Strategic Plan approved by the Board of Directors referring to the banking book. These indicators are monitored monthly in the current rates scenario. The third «operating» indicator is represented by the «Supervisory Outlier Test» described in paragraphs 114, 115 and 116 of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

These indicators are monitored monthly, with the exception of the two indicators relating to the «Supervisory Outlier Test» for which monitoring is quarterly.

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 activity of «stress testing» reference should be made to the corresponding section of the company's notes to the financial statements.

The source of price risk for Banca Popolare di Sondrio (SUISSE) SA lies in variable-yield securities and mutual funds shown under «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income».

The measurement and control of price risk essentially involves application of a Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in corresponding section of the notes.

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., Sinergia Seconda s.r.l. and Banca della Nuova Terra s.p.a.; there is also the variable-yield security owned by the Swiss subsidiary classified as «Equity investments».

A1. Impacts resulting from the Covid-19 pandemic

Similarly to what is stated in the corresponding section of the Company's notes to the financial statements, the state of considerable market turbulence has led to a strong increase in VaR measurements and put under stress the system of limits concerning consolidated financial assets classified under «other financial assets mandatorily measured at fair value», «financial assets measured at fair value through other comprehensive income» and «financial assets measured at amortised cost», with episodes of violation concentrated mainly between the months of March and April. A restructuring of the system of internal limits and more reassuring news on the evolution of the epidemic in Italy helped to calm the situation in the latter part of the period.

B. Fair value hedging

For the Parent Company, reference should be made to the corresponding section of the explanatory notes.

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 carried out cash flow hedging operations.

QUANTITATIVE INFORMATION

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	From over 6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**–**	**90,817**	**138,863**	**25,459**	**134,234**	**3,332**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	90,817	138,863	25,459	134,234	3,332	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	90,817	138,863	25,459	134,234	3,332	–	–
+ Long positions	–	66,284	130,069	–	–	–	–	–
+ Short positions	–	24,533	8,794	25,459	134,234	3,332	–	–
4. **Other off-balance sheet transactions**	**38,706**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	19,353	–	–	–	–	–	–	–
+ Short positions	19,353	–	–	–	–	–	–	–

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 net interest income - except for the fixed-yield securities held in the trading book for supervisory purposes and lending and funding repos (with underlying fixed-yield securities in the trading book 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 book for supervisory purposes – as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

The following outcomes refer to hypothetical scenarios of rate movements described in «Annex III - The standardised interest rate shock scenarios» of the «Guidelines on the management of interest rate risk arising from non-trading book activities» published on 19 July 2018 by the European Banking Authority.

For the observations at the end of 2020, following the resolution on the matter by the Board of Directors on 29 December 2020, the scope of recognition was extended to include the exposures classified as unlikely-to-pay loans and bad loans and the expected drawdowns on irrevocable fixed-rate lines of credit with the related hypothetical component of funding. An updated version was also adopted, following a thorough review, of the behavioural models relating, respectively, to asset and liability items repayable on demand, as well as mortgages and instalment loans. The new methodologies also include the adoption of a dedicated treatment for BTP-Italia and inflation-linked BTP-€i and the introduction of a spread component, for the purpose of calculating the interest margin and its potential variation, when simulating new fixed-rate operations.

Effects of a change in interest rates over a twelve-month period on the future interest margin.

The future interest margin is understood to be 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 Exposure to risk	Change in interest margin from 01/01/2020 to 31/12/2020 at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	150,904	87,740	18,917	154,398	34,168
negative parallel shift	21,774	1,376	–16,793	21,774	–17,665
parallel shock up	135,922	72,445	3,166	139,571	21,245
parallel shock down	21,774	1,377	–16,798	21,774	–17,659
steepener shock	24,367	5,497	–12,440	24,367	–13,643
flattener shock	71,993	49,449	22,412	83,682	16,930
short shock up	117,347	69,568	20,177	120,408	22,595
short shock down	21,844	1,477	–16,415	21,844	–17,103
worst-case scenario	21,774	1,376	–16,798	21,774	–17,665

Effects of a change in interest rates on the future profit over a twelve-month period.

Future profit is understood to mean the difference between future revenues and future costs calculated solely on existing transactions at the reference date and possibly renewed while maintaining constant volumes.

The data presented below only refer to 31/12/2020, which is the first date on which this type of analysis was performed.

In thousands of euro Exposure to risk	Change in profit from 01/01/2020 to 31/12/2020 at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	29,947	29,947	29,947	29,947	n.a.
negative parallel shift	51,434	51,434	51,434	51,434	n.a.
parallel shock up	14,978	14,978	14,978	14,978	n.a.
parallel shock down	51,434	51,434	51,434	51,434	n.a.
steepener shock	26,855	26,855	26,855	26,855	n.a.
flattener shock	58,792	58,792	58,792	58,792	n.a.
short shock up	61,864	61,864	61,864	61,864	n.a.
short shock down	51,435	51,435	51,435	51,435	n.a.
worst-case scenario	14,978	14,978	14,978	14,978	n.a.

Effects of a change in interest rates on equity.

Equity is understood as being the difference between the present value of asset and liability items calculated solely on the transactions outstanding at the reference date in the hypothesis of inertial volumes.

In thousands of euro Exposure to risk	Change in equity value from 01/01/2020 to 31/12/2020 at period end	average	minimum	maximum	**31/12/2019**
positive parallel shift	–277,216	–73,385	–277,216	14,109	–32,831
negative parallel shift	76,276	–18,092	–67,954	76,276	–101,192
parallel shock up	–216,988	–35,275	–216,988	50,628	–3,303
parallel shock down	76,272	–18,096	–67,957	76,272	–101,195
steepener shock	16,372	95,597	16,372	120,079	97,591
flattener shock	–2,231	–90,820	–179,271	–2,231	–147,242
short shock up	–89,127	–68,813	–113,925	–11,017	–77,933
short shock down	92,834	18,421	–8,120	92,834	11,758
worst-case scenario	–277,216	–90,820	–277,216	–11,017	–147,242

With respect to fixed-yield securities classified as «financial assets mandatorily measured at fair value» and «financial assets measured at fair value through other comprehensive income», information on the average, minimum and maximum VaR is given below.

Interest rate VaR

	(in thousands of euro)
average	24,358
minimum	6,720
maximum	42,154

With regard to the distribution of VaR during the year, the average VaR for each month in 2020 is presented below.

January	6,983
February	6,944
March	31,273
April	39,170
May	35,823
June	31,277
July	27,082
August	27,235
September	25,404
October	22,500
November	19,985
December	17,770

With respect to fixed-yield securities classified as «financial assets measured at amortised cost», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	75,487
minimum	20,241
maximum	134,241

With regard to the distribution of VaR during the year, the average VaR for each month in 2020 is presented below.

January	23,128
February	21,068
March	100,420
April	122,236
May	112,767
June	103,490
July	91,711
August	84,006
September	77,861
October	67,920
November	52,478
December	45,552

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 «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», 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	3,816
Mutual funds.	5,565
Total	7,074
Equity investments	11,110

The following information is provided about the average, minimum and maximum VaR regarding the variable-yield securities (shares and mutual funds) classified among the «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding any relevant investments by the pension and real estate funds.

Price Value at Risk (VaR)

	(in thousands of euro)
average	12,984
minimum	3,858
maximum	25,617

With regard to the distribution of VaR during the year, the average VaR for each month in 2020 is presented below.

January	4,063
February	5,471
March	19,532
April	24,286
May	20,497
June	17,173
July	14,382
August	11,928
September	10,764
October	10,990
November	8,868
December	7,657

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

For the Parent Company, reference should be made to the corresponding section of the explanatory notes.

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., Popso Covered Bond S.r.l. and Banca della Nuova Terra S.p.a. are not exposed to exchange risk, as the do not have assets or liabilities in foreign currencies.

Except with regard to securities held in its proprietary portfolio, Banca Popolare di Sondrio (SUISSE) SA enters into currency transactions to satisfy customers' requirements and to cover transitory treasury mismatches.

The measurement and control of exchange risk 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 Company's explanatory notes.

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. Any intercompany relations 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.

A1. Impacts resulting from the Covid-19 pandemic

Given that the predominantly commercial nature of transactions in foreign currencies, the considerations set out in the corresponding section of the company's note apply.

At the level of risk, the limited impacts of the pandemic are confirmed, thanks to the policy to limit open positions in foreign currency. In any case, there were still episodes of violation of the respective limit, due to erosion of the available margin by other types of risk. These overruns have fallen again, thanks to the remodelling of the internal limits system carried out at the end of May.

B. Hedging of exchange risk

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes.

For the Swiss subsidiary, operations are homogeneous with that carried out by 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.

