Banca Popolare di Sondrio

150° 1871 2021

CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2021

Banca Popolare
di Sondrio

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INTERIM
FINANCIAL
REPORT
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BANCA POPOLARE

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Società cooperativa per azioni
Head office and general management: Piazza Garibaldi 16, 23100 Sondrio, Italy
Tel. 0342 528.111 - Fax 0342 528.204
Websites: https://www.popso.it - https://istituzionale.popso.it
E-mail: info@popso.it - PEC: 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 Deposits Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: 1,360,157,331 – Reserves: 1,253,388,214
(Figures approved at the shareholders' meeting of 11 May 2021)

Ratings:

- Ratings 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-

- Ratings 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)

- Ratings 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
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 CESARE POLETTI

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

* Members of the Chairman's Committee

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

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 85/A
MANDELLO DEL LARIO piazza Sacro Cuore 8
MALGRATE via Gaggio 14
MERATE via Don Cesare Cazzaniga 5
MERATE piazza Giulio Prinetti 6
MERATE - **fraz. Pagnano** - via Rimembranze 3
MERATE - Ospedale di Merate - largo Leopoldo Mandic 1
MONTE MARENZO via Colombara Vecchia 2
MONTICELLO BRIANZA via Provinciale 57
NIBIONNO - fraz. Cibrone - via Montello 1
OGGIONO via Lazzaretto 50
PESCATE via Roma 98/E
PRIMALUNA via Provinciale 66
SUELLO via Roma 10/12
VALGREGHENTINO piazza Roma 2
VALMADRERA via San Rocco 31/33
VARENNA via Corrado Venini 73

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

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Head Office: Lugano, via Maggio 1 - tel. +41 58 855 31 00
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Treasury - Updated to 12 August 2021

THE BANKING GROUP IN

BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

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IT HAS 19 OFFICES IN 8 CANTONS,
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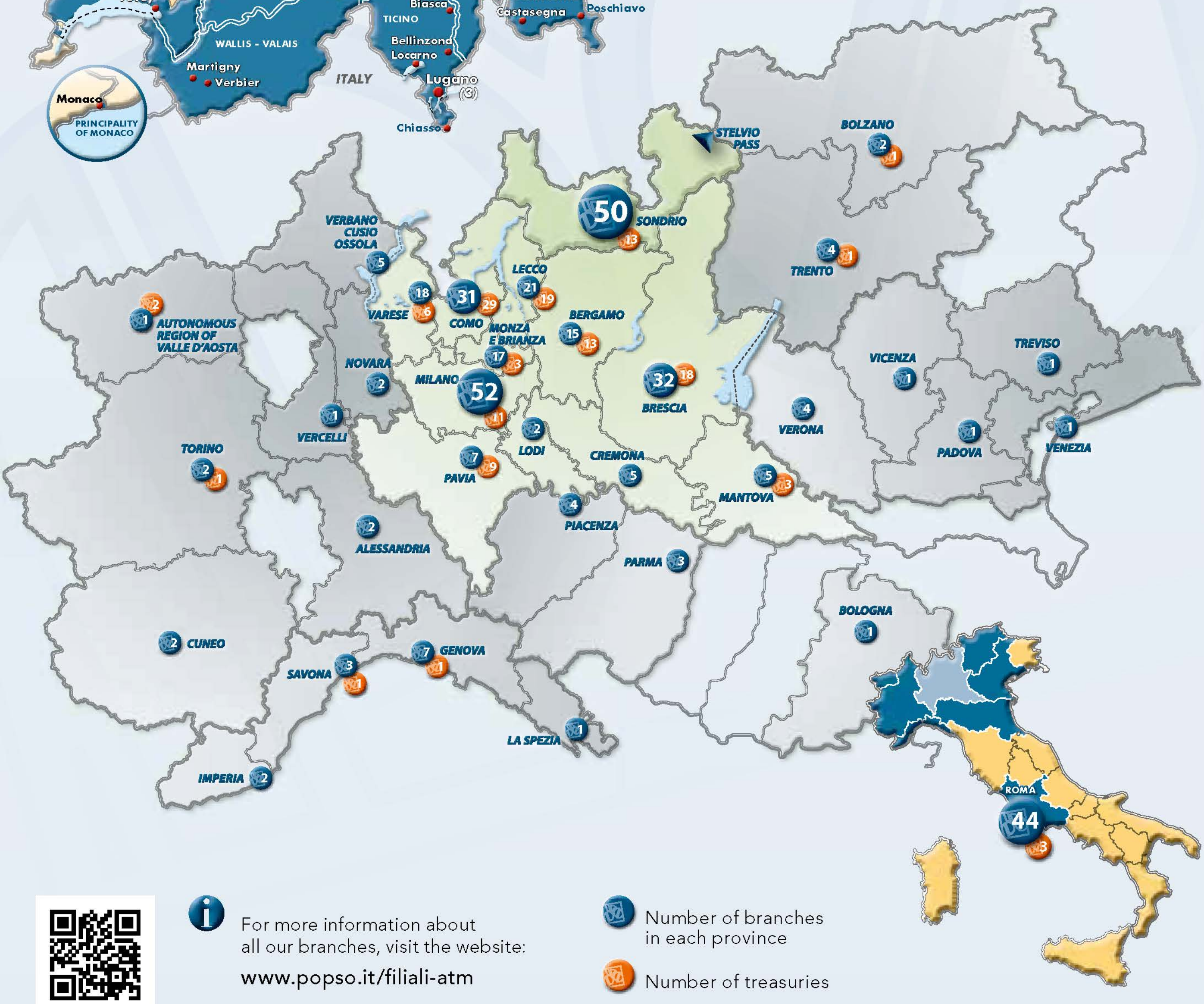
AND THE MONACO BRANCH OUTSIDE SWITZERLAND
IN THE PRINCIPALITY OF THE SAME NAME.



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

THE HEART OF THE ALPS

Banca Popolare di Sondrio
FOUNDED IN 1871

BRANCHES by province:

- 50 SONDRIO and 13 Treasuries
- 2 ALESSANDRIA
- 15 BERGAMO and 13 Treasuries
- 2 BOLZANO and 1 Treasury
- 32 BRESCIA and 18 Treasuries
- 31 COMO and 29 Treasuries
- 5 CREMONA
- 2 CUNEO
- 7 GENOVA and 1 Treasury
- 2 IMPERIA
- 21 LECCO and 19 Treasuries
- 2 LODI
- 5 MANTOVA and 3 Treasuries
- 52 MILANO and 11 Treasuries
- 17 MONZA E BRIANZA and 3 Treasuries
- 2 NOVARA
- 3 PARMA
- 7 PAVIA and 9 Treasuries
- 4 PIACENZA
- 44 ROMA and 3 Treasuries
- 3 SAVONA and 1 Treasury
- 2 TORINO and 1 Treasury
- 4 TRENTO and 1 Treasury
- 18 VARESE and 6 Treasuries
- 5 VERBANO CUSIO OSSOLA
- 4 VERONA
- 1 in BOLOGNA, LA SPEZIA, PADOVA, TREVISO, VENEZIA, VERCELLI and VICENZA
- 1 in the Autonomous Region of Valle d'Aosta and 2 Treasuries

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AL CENTRO DELLE ALPI

INFORMATION ON OPERATIONS

Note. *The figures contained in this interim report on operations are stated in euro; the percentage changes refer to comparable balance sheet data at the end of 2020 and to comparable income statement data for the period to 30 June 2020; exceptions are explained.*
Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of amounts expressed in different units

INTERIM REPORT ON OPERATIONS AT 30 JUNE 2021

INTRODUCTION

The condensed consolidated interim financial report at 30 June 2021 has been prepared pursuant to article 154 ter, paras 2, 3 and 4 of Legislative Decree 58 of 24 February 1998 and in accordance with the recognition and measurement criteria of the international accounting standards (IAS/IFRS) adopted by the European Community and currently in force, as explained in the notes.

The Condensed Consolidated Interim Financial Statements have been prepared in compliance with IAS 34.

Accordingly, the interim report gives priority to information prepared at a consolidated level. Given the predominance of Banca Popolare di Sondrio S.C.p.A. within the Group, most of the comments are on its activities.

The accounting policies applied during the period under review are consistent with those of the prior year, except for the adoption of amendments that came into force during the period.

THE BANCA POPOLARE DI SONDRIO BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent bank:

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

Group companies:

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

The Parent Company holds all the capital of Banca Popolare di Sondrio (SUISSE) SA, CHF 180,000,000, which is fully paid-up.

Factorit 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 di Nuova Terra spa, 31,315,321 euro.

PopsPopso Covered Bond srl - Conegliano (TV).

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

CONSOLIDATED EQUITY INVESTMENTS:

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

* equity investments not included in the Banking Group for supervisory purposes
** held by Sinergia Seconda srl

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

Name	Location	Share capital (in thousands)	% held
Alba Leasing spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Arca Holding spa	Milan	50,000	34.715
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Rent2Go Srl	Bolzano	12,050	33.333
Cossi Costruzioni spa	Sondrio	12,598	18.250
Rajna Immobiliare srl	Sondrio	20	50.000

* held by Banca Popolare di Sondrio (SUISSE) SA

Further information about the presentation of equity investments is provided in the scope and methods of consolidation section of the notes.

SUMMARY OF RESULTS

(in millions of euro)

Balance sheet	30/06/2021	31/12/2020	% change
Loans to customers	31,046	29,380	5.67
Loans and receivables with customers measured at amortised cost	30,602	28,998	5.53
Loans and receivables with customers measured at fair value through profit or loss	444	382	16.18
Loans and receivables with banks	3,440	3,621	-4.99
Financial assets that do not constitute loans	12,544	10,553	18.87
Equity investments	326	305	6.80
Total assets	52,951	49,808	6.31
Direct funding from customers	36,958	35,559	3.93
Indirect funding from customers	38,072	34,797	9.41
Direct funding from insurance premiums	1,832	1,717	6.68
Customer assets under administration	76,862	72,074	6.64
Other direct and indirect funding	18,497	16,368	13.01
Equity	3,126	2,998	4.30

Income statement	30/06/2021	30/06/2020	% change
Net interest income	264	233	13.29
Total income*	505	373	35.46
Profit from continuing operations	193	22	n.s.
Profit (loss) for the period	137	14	n.s.

Capital ratios (%)	30/06/2021	31/12/2020
CET1 capital ratio	16.71%	16.32%
Total capital ratio	18.66%	18.55%
Free capital	1,957	1,919

Other information on the banking group	30/06/2021	31/12/2020
Number of employees	3,370	3,325
Number of branches	370	369

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

ALTERNATIVE PERFORMANCE INDICATORS (CONSOLIDATED)

	30/06/2021	31/12/2020
Key ratios		
Equity/Direct funding from customers	8.46%	8.43%
Equity/Loans to customers	10.07%	10.20%
Equity/Financial assets	24.92%	28.40%
Equity/Total assets	5.90%	6.02%
Profitability indicators*		
Cost/Income ratio	55.22%	69.93%
Net interest income/Total income	52.25%	62.47%
Administrative expenses/Total income	56.12%	71.59%
Net interest income/Total assets	0.50%	0.50%
Net financial income/Total assets	0.86%	0.58%
Profit for the period attributable to the parent company/Total assets	0.26%	0.03%
Asset quality indicators		
Texas ratio	32.92%	36.78%
Net bad loans/Equity	10.11%	11.54%
Net bad loans/Loans to customers	1.02%	1.18%
Loans to customers/Direct funding from customers	84.00%	82.62%
Cost of credit	0.32%	0.74%

The indicators 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/write-backs for impairment of receivables in the income statement to total Loans to customers.
* Comparative figures refer to 30-06-2020

INTERNATIONAL ASPECTS

The steady progress made in containing the Covid-19 pandemic, due to the increasingly focused and organised vaccination campaigns, has spread rapidly to global economic activity. As confirmed by the reawakening of world trade, this activity has recovered sharply and even encompasses the service sector. In effect, the relaxation of social distancing measures in those areas – China, United States, European Union and United Kingdom – that have made significant progress in controlling the pandemic, has injected life back into the economy, although uncertainties and concerns are fuelled by the spread of new and more contagious variants of the virus.

The Chinese economy accelerated strongly during the first quarter of 2021 (GDP +18%), returning economic activity to the levels reported prior to the healthcare crisis. By contrast, the other principal emerging economies were unable to count on healthy dynamics and, especially in India, have experienced weakness in recent months. The United States, for its part, has embarked decisively on a growth path (GDP +6.4% in the first three months of the year) that has also affected inflation, which rose above 5% in June. Following a weak start to the year, the United Kingdom has recovered well, but growth in Japan is still somewhere over the horizon. Clearly, the contribution made by the Olympics, somewhat disliked by a population that feared contagion from the virus, was not that expected.

OECD forecasts indicate that global GDP will rise by 5.8% in 2021, exceeding pre-pandemic levels. This growth will not be homogeneous however, with United States and China pushing ahead while other economic areas lag behind. The marked rise in oil prices, due to the economic acceleration in progress, has apparently not induced central banks to abandon their highly expansionary monetary policies, at least for the moment.

After a decline at the start of the year, the Euro area – except for Italy among the larger members – has benefited from a significant upturn that should broaden and consolidate over the rest of the year, resulting in expected annual growth in excess of 4.5%. All this, of course, depends on the avoidance of critical issues in the healthcare sector. Inflation spiked to almost 2% by the end of the first half, principally due to the marked rise in the prices of petroleum products.

The European Central Bank has confirmed its intention to maintain a highly expansive monetary policy, with a high rate of security purchases as part of the PEPP, Pandemic Emergency Purchase Programme.

The generalised improvement in the situation underlying the international financial markets during the second quarter of the year reflected economic growth spurred by the reopening of activities, the progress made by vaccination campaigns and the expansionary monetary and fiscal policies adopted. The US stockmarket benefited from these conditions, appreciating by about 8% during the second quarter and by 14% in the first six months of 2021, as did the Eurozone markets, which rose by 4% on average in the second quarter and by 14% from the start of the year.

THE SCENARIO FOR OUR GROUP

Italy

After struggling to grow in the first quarter of the year (+0.1%), Italian GDP picked up well in the second quarter, with estimated growth in excess of 1% due to the dynamic progress of the vaccination campaign. This was particularly due to the upturn in industrial activity, accompanied by the partial recovery of services.

Following a decline during the first three months, household consumption returned to growth given the subsequent steady relaxation of the restrictive measures imposed because of the pandemic. The propensity to save remains high however, highlighting that behaviour is still conditioned by fears of a new wave of contagion.

Export performance was good. After a rise of 0.5% in the first quarter, growth strengthened in the following months. There was even a gradual recovery in visitors from abroad, although clearly at somewhat lower levels than before the pandemic. The employment data still struggles to benefit from the recovery, which has nevertheless commenced. The decline mainly affected the private services sector, while the trend in industry was positive. The most recent figures show signs of improvement, albeit with growth predominantly in the area of fixed-term contracts.

Price inflation (+1.3% at period end) was affected by the rise in commodity prices and, in particular, the cost of petroleum products.

The increase in business lending has continued in the banking sector, with further considerable demand for loans backed by public guarantees. In the first months of the year, the flow of new non-performing loans remained stable compared with total loans. On the other side of the banking equation, deposits have continued to rise, comprising both deposits from residents and funding from the Eurosystem.

Switzerland

In early 2021, the Swiss Confederation was still adversely affected by the measures adopted to contain Covid-19. The first quarter in fact showed a drop in GDP of around 0.5%. The services sector was badly hit – with hotels and catering in serious trouble – by, in particular, a marked decline in private consumption. Industry performed very well by contrast, as seen by the rise in exports. The overall situation turned around decisively during the second quarter: the economy picked up as the COVID-19 restrictions were lifted, and GDP growth surged. The outlook is optimistic, with current growth well ahead of the average for recent years; indeed, GDP is expected to exceed pre-crisis levels by year end.

THE ITALIAN BANKING MARKET

Despite the signs of economic recovery and impending price inflation, the principal central banks have, so far, avoided reigning in their respective ultra-accommodative monetary policies.

Although the ECB reference rate was first zeroed back in 2016, the abundant fresh liquidity injected into the system has further lowered the cost to Italian banks of deposits from households and non-financial companies from 0.55% in June 2020 to 0.47% twelve months later. However, given the even greater reduction in the yield from interest-earning assets, from 1.76% to 1.59%, the spread has been further squeezed from 1.21% to 1.12%.

As for the trend in volumes after adjusting for technical phenomena, such as securitisations, the 4% rise in lending was slightly down from 4.4% in May. Activity was still led by the business sector, albeit slowing after the significant boost provided by the support measures launched in 2020, but with an increasing contribution from households, driven by home-purchase loans. Significantly, businesses have increased the liquidity held on deposit with banks, contributing to the growth in direct funding by 6.8%.

The extension of the moratoria and public guarantees until the end of 2021 has helped to contain the effects on the crisis in terms of credit impairment, deferring the expected peak – in any case at much lower levels than experienced in the past – until 2022. For the moment, net bad loans have actually continued to decline as a percentage of lending, in part due to further disposals, from 1.50% in May 2020 to 1.04% twelve months later.

The likely trend in past due and unlikely-to-pay loans is more problematic; nevertheless, again after adjustments, ABI only expects the NPL ratio to rise from 2.2% in 2020 to 2.4% at the end of this year, peaking at a manageable 2.9% sometime next year.

The capitalisation of Italian banks, supported in 2020 by restrictions on the payment of dividends and the improved weighting coefficient for State-backed assets, should now decline slightly.

Turning to the income statement, although opinions vary about the trend in net interest income – burdened by low rates, but assisted by the negative rates on ECB funding – and in the various sub-captions of other income – where that from indirect deposits might benefit from a transfer of resources from the over-abundant direct deposits – there is agreement on the fact that overall income from banking activities will grow by less than 1% this year. The greatest differences of opinion relate to the containment of costs – the absence of the leaving incentives incurred last year should, if the truth be known, lower personnel costs – and to the level of loan adjustments that, in any case, are expected to increase next year; consequently, net profit forecasts are all over the place.

FUNDING

Bank funding continued to improve in Italy during the second quarter of the year, supported in particular by the deposits from households and businesses. Even in the face of almost zero remuneration, the preference for more liquid instruments was confirmed.

Savings are taking a precautionary approach given the ongoing uncertainties, despite the progress achieved in the fight against Covid-19 due to the vaccination campaign. All of this obviously has repercussions on the level of household consumption and on that of business investments. The cost of funding remains low, thanks to continuation of the accommodative monetary policy.

As for our Group, at 30 June 2021, direct customer deposits totalled 36,958 million, with a rise of 3.93% since the end of 2020, while compared with June 2020 the figure was up by 16.26%.