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**	**857,116**	**67,137**	**25,414**	**5,323,767**	**8,896**	**66,308**
A.1 Fixed-yield securities	32,971	–	–	2,354	–	–
A.2 Equities	25,149	–	664	36,743	–	–
A.3 Loans to banks	435,843	58,846	20,222	5,063	6,635	64,593
A.4 Loans to customers	362,998	8,214	4,528	4,480,720	2,261	1,703
A.5 Other financial assets	155	77	–	798,887	–	12
B. **Other assets**	**2,338**	**1,370**	**291**	**77,814**	**139**	**959**
C. **Financial liabilities**	**953,706**	**77,775**	**22,586**	**2,695,707**	**11,134**	**73,091**
C.1 Due to banks	308,084	24,955	756	739,833	3,241	41,889
C.2 Due to customers	645,622	52,820	21,830	1,933,343	7,893	31,202
C.3 Fixed-yield securities	–	–	–	22,531	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**2,778**	**149**	**–**	**272,872**	**2**	**5**
E. **Financial derivatives**	**1,388,590**	**319,471**	**6,478**	**2,307,327**	**4,438**	**130,410**
– Options	15,846	–	–	97	–	–
+ Long positions	8,540	–	–	97	–	–
+ Short positions	7,306	–	–	–	–	–
– Other derivatives	1,372,744	319,471	6,478	2,307,230	4,438	130,410
+ Long positions	746,686	164,856	1,216	6,191	3,324	68,604
+ Short positions	626,058	154,615	5,262	2,301,039	1,114	61,806
Total assets	**1,614,680**	**233,363**	**26,921**	**5,407,869**	**12,359**	**135,871**
Total liabilities	**1,589,848**	**232,539**	**27,848**	**5,269,618**	**12,250**	**134,902**
Net balance (+/–)	**24,832**	**824**	**(927)**	**138,251**	**109**	**969**

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	738
Variable-yield securities	286
Net balance between other assets and liabilities	23,927
Financial derivatives	13,286
– Options	4
+ Long positions	82
+ Short positions	83
– Other derivatives	13,289
+ Long positions	16,239
+ Short positions	6,686
Total transactions table 1	**3,618**
– Interest Rate Swap	31
+ Long positions	31
+ Short positions	–
Total	**3,574**
Details of the principal currencies	
US dollars	516
Sterling	1
Japanese Yen	6
Swiss francs	3,492
Canadian dollars	–
Other currencies	4
Total	**3,574**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

average	3,378
minimum	2,155
maximum	4,258

With regard to the distribution of VaR during the year, the average VaR for each month in 2020 is presented below

January	2,499
February	2,519
March	2,818
April	2,724
May	3,316
June	3,720
July	3,561
August	3,744
September	3,948
October	3,790
November	3,891
December	3,885

1.3 Derivative instruments and related hedging policy

1.3.1. Trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: notional values at period end

Underlying assets/Type of derivative	Total 31/12/2020				Total 31/12/2019			
	Over the counter				Over the counter			
		Without Central Counterparties				Without Central Counterparties		
	Central Counter-parties	With settlement agreements	Without settlement agreements	Organised markets	Central Counter-parties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**1,518,642**	**–**	**–**	**–**	**1,359,752**	**–**
a) Options	–	–	29,820	–	–	–	37,936	–
b) Swaps	–	–	1,488,822	–	–	–	1,321,816	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**26,500**	**–**	**–**	**–**	**19,500**	**–**
a) Options	–	–	26,500	–	–	–	19,500	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**3,971,643**	**–**	**–**	**–**	**4,078,173**	**–**
a) Options	–	–	45,503	–	–	–	42,431	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	3,926,140	–	–	–	4,035,742	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**34,196**	**–**	**–**	**–**	**34,495**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**5,550,981**	**–**	**–**	**–**	**5,491,920**	**–**

A.2 Financial trading derivatives: gross positive and negative fair value - breakdown by product

Underlying assets/Type of derivative	Total 31/12/2020				Total 31/12/2019			
	Over the counter				Over the counter			
		Without Central Counterparties				Without Central Counterparties		
	Central Counter-parties	With settlement agreements	Without settlement agreements	Organised markets	Central Counter-parties	With settlement agreements	Without settlement agreements	Organised markets
1. **Positive fair value**								
a) Options	–	–	6,721	–	–	–	8,470	–
b) Interest rate swaps	–	–	11,605	–	–	–	11,192	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	40,097	–	–	–	11,974	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	1,319	–	–	–	525	–
Total	–	–	**59,742**	–	–	–	**32,161**	–
2. **Negative fair value**								
a) Options	–	–	1,679	–	–	–	526	–
b) Interest rate swaps	–	–	10,146	–	–	–	10,638	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	20,694	–	–	–	55,345	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	1,297	–	–	–	509	–
Total	–	–	**33,816**	–	–	–	**67,018**	–

A.3 OTC Financial trading derivatives – notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counter-parties	Banks	Other financial companies	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	1,209,321	1,808	307,513
– positive fair value	–	6,409	6	5,220
– negative fair value	–	10,146	–	25
2) **Variable-yield securities and stock indices**				
– notional value	–	15,000	–	11,500
– positive fair value	–	5,885	–	60
– negative fair value	–	–	–	890
3) **Currency and gold**				
– notional value	–	3,512,884	14,671	444,089
– positive fair value	–	34,433	432	5,978
– negative fair value	–	18,267	280	2,911
4) **Commodities**				
– notional value	–	17,573	–	16,624
– positive fair value	–	659	–	660
– negative fair value	–	655	–	640
5) **Other**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
2) **Variable-yield securities and stock indices**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–

A.4 Residual life of OTC financial trading derivatives: notional values

Underlyings/residual value	Within 1 year	1 to 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	144,475	1,302,016	72,151	1,518,642
A.2 Financial derivatives on variable-yield securities and stock indices	–	11,500	15,000	26,500
A.3 Financial derivatives on currency and gold	3,966,090	5,553	–	3,971,643
A.4 Financial derivatives on commodities	33,563	633	–	34,196
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2020	**4,144,128**	**1,319,702**	**87,151**	**5,550,981**
Total 31/12/2019	**4,210,052**	**1,225,609**	**56,259**	**5,491,920**

1.3.2 Accounting hedges

QUALITATIVE INFORMATION

A. Fair value hedges

For the Parent Company, reference should be made to the corresponding section of the Company's explanatory notes. 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. The purpose of hedging the interest rate risk is to realign differences in the banking book caused by changes in the fair value of loans to customers due to changes in the interest rate curve (interest rate risk).

The derivatives are not listed on regulated markets, but traded in the context of OTC circuits.

It should be noted that the Group has opted to continue to apply IAS 39.

B. Cash-flow hedges

The Group has not carried out cash flow hedging operations.

C. Hedges of foreign investments

The Group did not carry out hedging operations on foreign investments.

D. Hedging instruments

In general, on the assumption of a fair value hedge, the sources of the ineffectiveness of a hedging relationship during the period of validity are attributable to misalignments between the financial structure of the hedged instrument and the hedging instrument and the inclusion in the effectiveness test of the value of the variable leg of the hedging derivative.

During the year, no elements were found that might have caused the hedges to be ineffective, giving the possibility of continuing to apply the hedge accounting rules.

During the year the group did not use dynamic hedges, as defined by IFRS 7, paragraph 23C.

E. Hedging elements

The Banca Popolare di Sondrio Group currently has accounting hedges on fixed rate loans through the use of plain vanilla IRSs to hedge the interest rate risk for the entire duration of the underlying.

The effectiveness of the hedge is checked periodically throughout the life of the transaction by means of effectiveness tests, to verify that the relationship between the change in the fair value of the hedged item compared with the hedging instrument is within the 80%-125% range.

IBOR reform

As already highlighted in «Part A - Accounting policies» of these explanatory notes in relation to the IBOR reform, the Group has started the necessary activities to manage the transition for existing contracts that are affected by the reform.

Consistently with the requirements of IFRS 7, paragraph 24 H, a table containing the notional amount of the accounting hedges according to the reference index of interest rates is provided below. The exposure to interest rate risk, managed by the group through accounting hedges, can be correctly represented by hedging derivatives.

Type of instrument	Flow received	Paid Flow	Current notional (in thousands)	Average residual life (years)
Interest Rate Swaps	LIBOR CHF	Fixed rate	196,352	1.39

For further details, please refer to «Part A - Accounting policies», Other information.

QUANTITATIVE INFORMATION

A. Financial hedging derivatives

A.1 Financial hedging derivatives: notional values at period end

	Total 31/12/2020				Total 31/12/2019			
	Over the counter				Over the counter			
		Without Central Counterparties				Without Central Counterparties		
Underlying assets/ Type of derivative	Central Counter-parties	With settlement agreements	Without settlement agreements	Organised markets	Central Counter-parties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**196,352**	**–**	**–**	**–**	**274,553**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	196,352	–	–	–	274,553	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**196,352**	**–**	**–**	**–**	**274,553**	**–**

A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by product

	positive and negative fair value							
	Total 31/12/2020				**Total 31/12/2019**			
	Over the counter				Over the counter			
		Without Central Counterparties				Without Central Counterparties		
Types of derivatives	Central counter-parties	With settlement agreements	Without settlement agreements	Organised markets	Central counter-parties	With settlement agreements	Without settlement agreements	Organised markets
Positive fair value								
a) Options	–	–	–	–	–	–	–	–
b) Interest rate swaps	–	–	–	–	–	–	–	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Negative fair value								
a) Options	–	–	–	–	–	–	–	–
b) Interest rate swaps	–	–	6,271	–	–	–	11,320	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**6,271**	**–**	**–**	**–**	**11,320**	**–**

A.3 OTC Financial hedging derivatives – notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central counter-parties	Banks	Other financial companies	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	196,352	–	–
– positive fair value	–	–	–	–
– negative fair value	–	6,271	–	–
2) **Variable-yield securities and stock indices**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
2) **Variable-yield securities and stock indices**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other**	–	–	–	–
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–

A.4 Residual life of OTC financial hedging derivatives: notional amounts

Underlyings/residual value	Within 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on fixed-yield securities and interest rates	58,785	134,234	3,333	196,352
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
A.3 Financial derivatives on currency and gold	–	–	–	–
A.4 Financial derivatives on commodities	–	–	–	–
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2020	**58,785**	**134,234**	**3,333**	**196,352**
Total 31/12/2019	**79,141**	**192,095**	**3,317**	**274,553**

1.3.3. Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counter-parties	Banks	Other financial companies	Other parties
A. **Financial derivatives**				
1) **Fixed-yield securities and interest rates**				
– notional value	–	1,405,673	1,808	307,513
– net positive fair value	–	6,409	6	5,220
– net negative fair value	–	16,417	–	25
2) **Variable-yield securities and stock indices**				
– notional value	–	15,000	–	11,500
– net positive fair value	–	5,885	–	60
– net negative fair value	–	–	–	890
3) **Currency and gold**				
– notional value	–	3,512,884	14,671	444,089
– net positive fair value	–	34,433	432	5,978
– net negative fair value	–	18,267	280	2,911
4) **Commodities**				
– notional value	–	17,573	–	16,624
– net positive fair value	–	659	–	660
– net negative fair value	–	655	–	640
5) **Other**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–
B. **Credit derivatives**				
1) **life**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–
2) **Sale of protection**				
– notional value	–	–	–	–
– net positive fair value	–	–	–	–
– net negative fair value	–	–	–	–

1.4 Banking group - Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

For the Parent Company, reference should be made to the corresponding section of the Company's notes.

The Group's overall strategy for managing liquidity risk, with its low propensity for risk, manifests itself in the decision to favour, from a prudential perspective, the balance of the structure by maturity of assets and liabilities over the pursuit of increasing 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 liquidity reserves in the form of assets eligible as collateral at the European Central Bank are mostly held by the Parent Company; the total value of the assets in question, net of haircuts, amounted to Euro 13,736 million, also including securities only temporarily held as collateral for repurchase agreements (Euro 60 million). Of the 13,736 million total, 4,980 were free and 8,756 used as collateral or pledged (including 4,886 million of A.Ba.Co. receivables).

As regards the Swiss subsidiary, it holds a bond portfolio mainly composed of securities eligible as collateral at the European Central Bank.

The Parent Company carries out daily monitoring of liquidity risk at a consolidated level. The subsidiaries oversee it through the use of monitoring tools suitable for detecting the operations performed; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority.

The following disclosures are provided in accordance with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	On demand	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
A. **Cash assets**	**4,050,700**	**357,915**	**621,714**	**1,691,808**	**2,458,081**	**1,380,947**	**1,572,074**	**15,332,734**	**7,982,491**	**2,313,618**
A.1 Government securities	–	–	192	1,200	9,865	10,994	16,114	6,399,000	1,593,000	-
A.2 Other fixed-yield securities	183	–	135	1,240	2,804	8,136	17,824	911,164	1,367,401	-
A.3 Mutual funds	689,992	–	–	–	–	–	–	–	–	-
A.4 Loans	3,360,525	357,915	621,387	1,689,368	2,445,412	1,361,817	1,538,136	8,022,570	5,022,090	2,313,618
– Banks	125,252	8,414	901	20,757	42,250	26,995	3,768	649	–	2,271,762
– Customers	3,235,273	349,501	620,486	1,668,611	2,403,162	1,334,822	1,534,368	8,021,921	5,022,090	41,856
B. **Cash liabilities**	**29,794,825**	**75,843**	**8,726**	**104,896**	**633,276**	**134,148**	**238,195**	**10,433,971**	**347,898**	**-**
B.1 Deposits and current accounts	29,601,893	17,791	7,128	103,117	552,851	60,727	170,319	6,122	207	-
– Banks	358,560	17,230	5,599	34,790	316,850	15,080	113	831	–	-
– Customers	29,243,333	561	1,529	68,327	236,001	45,647	170,206	5,291	207	-
B.2 Fixed-yield securities	149,785	73	1,593	1,770	70,769	67,104	50,952	2,251,896	248,292	-
B.3 Other liabilities	43,147	57,979	5	9	9,656	6,317	16,924	8,175,953	99,399	-
C. **Off-balance sheet transactions**	**7,045,391**	**138,245**	**368,955**	**2,370,510**	**1,666,487**	**2,102,625**	**3,070,793**	**313,068**	**989,544**	**-**
C.1 Financial derivatives with exchange of capital	–	126,152	356,445	821,645	1,041,469	743,861	733,084	4,095	5,885	-
– Long positions	–	82,909	271,501	516,009	718,430	707,817	685,048	2,317	–	-
– Short positions	–	43,243	84,944	305,636	323,039	36,044	48,036	1,778	5,885	-
C.2 Financial derivatives without exchange of capital	23,231	–	–	–	–	–	–	–	–	-
– Long positions	12,354	–	–	–	–	–	–	–	–	-
– Short positions	10,877	–	–	–	–	–	–	–	–	-
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	-
– Long positions	–	–	–	–	–	–	–	–	–	-
– Short positions	–	–	–	–	–	–	–	–	–	-
C.4 Irrevocable commitments to make loans	7,022,160	12,093	12,510	1,548,865	625,018	1,358,764	2,337,709	308,973	983,659	-
– Long positions	42,501	8,266	6,756	1,506,762	526,119	1,305,702	2,314,628	252,377	983,651	-
– Short positions	6,979,659	3,827	5,754	42,103	98,899	53,062	23,081	56,596	8	-
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 «on demand» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Non-performing 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 statements 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.

1. Distribution by residual duration of financial assets and liabilities

Currency: OTHER CURRENCIES

Items/Time bands	On demand	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 y years	Unspecified duration
A. **Cash assets**	**428,386**	**242,356**	**194,400**	**306,514**	**560,578**	**525,557**	**490,532**	**1,635,782**	**1,144,936**	**-**
A.1 Government securities	-	-	-	-	1,223	-	2,472	15,038	-	-
A.2 Other fixed-yield securities	-	-	-	-	3,110	3,450	3,300	6,733	-	-
A.3 Mutual funds	33,933	-	-	-	-	-	-	-	-	-
A.4 Loans	394,453	242,356	194,400	306,514	556,245	522,107	484,760	1,614,011	1,144,936	-
– Banks	229,066	60,400	128,710	86,847	83,402	899	3,048	-	-	-
– Customers	165,387	181,956	65,690	219,667	472,843	521,208	481,712	1,614,011	1,144,936	-
B. **Cash liabilities**	**2,708,241**	**165,312**	**140,296**	**111,572**	**150,777**	**33,147**	**19,340**	**174,430**	**303,755**	**-**
B.1 Deposits and current accounts	2,708,197	165,238	140,115	111,553	150,773	32,200	12,439	159,377	303,274	-
– Banks	180,915	159,987	131,875	68,955	99,103	6,103	9,258	159,238	303,274	-
– Customers	2,527,282	5,251	8,240	42,598	51,670	26,097	3,181	139	-	-
B.2 Fixed-yield securities	44	19	181	19	4	896	6,799	14,367	148	-
B.3 Other liabilities	-	55	-	-	-	51	102	686	333	-
C. **Off-balance sheet transactions**	**40,157**	**126,816**	**469,088**	**856,647**	**1,077,751**	**816,444**	**774,495**	**3,440**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	126,814	469,075	856,004	1,076,899	814,812	772,763	3,440	-	-
– Long positions	-	43,507	140,728	322,633	344,439	76,958	69,214	1,720	-	-
– Short positions	-	83,307	328,347	533,371	732,460	737,854	703,549	1,720	-	-
C.2 Financial derivatives without exchange of capital	1,190	-	-	485	268	1,442	1,732	-	-	-
– Long positions	599	-	-	-	-	-	-	-	-	-
– Short positions	591	-	-	485	268	1,442	1,732	-	-	-
C.3 Deposits and loans to be received	4,596	-	-	-	-	-	-	-	-	-
– Long positions	2,298	-	-	-	-	-	-	-	-	-
– Short positions	2,298	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	34,371	2	13	158	584	190	-	-	-	-
– Long positions	17,054	-	-	-	-	-	-	-	-	-
– Short positions	17,317	2	13	158	584	190	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

1.5 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 5 - Operational Risks» in the Separate Financial Statements of the Parent Company Banca Popolare di Sondrio explains the system of operational risk management adopted at Group level, which is applied by the subsidiaries, each in proportion to the nature and size of its activity.

Impacts resulting from the Covid-19 pandemic

Reference should be made to the above mentioned Section of the Separate Financial Statements of the Parent Company Banca Popolare di Sondrio also as regards the measures implemented during the year for the purpose of managing operational risks attributable to the Covid-19 pandemic emergency.

QUANTITATIVE INFORMATION

The most significant impact in absolute terms is represented by the operational losses connected with the adoption of improper commercial and market practices and/or failure to respect the professional commitments made to customers, as evidenced most clearly by the prudent provisions made to cover legal proceedings.