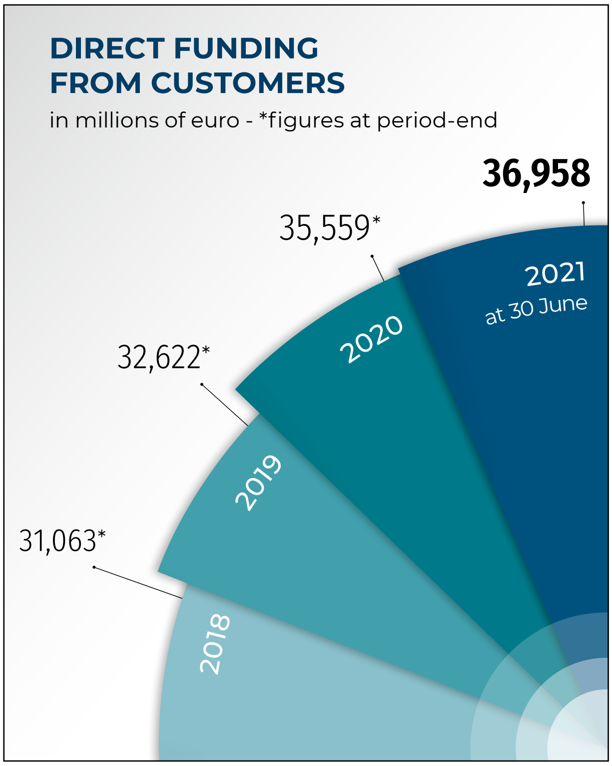
Indirect funding from customers amounted to 38,072 million, +9.41% on the end of 2020.

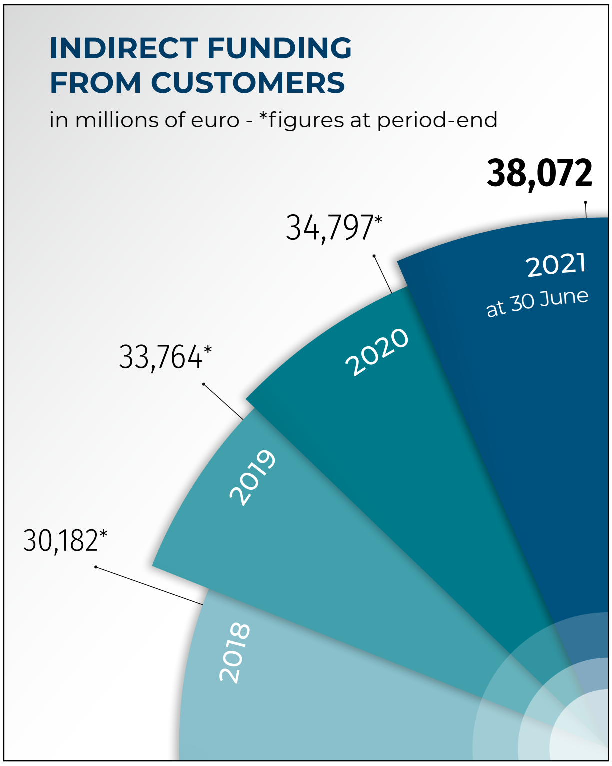
Direct funding from insurance premiums rose to 1,832 million, +6.68%.

Total funding from customers therefore amounted to 76,862 million, +6.64%.

Amounts due to banks totalled 10,875 million, +10.67%. The aggregate includes the refinancing operations in place with the European Central Bank for 8,874 million. This is explained in the chapter on securities and treasury activities.

Indirect funding from banks came to 7,623 million, +16.53%.





DIRECT CONSOLIDATED FUNDING FROM CUSTOMERS

(thousands of euro)	30/06/2021	%	31/12/2020	%	% change
Savings deposits	520,740	1.41	526,899	1.48	-1.17
Certificates of deposit	–	0.00	471	0.00	-100.00
Bonds	2,770,332	7.50	2,680,983	7.54	3.33
Repo transactions	798	0.00	55,422	0.16	-98.56
Bank drafts and similar	148,972	0.40	149,657	0.42	-0.46
Current accounts	30,107,581	81.47	28,839,649	81.11	4.40
Time deposit accounts	351,588	0.95	491,941	1.38	-28.53
Current accounts in foreign currency	2,868,587	7.76	2,614,046	7.35	9.74
Lease liabilities	188,997	0.51	200,392	0.56	-5.69
Total	**36,957,595**	**100.00**	**35,559,460**	**100.00**	**3.93**

TOTAL CONSOLIDATED FUNDING

(thousands of euro)	30/06/2021	%	31/12/2020	%	% change
Total direct funding from customers	36,957,595	38.76	35,559,460	40.21	3.93
Total indirect funding from customers	38,072,016	39.92	34,797,277	39.34	9.41
Total direct funding from insurance premiums	1,831,959	1.92	1,717,184	1.94	6.68
Total	**76,861,570**	**80.60**	**72,073,921**	**81.49**	**6.64**
Due to banks	10,874,758	11.41	9,826,687	11.11	10.67
Indirect funding from banks	7,622,595	7.99	6,541,248	7.40	16.53
Grand total	**95,358,923**	**100.00**	**88,441,856**	**100.00**	**7.82**

Total deposits from customers and banks therefore came to 95,359 million, +7.82%.

The Direct funding from customers table shows the various components in greater detail than in the notes.

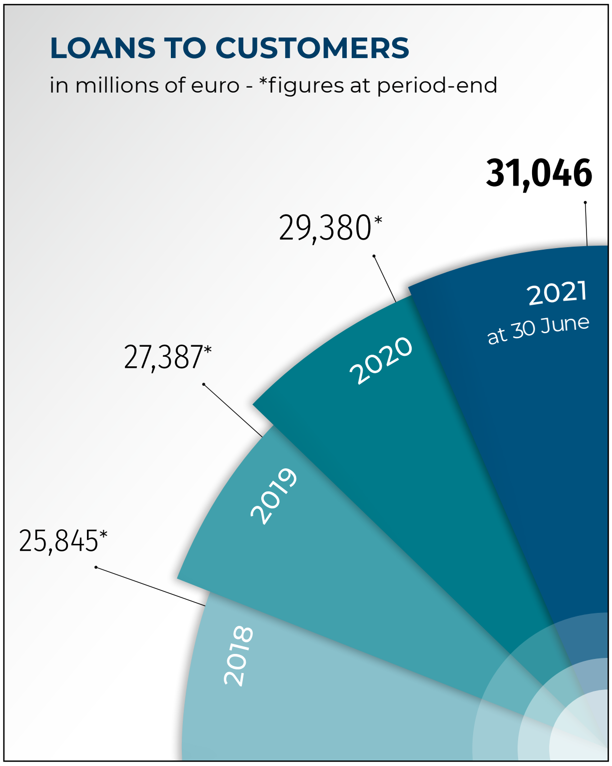
Considering the individual components, current accounts in Euro and foreign currency amounted to 32,976 million, +4.84%, and make up 89.23% of all direct funding. Bonds increased to 2,770 million, +3.33%. Savings deposits totalled 521 million, -1.17%. Time deposit accounts came in at 352 million, -28.53%. Repurchase agreements, 1 million, are practically nil, while certificates of deposit are zero. Cashier's checks amounted to 149 million, essentially stable. Lease liabilities, recognised in compliance with the provisions of IFRS 16, amounted to 189 million, -5.69%.

With regard to assets under management, reference should be made to the chapter on securities and treasury activities.

LOANS TO CUSTOMERS

In the first half of the year, the dynamics of loans to businesses were confirmed and the demand for loans with public guarantee was high. The growth in loans to households concerned in particular mortgages for the purchase of homes. Consumer credit has also picked up momentum. The offer conditions remained favourable, also in relation to the ongoing expansionary monetary policy. The flow of new non-performing loans was also stable on total loans.

In terms of loans to customers, it is worth reiterating the considerable support provided to households and businesses in the contingent situation of severe economic and financial crisis caused by the Covid-19 pandemic. Starting last March, the Parent Company promptly activated a series of interventions for the benefit of customers and the territories served in compliance with the government measures introduced mainly by the Cura Italia and Liquidità Decrees, with initiatives promoted by ABI at the banking system level and, lastly, on a voluntary basis for the benefit of certain categories and contractual relationships, mostly without the characteristics to access the two concessions mentioned above. The main initiatives include the granting of moratoria/suspensions on loans granted for the benefit of households and businesses: between March 2020 and 30 June 2021, there have been over 24 thousand cases of forbearance for a residual debt in terms of principle of approximately 4,700 million, mostly attributable to the Cura Italia Decree in support of SMEs (58% of residual debt) and to households (18% of residual debt). Also worth noting in the initial stages of the emergency, the immediate activation of measures to buffer liquidity needs resulting from the limits on business operations imposed by the Authorities. This involved granting short-term personal loans and temporary cash lines to replace unused self-liquidating credit lines, as well as loans and rescheduling payments of sector contributions for professionals enrolled in pension funds that have special agreements with the Parent Company. Then there was our adhesion



to the agreement to regulate the granting of advances of the sums due by INPS to workers in the Redundancy Fund as a result of the health emergency. Subsequently, with the introduction in April 2020 of the Liquidità Decree, all types of financing were activated for the benefit of the companies envisaged in art. 13 (Central Guarantee Fund for SMEs) and art. 1 (SACE). Particular emphasis is placed on the substantial numbers relating to the loans referred to in art. 13: overall, at 30 June 2021, there were almost 22 thousand proposals approved for a total of 2,442 million, including loans fully guaranteed by the State for an amount up to 30,000 euro (16,444 cases for 330 million), also put in place through Confidi, mainly in the province of Sondrio, and ISMEA. In addition, various surveys were carried out to identify the economic sectors worst hit by the crisis, with in-depth analyses at the level of the loan portfolio of individual geographical areas. Assessments were also performed on the quality of the Parent Company's portfolio and the ability of customers to meet their financial commitments in a context of uncertainty such as the current one. Of course, ordinary lending to cover the financial needs of businesses and households has continued as usual, confirming the focused attention paid to serving our local communities.

Our Group's loans totalled 31,046 million, up by 5.67% in the half year and by 8.07% year on year. The ratio of loans to customers/direct deposits from customers is 84% compared with 82.62% of the previous period.

Several different technical forms have contributed in varying degrees to the trend in loans, mainly positive. These items are equal to the sum of the loans included in line item 40. financial assets measured at amortised cost - b) loans and receivables with customers and line item 20. financial assets measured at fair value through profit or loss - c) other financial assets mandatorily measured at fair value.

Mortgage loans increased slightly (+2.73%), coming in at 11,503 million; they are the first component of loans to customers with 37.05%. More significant, +4.4%, the increase in other unsecured operations and mortgages, which rose from 9,546 to 9,969 million, and which make up the second component of the aggregate (32.11%).

Repos, which are a way of investing temporary cash surpluses with institutional counterparties, rose sharply from 67 million to 701 million, +942.33%. In turn, current accounts have marked +2.56%, going from 3,087 to 3,166 million. The trend in foreign currency loans was also positive, +13.32% from 889 million to 1,007 million; factoring transactions, +5.16% from 2,379 to 2,502 million; advances, +4.45% from 433 to 452 million and s.t.c. advances subject to collection +3.06% from 191 million to 196 million. Personal loans fell slightly, -0.48%, from 457 million to 455 million. Fixed-yield securities, 708 million at the end of 2020, fell to 679 million (-4.11%); they derive from the securitisation of loans to customers made by Banca della Nuova Terra spa and Alba Leasing spa and include the securities issued as part of the two sales of NPLs by the SPVs Diana and POP NPLS 2020 and held by the Parent Company.

LOANS TO CUSTOMERS

(thousands of euro)	30/06/2021	%	31/12/2020	%	% change
Current accounts	3,165,842	10.20	3,086,892	10.51	2.56
Foreign currency loans	1,006,949	3.24	888,554	3.02	13.32
Advances	452,329	1.46	433,043	1.47	4.45
Advances subject to collection	196,358	0.63	190,531	0.65	3.06
Discounted portfolio	2,449	0.01	2,906	0.01	-15.73
Artisan loans	83,130	0.27	66,463	0.23	25.08
Agricultural loans	13,704	0.04	10,561	0.04	29.76
Personal loans	454,744	1.46	456,956	1.56	-0.48
Other unsecured loans	9,969,015	32.11	9,545,580	32.49	4.44
Mortgage loans	11,503,500	37.05	11,198,224	38.12	2.73
Bad loans	316,181	1.02	345,812	1.18	-8.57
Repo transactions	701,208	2.26	67,273	0.23	942.33
Factoring	2,501,824	8.06	2,378,958	8.08	5.16
Fixed-yield securities	678,898	2.19	707,971	2.41	-4.11
Total	**31,046,131**	**100.00**	**29,379,724**	**100.00**	**5.67**

This aggregate includes loans assigned but not derecognised of 1,385 million in relation to the issue of covered bonds. These loans have not been derecognised because the structure chosen does not meet the requirements of IFRS for derecognition.

New definition of default (DoD) rules came into force on 1 January 2021 for the classification of counterparties, resulting in implementation of the relevant procedures. Total gross non-performing loans have fallen by 1.21% to 2,265 million and represent 6.98% of total gross loans compared with 7.45% at the end of 2020. Net non-performing loans fell to 1,019 million, -6.69%, compared with 1,092 million; 2020 saw a reduction of 30.61%. The aggregate is 3.28% (3.72% at 31 December 2020) of loans to customers. This contraction reflects the efforts of the teams responsible for the granting, management and monitoring of loans and the constant derisking actions pursued by Group, as well as the general situation that – despite the drama predicted at the start of the crisis – is much calmer, especially with regard to loans covered by the moratoria. These derisking activities are continuing with the structuring of a third bulk sale of NPLs, which should be completed by year end.

The adjustments recorded for non-performing loans total 1,245 million, +3.77%, representing 55% of the gross amount compared with 52.36% last year and 57.82% at the end of 2019.

NON-PERFORMING AND PERFORMING LOANS TO CUSTOMERS

(thousands of euro)		30/06/2021	31/12/2020	(+/-)	% change
Non-performing loans	Gross exposure	2,264,578	2,292,319	-27,741	-1.21
	Adjustments	1,245,488	1,200,209	45,279	3.77
	Net exposure	**1,019,090**	**1,092,110**	**-73,020**	**-6.69**
– Bad loans	Gross exposure	1,085,980	1,078,268	7,712	0.72
	Adjustments	769,799	732,456	37,343	5.10
	Net exposure	**316,181**	**345,812**	**-29,631**	**-8.57**
– Unlikely-to-pay loans	Gross exposure	1,104,699	1,154,066	-49,367	-4.28
	Adjustments	466,649	459,409	7,240	1.58
	Net exposure	**638,050**	**694,657**	**-56,607**	**-8.15**
– Past due and/or overdrawn exposures	Gross exposure	73,899	59,984	13,915	23.20
	Adjustments	9,040	8,343	697	8.35
	Net exposure	**64,859**	**51,641**	**13,218**	**25.60**
Performing loans	Gross exposure	30,192,070	28,483,492	1,708,578	6.00
	Adjustments	165,029	195,877	-30,848	-15.75
	Net exposure	**30,027,041**	**28,287,615**	**1,739,426**	**6.15**
Total loans and receivables with customers	Gross exposure	32,456,648	30,775,811	1,680,837	5.46
	Adjustments	1,410,517	1,396,087	14,430	1.03
	Net exposure	**31,046,131**	**29,379,724**	**1,666,407**	**5.67**

Net bad loans, after write-downs, amount to 316 million, -8.57% (-48.24% in December 2020), corresponding to 1.02% of total loans and receivables with customers, compared with 1.18% at 31 December 2020. Net bad loans stood at percentages comparable with those of the system. Applying prudent measurement criteria as usual, substantial adjustments have been made to those positions backed by guarantees secured against property. The adjustments to cover estimated losses on non-performing loans have risen to 770 million, +5.10%, representing 70.89% of the gross amount compared with 67.93% last year. The coverage percentage is one of the highest in Italy. 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 86.52%.

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 638 million, -8.15%, corresponding to 2.06% of total loans to customers, compared with 2.36% the previous year. The related adjustments, with the current coverage ratio of 42.24%, amounted to 467 million, +1.58% on the comparative period, when they amounted to 459 million; the coverage ratio was 39.81% last year. The decrease in unlikely-to-pay loans is due to the transfer to bad loans of the positions at greatest risk, as well as higher collections.

Non-performing past due and/or overdrawn exposures, other than those classified as bad loans or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 65 million,

+25.60% and a coverage degree of 12.23%, represent 0.21% of total loans to customers compared with 0.18% the previous year.

Performing loans amount to 30,027 million, +6.15%, and the related provisions totalled 165 million compared with 196 million, 0.55% compared with 0.69% the previous year; this decrease reflects the improved economic situation and the prospects embodied in the various scenarios used by models to calculate the overall adjustments made. Adjustments totalled 1,411 million overall, +1.03%.

TREASURY AND TRADING OPERATIONS

The international stockmarkets strengthened considerably during the first half of 2021, with consolidation of the factors that assisted the recovery from the minimums touched in the spring of 2020: stronger economic growth with the gradual reopening of activities, progress in the vaccination campaign against the pandemic, resolutely expansionary fiscal and monetary policies.

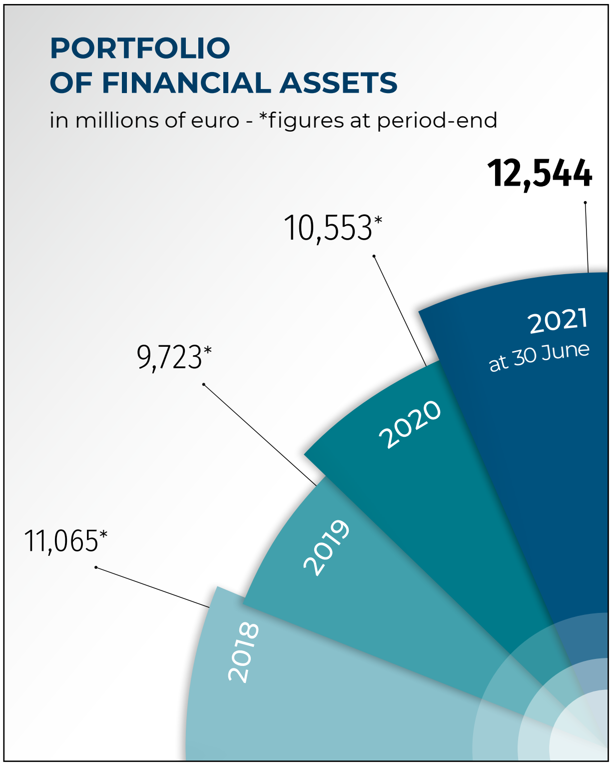
In this context, the US stockmarkets have continued their upward climb to new records, with only limited concerns about the rise in inflation (to 5% yoy in May) caused by higher demand and the appreciation of commodity prices. Overall, the US markets grew by about 14% during the period.