Total operational risk losses also include the outlays due to weaknesses or errors in the performance of operations, especially in the execution and completion of transactions or in the handling of relations with counterparties other than customers, as well as losses deriving from exogenous events, such as bank robberies / ATM break-ins / counterfeiting / fraudulent collection of cheques and the theft / loss / cloning of payment cards, which are generally mitigated by specific insurance policies.

The following chart shows the operational losses recognised over the past five years (2016-2020) as part of the Loss Data Collection process, according to the regulatory classification for operational risk events (Event Type):

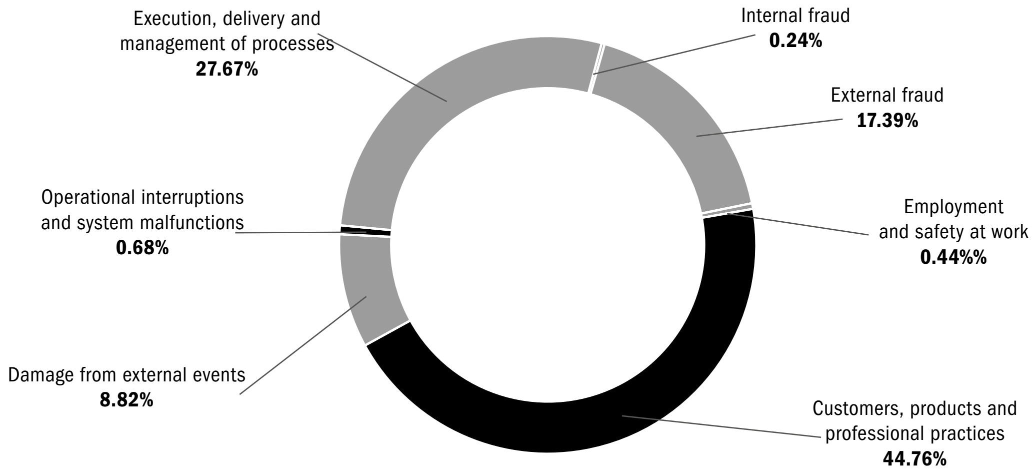
- Internal fraud - Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.
- External fraud - Events of fraud, embezzlement or circumvention of the law by 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 attributable to interruption of business continuity and unavailability / malfunctioning of the information systems used to support company operations.

- 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.

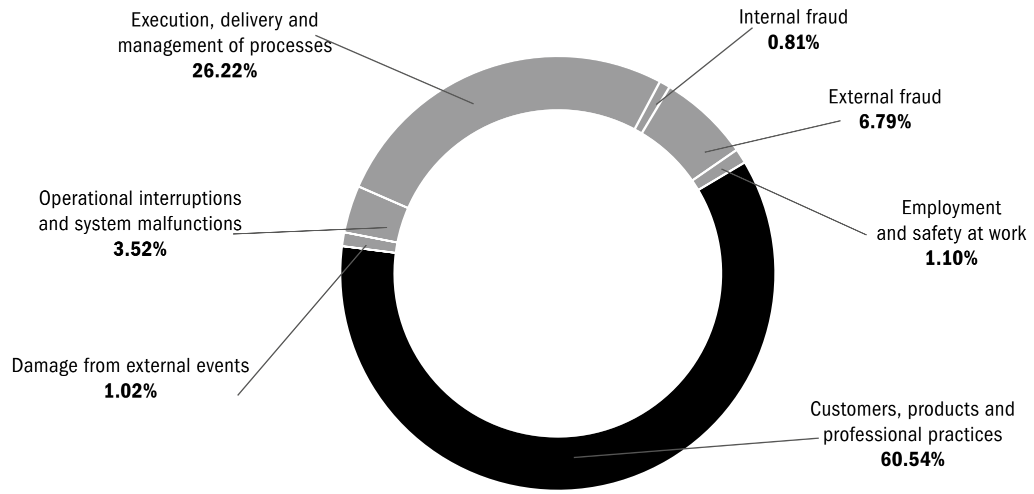
It should be noted that the total losses incurred by the Group in 2020 in the face of the Covid-19 pandemic emergency can be qualified as one-off costs attributable to one type of operational risk event: Operational interruptions and system malfunctions.

Banca Popolare di Sondrio Group – Sources of operational losses (accounting period: 01/01/2016 – 31/12/2020)

Number of operational loss events – breakdown by Event Type



Impact of the events of operational losses – Breakdown by Event Type



1.6 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 banking group at 31/12/2020 amounted to € 10,104 million and was structured as follows:

a) Italian government securities: € 5,857 million;

b) Securities of other issuers: € 2,477 million;

c) Loans to local and government departments: € 131 million;

d) Loans to state-owned or local government-owned enterprises: € 1,209 million;

e) Loans to other public administrations and miscellaneous entities: € 430 million.

PART F *Information on consolidated equity*

Section 1 *Consolidated capital and reserves*

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 Group to absorb any losses without prejudicing the rights of depositors, bearing in mind that losses also affect the bank's reputation.

The need for adequate capital was made even more evident by the crisis of the last ten years and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis of the last ten years 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. Supervisory Bodies are focusing more and more on the capital adequacy of banks, seeking to ensure that it is proportionate to the overall degree of risk accepted.

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 of the Parent Company 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.

Notably, the issues that have arisen in the financial markets, especially with regard to lending to customers, have adversely affected the profitability of banks and, consequently, the self-funding that in the past had always contributed significantly to their capitalisation. The ongoing difficulties experienced in recent years that have affected various banks have not, in the last analysis, facilitated the projects to strengthen the capital adequacy of the bank, despite the growth in operations designed to add specialist instruments in support of the real economy. In this context, we have acquired Factorit Spa, Banca della Nuova Terra spa and Prestinuova spa in recent years, while also increasing the equity interests held in companies with complementary activities. 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.

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 31/12/2020. 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 (2021-2025), 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 1.50% per year and a cost of capital used to discount future dividends of 7.91%. The test carried out by the Planning and Investor Relations Department showed that the Group was worth more than its consolidated equity.

The Group's value in use amounted to € 3,937 million, with a surplus over its consolidated equity of € 939 million.

In line with the warnings issued by CONSOB, and with ESMA's statements, aimed at underlining the importance of providing updated information due to the complexity of the current situation, characterised by the presence of elements of uncertainty inherent in the duration and size of the negative impacts of the pandemic on the macro-economy, specific sensitivity analyses were carried out to assess the effects on the values in use and, consequently, on the results of the Impairment tests on the main parameters underlying the valuation model (cost of capital and medium-long term growth rate).

These analyses highlighted differences between the values in use during the year and the extreme values, that did not reveal any particular «prospective» critical issues regarding the successful outcome of the assessments.

In particular, the impacts on the values in use, namely +/- 25 and 50 basis points in the cost of capital and +/- 25 and 50 basis points in the medium/long term growth rate, were verified and for all the assumed combinations the values in use were higher than the comparative values.

In order not to jeopardise the positive outcome of these valuation exercises, the maximum sustainable level in terms of cost of capital (discount rate) was quantified. The tolerance margin on the cost of capital was approximately 3.1 percentage points.

B. QUANTITATIVE INFORMATION

In addition to what described below, for information on the component parts and size of the Group's capital and equity refer to Part B, Liabilities, sections 14 and 13 of these notes to the financial statements.

B.1 Consolidated equity: breakdown by type of company

Items/Amounts	Consolidation for supervisory purposes	Insurance companies	Other companies	Consolidated eliminations and adjustments	Total
1. **Share capital**	**1,393,736**	**–**	**–**	**–**	**1,393,736**
2. **Share premium reserve**	**83,363**		**–**	**–**	**83,363**
3. **Reserves**	**1,458,296**		**6,618**	**41,721**	**1,506,635**
4. **Equity instruments**					**–**
5. **(Treasury shares)**	**(25,388)**		**–**	**–**	**(25,388)**
6. **Valuation reserves**	**24,319**	**–**	**192**	**3,074**	**27,585**
– Variable-yield securities measured at fair value through other comprehensive income	74,164	–	–	–	74,164
– Hedge of variable-yield measured at fair value through other comprehensive income					–
– Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	25,700	–	–	–	25,700
– Property, equipment and investment property					–
– Intangible assets	–	–	–		–
– Hedges of foreign investments	–	–	–		–
– Cash-flow hedges	–	–	–		–
– Hedging instruments (non-designated elements)	–	–	–		–
– Exchange differences	–	–	–	(276)	(276)
– Non-current assets and disposal groups held for sale					–
– Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)					–
– Actuarial profits (losses) related to defined-benefit pension plans	(75,545)	–	–	–	(75,545)
– Portions of valuation reserves related to subsidiaries carried at equity	–	–	–	3,350	3,350
– Special revaluation regulations	–	–	192	–	192
7. **Profit (loss)**	**94,611**	**–**	**(6,112)**	**21,244**	**109,743**
Total	**3,028,937**	**–**	**698**	**66,039**	**3,095,674**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Values	Consolidation for supervisory purposes		Insurance companies		Other companies		Consolidated eliminations and adjustments		**Total**	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	25,844	(144)	–	–	–	–	–	–	25,844	(144)
2. Variable-yield securities	77,570	(3,406)	–	–	–	–	–	–	77,570	(3,406)
3. Loans	–	–	–	–	–	–	–	–	–	–
Total 31/12/2020	**103,414**	**(3,550)**	**–**	**–**	**–**	**–**	–	–	**103,414**	**(3,550)**
Total 31/12/2019	**73,302**	**(16,660)**	**–**	**–**	**–**	**–**	**–**	**–**	**73,302**	**(16,660)**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes during the year

	Fixed-yield securities	Variable-yield securities	Loans
1. **Opening balance**	**12,844**	**43,798**	**–**
2. **Positive changes**	**22,172**	**61,208**	**–**
2.1 Increases in fair value	22,147	50,071	–
2.2 Adjustments for credit risk	–	–	–
2.3 Transfer to income statement of negative reserves from disposals	25	–	–
2.4 Transfer to other components of equity (variable-yield securities)	–	11,137	–
2.5 Other changes	–	–	–
3. **Negative changes**	**(9,316)**	**(30,842)**	**–**
3.1 Reductions in fair value	(896)	(5,232)	–
3.2 Write-backs for credit risk	–	–	–
3.3 Transfer to income statement from positive reserves: from disposals	(8,420)	–	–
3.4 Transfer to other components of equity (variable-yield securities)	–	(25,610)	–
3.5 Other changes	–	–	–
4. **Closing balance**	**25,700**	**74,164**	**–**

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 € 75.545 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

The disclosure on own funds and capital adequacy is represented in the document «Disclosure to the Public - Pillar 3 at 31 December 2020» prepared on the basis of the regulatory provisions established by Circular no. 285 of 17 December 2013 and subsequent updates, issued by the Bank of Italy, and by Regulation (EU) no. 575/2013 of the European Parliament and Council of 26 June 2013 (CRR). The document contains consolidated information and is published together with the financial statements on the Parent Company's website.

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
FRANCESCO VENOSTA	Chairman	01/1/2020-31/12/2020	31/12/2021	251	-	-	107
LINO STOPPANI	Deputy Chairman	01/1/2020-31/12/2020	31/12/2022	130	-	-	15
MARIO ALBERTO PEDRANZINI	Director	01/1/2020-31/12/2020	31/12/2022	151	-	-	136
PAOLO BIGLIOLI	Director	01/1/2020-31/12/2020	31/12/2022	46	-	-	-
ALESSANDRO CARRETTA	Director	01/1/2020-31/12/2020	31/12/2020	45	-	-	-
CECILIA CORRADINI	Director	01/1/2020-31/12/2020	31/12/2022	46	-	-	-
LORETTA CREDARO	Director	01/1/2020-31/12/2020	31/12/2020	51	-	-	-
DONATELLA DEPPERU	Director	01/1/2020-31/12/2020	31/12/2020	48	-	-	-
FEDERICO FALCK	Director	01/1/2020-31/12/2020	31/12/2021	47	-	-	-
ATTILIO PIERO FERRARI	Director	01/1/2020-31/12/2020	31/12/2020	48	-	-	-
CRISTINA GALBUSERA	Director	01/1/2020-31/12/2020	31/12/2021	49	-	-	-
ADRIANO PROPERSI	Director	01/1/2020-31/12/2020	31/12/2020	49	-	-	80
ANNALISA RAINOLDI	Director	01/1/2020-31/12/2020	31/12/2022	52	-	-	-
SERENELLA ROSSI	Director	01/1/2020-31/12/2020	31/12/2021	47	-	-	-
DOMENICO TRIACCA	Director	01/1/2020-31/12/2020	31/12/2021	76	-	-	2
PIERGIUSEPPE FORNI	Chairman of the Board of Statutory Auditors	01/1/2020-31/12/2020	31/12/2020	97	-	-	11
LAURA VITALI	Serving Auditor	01/1/2020-31/12/2020	31/12/2020	75	-	-	-
LUCA ZOANI	Serving Auditor	01/1/2020-31/12/2020	31/12/2020	79	-	-	28
MARIO ALBERTO PEDRANZINI (*)	General Manager	01/1/2020-31/12/2020	-	-	89	80	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES		01/1/2020-31/12/2020	-	-	104	239	1,430

(*) also Managing Director

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 3.415 million have been paid. The column «Emoluments for the office» held in Banca Popolare di Sondrio includes € 0.073 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Bank adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Bank just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

(thousands of euro)	Assets	Liabilities and equity	Income	Charges	Guarantees given and commitments	Guarantees received
Directors	834	8,551	16	23	135	1,537
Statutory auditors	338	207	8	0	558	595
Management	40	1,279	1	10	535	0
Family members	2,662	15,193	50	48	843	14,124
Subsidiaries	4,347,316	93,927	4,849	267	1,807,544	11,896
Associated companies	898,185	146,283	3,299	267	266,738	1,507
Other	45,827	22,843	615	11	206,220	14,465

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit spa and Banca della Nuova Terra spa, while loans to associated companies relate for € 354.2 million to Alba Leasing.

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 2020 and 2019.

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 31/12/2020**
Interest income	314,637	260,363	–	156,199	731,199	–136,799	594,400
Interest expense	–38,234	–95,355	–	–107,600	–241,189	136,799	–104,390
Net interest income	**276,403**	**165,008**	**–**	**48,599**	**490,010**	**–**	**490,010**
Fee and commission income	149,896	71,400	96,767	16,263	334,326	–829	333,497
Fee and commission expense	–5,571	–6,042	–5,550	240	–16,923	–158	–17,081
Dividends and similar income	–	–	–	4,375	4,375	–	4,375
Net trading income	–	–	–	12,473	12,473	–	12,473
Net hedging gains (losses)	–	290	–	–325	–35	–	–35
Gains/losses from sales or repurchases	–36,543	–4,528	–	40,354	–717	–	–717
Net change in financial assets and liabilities carried at fair value	–703	–1,249	–	–893	–2,845	–	–2,845
Total income	**383,482**	**224,879**	**91,217**	**121,086**	**820,664**	**–987**	**819,677**
Adjustments to the net value of financial assets	–96,992	–37,730	–	–13,940	–148,662	–	–148,662
Net financial income	**286,490**	**187,149**	**91,217**	**107,146**	**672,002**	**–987**	**671,015**
Administrative expenses	–126,977	–166,977	–53,653	–129,925	–477,532	–52,294	–529,826
Net accruals to provisions for risks and charges	–6,744	–6,438	–	140	–13,042	–	–13,042
Depreciation and net impairment losses on property, equipment and investment property	–10,388	–15,003	–5,050	–13,574	–44,015	–	–44,015
Amortisation and net impairment losses on intangible assets	–4,296	–6,066	–1,999	–4,300	–16,661	–	–16,661
Other operating income/ expense	4,578	3,600	19	1,634	9,831	53,281	63,112
Net gains (losses) on equity investments	–	–	–	26,997	26,997	–	26,997
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	–707	–707	–	–707
Net gains on sales of investments	–	–	–	54	54	–	54
Gross profit	**142,663**	**–3,735**	**30,534**	**–12,535**	**156,927**	**–**	**156,927**

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2019**
Interest income	317,605	279,730	–	125,559	722,894	–149,093	573,801
Interest expense	–37,656	–95,327	–	–129,536	–262,519	149,093	–113,426
Net interest income	**279,949**	**184,403**	**–**	**–3,977**	**460,375**	**–**	**460,375**
Fee and commission income	150,746	79,175	98,497	15,561	343,979	–359	343,620
Fee and commission expense	–6,401	–8,431	–5,582	–799	–21,213	–130	–21,343
Dividends and similar income	–	–	–	3,554	3,554	–	3,554
Net trading income	–	–	–	69,246	69,246	2	69,248
Net hedging gains (losses)	–	418	–	–407	11	–	11
Gains/losses from sales or repurchases	–	–	–	35,756	35,756	–	35,756
Net change in financial assets and liabilities carried at fair value	–7,996	1,479	–	18,589	12,072	–	12,072
Total income	**416,298**	**257,044**	**92,915**	**137,523**	**903,780**	**–487**	**903,293**
Adjustments to the net value of financial assets	–161,690	–52,426	–	–1,709	–215,825	–	–215,825
Net financial income	**254,608**	**204,618**	**92,915**	**135,814**	**687,955**	**–487**	**687,468**
Administrative expenses	–126,446	–165,969	–53,068	–125,268	–470,751	–54,709	–525,460
Net accruals to provisions for risks and charges	–5,333	–291	–	–3,815	–9,439	–	–9,439
Depreciation and net impairment losses on property, equipment and investment property	–10,622	–15,545	–5,129	–9,808	–41,104	–	–41,104
Amortisation and net impairment losses on intangible assets	–4,446	–6,353	–2,063	–5,054	–17,916	–	–17,916
Other operating income/ expense	7,034	7,227	–178	6,915	20,998	55,196	76,194
Net gains (losses) on equity investments	–	–	–	25,529	25,529	–	25,529
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	–290	–290	–	–290
Net gains on sales of investments	–	–	–	14	14	–	14
Gross profit	**114,795**	**23,687**	**32,477**	**24,037**	**194,996**	**–**	**194,996**

A.2 Distribution by business segment: balance sheet

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total 31/12/2020**
Financial assets	18,671,769	12,626,888	–	12,023,723	43,322,380
Other assets	–	–	–	5,889,090	5,889,090
Property, equipment and investment property	119,125	169,056	55,978	223,640	567,799
Intangible assets	4,043	5,749	1,907	16,629	28,328
Financial liabilities	9,551,698	26,035,239	–	9,839,297	45,426,234
Other liabilities	11,833	1,261	–	938,497	951,591
Provisions	123,289	111,805	26,900	72,104	334,098
Guarantees given	3,110,809	481,211	–	96,547	3,688,567
Commitments	13,068,801	2,891,244	37,018	237,641	16,234,704

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total 31/12/2019**
Financial assets	17,496,848	11,629,662	–	8,865,099	37,991,609
Other assets	–	–	–	2,575,222	2,575,222
Property, equipment and investment property	124,840	180,394	59,015	183,923	548,172
Intangible assets	4,411	6,352	2,073	18,350	31,186
Financial liabilities	7,908,081	24,742,733	–	4,376,983	37,027,797
Other liabilities	18,946	1,783	–	846,755	867,484
Provisions	114,564	104,025	26,309	69,189	314,087
Guarantees given	2,925,402	432,075	–	111,222	3,468,699
Commitments	13,073,651	2,448,590	31,891	336,609	15,890,741

Summary discussion of results

The results of the various sub-segments are discussed below.