Similarly in the Eurozone, where individual States prepared National Recovery and Resilience Plans (NRRP), markets were buoyant in view of the improved economic prospects, as confirmed by the business and consumer confidence indices. Double-digit performance was commonplace, with an average of 14%.

In Japan, the relatively less encouraging pandemic situation held the markets in check, with a rise of just 5% during the period.

With regard to the bond markets, the improving macroeconomic situation and inflationary signals have resulted in upward pressure on government rates. In this regard, the monetary authorities have stressed several times that the current price dynamics are only transitory, reiterating their expansionary approach given that employment is still well below pre-crisis levels. This has allayed fears of an early tightening of monetary policies. Against this background, the yield on ten-year German Bunds has risen to -0.20% (from -0.60% at year end), while that on Italian BTPs closed the period at 0.82% after having reached more than 1.10% (from 0.54% at the end of 2020). The ten-year BTP-Bund spread has eased slightly to around 100 basis points, reflecting an improvement in the country risk perceived for Italy.

At the end of the period, the Parent Company arranged four T-LTROs with the ECB for a total of 8,874 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 early repayment starting from 29 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 29 September 2021. The third, of 4,368 million, began on 24 June 2020 and expires on 28 June 2023, also with the option of early repayment



from 29 September 2021. The fourth one of 806 million started from 24 March 2021 with expiry on 27 March 2024 with the option of early repayment from 30 March 2022. If the targets for net lending assigned by the ECB are met, all the above operations will be funded at a rate of -0.50% (the rate is -1% for the period from 24 June 2020 to 23 June 2022).

Not least due to participation in the T-LTRO operations with the ECB, the liquidity position of the Group was particularly solid throughout the period. As a consequence, the short-term (LCR-Liquidity Coverage Ratio) and structural (NSFR-Net Stable Funding Ratio) Basel 3 indicators are well above the minimums required for the current year (100%). In particular, the value of the LCR index stood at 227%. The stock of high quality financial assets eligible for refinancing with the ECB, net of haircuts, amounted to 16,020 million, of which 6,497 million free and 9,523 million committed.

Treasury operations during the period benefited from the abundance of liquidity in the system, with preferential recourse to the ECB deposit facility which earns -0.50%; conversely, the volume of repo activity with institutional counterparties in the screen-traded market (MMF-Money Market Facility), organised via Cassa di Compensazione e Garanzia (the clearing house), has declined steadily.

At 30 June 2021, the portfolio of financial assets comprising financial instruments other than own securitisations totals 12,544 million, following an increase of 18.87% since the end of 2020. The increase in the portfolio of securities essentially reflects the excess liquidity held by the treasury. These increases comprise government and corporate securities, mostly in the form of HTC senior preferred bonds that are measured at amortised cost (Held To Collect). 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)	30/06/2021	31/12/2020	% change
Financial assets held for trading	187,043	190,545	-1.84
of which derivatives	65,165	59,742	9.08
Other financial assets mandatorily measured at fair value	672,461	656,257	2.47
Financial assets valued at fair value through other comprehensive income	3,132,664	2,619,939	19.57
Financial assets measured at amortised cost	8,551,796	7,086,361	20.68
Total	**12,543,964**	**10,553,102**	**18.87**

Overall, the portfolio has increased by 1,991 million since the end of 2020 (+18.87%). As in the past, this rise mostly consisted of financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost.

Operations focused on the purchase of floating-rate Italian government securities and, to a lesser extent, on foreign government securities and corporate bonds.

Floating-rate and inflation-indexed government securities total about 5 billion.

The duration of the bond portfolio has not changed significantly with respect to last year and is just over 3.5 years.

Financial assets held for trading

The trading portfolio, which represents an insignificant part of the total securities portfolio (1.5%), amounts to 187 million after declining by 1.84% from 191 million at the end of 2020.

Operations during the period sought to reduce the amount of variable-yield securities in favour of mutual funds, in order to increase the diversification of investments. The exposure to fixed-rate Italian government bonds did not change much.

(thousands of euro)	30/06/2021	31/12/2020	% change
Fixed-rate Italian government securities	24,351	25,440	-4.28
Variable-yield securities	46,251	66,970	-30.94
Mutual funds	51,276	38,393	33.56
Net book value of derivative contracts	65,165	59,742	9.08
Total	**187,043**	**190,545**	**-1.84**

Other financial assets mandatorily measured at fair value

The financial assets mandatorily measured at fair value through profit and loss amount to 672 million after a rise of 2.47% from 656 million at the end of 2020.

This portfolio is essentially unchanged with respect to last year in terms of the financial instruments held and their value. In particular, the investments mostly comprise flexible and bond mutual funds denominated in Euro.

(thousands of euro)	30/06/2021	31/12/2020	% change
Bank bonds	9,662	16,009	-39.65
Other bonds	30,399	24,720	22.97
Variable-yield securities	1	1	-
Mutual funds in euro	600,582	585,996	2.49
Mutual funds in foreign currency (USD)	31,817	29,531	7.74
Total	**672,461**	**656,257**	**2.47**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (Held To Collect and Sell) has increased significantly since the end of 2020, rising to 3,133 million (+19.57%).

The change during the period has resulted in greater exposure to floating-rate Italian government securities, which total 1,790 million after climbing 72.26% since the end of 2020; accordingly, the weighting of Italian government securities in this portfolio is now 68.03%.

With regard to the other financial instruments held in the portfolio, the exposure to fixed-rate Italian government securities and foreign government securities has been decreased slightly, in order to increase the weighting of floating-rate Italian government securities in the HTCS sector.

The changes in bank bonds, other bonds and variable-yield securities were not significant in absolute terms.

(thousands of euro)	30/06/2021	31/12/2020	% change
Floating-rate Italian government securities	1,790,486	1,039,429	72.26
Fixed-rate Italian government securities	340,786	431,999	-21.11
Foreign government securities	374,675	479,828	-21.91
Bank bonds	356,003	372,950	-4.54
Other bonds	163,273	191,925	-14.93
Variable-yield securities	107,441	103,808	3.50
Total	**3,132,664**	**2,619,939**	**19.57**

Financial assets measured at amortised cost

The securities measured at amortised cost that are classified among the financial assets measured at amortised cost (Held To Collect) total

8,552 million, following a rise of 20.68% from 7,086 million at the end of 2020.

Analysis of the portfolio reveals increases of 945 million in floating-rate Italian government securities (+89.64%), 185 million in foreign government securities (+10.96%) and 195 million in other bonds (+49.27%). Operations during the period focused mainly on the purchase of floating-rate government securities, in order to increase the overall holding and their weighting in the portfolio; additionally, preference was given to investments satisfying ESG (Environmental, Social and Governance) criteria, with the purchase of social bonds, sustainability bonds and green bonds, which total 0.5 billion at period end.

(thousands of euro)	30/06/2021	31/12/2020	% change
LOANS AND RECEIVABLES WITH BANKS	**656,728**	**536,485**	**22.41**
Italian bank bonds	459,123	378,270	21.37
Foreign bank bonds	197,605	158,215	24.90
LOANS AND RECEIVABLES WITH CUSTOMERS	**7,895,068**	**6,549,876**	**20.54**
Floating-rate Italian government securities	1,999,048	1,054,114	89.64
Fixed-rate Italian government securities	3,290,245	3,306,303	-0.49
Foreign government securities	1,872,038	1,687,063	10.96
Other public administration bonds	144,139	107,397	34.21
Other bonds	589,598	394,999	49.27
Total	**8,551,796**	**7,086,361**	**20.68**

Asset management

The improvement in market conditions and favourable investor sentiment during the first half of 2021 further strengthened the holdings of the asset management sector. In fact, according to Assogestioni data at 30 June, the total value of assets under management within the system as a whole has reached a new historical high of more than 2,500 billion.

At product category level, equity and balanced funds attracted the greatest inflows, benefiting from the excellent performance of the markets in recent months; on the other hand, interest in monetary and bond funds has inevitably waned steadily, given the modest yields available internationally.

Our Group also took advantage of the general market situation, with total assets under management at 30 June 2021 of 6,520 million, compared with 5,970 million at 31 December 2020, +9.21%. More specifically, assets under direct management by the Group total 1,803 million (+11.87%), while funds and Sicavs amount to 4,717 million (+8.18%).

EQUITY INVESTMENTS

At 30 June 2021, equity investments amounted to 326 million, up by 21 million. The increase reflects the measurement at equity of these investments.

TRANSACTIONS WITH ASSOCIATED COMPANIES

(thousands of euro)	Associated companies of the parent company		Associated companies of subsidiaries	
	30/06/2021	31/12/2020	30/06/2021	31/12/2020
ASSETS	831,879	820,684	73,710	77,501
LIABILITIES	130,320	129,277	12,220	17,006
GUARANTEES AND COMMITMENTS	234,367	214,134	31,480	52,604
Guarantees given	39,172	39,330	28,315	33,891
Commitments	195,195	174,804	3,165	18,713

Related-party transactions

Transactions with related parties are governed by the Regulation on related-party transactions issued by Consob with resolution no. 17221 dated 12 March 2010 and subsequent amendments (the information required by this regulation is provided below) and by the Bank of Italy's circular 285/2013.

Related-party transactions, as identified in accordance with IAS 24 and the Consob Regulation, form part of the banking 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 obligations laid down in article 5 of the Consob Regulation, during the period 1 January to 30 June 2021, the Parent Company's corporate bodies approved the following transactions of greater relevance with related parties:

– Banca della Nuova Terra spa, subsidiary; renewal of lines of credit for a total of 6,000 repayable on demand and 320,000,000 with maturity 21/12/2022; resolution of 30/03/2021.

During the period 1 January-30 June 2021, no transactions of greater or lesser relevance were carried out with related parties, which could have had an significant impact on the banking Group's balance sheet or results. We would also point out that there have not been any developments and/or modifications that had or could have a significant effect on the 2021 balance sheet or results of the Banking Group with regard to the related-party transactions carried out during 2020; in any case none were atypical, unusual or not on market terms.

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 Banking Group's economic results and cash flows. In the explanatory notes to the financial statements, the section entitled Related-party transactions includes a table that summarises the effect of these relations..

During the first half of 2021 and in the current period, no positions or transactions deriving from atypical and/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.

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets came in at 600 million, on 596 million at the end of 2020. The first ones totalled 569 million, +0.21%, the second ones amounted to 31 million, +9.80%.

Intangible assets comprise 12.632 million related to goodwill. Goodwill are subjected to impairment testing annually in order to check for any impairment in value. The test was carried out when preparing the consolidated financial statements at 31 December 2020. As of 30 June 2021, it was decided not to repeat the test, as there were no significant changes in the reference framework.

PROVISIONS

These consist of the termination indemnities, which decreased from 42 million to 40 million, and the provisions for risks and charges, which added up to 259 million, -11.25% since the end of 2020. In particular, the provision for commitments and guarantees given has decreased significantly, from 59 to 40 million, the provision for pensions and similar obligations has eased from 190 to 186 million, and other provisions for risks and charges have declined from 43 to 33 million.

RISK MANAGEMENT

In view of the profound social, economic and financial emergency caused by the spread of Covid-19, the primary concern of the Parent Company was to provide concrete support for all owners and customers. As stated on many occasions, this support was and is expressed by playing a responsible, front-line role in limiting as much as possible the adverse effects on economic operators and households engulfed by a crisis of unparalleled proportions.

At the same time, in order to obtain an understanding, as reliable and close to reality as possible, of the risks faced overall and by individual counterparty, significant investment has also been made in organisational, procedural and methodological terms, as well as in the necessary equipment. The following information about the activities carried out during the past six months covers these aspects, or at least their principal elements.

Credit and counterparty risk

Against a background of serious difficulties for the community due to the unexpected continuation of the emergency, the careful monitoring of credit risk is more than ever a priority for all banks including, first and foremost those – like ourselves – for which lending comprises the principal business activity. While guaranteeing constant financial support for businesses and households, backed significantly by the moratoria and relief provided by the government and banking associations, we have broadened and strengthened the functional tools used to identify the financial difficulties of counterparties, as well as to monitor trends in the creditworthiness of individual borrowers within the portfolio as a whole.

As part of current and forward-looking analyses of the risk profiles of customers, reference has been made to early warning sector and geo-location indicators, as customised and updated over time in order to further enhance their effectiveness. These predictive methodologies have also proved useful for assessing the need to classify as forborne certain positions that have benefited from support measures.

Given extension of the regulatory support measures beyond the end of last year, the above analytical tools have made it possible to classify as high risk several of the moratoria granted to customers. Detailed reviews of these specific positions are being carried out by branch and/or central teams, depending on the types of counterparty concerned. The objective of this scrutiny is to assess the adequacy of the liquidity and financial resources available to the borrowers concerned and, consequently, their ability to generate the cash flows needed to service their debt. Suitable operational action is taken if anomalies or issues are identified.

Given the uncertainties clouding the current situation, the Parent Company is monitoring closely the forecast macroeconomic scenarios, updating more frequently the forward-looking data made available by independent providers and renewing the various projections virtually every month. The analyses of the scenarios have been strengthened and their scope broadened by the development of methodologies for comparing and checking the various primary and secondary economic indicators.

Given the volatility inherent in the forecasts for key macroeconomic parameters, the process for calculating general provisions makes adjustments to the statistical-econometric models and data used for the projection of trends, in order to contain possible distortions and/or pro-cyclical elements. With a view to identifying better the asymmetric effects of the pandemic on the economic activities of counterparties, methodologies have been refined to stress the credit risk parameters in a targeted manner, thus augmenting the level of detail available and the correlations at micro-sector level. In order to enhance the methodological infrastructure, a number of prudential corrections (overlays) have been applied to the write-downs estimated statistically. These ensure more appropriate control over the modelled results and greater responsiveness to the context when quantifying the amount of loan adjustments.

Regarding enhancements to the regulatory framework, a new prudential definition of default came into force from the start of this year that has profoundly changed the organisational processes underlying the management of lending, as well as the supporting IT infrastructure. The new instructions, which are stricter in terms of the classification of non-performing loans, have facilitated a wide-ranging information campaign, both internally and externally, designed to contain the impact on risk of adopting the harmonised concept of lending default. The new instructions have also required recalibration of the risk parameters calculated by the internal rating models recognised when adopting the AIRB (Advanced Internal Rating Based) approach to the determination of capital requirements. The recalibrated risk parameters have not yet been applied to the data reported at 30 June, as the Bank is still awaiting a final decision following the inspection. Given its reach, the new operational model for the classification of loans and the update of statistical models has, as usual in the circumstances, been the subject of a detailed technical investigation by the Supervisor. Further optimisation of the IT systems and processes is scheduled for the second half of the year, together with an upgrade of the system for checking data quality.

These non-recurring activities linked to introduction of the new definition of default were accompanied by more routine work on the monitoring and update of the AIRB system, in order to adopt a number of recommendations made by the Supervisory Authority regarding the LGD (Loss Given Default) and EAD (Exposure at Default) parameters for the exposures to private customers. Other changes included alignment with the revised European regulatory framework for rating systems that will come into force on 1 January 2022, and inclusion of the impact of the recent bulk sales of NPLs on the LGD models. These changes have not yet been applied either and, accordingly, they have not influenced the adjustments for credit risk at 30 June 2021.

As agreed with the Supervisory Authority, the programme of medium-term action on non-performing loans has been updated, with ambitious objectives – albeit taking account of the inevitable consequences of the pandemic – and a will to reduce further the volume of non-performing loans reported in the financial statements, consistent with the general derisking and asset quality improvement strategies pursued over time by management. Although challenging, these objectives are considered achievable given the hard work already performed on revising the organisational and operational procedures for the management of problem loans and on strengthening the teams dedicated to this work in terms of the number and quality of the resources assigned.

Market risk

The daily monitoring of the exposure to market risks has continued normally, distinguishing – given the different characteristics of investments and their purposes – between the instruments held for trading (trading book) and the other financial assets, not held for speculative reasons, that are classified in the bank book with reference to the measurement criterion adopted (fair value or amortised cost).

Despite some continuing uncertainty about the direction of the pandemic, the reduction in volatility seen with respect to last year has resulted in a generalised reduction in the statistical Value-at-Risk (VaR) indicators for the financial instruments held on own account that are measured at fair value. The satisfactory performance of the markets in recent months, driven by new-found optimism about the economic recovery, has also enabled the investment portfolio to contribute positively to both the income statement results for the period and the equity reserves for unrealised gains on securities.

Except in sporadic cases of limited amount, there were no significant violations of the system of internal limits on the exposure to risk during the first half of the year; this is confirmed with reference to the bank book measured at amortised cost that, from the start of the year, has used a new approach to the measurement of risk which reflects better the element of chance – essentially of a lending nature – affecting this category of financial asset i.e. the risk deriving from the requirement to hold the investment until its natural maturity that is typical of the Held to Collect (HTC) accounting model.

After the changes to the prudential regulation of banks (CRR II) that introduced new ways to determine the minimum requirements for market risk (Fundamental Review of the Trading Book - FRTB), a forthcoming revision of the harmonised regulations is expected to establish guidelines for implementing the FRTB as a new mandatory capital requirement. The European Authorities have also issued new regulations that require the reporting of market risks using the Alternative Standardised Approach (MKR-ASA), from 30 September 2021.

In this regard, an internal project has been launched to ensure full compliance with the new reporting requirements by the established deadlines. This will involve profound revision of various organisational, process and methodological aspects, including: precise definition of the distinction between the prudential portfolios (trading and banking books), with stricter constraints on the movement of financial instruments between the portfolios; introduction of new metrics for measuring the capital requirement, applying a more prudential approach that is more sensitive to risk; enhancement, for regulatory purposes, of the monitoring and management of market risk at the level of each trading desk.

On completion of these activities, the Parent Company will be able to guarantee more robust controls over the exposure to market risk, as well as provide estimated measurements that are more closely correlated with the risk, thus identifying market changes of potential importance more accurately and effectively, such as the turbulence recorded during the pandemic period.

Interest-rate risk

In the context of a gradual rise in medium/long-term interest rates in particular, work to monitor the risk associated with potential rate fluctuations continued during the first six months, with monthly analyses of the sensitivity of the economic value of the business to unexpected changes in market rates (Sensitivity Analysis) and the sensitivity of the profits and interest income generated by the volumes of income-earning/cost-generating operations carried out (Interactive Simulations), as supplemented by targeted impact studies when necessary.