Enterprises: in particular, Factorit's contribution is appreciable, which in this context shows a positive result of 16.5 million euro, an increase compared with the previous year (+55.3%), mainly thanks to the significant reduction in adjustments to financial assets and in net provisions and accruals for risks and charges, which amply offset the contraction in net interest income and net fee and commission income.

This segment contributes 90.9% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 18,672 million and € 9,552 million respectively.

With respect to total income, net adjustments for the impairment of financial assets represent 34.8% of the total, while administrative expenses absorb 33.1%.

Comparison with the prior year shows a significant increase in the segment result (+27.9 million euro), mainly because of the Parent Company's contribution with a rise of 18.9 million euro, attributable above all to a combination of the following factors:

- significant reduction in net interest income (-2.2%) at a time when there is a general contraction in lending and funding spreads, only partially offset by an appreciable growth in volumes;
- a slight increase in commission flows (+1.5%), where there was a significant increase in commissions on loans, which offset the decrease in the collection and payment sector;
- a decrease in adjustments to financial assets (-14.5%), based on the anticipation in 2019 of part of the impact of the extraordinary transactions for the sale of bad loans completed in the current year, the effects of which are recognised under «Gains/losses on sale»;
- important increase in provisions for risks and charges;
- significant reduction in other operating income (–35.2%).

Individuals and other customers: the Swiss subsidiary's contribution was decisive, with a positive result of 31.5 million euro in this area, up on the previous year (+4.3%), mainly due to the improvement in net interest income, commission flows, which more than offset the increase in adjustments to financial assets.

Also significant was the contribution made by BNT, which achieved a positive result of 4.6 million euro, thanks to the return on salary/pension-backed loans.

This segment contributes –2.4% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 12,627 million and € 26,035 million respectively.

Net adjustments for the impairment of financial assets represent 18.8% of the total income, while administrative expenses absorb 74.3%.

Comparison with the previous year shows a significant reduction in the result of this segment (-27.4 million euro), mainly due to the performance of the Parent Company, which recorded a decrease of -23.2 million euro, principally attributable to the joint effect of the following factors:

– a marked decrease in net interest income (-18.6%), due to a significant contraction in the funding spread, where the largest volumes are, and a slight reduction in the lending spread, where volumes are much smaller;
– a significant decrease in commission flows (-10.6%), attributable in particular to the dynamics in the collections and payments sector;
– a decrease in adjustments to financial assets (-27.5%) due to the advance in 2019 of part of the impact of the extraordinary transactions for the sale of bad loans completed in the current year, the effects of which are recognised under «Gains/Losses on sale»;
– a significant increase in net accruals and provisions for risks and charges.

Securities: This segment contributes 19.5% of overall results.

Compared to the intermediation margin, administrative expenses affect the amount of 58.8%.

Comparison with the previous year shows a significant decrease in this segment's result (-6.0%), due exclusively to the contribution of the Parent Company, where there was a decrease of -2.1 million euro, mainly because of the significant contraction in commission flows (–3.1%), attributable to the significant reduction in investment funds, only partially offset by the appreciable growth in order collection;

Central functions: this segment contributes –8.0% of overall results.

The subsidiaries show a contribution of -21.2 million euro overall, improving on the y/y comparison (+13.7%).

The comparison with the previous year shows a marked decrease in the result, mainly due to the contribution of the Parent Company, where there was a decrease of -31.1 million euro, essentially attributable to the decline in net financial income because of higher losses. The annual trend in net interest income, on the other hand, is positive, benefiting among other things from the funding provided by refinancing operations with the ECB (TLTRO III).

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-Southern Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2020**
Interest income	593,538	70,001	68,837	732,376	–137,976	594,400
Interest expense	–215,245	–13,637	–12,828	–241,710	137,320	–104,390
Net interest income	**378,293**	**56,364**	**56,009**	**490,666**	**–656**	**490,010**
Fee and commission income	265,341	46,476	24,431	336,248	–2,751	333,497
Fee and commission expense	–11,494	–4,523	–2,429	–18,446	1,365	–17,081
Dividends and similar income	21,120	–	11	21,131	–16,756	4,375
Net trading income	–6,575	–	19,119	12,544	–71	12,473
Net hedging gains (losses)	–	–	290	290	–325	–35
Gains/losses from sales or repurchases	–2,460	1,743	–	–717	–	–717
Net change in financial assets and liabilities carried at fair value	–2,095	296	–1,222	–3,021	176	–2,845
Total income	**642,130**	**100,356**	**96,209**	**838,695**	**–19,018**	**819,677**
Net adjustments to financial assets	–118,584	–27,324	–2,942	–148,850	188	–148,662
Net financial income	**523,546**	**73,032**	**93,267**	**689,845**	**–18,830**	**671,015**
Administrative expenses	–378,431	–39,263	–60,720	–478,414	–51,412	–529,826
Net accruals and provisions for risks and charges	–15,714	2,532	–103	–13,285	243	–13,042
Depreciation and net impairment losses on property, equipment and investment property	–39,461	–3,080	–4,972	–47,513	3,498	–44,015
Amortisation and net impairment losses on intangible assets	–12,595	–1,291	–1,483	–15,369	–1,292	–16,661
Other operating income/expense	13,458	1,621	188	15,267	47,845	63,112
Net gains (losses) on equity investments	–6,441	–	–	–6,441	33,438	26,997
Net result of fair value measurement of property, equipment and investment property and intangible assets	–707	–	–	–707	–	–707
Gains/losses on sale of investments	54	–	–	54	–	54
Gross profit	**83,710**	**33,550**	**26,177**	**143,437**	**13,490**	**156,927**

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2019**
Interest income	588,626	72,942	64,521	726,089	-152,288	573,801
Interest expense	-230,655	-15,889	-17,281	-263,825	150,399	-113,426
Net interest income	**357,971**	**57,053**	**47,240**	**462,264**	**-1,889**	**460,375**
Fee and commission income	270,820	51,405	24,065	346,290	–2,670	343,620
Fee and commission expense	–13,290	–6,963	–2,523	–22,776	1,433	–21,343
Dividends and similar income	12,906	–	13	12,919	–9,365	3,554
Net trading income	49,145	–	20,673	69,818	–570	69,248
Net hedging gains (losses)	–	–	418	418	–407	11
Gains/losses from sales or repurchases	35,756	–	–	35,756	–	35,756
Net change in financial assets and liabilities carried at fair value	11,855	284	-54	12,085	-13	12,072
Total income	**725,163**	**101,779**	**89,832**	**916,774**	**-13,481**	**903,293**
Net adjustments to financial assets	-146,050	-68,959	-864	-215,873	48	-215,825
Net financial income	**579,113**	**32,820**	**88,968**	**700,901**	**-13,433**	**687,468**
Administrative expenses	-372,084	-40,209	-58,875	-471,168	-54,292	-525,460
Net accruals and provisions for risks and charges	-9,051	2,467	-2,787	-9,371	-68	-9,439
Depreciation and net impairment losses on property, equipment and investment property	-36,741	-3,186	-4,622	-44,549	3,445	-41,104
Amortisation and net impairment losses on intangible assets	-13,230	-1,348	-1,401	-15,979	-1,937	-17,916
Other operating income/expense	21,517	3,619	140	25,276	50,918	76,194
Net gains (losses) on equity investments	-235	–	–	-235	25,764	25,529
Net result of fair value measurement of property, equipment and investment property and intangible assets	-290	–	–	-290	–	-290
Gains/losses on sale of investments	14	–	–	14	–	14
Gross profit	**169,013**	**-5,837**	**21,423**	**184,599**	**10,397**	**194,996**

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 31/12/2020**
Financial assets	34,807,750	3,895,072	4,619,558	43,322,380
Other assets	5,059,827	–	829,263	5,889,090
Property, equipment and investment property	487,395	35,692	44,712	567,799
Intangible assets	25,551	1,210	1,567	28,328
Financial liabilities	30,760,507	9,588,883	5,076,844	45,426,234
Other liabilities	921,326	2,906	27,359	951,591
Provisions	267,695	33,832	32,571	334,098
Guarantees given	2,888,268	671,496	128,803	3,688,567
Commitments	13,786,825	2,177,717	270,162	16,234,704

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 31/12/2019**
Financial assets	30,781,484	2,867,970	4,342,155	37,991,609
Other assets	1,872,838	–	702,384	2,575,222
Property, equipment and investment property	464,278	37,665	46,229	548,172
Intangible assets	28,299	1,333	1,554	31,186
Financial liabilities	24,171,704	8,162,884	4,693,209	37,027,797
Other liabilities	836,467	5,859	25,158	867,484
Provisions	247,304	35,806	30,977	314,087
Guarantees given	2,736,850	556,886	174,963	3,468,699
Commitments	13,146,568	2,505,861	238,312	15,890,741

Disclosure of information State by State pursuant to Circular 285 of 17 December 2013 on «Supervisory Instructions for Banks» 4th revision dated 17 June 2014

This information is available (in Italian) in the «Governance» section of the website www.popso.it.