Significant progress is being made on developing the methodologies for identifying and calculating the exposure to risk. The statistical parameters used to model the behaviour of on demand captions – by quantifying the persistence of investment and funding balances without maturities and their elasticity in response to shifts in market curves – will be recalibrated during the second half of the year to include larger samples of historical data. In order to guarantee the adequacy of all the behavioural models included in the measurement systems (on demand and prepayment models), the entire process adopted for backtesting model effectiveness has been revised in recent months and specific tolerance limits, still to be determined, will be set.

In addition, in order to monitor better the life cycle of the above models, new criteria have been introduced for reviewing the need to re-estimate the parameters for reasons other than mere time-based obsolescence or the failure of backtesting.

Working together with Banca Popolare di Sondrio (SUISSE) SA, action has been taken to check periodically the statistical validity of assumptions used to model the financial conduct of its borrowers. This project, started the current semester, will be completed within the next few months.

Lastly, further improvements have included broadening the range of reports produced, especially for top management, by the offices responsible for monitoring interest-rate risk; more specifically, these cover the results of backtesting and the sources that generate basis risk.

Liquidity risk

The ample liquidity buffers available, unaffected by the pandemic shock, limit the exposure to this risk. The potential reserves of liquidity represented by the wealth of securities held in the portfolio – especially sovereigns – remain massive, as they could easily be sold on the market or assigned, if necessary, as collateral for central refinancing operations.

As usual, the short-term (so-called operational) liquidity situation is checked through daily measurements of the cash flow dynamics typical of treasury operations, as well as the availability of reserves consisting of funds deposited with central banks and revenue potentially obtainable from the disposal of assets on the market. The status of medium/long-term (structural) liquidity is also determined every month, in order to ensure that the maturity bands of funding, lending and investments are balanced harmoniously. This is achieved by quantifying metrics that measure the structural equilibrium of the financial statements and the concentration profile of funding. Alongside the trends in intercompany funding, intra-day liquidity movements are also monitored constantly, with monthly calculation of the summary parameters specified by the Basel Committee on Banking Supervision.

For their part, the regulatory indicators of short- and long-term liquidity – being the Liquidity Coverage Ratio (LCR), quantified monthly, and the Net Stable Funding Ratio (NSFR), measured quarterly in accordance with the Basel III rules – did not signal tensions at any time during the first six months, being by contrast positioned at very relaxed levels that exceed significantly the established minimums. In this regard, another parameter to be respected became mandatory from 30 June, being the harmonised version of the NSFR, as calculated in accordance with the provisions of Regulation (EU) 2019/876 (CRR II).

Lastly, as usual, the other requirements of the Supervisory Authority have also been satisfied, including the production of dedicated monthly reports that provided a wide range of liquidity indicators (so-called Additional Liquidity Monitoring Metrics) and an annual summary of the ILAAP (Internal Liquidity Adequacy Assessment Process).

Operational and IT risk

In a context still marked by uncertainties linked to the spread of Coronavirus variants, albeit largely attenuated by the strong impetus given to the vaccination campaign, particular attention has focused on maintaining suitable controls over applications and infrastructure, in order to mitigate the risks deriving from the more intensive use made of technological and telematic devices, in order to limit contagion risks and ensure adequate standards of operational continuity for the business; accordingly, the restrictions on public access to the branches introduced during 2020 were confirmed during the period – with partial revisions given improvements in the healthcare scenario – and central office personnel have continued to make recourse to smart working.

The monitoring of IT risks has been strengthened further by defining precise criteria for the selection and analysis of a set of operational indicators applicable to the various environments exposed to these risks. Under the guidance and coordination of the Parent Company, these activities involved all the ICT contact personnel within the Group, in order to share a wealth of methodologies, metrics and common operating procedures to be applied, in accordance with the principle of proportionality, in order to monitor trends in the exposure on a uniform basis.

With regard to the upward trend in online fraud identified by the banking system and addressed in the interbank roundtable discussions held on cyber risks, with Parent Company participation, attention has focused on the emergence of potential issues linked to IT piracy perpetrated to the detriment of customers and attacks designed to compromise the confidentiality, completeness, accuracy and availability of the data, information and services used by the bank and/or offered to customers.

In order to ensure full alignment with the new regulations on outsourcing and to consolidate operational controls over the risks arising from the recourse made to third-party providers of processes, services and business activities, swift action was taken during the first six months to update the contractual agreements with these suppliers and – with contributions from the various technical and control structures – analyse in more detail the related risk factors (operational, legal, non-conformity and reputational risks, in particular).

Reputational and money laundering risk

The principal tools for preventing and/or mitigating the risks deriving from a potential decline in the reputation of the business among its many counterparties and collaborators are found in the convinced pursuit of economic, social and environmental sustainability, with the definition of appropriate policies for lending and the provision of financial services that, in truth, the Parent Company has always applied during 150 years of support for traditional lending and the local communities served, and in continued conduct founded on integrity, transparency and professionalism.

These risks are monitored constantly by the competent offices within the risk management area, which apply dedicated assessment techniques and processes that are currently being upgraded. In particular, specific projects are analysing the impact on reputation of the critical aspects of lending to parties active in countries and economic sectors that may be seen as controversial.

The Anti-Money Laundering Unit has continued, throughout the emergency period, to monitor the propriety of lending to customers and the transfers of financial resources used for the purchase of medical and healthcare devices. In particular, specific predictive models implemented during the first six months monitor the assessments made at branch level with regard to suspicious operations, in order to focus better the performance of second-level checks on those operations with significant anomalies. In addition to the updates and improvements made to the IT procedures used for anti-money laundering checks, branch personnel have completed training-oriented questionnaires delivered via the online training platform, for the purpose of identifying the coverage of their skills with regard to the anti-money laundering issues posed by hypothetical target profiles, identified with reference to their specific roles.

Regulatory non-compliance risk

The work of the Compliance Unit has confirmed the consolidation of its role in ensuring compliance with the complex regulatory framework that is constantly evolving, not least as a consequence of the recent flood of regulations intended to address the effects of the ongoing pandemic. As usual, the regulatory changes introduced during the first six months were analysed and assessed to determine their likely operational, organisational and business impacts, and facilitate their proper implementation internally.

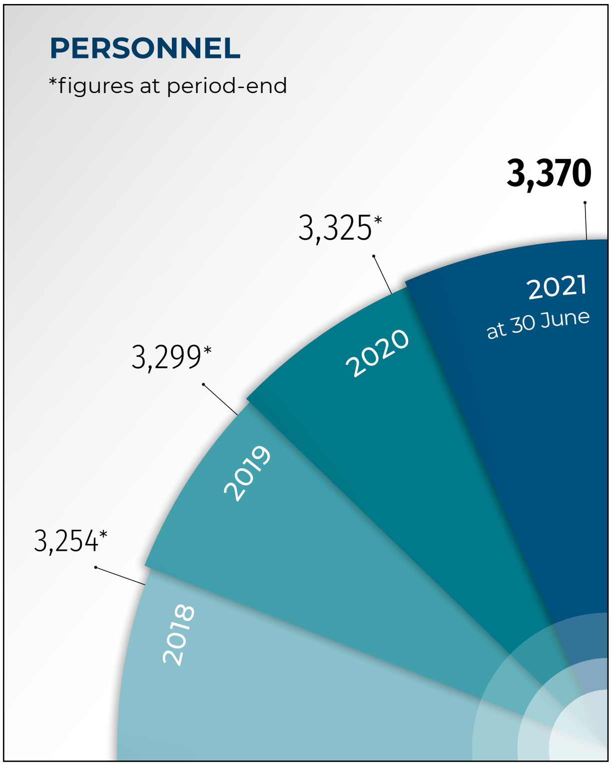
Intensive work has been carried out to verify, check and assess the extent to which business operations comply with the various external and self-regulation requirements. Deep dives have been performed with regard, in particular, to investment services, the handling of cash, transparency in the execution of operations and the provision of financial and banking services, the management of personal data, payment services and insurance broking activities.

With regard to the ex-ante activities performed, the advisory role of the Unit has become even more important for ensuring and consolidating adequate levels of operational compliance, especially when developing organisational systems and procedures that are consistent with sector regulations. Advance checks on innovative projects during their start-up phase (including the introduction of new products and services) are also important, as is participation by the Unit in the review and validation of internal regulations, new forms and contracts, in order to avoid possible non-conformities.

These compliance activities have benefited from the support of IT platforms and tools for the selective sharing of information, data and documents – further refined during the period – in order to manage more rationally the risks of regulatory non-compliance by optimising and automating the various phases of monitoring and control. This essentially reflects the need to enhance performance by coordinating and organising better the various checking activities, as well as the need to track and monitor the corrective actions taken to mitigate any vulnerabilities.

ESG risks (Environmental, Social & Governance)

A general framework of processes, methodologies and procedures is being structured for the governance and control of risks associated with the various environmental sustainability, social and corporate governance factors (ESG risks), having regard for the indications emerging from the current regulatory work in progress. Emphasis is placed, in particular, on control of the financial risks arising from climate change, in order to assess the impact that physical and transition risks may have on the sectors and activities financed: most of the efforts made by the regulatory bodies at European and international level are concentrated in this area. At the same time, the Supervisory Authorities are intensively encouraging banks to implement suitable organisational controls that enable them to measure, monitor and manage these new forms of risk in an adequate manner. In particular, the ECB guide on climate-related and environmental risks sets out clear



expectations for improving the techniques and processes implemented in order to identify and manage risks of this type.

Consistent with the regulatory changes in progress and the good practices identified by the international initiatives promoted on sustainability matters, an overall action plan has been prepared and provided to the Supervisor. This seeks to ensure, over the long term, that the consideration of climate-related and environmental risks becomes an integral part of key banking processes, so they can be controlled more carefully at all levels within the organisation. Internal planning, with coverage of all aspects of ESG risk, is currently being consolidated and rendered operational: indeed, work has commenced on designing the operational solutions envisaged in response to guidance from the Authorities.

Drawing on international best practices, work was carried out last year to prepare an initial inventory of the ESG risks and opportunities – to be updated soon – identified from an interview-based survey of senior managers at many of the business units affected by sustainability matters. Targeted action is now in progress to map, on a preliminary basis, the composition of loans and borrowers against the exposure to ESG factors, in order to evaluate the overall positioning of the portfolio and, consequently, start monitoring and assessing the potential effects on lending of the various environmental sustainability, social and corporate governance risks.

HUMAN RESOURCES

At the end of these first six months, the Banking Group's workforce consisted of 3,370 people, of whom 2,840 are employed by the Parent Company, 351 by Banca Popolare di Sondrio (SUISSE) SA, 156 by Factorit spa and 23 by BNT spa. The total number of employees has increased by 84 (+2.49%) compared with 30 June 2020. These figures are significant given the current trend in the banking sector, usually in the opposite direction.

At 30 June 2021, 68% of the Banking Group's staff operated in the distribution network with the rest employed at the central offices of the respective companies. The average age was 42 years and 4 months, with an average period of service of 16 years and 3 months.

In addition to the Banking Group's staff, there is also the personnel of the subsidiary Pirovano Stelvio spa: 22 people at 30 June 2021, 19 of whom are employed seasonally.

PROMOTIONAL AND CULTURAL ACTIVITIES

Despite the ongoing pandemic, the Banking Group has continued to promote and support the local community, although the various restrictions have inevitably imposed limits; in particular, it was not possible to hold conventions and conferences. The commitment to the cultural sector was expressed via the Notiziario, the corporate magazine whose renewed graphics are even more elegant. The first issue of the current year opened with a contribution dedicated to post-renaissance Valtellina society and the inception of Banca Popolare di Sondrio on 4 March 1871, a full 150 years ago. As stated in the memorandum of association, Banca Popolare di Sondrio was wanted by the founders in order to make credit available for agriculture, industry and commerce, as well as for the benefit of the working classes. The magazine also contains worthy articles on various topics, including the hot topic of climate change given its universal importance.

With regard to saving the planet and sustainability, it is worth highlighting that Standard Ethics Ltd, a London-based ratings agency, has given a positive EE rating to Banca Popolare di Sondrio. The analysts have recognised that we are constantly aligned with the international guidance on sustainability. This flattering assessment places us among the best positioned banks in Italy.

In terms of our cultural initiatives, BPS (SUISSE) SA – our subsidiary based in Lugano – has published a monograph dedicated to Gualtiero Marchesi, who was an outstanding Italian chef whose culinary art is admired and remembered everywhere. This essay embellished the Report accompanying the 2020 financial statements of BPS (SUISSE).

Despite the pandemic, our library dedicated to Luigi Credaro has operated successfully, implementing innovative IT applications that have been well received by numerous users.

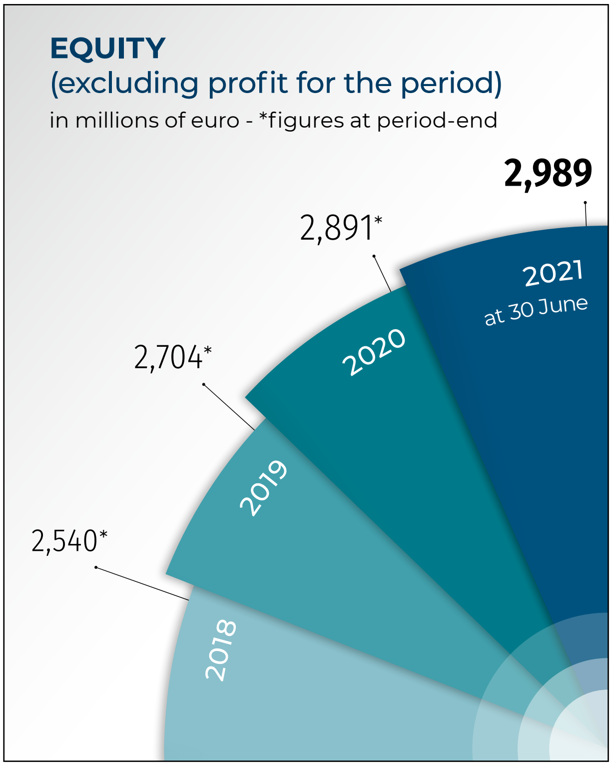
The coronavirus has penalised the activities of Pirovano Stelvio, our affiliate at the Stelvio Pass. The University of skiing and the mountains nevertheless remains a point of reference for all lovers of the snow and altitude, who enjoy the uncontaminated panoramas of the Stelvio National Park.

EQUITY

Shareholders' equity at 30 June 2021, inclusive of valuation reserves and the profit for the period, amounts to 3,126.498 million. Compared with the total at 31 December 2020 of 2,997.571 million, this represents an increase of 128.927 million, +4.30%. The change derives from booking the profit for the period under review, as well as from the increase in reserves.

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

The share premium reserve remained unchanged at 79.005 million.



Equity reserves rose to 1,539.780 million, +6.24%. This increase of 90.420 million reflects allocation of the profit for 2020 and the recognition of capital gains/losses on the sale of variable-yield securities that were previously classified among the valuation reserves. In this regard, the Shareholders' Meeting of the Parent Company held on 11 May 2021 resolved to pay a dividend on 26 May 2021 of 0.06 euro for each of the 453,385,777 shares outstanding at 31 December 2020, having regard for 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 36.322 million, with a further improvement of 30.47% on the end of 2020, when they were positive for 27.840 million, due to the favourable trend in financial markets. Treasury shares in portfolio changed slightly to 25.455 million.

As regards capital adequacy, new harmonised rules for banks (the Regulation (EU) 575/2013 (CRR) and EU Directive 2013/36 (CRD IV) and subsequent updates) and Circular 285/13 of the Bank of Italy define the general 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 for 2020 starting from 1 January. At the end of the annual SREP review and prudential assessment process carried out in 2020, these ratios were confirmed and have to be met also in 2021, as revised by the ECB's decision regarding additional Pillar 2 P2R coverage starting from 12 March 2020.

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

– a minimum requirement of Common Equity Tier 1 Ratio of 10%, calculated as the sum of the Pillar 1 regulatory minimum requirement (4.5%), the Capital Conservation Buffer (2.5%), and an additional Pillar 2 requirement (3%);
– Tier 1 Capital ratio of 11.5%, being the sum of the Pillar 1 regulatory minimum (6%), the Capital Conservation Buffer (2.5%) and an additional Pillar 2 requirement (3%);

– a minimum requirement of Total Capital Ratio of 13.5%, calculated as the sum of the Pillar 1 regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Pillar 2 requirement (3%).

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

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

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

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

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

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,425 million at 30 June 2021.

Consolidated risk-weighted assets amounted to 18,355 million.

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

Group ratios at 30 June 2021 are reported below:

Group's capital ratios	Phased-in	Fully phased
CET1 Ratio	16.71%	16.62%
Tier 1 Capital Ratio	16.75%	16.67%
Total capital ratio	18.66%	18.58%

The Leverage Ratio was 5.84% applying the transitional arrangements (Phased-in) and 5.31% according to the criteria to be applied at the end of the transition (Fully Phased).

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2020:

– *capital/direct funding from customers*
  8.46% v. 8.43%
– *capital/customer loans*
  10.07% v. 10.20%
– *capital/financial assets*
  24.92% v. 28.40%
– *capital/total assets*
  5.90% v. 6.02%
– *net bad loans/capital*
  10.11% v. 11.54%

BPS STOCK

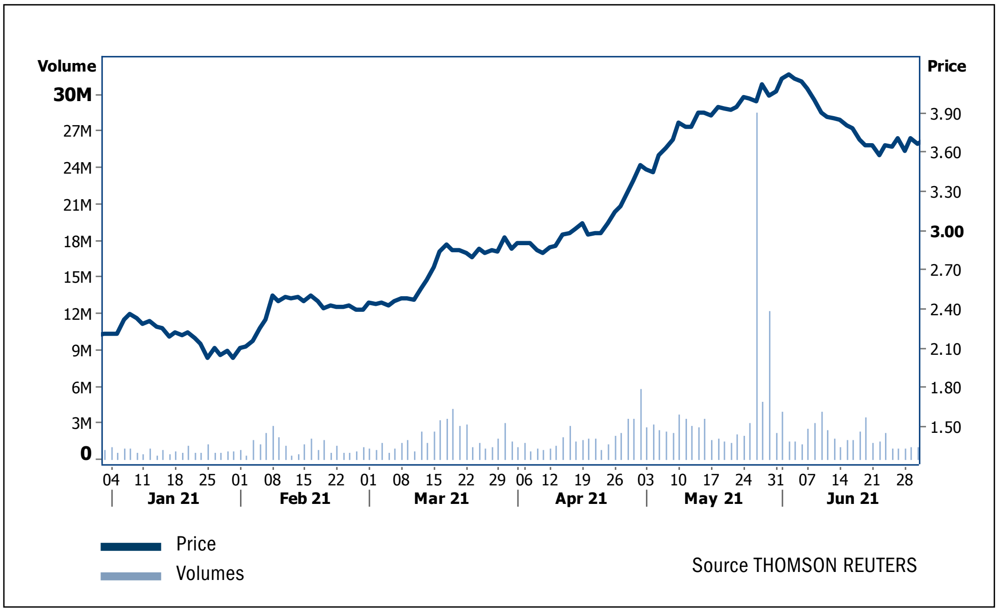
BPS stock is listed on the Screen-Traded Market (MTA) operated by Borsa Italiana, a component of the FTSE Italia All Share Index. The stock closed the first six months of 2021 with a performance of +66.27%, marking a reference price at 30 June 2021 of 3.658 euro, compared with 2.2 euro at the end of 2020 and an average price in the half year of 3.006 euro. During the quarter, the stock recorded an intraday low of 2.004 euro on 28 January and a high of 4.276 euro on 26 May. The general FTSE Italia All-Share index recorded a rise in the period of 13.75% and the FTSE Italia All-Share Banks sector index progressed by 24.38%.

The average daily volume of securities traded on the MTA market of Borsa Italiana in the first six months of the year was 1.971 million, up from 1.285 million in the same period of 2020.

The shareholder base at 30 June 2021 consists of 158,733 members, a decrease of 3,137 members compared with the end of 2020.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent Company held 3,650,000 treasury shares, which is unchanged since the end of 2020. There are also 36,372 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group's Compensation Policies. Their

BANCA POPOLARE DI SONDRIO stock - MTA segment of Borsa Italiana



carrying amount is 25.455 million, of which 25.322 involves use of the reserve for purchase of treasury shares of the Parent Company of 30 million.

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group, detailed in the table below, has been assessed by the rating agencies Fitch Ratings, DBRS Morningstar and Scope Ratings.

The ratings reported refer to Fitch Ratings' decision of 25 September 2020, as well as the assessments expressed by DBRS Morningstar and Scope Ratings on 16 November 2020 and 31 March 2021, respectively .

FITCH RATINGS – issued on 25 September 2020

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

SUPPORT	
It expresses Fitch's assessment of the likelihood that an external entity will offer support to the bank if the latter needs it. The measurement scale includes five levels from 1 (best) to 5 (worst)..	**5**
SUPPORT RATING FLOOR	
This expresses Fitch's assessment of the minimum level below which it will not lower the issuer's long-term rating in the event of it being in financial difficulty, in consideration of the propensity of potential backers (State or institutional owner) to help the bank in such circumstances. The scale of values associated with it reflects that of the long-term ratings. A further possible score, represented by the No Floor (NF) indicates that according to Fitch it is unlikely that help will come from outside (probability of a support intervention less than 40%).	**No Floor**
LONG-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of uninsured deposits. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB-**
SHORT-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of uninsured deposits maturing in the short term. It is expressed on a scale similar to that used for the short-term rating (F1, F2, F3, B, C, RD and D).	**F3**
LONG-TERM SENIOR PREFERRED DEBT	
It is a measure of the probability of default of Senior Preferred bonds which is expressed using a scale from AAA to D.	**BB+**
LONG-TERM SUBORDINATED DEBT	
It is a measure of the probability of default of subordinated bonds that is expressed using a scale from AAA to D.	**BB-**
OUTLOOK (prospective)	
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	
It is a measure of the probability of default and expresses the bank's ability to repay medium/long-term loans. It is expressed on a scale from AAA to D.	**BBB (low)**
SHORT–TERM	
It measures the ability of the organization to which the rating is assigned to meet payments due in the short term. The measurement scale includes six levels (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (middle)**
INTRINSIC ASSESSMENT	
It reflects the opinion of DBRS on the intrinsic fundamentals of the bank assessed on the basis of quantitative and qualitative elements. It is expressed on a scale from AAA to CCC.	**BBB (low)**
SUPPORT ASSESSMENT	
It reflects DBRS's view on the likelihood and predictability of timely external support for the bank in case of need. The measurement scale includes four levels from SA1 (best) to SA4 (worst).	**SA3**
LONG-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of medium/long-term uninsured deposits. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB**

SHORT-TERM DEPOSIT RATING	
It is a measure that expresses the vulnerability to default of short-term uninsured deposits. It is expressed on a scale similar to that used for the short-term rating (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (high)**
LONG-TERM SENIOR DEBT	
It is a measure of the probability of default of Senior Preferred bonds which is expressed using a scale from AAA to D.	**BBB (low)**
SHORT-TERM DEBT	
It is a measure of the probability of default of short-dated bonds that is expressed using a scale from R-1 to D.	**R-2 (middle)**
TREND	
It is a prospective assessment of the possible evolution of the long-term rating assigned over a period of 1-2 years.	**Negative**

Scope Ratings – issued on 31 March 2021

	RATING
ISSUER RATING	
It is a credit rating on a bank's ability to meet its contractual financial commitments in a timely and complete manner. It is expressed on a scale from AAA to D..	**BBB-**
OUTLOOK	
It is a prospective assessment of the possible evolution of the issuer rating assigned over a period of 12-18 months.	**Stable**

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

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

(thousands of euro)	Equity	of which: Profit for the period
Equity of the Parent Company as of 30.06.2021	2,743,222	119,183
Consolidation adjustments	-17,977	-17,977
Difference with respect to the carrying amounts of equity investments in:		
- companies consolidated on a line-by-line basis	297,756	19,253
- companies valued using the equity method	103,497	16,230
Balance as of 30.06.2021, as reported in the consolidated financial statements	**3,126,498**	**136,689**

INCOME STATEMENT

The first half of 2021 closed in a wave of optimism. The recovery is consolidating due to a number of factors: improvement in economic activity in the early months of the year, with growth forecast to rise sharply during the second half; good performance of the vaccination campaign and related improvement in the healthcare situation; return of mobility and recovery in international trade. Industrial production is growing, together with exports, and even the service sector shows signs of recovery. In turn, the financial markets enjoyed a rather good first half, not least because the monetary policies of the ECB and the Federal Reserve continued to be highly accommodating.

The activities of the Group benefited from this scenario, reporting the best first half for more than 10 years: profit for the period amounted to 136.689 million compared with 14.409 million for the first six months of 2020. The improvement in net interest income made a significant contribution, as did the strong recovery in the results from security transactions and reduction in loan adjustments.

The following comments 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 half year.

As already mentioned, the monetary policy of the ECB remains highly expansionary and this will continue for as long as necessary. Targeted longer-term refinancing operations and bond purchases helped to keep interest rates at low levels, while government bond yields remained heavily penalised. The rates applied on loans to businesses and private customers have also remained low, while the competition among banks continues to be stiff.

Despite this, the net interest income of the Group rose during the period (+13.29%), although in percentage the increase was less than in the first quarter (+15.12%), and it stood at 264.037 million compared with 233.058 million. While recognising a small improvement in the interest earned from customers, this increase was principally due to the interest income from securities, given the greater weighting of the securities portfolio, and the recognition of about 43 million in interest deriving from the negative rates applied on the long-term refinancing operations arranged with the ECB. This recognition was possible because the targets set by the ECB have essentially been reached.

Net fee and commission income showed a good trend, amounting to 170.981 million, +12.34%. The commissions on guarantees given, foreign exchange transactions, services, placement of insurance products and mutual funds, depositary bank activities, collections and payments all made positive contributions. Commissions on loans granted and the acceptance of orders decreased during the period.

Dividends totalling 4.206 million were collected, compared with 2.950 million.

The net profit from securities, foreign exchange and derivatives operations (the sum of income statement line items 80, 90, 100 and 110, reclassified as indicated in the following table) was a profit of 66.125 million, compared with a loss of 15.155 million.

The net profit from trading activities, line item 80, was 31.299 million compared with a net loss of 18.663 million in the same period of last year. Again with regard to securities, the net unrealised measurement adjustments for the period were positive, compared with a net negative situation in the comparative period. The results from FX and currency activities were also positive, although down with compared to the same period in 2020.

The profits from disposals or buybacks totalled 22.375 million. The results for the comparative period have been reclassified for consistency and reflect a profit of 11.819 million. They include profits of 13.242 million from financial assets measured at amortised cost and 9.154 million from assets measured at fair value through other comprehensive income and a loss of 21 thousand from financial liabilities. This caption was reclassified in 2020 to remove losses of 45.105 million linked to the bulk sale of NPLs (Diana project). The net result from other financial assets measured at fair value through profit or loss, line item 110, was a profit of 12.372 million compared with a loss of 8.307 million previously.

The result from hedging activities amounted to 79 thousand euro.

Income from banking activities therefore rose to 505.349 million, compared with 373.048 million, +35.46%.

Within this aggregate, the weighting of net interest income was 52.25% compared with 62.47%.

The trend in the macroeconomic situation appears positive, despite ongoing uncertainties linked to the pandemic. When the moratoria terminate, as they inevitably will, it is possible that new bad loans will emerge. At this time, the Group has identified a slowdown in non-performing loans and a decline in the default rate, although this is not a source of easy optimism and we have not lowered our guard. We have continued to evaluate our exposures to customers based on the current rigorous policies, while trying to meet the needs of businesses and households in this difficult period. Taken together, the activities and processes implemented in order to monitor and check lending to customers at the various stages of issue and management have strengthened the team dedicated to this work, contributing to the containment of NPLs while derisking efforts continue. In this regard, the Group completed two bulk sales of NPLs last year (the Diana and Luzzatti projects), while a third disposal operation is currently being structured. The loans expected to be sold are assessed in this light, recording the related adjustments in the income statement. For positions falling within this scope, we then used models to estimate the potential recovery value of these receivables and hence formulate a selling price, also taking into account the peculiarities of the market where these assets will probably be sold.

Net adjustments to loans and financial assets amounted to 49.473 million, compared with 104.169 million, -52.51%. The prior year amount, affected by the marked deterioration in the macroeconomic situation and the reclassification mentioned above, included 45.105 million in losses on the bulk sale of non-performing loans to customers (Diana project) that was completed in June 2020, as well as 2.651 million in charges linked to that disposal.

Out of the total adjustments mentioned above, line item 130 of the income statement, relating to the exposure to customers and banks in the form of loans and securities, is the most significant with a total of 64.847 million, compared with 47.437 million previously. This total comprises 65.513 million in adjustments relating to financial assets measured at amortised cost, while the net impairment adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income reflect writebacks of 0.666 million on fixed-yield securities, compared with provisions of 5.295 million in the comparative period. The expected loss on performing loans is estimated in accordance with IFRS 9, using a model that adopts various macro-scenarios for calculation purposes. Line item 140, which is used for the recognition of gains/losses on contractual amendments not resulting in derecognition, arising from modifications to contractual cash flows, was negative for 2.987 million in the reporting period, compared with 5.389 million. Lastly, the provisions for commitments and guarantees given reflect a release of 18.361 million, compared with new provisions of 3.587 million in the comparative period. The ratio of net adjustments to loans to customers to total loans to customers, also known as the cost of credit, has improved from 0.32% to 0.74% at 31 December 2020.

This leads to net financial income of 455.876 million, compared with 268.879 million (+69.55%).

A great deal of attention was paid to holding down operating costs, even though they rose from 260.889 to 279.047 million, +6.96%. They were also affected by the strong and by now habitual regulatory pressures that have significant impacts in terms of maintaining adequate operating structures, skills and personnel.

The ratio of operating costs to total income, otherwise known as the cost/income ratio, has decreased to 55.22% from 69.93%, while the annualised ratio of operating costs to total assets came to 1.05% from 1.13%.

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 283.606 million, +6.20%, of which personnel costs amounted to 125.042 million compared with 121.743 million, +2.71%, while other administrative expenses fell from 145.314 to 158.564 million, +9.12%. Administrative expenses again posted a high proportion of contributions incurred or expected to be incurred for the Interbank Deposit Guarantee and Single Resolution Funds, which went from 25.176 million to 34.708 million, +37.86%. The increases in software rental and maintenance expenses, interbank network fees, deferred charges and IT costs are significant. Legal expenses and software support costs were lower, while consultancy costs were essentially stable. Net provisions for risks and charges reflects a release of 31 thousand compared with a release of 3.080 million previously.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 25.725 million, -1.80%. Other income, stated after the reclassifications reported in the above table and net of other operating expenses, amounted to 30.253 million, +3.30%.

The aggregate profits/losses on equity and other investments shows a positive balance of 16.078 million, compared with 13.542 million, +18.73%. The pre-tax profit has therefore risen from 21.532 to 192.907 million. After deducting income taxes of 53.527 million, compared with 5.284 million, and the profit attributable to non-controlling interests of 2.691 million, the net profit for the period amounted to 136.689 million compared with 14.409 million.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 27.75% compared with 24.54% in the previous year.

SUMMARY CONSOLIDATED INCOME STATEMENT

(thousands of euro)	30/06/2021	30/06/2020	(+/-)	% change
Net interest income	264,037	233,058	30,979	13.29
Dividends	4,206	2,950	1,256	42.58
Net fee and commission income	170,981	152,195	18,786	12.34
Result of financial activities	66,125	-15,155	81,280	-536.32
Total income	**505,349**	**373,048**	**132,301**	**35.46**
Net impairment losses [a]	-49,473	-104,169	54,696	-52.51
Net financial income	**455,876**	**268,879**	**186,997**	**69.55**
Personnel expenses [b]	-125,042	-121,743	-3,299	2.71
Other administrative expenses	-158,564	-145,314	-13,250	9.12
Other operating income/expense [b]	30,253	29,285	968	3.31
Net accruals to provisions for risks and charges [b]	31	3,080	-3,049	-98.99
Adjustments to property, equipment and investment property and intangible assets	-25,725	-26,197	472	-1.80
Operating costs	**-279,047**	**-260,889**	**-18,158**	**6.96**
Operating profit (loss)	**176,829**	**7,990**	**168,839**	**n.s.**
Net gains (losses) on equity investments and other investments	16,078	13,542	2,536	18.73
Profit (loss) before tax	**192,907**	**21,532**	**171,375**	**n.s.**
Income taxes	-53,527	-5,284	-48,243	n.s.
Profit (loss)	**139,380**	**16,248**	**123,132**	**n.s.**
(Profit) loss attributable to non-controlling interests	-2,691	-1,839	-852	n.s.
Profit (loss) attributable to the Parent Company	**136,689**	**14,409**	**122,280**	**n.s.**

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 30/06/2021 have been subjected to the following reclassifications:
[a] reclassified net credit risk provisions for commitments and guarantees given for 18.361 million euro initially included in net provisions for risks and charges [a) commitments and guarantees given], showing them under net adjustments. The results at 30/06/2020 have been adjusted on a like-for-like basis with those of 2021;
[b] personnel expenses and other operating income have been reclassified, stating them net of the income generated by the post-employment benefits fund of 6.651 million.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT QUARTER BY QUARTER

	2021		2020			
(thousands of euro)	II Quarter	I Quarter	IV Quarter	III Quarter	II Quarter	I Quarter
Net interest income	134,899	129,138	127,798	129,154	120,884	112,174
Dividends	3,412	794	267	1,158	2,218	732
Net fee and commission income	86,193	84,788	86,790	77,431	73,269	78,926
Result of financial activities	33,995	32,130	54,247	19,178	43,979	-59,134
Total income	**258,499**	**246,850**	**269,102**	**226,921**	**240,350**	**132,698**
Net impairment losses [a]	-20,582	-28,891	-76,612	-36,388	-38,870	-65,299
Net financial income	**237,917**	**217,959**	**192,490**	**190,533**	**201,480**	**67,399**
Personnel expenses [b]	-61,399	-63,643	-62,681	-62,595	-58,968	-62,775
Other administrative expenses	-79,104	-79,460	-68,447	-65,182	-67,084	-78,230
Other operating income/expense [b]	14,966	15,287	15,815	18,183	13,094	16,191
Net accruals to provisions for risks and charges [a]	-687	718	-963	-81	3,640	-560
Adjustments to property, equipment and investment property and intangible assets	-13,194	-12,531	-20,664	-13,815	-13,447	-12,750
Operating costs	**-139,418**	**-139,629**	**-136,940**	**-123,490**	**-122,765**	**-138,124**
Operating profit (loss)	**98,499**	**78,330**	**55,550**	**67,043**	**78,715**	**-70,725**
Net gains (losses) on equity investments and other investments	7,596	8,482	7,930	4,872	7,342	6,200
Profit (loss) before tax	**106,095**	**86,812**	**63,480**	**71,915**	**86,057**	**-64,525**
Income taxes	-27,194	-26,333	-21,303	-20,597	-24,445	19,161
Profit (loss)	**78,901**	**60,479**	**42,177**	**51,318**	**61,612**	**-45,364**
(Profit) loss attributable to non-controlling interests	-1,471	-1,220	-30	-1,277	-691	-1,148
Profit (loss) attributable to the Parent Company	**77,430**	**59,259**	**42,147**	**50,041**	**60,921**	**-46,512**

Note: 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] The figures are shown in accordance with the reclassifications presented in the summary of the reclassified consolidated income statement.

REFORM OF COOPERATIVE BANKS

In order to provide continuity about the process of trasformation Banca Popolare di Sondrio pursuant to Law 33 dated 24 March 2015 – which requires cooperative banks with assets in excess of 8 billion to transform into limited companies – the following update is provided about the circumstances already covered in the press release issued by the Parent Company on 1 June 2021.

1) In a ruling published on 31 May 2021, the Council of State deemed legitimate the implementing regulations for Law 33 dated 24 March 2015 submitted for its consideration. In particular, the Council of State declared certain reasons for the appeal to be inadmissible and rejected the others.
2) Art. 27, para. 3 bis, of Law 120 dated 11 September 2020 (enacting with amendments Decree 76 dated 16 July 2020 on urgent measures for simplification and digital innovation) extended for one year, until 31 December 2021, the deadline for transforming cooperative banks with assets in excess of 8 billion into limited companies.

SIGNIFICANT SUBSEQUENT EVENTS

On 7 July, the Parent Company completed the first placement in the primary market reserved for institutional investors of a Senior Preferred Green Bond. The issue of this fixed-rate bond for 500 million marks the entry of the Bank into the Green Bond segment, comprising funding instruments for loans associated with green projects.