PART M *Leasing disclosures*

Section 1 *Lessee*

QUALITATIVE INFORMATION

Contracts that fall within the application of IFRS 16 can be grouped into three distinct categories:

a) buildings, which represent the most relevant cases and car parks with marginal;

b) cars;

c) other types, including the rental of IT equipment

In accordance with IFRS 16, the rights held under licence agreements have been excluded from the scope of application of the standard. They continue to be recognised under IAS 38 – Intangible assets.

The lease contracts mainly relate to buildings used as bank branches and generally have a duration of more than 48 months, typically 72 or 108 months, with automatic renewal options. The policy for contracts with an indefinite useful life is to align their useful life with the history of the contract at the FTA date. If the contract has no history, the useful life is aligned with that of the contract to which it is mostly functionally related or, failing that, with that of other contracts with similar characteristics. Lease instalments are revised annually from the second year of the contract to reflect 75% or 100% of the change in the consumer price index for the families of blue- and white-collar workers.

Lease contracts for cars and IT equipment usually have a duration of four years, without any renewal and/or purchase options and with monthly payments.

As indicated in para. 33 of IFRS 16 and considering that the contracts were arranged on market terms, no impairment has been identified with reference to the qualitative criteria applied by the bank e.g. branch disposal or negotiation plans, out-of-use branches etc., that would require a reduction in the value of the related right-of-use assets.

In line with the disclosures required by paras. 51, 53 and 59 of IFRS 16, the following supplementary information is provided:

- variable lease payments: situations involving variable lease payments are marginal for disclosure purposes, as this practice is rare in contracts signed by the group;
- extension and termination options: contracts signed by the bank generally envisage giving 6 months' notice of termination. Most contracts for the lease of branch premises require payment of the cost of restoring them to their original condition if the lease is terminated. This amount is negligible for disclosure purposes;
- guarantee of residual value: the Group does not guarantee residual values;
- leases not yet signed: the Group has not made any lease commitments that might be considered material for disclosure purposes;
- sale and leaseback transactions: the Group is not party to transactions of this type.

Part B of the Notes to the financial statements provides information about leased right-to-use assets (Tables 9.1 - 9.6 Part B, Assets) and lease liabilities (Tables 1.1 - 1.6 Part B, Liabilities and equity). In particular, leased right-to-use assets total 199 million, while lease liabilities total 201 million.

Part C of the Notes to the financial statements contains the information required by para. 53 of IFRS 16 about the interest charged on lease liabilities and the income earned from sub-leasing transactions. See those sections for further details.

The Group applies the exemptions allowed by IFRS 16 for short-term leases and low-value leases, the costs of which amounted to euro 84,311 in 2020.

On 10 April 2020, following the advent of the COVID-19 pandemic, the IFRS Foundation clarified («Accounting for COVID-19 related rent concessions applying IFRS 16 Leases») that in the event of changes in payments of lease instalments, also as a result of government interventions, it was necessary to assess whether or not they represented a modification of the contract with the appropriate accounting treatment and disclosure in the financial statements. Given the protraction of the emergency situation caused by Covid-19 and the consequent economic and financial effects, on 28 May 2020 the IASB published the amendment to IFRS 16 «Covid-19 Related Rent Concessions», approved on 9 October 2020 with Regulation (EU) 2020/1434, whose effects take effect from 1 June 2020 with the possibility of earlier application.

In this sense, the new paragraphs 46A and 46B introduced as a practical expedient the possibility for the lessee not to treat the unpaid rents, as a direct consequence of Covid-19, as modifications to the original contract and therefore not as a modification of the amortisation plan of the lease, with consequent recalculation of the liability.

In order to apply this exemption, all the following conditions must be met:

- the concession on payments is a direct consequence of the Covid-19 pandemic;
- the modification in payments left the same amount to be paid with respect to the original conditions or reduced the amount;
- the reduction in payments refers solely to those originally due until June 2021;
- there are no substantial changes to other contractual terms or conditions of the lease.

Taking the above into account, the Banca Popolare di Sondrio Group did not request any suspension of payment of the lease instalments to deal with the emergency; furthermore, no branch closure was carried out that could have revealed signs of impairment of the rights of use.

QUANTITATIVE INFORMATION

As required by para. 53 of IFRS, the following information is provided:

Carrying amount of right-to-use assets at the reporting date and the depreciation charge on right-to-use assets by category of underlying asset.

	2020				**2019**
Asset / Amount	Buildings*	Cars	Other	Total	Total
Initial right-of-use	222,362	242	210	222,814	226,497
Depreciation	(21,586)	(164)	(95)	(21,845)	(22,152)
Other changes	(2,147)	287	58	(1,802)	18,469
Closing carrying amount	**198,629**	**365**	**173**	**199,167**	**222,814**

* Including finance leases under IAS 17

As regards the «Other changes», the impact is mainly linked to restatement of the right-of-use assets due to the ISTAT adjustments and to the opening and closing of contracts.

Section 2 *Lessor*

QUALITATIVE INFORMATION

The Group is party to operational leases on buildings. These operational lease contracts do not transfer to the lessee substantially all the risks and benefits deriving from ownership of the assets, which remain with the lessor. In the case of operational lease contracts, the lessor recognises the lease instalments in the income statement on an accruals basis.

QUANTITATIVE INFORMATION

1. Balance sheet and income statement information

See Part C - Income statement, table 16.2 (Other operating income: breakdown) for information about the other income deriving from operational leases.

3. Operational leases

The maturities of the payments to be received are summarised below.

3.1 Maturities of payments to be received

	2020	2019
Time band	Lease payments to be received	Lease payments to be received
Within 12 months	154	173
1 to 2 years	140	160
2 to 3 years	128	148
3 to 4 years	117	136
4 to 5 years	107	126
Over 5 years	289	350
Total	**935**	**1,093**

3.2 Other information

No other information to be reported.

Attestation pursuant to art. 154-bis, para. 5, of Legislative Decree 58/98 on the consolidated financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Manager responsible for preparing the company's accounting documents
of Banca Popolare di Sondrio S.c.p.a., 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 during the period 1 January - 31 December 2020;
– the performance of analytical work with reference to the objectives identified for Company Level Controls valid for the entire scope of consolidation.

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 2020:
– 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 of Group companies;
– 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, 29 March 2021

The Managing Director

Mario Alberto Pedranzini

The Manager responsible for preparing the company's accounting documents

Maurizio Bertoletti

Banca Popolare di Sondrio S.C.p.A.

Consolidated financial statements at December 31, 2020

Independent auditor’s report pursuant to 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 Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca Popolare di Sondrio Group (the "Group"), which comprise the balance sheet at December 31, 2020, the income statement, the statement of comprehensive income, the statement of changes in equity, 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, 2020 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 Consolidated Financial Statements section of our report. We are independent of Banca Popolare di Sondrio (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.

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.

EY S.p.A.
Sede Legale: Via Lombardia, 31 - 00187 Roma
Capitale Sociale Euro 2.525.000,00 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

A member firm of Ernst & Young Global Limited

Building a better
working world

We identified the following key audit matter:

Key audit matter	Audit response
Classification and measurement of loans to customers (“Loans”)	
Loans measured at amortised cost, presented in item 40 b) of the balance sheet, amount to approximately Euro 28,319 million and represent about 57%of total assets. The classification and valuation of Loans is relevant for the audit both as the value of Loans is significant for the consolidated financial statements as a whole and as the value of the related impairment losses is determined by the directors through the use of estimates that have a high degree of complexity and subjectivity. In addition, these estimation processes have been updated to reflect the current context of uncertainty about the evolution of the macroeconomic framework due to the spread of the Covid-19 pandemic, as well as government measures to support the economy. Among these, the following matters are particularly relevant: • the identification and calibration of parameters for determining the significant increase in credit risk compared to the initial detection date, for the purpose of allocating exposures in Stage 1 and Stage 2 (performing loans); • the definition of probability of default (PD), loss given default (LGD) and exposure at default (EAD) models and parameters applied for the calculation of expected credit losses (ECL) to one year for stage 1 classified exposures and lifetime for stage 2 classified exposures based on historical observation of data for each risk class and forward looking factors , including those macroeconomic related; • the identification of evidences that	In relation to these aspects, also considering made to the processes of estimating collective expected credit losses to reflect the growing uncertainty resulting from the spread of the Covid-19 pandemic, our audit procedures included, among others: • updating the understanding of the policies, processes and controls implemented by the Group in relation to the classification and measurement of Loans and performing compliance procedures on the key controls, including those relating to IT safeguards, in order to verify its operational effectiveness; • performing substantive procedures, on sample basis, aimed at verifying the proper classification and measurement of Loans, with particular reference to exposures affected by the moratoria on payments measures; • understanding the methodology used for statistical assessments and the reasonableness of the assumptions adopted, including the new macroeconomic scenarios and their weighting; • performing compliance and substantive procedures, aimed at verifying the accurate determination of PD, LGD and EAD parameters relevant for the determination of expected credit loss adjustments; • performing of benchmarking procedures for the portfolio and its related coverage levels, with reference to the most significant deviations from the balances of the previous year; • the verification, through analysis of the supporting documentation, of the accounting of the disposal of non-performing loans carried out during the year, resulting from

may suggest that the Loan book value(impairment evidence) cannot be fully recoverable, with subsequent classification of exposures in Stage 3 (non-performing loans);

- for Loans classified in Stage 3, the determination of the criteria used for estimating the expected cash flows according to the recovery strategy.