Together with another 50 banks in the Eurozone, the Banca Popolare di Sondrio Group has been subjected to the 2021 stress test carried out by the ECB, using a similar methodology to that adopted at the same time by the EBA on a sample of 38 of the largest banks. The macro-economic scenarios considered for the baseline and adverse simulations cover a time horizon of 3 years (2021-23). While the first envisages the normal development of business activities, the second envisages an extended and particularly unfavourable phase of economic stagnation compared with the situation at the end of 2020, which was already influenced by the pandemic. Based on the results published on 30 July, the following considerations are relevant. Under the baseline scenario, the Group is not exposed to issues, as it would continue to generate significant profits that would increase its net worth via self-financing, while also remunerating the capital contributed by members and shareholders.

Under the adverse scenario, the Group would suffer capital erosion at the end of the three-year period 2021-23 of 610 points, with a CET1 of 10.1%. Even in this case, the capital requirements of the Supervisory Authorities would be well satisfied; however, by definition, the exercise does not take account of future business strategies and/or operational initiatives and, therefore, does not represent in any way a forecast of future profitability or the capital ratios expected for the Group. Notably, the Group is among those that fared best under the adverse scenario, maintaining a CET1 ratio in double digits at the end of the three-year stress period.

OUTLOOK

With regard to the outlook for operations, the current recovery at international level is expected to strengthen in the advanced countries, while the situation in the emerging countries is more uncertain. With specific regard to Italy, continuation of the vaccination campaign – even with the unknowns linked to variants of the virus – provides sound foundations for significant economic growth given continuation of the favourable financial and monetary conditions.

In view of this, it is reasonable to expect the Group to report improved comparative results in the remaining months of the year, albeit to a lesser extent than in the first half of 2021.

Sondrio, 5 August 2021

THE BOARD OF DIRECTORS

CONDENSED CONSOLIDATED INTERIM REPORT AT 30 JUNE 2021

CONSOLIDATED BALANCE SHEET

(thousands of euro)

	Asset items		30/06/2021		31/12/2020
10.	Cash and cash equivalents		**4,806,067**		**5,066,606**
20.	Financial assets measured at fair value through profit or loss		**1,303,249**		**1,228,733**
	a) financial assets held for trading	187,043		190,545	
	c) other financial assets mandatorily measured at fair value	1,116,206		1,038,188	
30.	Financial assets measured at fair value through other comprehensive income		**3,132,664**		**2,619,939**
40.	Financial assets measured at amortised cost		**41,937,372**		**39,168,264**
	a) loans and receivables with banks	3,439,918		3,620,595	
	b) loans and receivables with customers	38,497,454		35,547,669	
70.	Equity investments		**326,212**		**305,444**
90.	Property, equipment and investment property		**569,008**		**567,799**
100.	Intangible assets		**31,103**		**28,328**
	of which:				
	- goodwill	12,632		12,632	
110.	Tax assets		**371,456**		**423,785**
	a) current	24,141		46,596	
	b) deferred	347,315		377,189	
130.	Other assets		**473,743**		**398,699**
	Total assets		**52,950,874**		**49,807,597**

Equity and liability items			30/06/2021		31/12/2020
10.	Financial liabilities measured at amortised cost		**47,832,353**		**45,386,147**
	a) due to banks	10,874,758		9,826,687	
	b) customer deposits	34,038,291		32,728,348	
	c) debt securities in issue	2,919,304		2,831,112	
20.	Financial liabilities held for trading		**33,627**		**33,816**
40.	Hedging derivatives		**4,054**		**6,271**
60.	Tax liabilities		**34,604**		**37,400**
	a) current	2,157		3,567	
	b) deferred	32,447		33,833	
80.	Other liabilities		**1,519,686**		**914,191**
90.	Reserve for termination indemnities		**40,222**		**42,341**
100.	Provisions for risks and charges		**258,921**		**291,757**
	a) commitments and guarantees given	39,965		58,520	
	b) pension and similar obligations	185,868		189,873	
	c) other provisions for risks and charges	33,088		43,364	
120.	Valuation reserves		**36,322**		**27,840**
150.	Reserves		**1,539,780**		**1,449,360**
160.	Share premium reserve		**79,005**		**79,005**
170.	Share capital		**1,360,157**		**1,360,157**
180.	Treasury shares (-)		**(25,455)**		**(25,388)**
190.	Non-controlling interests (+/-)		**100,909**		**98,103**
200.	Profit (loss) for the period (+/-)		**136,689**		**106,597**
	Total liabilities and equity		**52,950,874**		**49,807,597**

CONSOLIDATED INCOME STATEMENT

(thousands of euro)

Items			30/06/2021		30/06/2020
10.	Interest and similar income		318,101		282,617
	of which: interest income calculated using the effective interest method	313,846		279,002	
20.	Interest and similar expense		(54,064)		(49,559)
30.	**Net interest income**		**264,037**		**233,058**
40.	Fee and commission income		179,695		160,535
50.	Fee and commission expense		(8,714)		(8,340)
60.	**Net fee and commission income**		**170,981**		**152,195**
70.	Dividends and similar income		4,206		2,950
80.	Net trading income		31,299		(18,663)
90.	Net trading income		79		(4)
100.	Gains (losses) from sales or repurchases of:		22,375		(33,286)
	a) financial assets measured at amortised cost	13,242		(40,402)	
	b) financial assets measured at fair value through other comprehensive income	9,154		7,112	
	c) financial liabilities	(21)		4	
110.	Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss		12,372		(8,307)
	b) Other financial assets mandatorily measured at fair value	12,372		(8,307)	
120.	**Total income**		**505,349**		**327,943**
130.	Net adjustments for credit risk related to:		(64,847)		(47,437)
	a) financial assets measured at amortised cost	(65,513)		(42,142)	
	b) financial assets measured at fair value through other comprehensive income	666		(5,295)	
140.	Gains/losses from contractual amendments not resulting in derecognition		(2,987)		(5,389)
150.	**Net financial income**		**437,515**		**275,117**
180.	**Balance of financial and insurance management**		**437,515**		**275,117**
190.	Administrative expenses:		(290,257)		(267,057)
	a) personnel expenses	(131,693)		(121,743)	
	b) other administrative expenses	(158,564)		(145,314)	
200.	Net accruals to provisions for risks and charges		18,392		(507)
	a) commitments and guarantees given	18,361		(3,587)	
	b) other net provisions	31		3,080	
210.	Depreciation and net impairment losses on property, equipment and investment property		(18,382)		(18,792)
220.	Amortisation and net impairment losses on intangible assets		(7,343)		(7,405)
230.	Other operating income/expense		36,904		26,634
240.	**Operating costs**		**(260,686)**		**(267,127)**
250.	Net gains (losses) on equity investments		16,230		13,960
260.	Net result of fair value measurement of property, equipment and investment property and intangible assets		(320)		(518)
280.	Net gains on sales of investments		168		100
290.	**Pre-tax profit (loss) from continuing operations**		**192,907**		**21,532**
300.	Income taxes		(53,527)		(5,284)
310.	**Post-tax profit from continuing operations**		**139,380**		**16,248**
330.	**Profit (loss) for the period**		**139,380**		**16,248**
340.	Profit (loss) for the period attributable to non-controlling interests		(2,691)		(1,839)
350.	**Profit (loss) for the period attributable to the Parent Company**		**136,689**		**14,409**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(thousands of euro)

ITEMS		30/06/2021	30/06/2020
10.	**Profit (loss) for the period**	**139,380**	**16,248**
	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	6,348	1,248
70.	Defined-benefit plans	6,784	(2,005)
90.	Share of valuation reserves of equity investments valued at net equity	306	(25)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
110.	Exchange differences	137	(421)
140.	Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	(6,594)	(9,085)
160.	Share of valuation reserves of equity investments valued at net equity	1,616	(1,699)
170.	**Total other income items net of income taxes**	**8,597**	**(11,987)**
180.	**Other comprehensive income (items 10+170)**	**147,977**	**4,261**
190.	Consolidated other comprehensive income attributable to non-controlling interests	(2,806)	(1,845)
200.	**Consolidated other comprehensive income attributable to the parent company**	**145,171**	**2,416**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of euro)

	Opening balance at 31.12.2020	Change in opening balances	Opening balance at 1.1.2021	Allocation of prior year result			
				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	1,468,785	–	1,468,785	82,459	–	11,107	–
b) other	37,851	–	37,851	–	–	–	–
Valuation reserves	**27,584**	**–**	**27,584**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**25,388**	**–**	**25,388**	**–**	**–**	**–**	**–**
Profit for the year	**109,743**	**–**	**109,743**	**(82,459)**	**(27,284)**	**–**	**–**
Equity attributable to the Group	**2,997,571**	**–**	**2,997,571**	**–**	**(27,284)**	**11,107**	**–**
Equity attributable to non-controlling interests	**98,103**	**–**	**98,103**	**–**	**–**	**–**	**–**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of euro)

	Opening balance at 31.12.2019	Change in opening balances	Opening balance at 1.1.2020	Allocation of prior year result			
				Reserves	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		9,154	–
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**	**–**	**–**	**9,154**	**–**
Equity attributable to non-controlling interests	**95,041**	**–**	**95,041**	**–**	**–**	**–**	**–**

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 30.06.2021	**Equity attributable to the group at 30.06.2021**	**Equity attributable to non-controlling interests at 30.06.2021**
–	–	–	–	–	–	–	1,360,157	33,579
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	1,503,886	58,465
–	–	–	–	–	–	–	35,894	1,957
–	**–**	**–**	**–**	**–**	**–**	**8,597**	**36,322**	**(141)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(67)	**–**	**–**	**–**	**–**	**–**	**–**	**25,455**	**–**
–	**–**	**–**	**–**	**–**	**–**	**139,380**	**136,689**	**2,691**
(67)	**–**	**–**	**–**	**–**	**–**	**145,171**	**3,126,498**	**–**
–	**–**	**–**	**–**	**–**	**–**	**2,806**	**–**	**100,909**

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 30.06.2020	**Equity attributable to the group at 30.06.2020**	**Equity attributable to non-controlling interests at 30.06.2020**
–	–	–	–	–	–	–	1,360,157	33,579
–	–	–	–	–	–	–		
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	1,408,137	55,318
–	–	–	–	–	–	–	35,894	1,957
–	**–**	**–**	**–**	**–**	**–**	**(11,987)**	**(18,878)**	**(165)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1	**–**	**–**	**–**	**–**	**–**	**–**	**(25,373)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**16,248**	**14,409**	**1,839**
1	**–**	**–**	**–**	**–**	**–**	**2,415**	**2,853,351**	**–**
–	**–**	**–**	**–**	**–**	**–**	**1,845**	**–**	**96,886**

CONSOLIDATED CASH FLOW STATEMENT (indirect method)

	30/06/2021	30/06/2020
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**253,180**	**158,848**
– profit/loss for the period (+/ -)	136,689	14,409
– gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through profit or loss (-/+)	(23,959)	41,247
– net hedging gains (losses) (-/+)	(79)	4
– net adjustments for credit risk (+/-)	70,712	42,716
– depreciation, amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	25,726	26,714
– provisions for risks and charges and other costs/revenues (+/-)	9,127	22,070
– unpaid taxes, duties and tax credits (+)	53,527	5,284
– other adjustments (+/-)	(18,563)	6,404
2. **Cash generated/absorbed by financial assets**	**(3,531,581)**	**(3,803,955)**
– financial assets held for trading	21,500	(21,030)
– financial assets designated at fair value	-	-
– financial assets mandatorily measured at fair value through profit and loss	(67,617)	(83,226)
– financial assets measured at fair value through other comprehensive income	(508,823)	293,706
– financial assets measured at amortised cost	(2,880,398)	(3,965,627)
– other assets	(96,243)	(27,778)
3. **Cash generated/absorbed by financial liabilities**	**3,078,355**	**4,870,681**
– financial liabilities valued at amortised cost	2,530,193	4,505,636
– financial liabilities held for trading	(5,127)	(20,489)
– financial liabilities measured at fair value	-	-
– other liabilities	553,289	385,534
Net cash generated/absorbed by operating activities	**(200,046)**	**1,225,574**

	30/06/2021	30/06/2020
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**11,368**	**18,791**
– sales of equity investments	-	7,279
– dividends collected from equity investments	10,947	10,111
– sale of property, equipment and investment property	421	1,401
– sales of intangible assets	-	-
– sales of subsidiaries and business units	-	-
2. **Cash absorbed by**	**(31,813)**	**(13,250)**
– purchases of equity investments	-	-
– purchases of property, equipment and investment property	(21,700)	(5,811)
– purchases of intangible assets	(10,113)	(7,439)
– purchase of subsidiaries and business units	-	-
Net cash generated/absorbed by investing activities	**(20,445)**	**5,541**
C. **FINANCING ACTIVITIES**		
– issues/purchases of treasury shares	(133)	1
– issues/purchases of equity instruments	-	-
– distribution of dividends and other uses	(26,984)	-
– sale/purchase of third party control	-	-
Net cash generated/absorbed by financing activities	**(27,117)**	**1**
NET CASH GENERATED/ABSORBED IN THE YEAR	**(247,608)**	**1,231,116**

Key:
(+) generated (-) absorbed

Reconciliation

Line items	**30/06/2021**	**30/06/2020**
Cash and cash equivalents at beginning of the period	5,066,606	1,826,427
Total net cash generated/absorbed in the period	(247,608)	1,231,116
Cash and cash equivalents: effect of change in exchange rates	(12,931)	12,803
Cash and cash equivalents at the end of the period	**4,806,067**	**3,070,346**

EXPLANATORY NOTES

Form and content of the report on the first half of 2021

The report on the first half of 2021 has been prepared in accordance with art. 154-ter of Legislative Decree 58 of 24 February 1998 Consolidated Law on financial intermediation under arts. 8 and 21 of law 52 of 6/2/1996 and the provisions issued by Consob. Account has also been taken of the instructions issued by Consob with resolutions 15520 of 27/7/2006 and Communication DEM/6064293 of 28/7/2006 and Communication DEM/11070007 of 5/8/2011. The condensed consolidated interim report at 30 June 2021 has been prepared in accordance with IAS 34 and comprises:

– interim directors' report on operations;
– consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated shareholders' equity and consolidated cash flow statement;
– explanatory notes that describe the amounts contained in the consolidated financial report for the half-year and contain the information required by current regulations.

General information

Declaration of compliance with International Financial Reporting Standards

Banca Popolare di Sondrio, società cooperativa per azioni declares that this condensed consolidated interim report has been prepared in compliance with IAS 34.

Basis of preparation

This condensed consolidated interim report has been prepared in accordance with the following general criteria specified in IAS 1:

1) Going concern. The condensed consolidated interim report has 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. The underlying assumption is fully justified and there is no need for detailed supporting analyses, in addition to the information provided in the condensed consolidated interim report 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 30 June 2021 on the assumption of business continuity. In this regard, management believes that,

despite possible 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 in the condensed consolidated interim report. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information.
   If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the reasons for it. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent amendments.
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.

The consolidated interim report is prepared in accordance with Italian regulations, to the extent 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.

Scope of consolidation and methodology

The condensed consolidated interim report presents the economic and financial position at 30 June 2021 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)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 180,000	100	100
Factorit S.p.a.	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	1	60,000	100	100
Banca della Nuova Terra S.p.a.	Milan	1	31,315	100	100
Pirovano Stelvio S.p.a. **	Sondrio	1	2,064	100	100
Servizi Internazionali e Strutture Integrate 2000 S.r.l. **	Milan	1	75	100	100
Immobiliare San Paolo S.r.l. **	Tirano	1	10*	100	100
Immobiliare Borgo Palazzo S.r.l.**	Tirano	1	10*	100	100
Popso Covered Bond S.r.l.	Conegliano V.	1	10	60	60

(1) 1= majority of voting rights at ordinary shareholders' meeting.
* 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 any 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 non-performing 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. In this regard, please refer to the specific paragraph of the notes to the financial statements at 31 December 2020.

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.

Subsequent events

No events have taken place between the reference date for this condensed consolidated financial report and the date of its approval by the Board of Directors on 5 August 2021 that would require the adjustment of such approved information, and nothing of significance has occurred that would require changes in the balance sheet or income statement figures. On 7 July 2021, the Parent Company successfully concluded the placement of the first (Senior Preferred) Green Bond on the institutional market for an amount of 500 million and a duration of 6 years.

On 30 July 2021, the bank received the results of the ECB/SSM 2021 stress test, which confirmed the Group's capital strength in both the base and adverse scenarios.

Other aspects

In the period under review, the accounting policies adopted remained substantially unchanged compared with the previous year. 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 published 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.

- Regulation (EU) 2021/1080 of 28 June 2021 which corrects regulation 1126/2008. This regulation introduces a series of formal amendments to IAS 16, 37 and 41 and to IFRS 1, 3 and 9. The amendments are applicable, at latest, from the start date of the first financial year beginning on or after 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 condensed consolidated interim report, accompanied by the directors' report on operations, consists of the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes to the financial statements.

Preparing the condensed consolidated interim report 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 possibility of a forced sale of the assets concerned. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements; however, as allowed by IAS 34, this condensed consolidated interim report does not include all of the information provided in an annual report.

The Parent Company and other Group companies have defined the estimation processes that support the carrying amounts of the more significant items recognised in the condensed consolidated interim report at 30 June 2021, as required by the prevailing accounting standards and relevant regulations.

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 30 June 2021. 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 interim report at 30 June 2021.

For further details, please refer to the section on accounting policies and uncertainties regarding the use of estimates in the preparation of the condensed consolidated interim financial statements, reported at the end of the Analysis of the principal captions contained in the condensed consolidated interim report.

The condensed consolidated interim report is 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.

Analysis of the principal captions contained in the condensed consolidated interim report

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.

The 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). The 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 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 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 no data are available to make valuations using these models, a fair value assessment is carried out using unobservable data (e.g. adjusted shareholders' equity; or cost, if it is the best expression 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 is equal 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: Equity securities designated 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, any accumulated gains or losses on them 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 equity reserve called valuation reserve.

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 three 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, bad)

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 non-performing financial assets are to be split between bad loans, unlikely to pay and past due and/or non-performing 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 bad loans, 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.
- Past due and/or overdrawn exposures are exposures, other than those classified as bad 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. 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 an analytical or a flate - rate basis. Individual analysis of financial assets measured at amortised. That are considered Bad loans 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 bad.

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 an individual or an overall basis. Individual analysis takes the following parameters into account:

- recoveries forecast by the offices concerned;
- temexpected 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 write-downs are made using similar methodology to that applied in relation to the overall write-down 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 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 an analytical basis at the level of individual position. The measurement of their level of deterioration – 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 worsening of the insolvency 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 for non-performing 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 Loss 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 non-performing exposures.

The next phase consists of 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 non-performing loans).

The expected loss on each non-performing position is therefore determined using the following formula:

Expected Loss - Individual position	=	Expected Loss - Disposal Scenario * Probability of occurrence of dispos	+	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 income and other financial 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 income and other financial income.

Any writebacks do not exceed the (individual and collective) 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 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.

The item also includes property, equipment and investment property classified according to IAS 2 Inventories, mainly relating to assets acquired with a view to enhancing the investment, also through restructuring or redevelopment works, with the explicit intention of selling them, including assets resulting from the enforcement of guarantees.

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. The property, equipment and investment property to which IAS 2 applies are measured in the same way as inventories, so at the lower of the cost and the net realisable value. Under these circumstances, they are not subject to periodic depreciation.

Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of whole properties has been split, based on specific appraisals, between the value of the buildings and that of the land on which they stand. Land is not depreciated as 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, in the same way as 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.
- The 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 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 settlement date.

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. For further details, see A.2. Part relating to the main items of the financial statements - Section 16.1, contained in Part A - Accounting policies of the Explanatory Notes to the Consolidated Financial Statements at 31 December 2020.

16.2 Interest Rate Benchmark Reform

The so-called IBOR reform follows the recommendations of the Financial Stability Board (FSB) after the G20 requested 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 a 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 certain benchmarks. In this context, the Banca Popolare di Sondrio Group launched an assessment project which demonstrated that the impact of the reform with regard to the following areas of investigation was insignificant: 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. Publication of the €STR (Euro Short-Term Rate) replaced this parameter from 2 October 2019. As regards the €STR rate, the exposure of the Banca Popolare di Sondrio Group appears to have no impact given the absence of products indexed to the new €STR rate.

in the final analysis, 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.

Starting from 2021, Regulation no. 25/2021 of 13 January 2021 which incorporates the document Reform of the reference indices for determining interest rates - phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, is mandatorily applicable for the first time. From the point of view of accounting presentation, it has been clarified that the changes following the IBOR Reform relating to the replacement of the existing IBOR rate with the new Risk Free Rate should not constitute a derecognition event, but are to be considered as an accounting modification. In this regard, a practical expedient is introduced which makes it possible to represent these changes, if made as a direct consequence of the IBOR Reform and on an equivalent economic basis, with a forward-looking adjustment of the effective interest rate, with impacts on net interest income in future periods.

With regard to Hedge Accounting, in the second phase of the project, the IASB introduced some exceptions to IAS 39, in the event of changes necessary as a direct consequence of the IBOR Reform and carried out on an equivalent economic basis, which make it possible not to discontinue following the updating of the documentation on the hedging relationship (for the modification of the hedged risk, of the hedged underlying or of the hedging derivative or of the method of verifying the strength of the hedging relationship). Any impact of ineffectiveness must in any case be recognised in the income statement. Not having significant hedge accounting transactions in place, the Group has not recorded any significant impacts from the reform.

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 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 (DF- Deposit Facility rate).

Following the Covid-19 crisis, a 50 b.p. cut in these rates was envisaged for the period from 24 June 2020 to 23 June 2021. With the ECB decision of December 2020, this reduction will also be extended to the period from 24 June 2021 to 23 June 2022 for counterparties whose net eligible loans between 1 October 2020 and 31 December 2021 are at least equal to their respective benchmark net lending.

For further information on application of the Deposit Facility rate and the accounting treatment of TLTRO III transactions in compliance with IAS 20, please refer to what was said in the notes to the consolidated financial statements at 31 December 2020.

At 30 June 2021, the book value of the TLTRO III liabilities amounted to 8,874 million and the related interest accounted for amounted to 43 million.

16.4 Revenue from contracts with customers

With reference to the methods for recognising revenues from contracts with customers, please refer to A.2. Part relating to the main items of the financial statements - Section 16.4 contained in Part A - Accounting policies of the Explanatory Notes to the Consolidated at 31 December 2020.

16.5 Accounting treatment of tax credits connected with the Cura Italia and Rilancio Decrees.

Decree Laws 18/2020 (Cura Italia) and 34/2020 (Rilancio) introduced into Italian law tax incentives linked to capital expenditure (e.g. Ecobonus and Sismabonus) and to current expenditure (e.g. rent 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. In this sense, in line with the provisions of the Bank of Italy/Consob/Ivass Document no. 9, 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 bonds

On 6 November 2013, the Board of Directors of the Parent Company authorised a covered bond programme for a maximum of 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company. Please refer to what is stated in these explanatory notes, Information on risks and related hedging policies, in the section entitled Securitisations and asset sales.

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 recovery 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 and subsequent financial statements. In subsequent years and the one under review, no charges were recorded for other interventions.

16.10 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 periodic statements and the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Group considers all information available at the time of preparing this interim financial report, 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 from the estimates made when preparing the interim financial statements and, consequently, it may become necessary to make adjustments to the carrying amounts of assets and liabilities that are currently unforeseeable and hard to estimate.

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. As regards the effects of the Covid-19 health emergency, reference should be made to the indications provided by the Authorities and by the IASB during 2020. In the first six months of 2021 there are no regulatory changes, so classifications and assessments took place in continuity with the 2020 financial statements. Reference should therefore be made to them for detailed information on the regulatory interventions and the method of application by the Group; except as regards the extension, through last June's Sostegni Bis Decree, of the moratoria guaranteed by the State from 30 June 2021 to 31 December 2021; and for the moratoria granted after 31 March 2021, the end of the period for granting simplifications in terms of their classification: in the absence of further indications from the Supervisory Authorities, it was made possible to classify them as forborne.

ECL – Expected credit losses

With reference to the methodological framework used by the Group to quantify expected losses on performing loans during the first half of 2021, in addition to the usual updating of the parameters of macroeconomic scenarios and the weighting factors associated with them, based on the latest available forecasts including the effects of the Covid-19 pandemic, it is worth noting the continuous evolutionary interventions in the modelling, aimed at improving the 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, note that we adopted different macro-scenarios, including Covid effects, to calculate the loan loss adjustments made in June 2021:

- a baseline scenario, corresponding to the June 2021 update of the baseline scenario initially released by the official supplier on the occasion of the last forecast report on the first quarter of 2021;
- a (slightly) favourable scenario, corresponding to the favourable scenario issued by the official supplier on the occasion of the last forecast report on the first quarter of 2021;
- a (slightly) adverse scenario, corresponding to the adverse scenario released by the official supplier on the occasion of the last forecast report on the first quarter of 2021.

Lastly, as regards the weighting factors assigned to the individual scenarios during the weighting process, in continuity with the choices made in the last months prior to the interim financial report, the baseline scenario, due to its nature, is assigned the prevalent weighting factor of 55%, whereas the alternative scenarios come in with weighting factors of 20% and 25%.

As regards the SICR thresholds to be used in the absolute staging criteria, there are no specific recalibrations compared with those used in preparing the financial statements at 31 December 2020. Furthermore, due to the persistence of the macroeconomic context observed and from a prudential and prospective point of view, the analyses of the loans that benefited from the moratoria applied in light of the Covid-19 crisis were updated; by segmenting the portfolio on the basis of certain driver risks, such as the sector to which it belongs and the debtor's rating, this analysis aims to identify in a timely manner any positions that show signs of a significant increase in credit risk (so-called high risk moratorium list), which for this reason are prudently classified in Stage 2.

Lastly, considering the persistently high level of uncertainty regarding the evolution of the current macroeconomic and business context, the appropriate expert-based overlay framework was maintained with a view to better capturing the risks associated with the pandemic, bringing to it appropriate calibration in light of changes in the risk factors recently observed. Overall, these revisions resulted in a level of collective credit write-downs of 165 million at 30 June 2021, compared with 196 million 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 changes in the economic, financial and regulatory context – could lead to valuations that are different from those carried out for the purpose of this interim consolidated financial report at 30 June 2021.

For further details on how Covid-19 effects were built into the calculation of loan loss adjustments and the sensitivity analysis, please refer to the paragraph on Risks of the Banking Group contained in the section dedicated to Information on risks and related hedging policies of these explanatory notes.

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, That require substantial measures by the banking system, 3 macroclasses of measures can be framed:

- moratoria/suspensions on mortgages and loans in favour of private customers 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 have remained substantially the same as those used in the financial statements at 31 December 2020. 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 2020 it was decided to make some changes to the accounting classification, such as:

1) the new loans linked to the pandemic, the EBA-compliant suspensions and those connected to them under the Cura Italia Decree have not been identified, unless shown otherwise, as forbearance measures at the time they were granted. For the moratoria for which the concession period for simplifications in terms of their classification has ended, in the absence of further instructions from the Supervisory Authorities, it was made possible to classify them as forborne. Note that some of the counterparties that benefited from the extension of the Cura Italia moratorium until 30 June 2021, made up of positions identified as particularly risky, were subject to a specific review to assess whether they should be considered forborne.
2) for suspensions and concessions other than point 1) the assessment of forborne status takes place during the approval phase of the facility according to the normal process; concessions aimed at facilitating the repayment of past debts and facilities granted to counterparties considered to be in financial difficulty are classified as forborne; the facilities granted from a commercial perspective, those granted to finance investment needs and those granted to align financial disbursements with income/cash flows are not classified as forborne.

For more information on the actions taken by the Group for a correct classification of support measures, please refer to the specific paragraphs entitled Impacts deriving from the Covid-19 pandemic in these explanatory notes, Information on risks and related hedging policies.

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. Taking into account the economic results of the first half and the updated macroeconomic projections, the conclusions of the probability test carried out at 31 December 2020 can be considered confirmed; no critical issues emerged from it regarding the recoverability of the DTAs.

At 30 June the Group accounted for approximately 347 million of deferred tax assets, for which it is reasonably believed that there are no recoverability problems as around 276 million, 80% of the total, meet the requirements of Law no. 214 of 22 December 2011 which allows then to be transformed into tax credits in the event of recognition of a statutory loss, a tax loss for IRES purposes and a negative net production value for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income. 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.

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. The last impairment test was performed as of 31 December 2020 and there was no need to repeat the test at 30 June 2021 as there was nothing to suggest that there might have been reasons for impairment in the meantime.

Financial instruments (measurement of financial assets, equity investments and models for determining the fair value of instruments not listed on active markets)

Financial instruments not listed on active markets and illiquid and complex instruments are measured using specific complex models and/or parameters not observable in the marketplace. These measurements are therefore highly complex, as highlighted by their classification in the fair value hierarchy.

With regard to equity investments, the draft financial statements and updated business plans of the companies concerned might not be available, 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.

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.

Transfer of financial assets held for trading

As in the previous year, the Group did not carry out any reclassifications of financial assets

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.

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.

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 AFS portfolio 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 0.09% lower under the adverse scenario and 0.01% higher 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 0.32% lower under the adverse scenario and 0.14% higher 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 1.58% following an increase in the rate curves and, conversely, increased by 3.68% 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 explicitly modelling the illiquidity component and the funding spread. If this component is not modelled explicitly, the change in fair value is +5.55%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is -0.02% if the rate curves are shifted up, and +0.03% if they are shifted down.

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 observable market 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.

Other information

The information provided above together with that contained in the following tables represents appropriate disclosure pursuant to paragraph 91 and 92 of IFRS 13. The disclosures envisaged in paragraph 51, 93 (letter i) and 96 of that standard are not required.

QUANTITATIVE INFORMATION

Fair value hierarchy

Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

	30/06/2021			31/12/2020		
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**	**143,709**	**644,360**	**515,179**	**154,914**	**624,957**	**448,862**
a) financial assets held for trading	107,123	73,558	6,361	117,984	66,616	5,945
b) financial assets designated at fair value	–	–	–	–	–	–
c) other financial assets mandatorily measured at fair value	36,586	570,802	508,818	36,930	558,341	442,917
2. **Financial assets measured at fair value through other comprehensive income**	**3,012,395**	**–**	**120,267**	**2,475,922**	**–**	**144,017**
3. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
4. **Property, equipment and investment property**	**–**	**–**	**61,760**	**–**	**–**	**62,080**
5. **Intangible assets**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**3,156,104**	**644,360**	**697,206**	**2,630,836**	**624,957**	**654,959**
1. **Financial liabilities held for trading**	**421**	**32,316**	**890**	**–**	**32,926**	**890**
2. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Hedging derivatives**	**–**	**4,054**	**–**	**–**	**6,271**	**–**
Total	**421**	**36,370**	**890**	**–**	**39,197**	**890**

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**	**448,862**	**5,945**	**–**	**442,917**	**144,017**	**–**	**62,080**	**–**
2. **Increases**	**109,858**	**445**	**–**	**109,413**	**13,480**	**–**	**–**	**–**
2.1. Purchases	102,033	–	–	102,033	–	–	–	–
2.2. Income booked to:	7,131	422	–	6,709	13,309	–	–	–
2.2.1. Income statement	7,131	422	–	6,709	–	–	–	–
- of which realized gains	6,096	416	–	5,680	–	–	–	–
2.2.2. Equity	–	–	–	–	13,309	–	–	–
2.3. Transfers from other levels	80	23	–	57	–	–	–	–
2.4. Other increases	614	–	–	614	171	–	–	–
3. **Decreases**	**43,541**	**29**	**–**	**43,512**	**37,230**	**–**	**320**	**–**
3.1. Sales	–	–	–	–	5,774	–	–	–
3.2. Reimbursements	32,141	–	–	32,141	134	–	–	–
3.3. Losses booked to:	6,094	–	–	6,094	325	–	320	–
3.3.1. Income statement	6,094	–	–	6,094	–	–	320	–
- of which realized losses	6,084	–	–	6,084	–	–	320	–
3.3.2. Equity	–	–	–	–	325	–	–	–
3.4. Transfers from other levels	–	–	–	–	23,271	–	–	–
3.5. Other decreases	5,306	29	–	5,277	7,726	–	–	–
4. **Closing balance**	**515,179**	**6,361**	**–**	**508,818**	**120,267**	**–**	**61,760**	**–**

Annual changes in liabilities carried at fair value on a recurring basis (Level 3)

There were no substantial changes in financial liabilities measured at fair value level 3.

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	30/06/2021				31/12/2020			
	Carrying amount	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	41,937,372	8,643,248	–	34,320,134	39,168,264	7,203,151	–	33,166,713
2. Investment property	–	–	–	–	–	–	–	–
3. Non-current assets and disposal groups held for sale	–	–	–	–	–	–	–	–
Total	**41,937,372**	**8,643,248**	**–**	**34,320,134**	**39,168,264**	**7,203,151**	**–**	**33,166,713**
1. Financial liabilities measured at amortised cost	47,832,353	2,732,903	266,357	44,913,108	45,386,147	2,614,567	284,068	42,555,036
2. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–
Total	**47,832,353**	**2,732,903**	**266,357**	**44,913,108**	**45,386,147**	**2,614,567**	**284,068**	**42,555,036**

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 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.

The Group does not have any transactions outstanding which could generate significant income that could be defined as day one profit/loss.

Information on the consolidated balance sheet

Assets

Financial assets measured at fair value through profit or loss - line item 20

Financial assets held for trading: breakdown by sector

	Total 30/06/2021			Total 31/12/2020		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**	–	–	–	–	–	–
1. Fixed-yield securities	24,351	–	–	25,441	–	–
1.1 Structured securities	–	–	–	–	–	–
1.2 Other fixed-yield securities	24,351	–	–	25,441	–	–
2. Variable-yield securities	46,251	–	–	66,970	–	–
3. Mutual funds	36,048	15,229	–	25,573	12,819	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total (A)	**106,650**	**15,229**	**–**	**117,984**	**12,819**	**–**
B. **Derivatives**	–	–	–	–	–	–
1. Financial derivatives	473	58,330	6,361	–	53,797	5,945
1.1 for trading	473	58,330	6,361	–	53,797	5,945
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)	**473**	**58,330**	**6,361**	**–**	**53,797**	**5,945**
Total (A+B)	**107,123**	**73,559**	**6,361**	**117,984**	**66,616**	**5,945**

Other financial assets mandatorily measured at fair value: breakdown by sector

Items/Amounts	Total 30/06/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	**36,586**	**–**	**32,988**	**36,873**	**–**	**33,032**
1.1 Structured securities	–	–	32,988	–	–	33,032
1.2 Other fixed-yield securities	36,586	–	–	36,873	–	-
2. Variable-yield securities	**–**	**–**	**–**	**–**	**–**	**-**
3. Mutual funds	**–**	**570,802**	**61,598**	**57**	**558,341**	**57,130**
4. Loans	**–**	**–**	**414,232**	**–**	**–**	**352,755**
4.1 Repo transactions	–	–	–	–	–	-
4.2 Other	–	–	414,232	–	–	352,755
Total	**36,586**	**570,802**	**508,818**	**36,930**	**558,341**	**442,917**

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.

Financial assets measured at fair value through other comprehensive income - line item 30

Financial assets measured at fair value through other comprehensive income: breakdown by sector

Items/Amounts	Total 30/06/2021			Total 31/12/2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	**3,008,925**	**-**	**16,299**	**2,472,575**	**-**	**43,556**
1.1 Structured securities	420,077	-	15,607	418,402	-	42,727
1.2 Other fixed-yield securities	2,588,848	-	692	2,054,173	-	829
2. Variable-yield securities	**3,472**	**-**	**103,968**	**3,347**	**-**	**100,461**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**3,012,397**	**-**	**120,267**	**2,475,922**	**-**	**144,017**

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.

Variable-yield securities also include equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Group operates.

Financial assets measured at amortised cost - line item 40

Financial assets measured at amortised cost: breakdown of loans and receivables with banks

	Total 30/06/2021					
	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
A. Deposits with central banks	**2,162,114**	**–**	**–**		**–**	**2,162,114**
1. Fixed-term deposits	–	–	–	–	–	–
2. Compulsory reserve	2,159,741	–	–	–	–	–
3. Repo transactions	–	–	–	–	–	–
4. Other	2,373	–	–	–	–	–
B. Loans and receivables with banks	**1,277,804**	**–**	**–**	**654,889**	**–**	**644,789**
1. Loans	621,080	–	–	–	–	621,321
1.1 Current accounts and sight deposits	223,096	–	–	–	–	–
1.2. Fixed-term deposits	358,719	–	–	–	–	–
1.3. Other loans:	39,265	–	–	–	–	–
- Repo transactions	–	–	–	–	–	–
- Leases	–	–	–	–	–	–
- Other	39,265	–	–	–	–	–
2. Fixed-yield securities	656,724	–	–	654,889	–	23,468
2.1 Structured securities	308,304	–	–	314,982	–	9,230
2.2 Other fixed-yield securities	348,420	–	–	339,907	–	14,238
Total	**3,439,918**	**–**	**–**	**654,889**	**–**	**2,806,903**

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.