Information on the evolution of the quality, classification and measurement of Loans is provided within Part A - Accounting Policies, in Part B - Information on the balance sheet, in Part C - Information on the Income Statement and in Part E - Information on risks and related hedging policy of the notes to the financial statements.

the fulfilment of the plan aimed at reducing the portfolio of non performing loans.

The procedures described above have also been carried out with the support of experts from the EY network on models for the evaluation of financial instruments and IT systems.

Finally, we have analysed the adequacy of the disclosure provided in the notes to the consolidated financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view 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, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company or to cease operations, or have 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, 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 consider this matter in forming 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 consolidated 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 audits 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 pursuant to 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 the Group at December 31, 2020 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 Group at December 31, 2020 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 the Group at December 31, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by art. 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.

Building a better
working world

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 has 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 16, 2021

EY S.p.A.
Signed by: Davide Lisi, auditor

This report has been translated into the English language solely for the convenience of international readers.

RESOLUTIONS OF THE ORDINARY SHAREHOLDERS' MEETING

of 11 May 2021 (at second calling)

AGENDA

1) *Presentation of the financial statements as of 31 December 2020: 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 2020;*
2) *Resolutions on compensation matters:*
   a) *Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;*
   b) *Approval, pursuant to art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act), of the Report on remuneration policies and the compensation paid;*
   c) *Approval of the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Compensation Policies of the Banca Popolare di Sondrio Banking Group for 2021;*
3) *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 and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the remuneration policies;*
4) *Determination of directors' emoluments;*
5) *Appointment of five Directors for the three-year period 2021-2023;*
6) *Appointment of the Members and Chairman of the Board of Statutory Auditors for the three-year period 2021-2023; determination of their annual emoluments.*

Point 1) on the agenda

Having heard the directors' report on operations for 2020 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 2020, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 75,045,078. The Shareholders' Meeting also approved the allocation of profit for the year of € 75,045,078 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	€	7,504,507.80
– 30% to the statutory reserve	€	22,513,523.40

  b) to determine the dividend to be assigned at € 0.06 to each of the n. 453,385,777 shares in circulation

as of 31/12/2020 and having enjoyment on 1/1/2020, with transfer to the statutory reserve of the amount re dividends of treasury shares, if any in charge on the working day preceding that of the deadlift, for a total amount of	€	27,203,146.62
c) to allocate the residual profit:		
– to the reserve for donations	€	300,000.00
– to the legal reserve, a further	€	17,523,900.18

In accordance with the Stock Exchange calendar, the dividend will be paid from 26 May 2021, going ex-coupon (no. 42) on 24 May 2021.

Point 2) on the agenda

Letter a)

The Shareholders' Meeting approved the document containing the «Remuneration Policies of the Banca Popolare di Sondrio Banking Group» and took note of the information on remuneration and incentive policies and practices, and of the information received about the activities of the Remuneration Committee.

Letter b)

The Shareholders' Meeting approved the first section of the Report on remuneration policy and the compensation paid; In addition, it approved the second section of the Report on remuneration policy and the compensation paid.

Letter c)

The Shareholders' Meeting approved the Compensation Plan, pursuant to art. 114-bis of Legislative Decree 58/98 (Consolidated Finance Act), in implementation of the Remuneration Policies of the Banca Popolare di Sondrio Banking Group for 2021.

Point 3) on the agenda

The Shareholders' Meeting resolved:

– to authorise the Board of Directors to purchase and/or dispose of ordinary treasury shares and/or to cancel them, pursuant to current legislation and the Articles of Association, for the period of time between today's date and the date of the Shareholders' Meeting called to approve the 2021 financial statements, on the basis specified below, on condition that the start of the purchase programme, or its suspension and/or its termination is authorised by the Board of Directors, with the right to delegate to the Chairman's Committee, which will therefore publish the information required pursuant to art. 144-bis, para. 3, Issuer's Regulation on the programme start date;

<u>Purchase of treasury shares:</u>

- purchases may be made up to a maximum amount of euro 30,000,000 (thirty million) without exceeding the available reserves, on condition in all cases that the number of shares held never exceeds 2% of the shares representing share capital;

- purchase transactions may be made at any time until the date of the Shareholders' Meeting called to approve the 2021 financial statements;
- the purchase price of the shares must not be more than 20% greater than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction;
- purchases must be made in one of the ways specified in para. 1, letters a), b), c), d-bis), d-ter), or in para. 2 of art. 144-bis of Regulation 11971 approved by Consob on 14 May 1999, as subsequently amended.

<u>Trading and sale of treasury shares</u>

- the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be traded and disposed of and, therefore, assigned even prior to making the maximum purchase covered by this requested authorisation, on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank;
- the disposals or dispositions may be made at any time prior to the Shareholders' Meeting called to approve the 2021 financial statements;
- the treasury shares purchased may be disposed of, on one or more occasions, even prior to making the maximum authorised purchase of treasury shares;
- the disposals may be made on the basis and with the timing deemed most appropriate in the interests of the Bank, in any manner considered suitable in relation to the objectives pursued, without prejudice in all cases to compliance with the authorisation conditions and the applicable regulations;
- the selling price of the shares - if sold in the market - must not be more than 20% lower than the official price for Banca Popolare di Sondrio shares posted by Borsa Italiana S.p.A. at the end of the market day immediately prior to each transaction.

<u>Maximum volume</u>

- the purchases and sales – in the latter case if made in the market – must not exceed 25% of the average daily volume of the shares traded on Borsa Italiana S.p.A., calculated with reference to the average daily volume of trades in the 20 trading days prior to the date of each operation.

<u>Cancellation of treasury shares</u>

- the treasury shares purchased in execution of this Shareholders' resolution, as well as those purchased pursuant to previous Shareholders' resolutions, may be cancelled on one or more occasions, in the manner deemed most appropriate for the reasons expressed in the directors' report and in the interests of the Bank, without prejudice to compliance with the regulatory requirements and the Articles of Association, using the reserve for treasury shares held to cover any differences between their cancellation value and their purchase price.

– to grant the Board of Directors, and the Managing Director, on its behalf, 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 manage the market».

The Meeting authorised the Board of Directors to use, up to a maximum total amount of Euro 490,000, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2021 Compensation Plan based on financial instruments during the life of that plan. The number of shares used to service the above Plan will be determined with reference to the closing price struck on the date on which the Board of Directors resolves to grant 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 4) 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 5) on the agenda

The Shareholders' Meeting appointed the following persons as members of the Board of Directors for the three-year period 2021-2023 Alessandro Carretta (independent director), Loretta Credaro, Donatella Depperu (independent director), Adriano Propersi, taken for «List 1», and Luca Frigerio (independent director), taken from «List 2».

Point 6) on the agenda

The Shareholders' Meeting appointed the following persons as members of the Board of Statutory Auditors for the three-year period 2021-2023 Massimo De Buglio (Serving Auditor), Laura Vitali (Serving Auditor) and Paolo Vido (alternate auditor), taken from «List 1», and Serenella Rossano (who takes on the office of Chairman of the Board of Statutory Auditors) and Alessandro Mellarini (alternate auditor) taken from «List 2», setting the annual fee for the three-year period.

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	22,390,051,929	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
2018	14,716,303,975	21,483,735,791	33,770,793,630	2,366,819,712	83,623,117	0.050
2019	12,258,037,925	22,314,013,776	33,139,673,205	2,517,571,741	100,695,191	0.000
2020	15,725,255,450	24,097,378,444	41,392,257,234	2,641,048,692	75,045,078	0.060

The figures for the years prior to 1993 have not been adjusted for consistency with those of subsequent years, which are aggregated with different criteria following the regulatory changes that have occurred.

CONTENT

Images:

ADOBE STOCK
BANCA POPOLARE DI SONDRIO ARCHIVE
STUDIO BOZZETTO & CO
CORRADO COLLEONI
M.P. LAVIZZARI PEDRAZZINI ARCHIVE
GRAFICA MARCASSOLI
PAOLO ROSSI
IRCCS AGOSTINO GEMELLI
FOUNDATION UNIVERSITY POLYCLINIC ARCHIVE
SHUTTERSTOCK
SVEN STOPPANI

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC® C143836

Layout:

GRAFICA MARCASSOLI srl

Printing and binding:

BOOSTGROUP spa