Financial assets measured at amortised cost: breakdown of loans and receivables with customers

	Total 30/06/2021					
	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
1. Loans	**28,962,837**	**990,165**	**142,172**	**–**	**–**	**30,850,478**
1.1 Current accounts	2,875,771	362,657	45,068	–	–	–
1.2 Repo transactions	701,208	–	–	–	–	–
1.3 Mortgage loans	17,167,972	555,799	83,470	–	–	–
1.4 Credit cards, personal loans and assignments of one-fifth of salary or pension	444,654	10,867	712	–	–	–
1.5 Leases	–	–	–	–	–	–
1.6 Factoring	2,499,764	2,171	–	–	–	–
1.7 Other loans	5,273,468	58,671	12,922	–	–	–
2. Fixed-yield securities	**8,544,452**	**–**	**–**	**7,988,359**	**–**	**662,753**
2.1 Structured securities	1,981,618	–	–	1,370,314	–	662,753
2.2 Other fixed-yield securities	6,562,834	–	–	6,618,045	–	–
Total	**37,507,289**	**990,165**	**142,172**	**7,988,359**	**–**	**31,513,231**

Total 31/12/2020					
Carrying amount			Fair value		
First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
2,274,668	**–**	**–**	**–**	**–**	**2,274,664**
–	–	–	–	–	–
2,271,762	–	–	–	–	–
–	–	–	–	–	–
2,906	–	–	–	–	–
1,345,927	**–**	**–**	**528,437**	**–**	**839,993**
809,448	–	–	–	–	809,657
271,272	–	–	–	–	–
447,920	–	–	–	–	–
90,256	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
90,256	–	–	–	–	–
536,479	–	–	528,437	–	30,336
248,789	–	–	245,020	–	15,336
287,690	–	–	283,417	–	15,000
3,620,595	**–**	**–**	**528,437**	**–**	**3,114,657**

Total 31/12/2020					
Carrying amount			Fair value		
First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
27,254,332	**1,064,666**	**158,179**	**–**	**–**	**29,358,318**
2,847,201	414,726	55,774	–	–	–
67,273	–	–	–	–	–
16,548,599	573,223	87,440	–	–	–
448,747	9,688	794	–	–	–
–	–	–	–	–	–
2,376,027	3,057	–	–	–	–
4,966,485	63,972	14,171	–	–	–
7,228,671	**–**	**–**	**6,674,714**	**–**	**693,738**
1,967,436	–	–	1,308,945	–	693,738
5,261,235	–	–	5,365,769	–	–
34,483,003	**1,064,666**	**158,179**	**6,674,714**	**–**	**30,052,056**

Receivables are specifically hedged.

Mortgage loans include 1,368 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 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.

Fixed-yield securities include the 250 million of senior securities issued by the vehicle Diana SPV and POP NPLs 2020 SPV as part of the two NPL loan sale transactions carried out in 2020.

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	Write-off sub-totals
Fixed-yield securities	9,152,710	–	57,087	–	3,336	5,281	–	–
Loans	28,934,136	–	2,962,130	2,221,301	61,180	89,057	1,231,138	183,436
Total 30/06/2021	**38,086,846**	**–**	**3,019,217**	**2,221,301**	**64,516**	**94,338**	**1,231,138**	**183,436**
Total 31/12/2020	**34,791,425**	**–**	**3,499,065**	**2,250,465**	**66,587**	**120,305**	**1,185,799**	**195,711**
of which: impaired financial assets purchased or originated	–	–	48,202	214,504	–	2,656	117,877	–

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	Write-off sub-totals
1. Loans subject to forbearance complying with the GL	73,051	–	60,823	1,880	74	1,791	510	–
2. Loans subject to other forbearance measures	750,515	–	816,302	67,802	1,203	28,353	17,796	–
3. New loans	2,160,931	–	210,740	14,045	646	545	4,002	–
Total 30/06/2021	**2,984,497**	**–**	**1,087,865**	**83,727**	**1,923**	**30,689**	**22,308**	**–**
Total 31/12/2020	**3,679,789**	**–**	**1,344,680**	**90,330**	**3,770**	**49,709**	**25,217**	**–**

Equity investments – line item 70

Equity investments: changes during the year

	Total 30/06/2021	Total 31/12/2020
A. **Opening balance**	**305,444**	**294,609**
B. **Additions**	**21,380**	**18,107**
B.1 Purchases	–	667
B.2 Write-backs	–	–
B.3 Revaluations	–	99
B.4 Other changes	21,380	17,341
C. **Decreases**	**612**	**7,272**
C.1 Disposals	–	5,985
C.2 Adjustments	–	–
C.3 Writedowns	–	–
C.4 Other changes	612	1,287
D. **Closing balance**	**326,212**	**305,444**
E. **Total revaluations**	**–**	**–**
F. **Total write-downs**	**(447)**	**(447)**

Other increases and decreases derive from the measurement of affiliates under the equity method.

Property, equipment and investment property - line item 90

Property, equipment and investment property used for business purposes: analysis of assets valued at cost

Assets/Values	Total 30/06/2021	Total 31/12/2020
1. **Owned assets**	**272,714**	**263,240**
a) land	74,040	70,103
b) buildings	179,587	175,415
c) furniture	5,239	5,383
d) IT equipment	5,171	2,865
e) other	8,677	9,474
2. **Rights of use acquired through leases**	**187,425**	**199,167**
a) land	–	–
b) buildings	186,981	198,629
c) furniture	–	–
d) IT equipment	129	173
e) other	315	365
Total	**460,139**	**462,407**
of which: obtained by enforcing guarantees received	–	–

Investment property: analysis of assets carried at fair value

	Total 30/06/2021			Total 31/12/2020		
Assets/Values	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Owned assets**	**–**	**–**	**61,760**	**–**	**–**	**62,080**
a) land	–	–	–	–	–	–
b) buildings	–	–	61,760	–	–	62,080
2. **Rights of use acquired through leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**61,760**	**–**	**–**	**62,080**
of which: obtained by enforcing guarantees received	–	–	–	–	–	–

These are owned buildings of the Fondo Immobiliare Centro delle Alpi Real Estate, which was fully consolidated.

Inventory of property, equipment and investment property governed by IAS 2:

Assets/Values	Total 30/06/2021	Total 31/12/2020
1. **Inventory of property, equipment and investment property obtained by enforcing guarantees**	**47,109**	**43,312**
a) land	2,563	1,596
b) buildings	44,546	41,716
c) furniture	–	–
d) IT equipment	–	–
e) Other	–	–
2. **Other inventory of property, equipment and investment property**	**–**	**–**
Total	**47,109**	**43,312**
of which: measured at fair value net of selling costs	–	–

The figures at 31/12/2020 have been restated for comparison purposes following a reclassification within the sub-items.

Intangible assets - line item

Intangible assets: breakdown by type

	Total 30/06/2021		Total 31/12/2020	
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 non-controlling interests	–	–	–	–
A.2 **Other intangible assets**	**18,471**	**–**	**15,696**	**–**
A.2.1 Carried at cost:	18,471	–	15,696	–
a) Intangible assets generated internally	419	–	414	–
b) Other assets	18,052	–	15,282	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**18,471**	**12,632**	**15,696**	**12,632**

Intangible assets comprise 18.471 million for the cost of purchasing software EDP with a finite life that is amortised over that period, which is 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 Cash Generative Units (C.G.U.).

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. At the date of this report, no elements were found to require the impairment test to be carried out.

Other assets - line item 120

	30/06/2021	31/12/2020
Advances paid to tax authorities	51,324	54,691
Withholdings on interest due to customers	160	170
Tax credits and related interest	117,950	6,423
Current account cheques drawn on third parties	20,998	17,680
Current account cheques drawn on Group banks	588	221
Transactions in customers' securities	15,693	76,671
Inventories	1,213	1,149
Advances to suppliers	686	663
Advances to customers awaiting collections	14,880	19,120
Miscellaneous debits in transit	33,332	31,303
Liquid assets serving pension and similar obligations	249	15,002
Accrued income not allocated	29,795	39,234
Prepayments not allocated	35,239	21,451
Differences on elimination	2,516	2,048
Residual items	149,120	112,873
Total	**473,743**	**398,699**

Accrued income and prepayments refer mainly to commissions receivable and expenses incurred not attributable to specific assets items, recognised in compliance with the matching principle. The increase compared with last year is due to the fact that this item also contains the tax credits connected with the Cura Italia and Rilancio Decree-Laws (sub-item Tax credits and related interest), as required by the supervisory regulations.

LIABILITIES AND EQUITY

Financial liabilities measured at amortised cost - line item 10

Financial liabilities measured at amortised cost: breakdown of loans and receivables with banks

Type of transaction/Amounts	Total 30/06/2021				Total 31/12/2020			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. **Due to central banks**	**8,875,184**	**–**	**–**	**–**	**8,082,531**	**–**	**–**	**–**
2. **Due to banks**	**1,999,574**	**–**	**–**	**–**	**1,744,156**	**–**	**–**	**–**
2.1 Current accounts and sight deposits	653,364	–	–	–	535,893	–	–	–
2.2 Fixed-term deposits	820,268	–	–	–	809,135	–	–	–
2.3 Loans	521,451	–	–	–	394,554	–	–	–
2.3.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.3.2 Other	521,451	–	–	–	394,554	–	–	–
2.4 Payables for commitments to repurchase own equity instruments	–	–	–	–	–	–	–	–
2.5 Payables for leases	231	–	–	–	229	–	–	–
2.6 Other payables	4,260	–	–	–	4,345	–	–	–
Total	**10,874,758**	**–**	**–**	**10,874,758**	**9,826,687**	**–**	**–**	**9,826,687**

These payables are not specifically hedged.

Amounts due to central banks comprise four loans from the ECB as part of its Targeted Longer-Term refinancing operations (T-LTRO II).

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. During the first quarter of 2021, another loan was taken out, maturing on 27 March 2024, equal to 806 million.

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.

Financial liabilities measured at amortised cost: breakdown of loans and receivables with customers

Type of transaction/Amounts	Total 30/06/2021				Total 31/12/2020			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**33,156,517**	**–**	**–**	**–**	**31,758,829**	**–**	**–**	**–**
2. **Fixed-term deposits**	**619,343**	**–**	**–**	**–**	**665,874**	**–**	**–**	**–**
3. **Loans**	**874**	**–**	**–**	**–**	**56,377**	**–**	**–**	**–**
3.1 Repurchase agreements	798	–	–	–	55,422	–	–	–
3.2 Other	76	–	–	–	955	–	–	–
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Payables for leases**	**188,997**	**–**	**–**	**–**	**200,392**	**–**	**–**	**–**
6. **Other payables**	**72,560**	**–**	**–**	**–**	**46,876**	**–**	**–**	**–**
Total	**34,038,291**	**–**	**–**	**34,038,291**	**32,728,348**	**–**	**–**	**32,728,348**

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.

Financial liabilities measured at amortised cost: breakdown of securities issued

	Total 30/06/2021				Total 31/12/2020			
	Carrying	Fair Value			Carrying	Fair Value		
Type of security/Amounts	amount	Level 1	Level 2	Level 3	amount	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	2,770,332	2,732,903	117,385	–	2,680,984	2,614,567	133,940	–
1.1 structured	798,671	760,566	85,913	–	812,072	748,303	99,794	–
1.2 others	1,971,661	1,972,337	31,472	–	1,868,912	1,866,264	34,146	–
2. other securities	148,972	–	148,972	–	150,128	–	150,128	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 others	–	–	–	–	–	–	–	–
Total	**2,919,304**	**2,732,903**	**266,357**	**–**	**2,831,112**	**2,614,567**	**284,068**	**–**

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).

Financial liabilities held for trading - line item 20

Financial liabilities held for trading: breakdown by sector

	Total 30/06/2021					Total 31/12/2020				
		Fair Value					Fair Value			
Type of transaction/Amounts	NV	Level 1	Level 2	Level 3	Fair Value*	NV	Level 1	Level 2	Level 3	Fair Value*
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	–	421	32,316	890	–	–	–	32,926	890	–
1.1 for trading	–	421	32,316	890	–	–	–	32,926	890	–
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)	**–**	**421**	**32,316**	**890**	**–**	**–**	**–**	**32,926**	**890**	**–**
Total (A+B)	**–**	**421**	**32,316**	**890**	**–**	**–**	**–**	**32,926**	**890**	**–**

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

Hedging derivatives - line item 40

Hedging derivatives: breakdown by type of hedge and by level

	NV 30/06/2021	Fair value 30/06/2021			NV 31/12/2020	Fair value 31/12/2020		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. **Financial derivatives**	**160,382**	**–**	**4,054**	**–**	**196,352**	**–**	**6,271**	**–**
1) Fair value	160,382	–	4,054	–	196,352	–	6,271	–
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**160,382**	**–**	**4,054**	**–**	**196,352**	**–**	**6,271**	**–**

NV = Nominal or notional value

Other liabilities - line item 80

Other liabilities – breakdown

	30/06/2021	31/12/2020
Amounts at the disposal of third parties	521,660	434,996
Taxes to be paid on behalf of third parties	246,551	57,287
Taxes to be paid	1,512	1,677
Employee salaries and contributions	20,207	24,195
Suppliers	23,001	20,353
Transit accounts for sundry entities	15,378	39,345
Invoices to be received	1,840	16,550
Credits in transit for financial transactions	3,513	2,015
Value date differentials on portfolio transactions	423,593	177,613
Directors' and statutory auditors' emoluments	277	1,263
Loans disbursed to customers to be finalised	7,303	6,734
Miscellaneous credit items being settled	70,329	17,460
Accrued expenses not allocated	33,685	19,666
Deferred income not allocated	16,553	12,877
Differences on elimination	64,278	31,649
Residual items	70,006	50,511
Total	**1,519,686**	**914,191**

The item shows an increase of 66.23% essentially attributable to the Value date differentials on portfolio transactions component. Accrued expenses and deferred income that have not been allocated mainly refer to charges to be paid that cannot be attributed to a specific liability item, but which are recognised in accordance with the matching principle.

Post-employment benefits - line item 90

Post-employment benefits: changes during the year

	Total 30/06/2021	Total 31/12/2020
A. **Opening balance**	**42,341**	**43,789**
B. **Additions**	**3,692**	**8,643**
B.1 Provisions for the year	3,692	7,853
B.2 Other changes	–	790
C. **Decreases**	**5,811**	**10,091**
C.1 Payments made	829	2,397
C.2 Other changes	4,982	7,694
D. **Closing balance**	**40,222**	**42,341**
Total	**40,222**	**42,341**

Provisions for risks and charges - line item 100

Provisions for risks and charges: breakdown

Items/Components	Total 30/06/2021	Total 31/12/2020
1. **Provisions for credit risk related to commitments and financial guarantees given**	**26,884**	**39,726**
2. **Provisions on other commitments and other guarantees given**	**13,082**	**18,794**
3. **Pension and similar obligations**	**185,868**	**189,873**
4. **Other provisions for risks and charges**	**33,087**	**43,364**
4.1 legal disputes	19,075	23,602
4.2 personnel expenses	9,546	15,103
4.3 other	4,466	4,659
Total	**258,921**	**291,757**

Pension and similar obligations of 185.868 million at 30 June 2021 consist of the pension fund for the Parent Company's personnel of 160.309 million and the actuarial liabilities linked to the supplementary pension plan for employees of BPS Suisse SA of 25.559 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 Parent Company 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 325 employees and 312 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.

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 obligations at the reference date is periodically 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 remuneration and benefits. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

Sensitivity analysis of actuarial assumptions

The following is an analysis of the sensitivity to changes in the main actuarial assumptions included in the model. 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 for Banca Popolare di Sondrio Scpa and Banca Popolare di Sondrio (Suisse) SA:

Sensitivity

Banca Popolare di Sondrio SCPA

-0.25% change in the discount rate, liability of 144.826 million
+0.25% change in the discount rate, liability of 133.931 million
-0.25% decrease in the inflation rate, liability of 137.225 million
+0.25% increase in the inflation rate, liability of 141.253 million

Banca Popolare di Sondrio (Suisse) SA

+0.50% change in the discount rate, liability of 18.506 million
-0.50% change in the discount rate, liability of 33.475 million
+0.50% change in rate of salary increase, liability of 26.054 million
-0.50% change in rate of salary increase, liability of 24.940 million

Provisions for risks and charges

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.

The Group recognises 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 30 June 2021, about there were a number of disputes pending, other than tax-related ones, with a total petitum of about 132 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 provide brief information on disputes that are considered important – mainly those with claims exceeding 5 million and with a possible risk of outlay – as well as on cases that are considered significant.

Disputes relating to compound interest and usury

The disputes falling within this line of litigation have for years been a substantial part of the litigation brought against the Italian banking system. For disputes relating to compound interest, the petitum is equal to approximately 7.28 million, with provisions for 2.3 million, while for those relating to usury, the petitum is equal to 5.36 million, with provisions for 0.66 million.

Clawback actions in insolvency proceedings

11 disputes were pending for a petitum of 6.70 million, with a provision of 3 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 appeared in court at the hearing scheduled for 11 May 2021, when the judge adjourned the hearing to 22 November 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 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 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.

Other provisions include the provision for charitable donations consisting of an allocation of profits authorised by the shareholders which is used to make approved payments.

Group equity - Line items 120, 130, 140, 150, 160, 170, 180, 190 and 200

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling 1,360.157 million. Shares in circulation have dividend and voting rights from 1 January 2021.

At the period-end, the Group held treasury shares with a carrying value of 25.455 million.

At 30 June 2021, shareholders' equity, including the portion attributable to non-controlling interests and the result for the period, amounts to 3,227 million, versus 3,096 million at 31 December 2020, with an overall net increase of 131 million. This trend is mainly attributable to the profit for the period of 137 million.

Other information

Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given				
	First stage	Second stage	Third stage	**Total 30/06/2021**	**Total 31/12/2020**
1. **Commitments to make loans**	**11,619,095**	**454,259**	**105,527**	**12,178,881**	**13,092,702**
a) Central banks	–	–	–	–	–
b) Public administrations	432,584	–	3	432,587	706,764
c) Banks	72,676	–	–	72,676	25,135
d) Other financial companies	1,114,385	11,086	15,000	1,140,471	1,088,841
e) Non-financial companies	8,641,771	364,183	83,726	9,089,680	9,931,694
f) Households	1,357,679	78,990	6,798	1,443,467	1,340,268
2. **Financial guarantees given**	**856,772**	**18,768**	**16,199**	**891,739**	**585,464**
a) Central banks	–	–	–	–	–
b) Public administrations	6,509	–	–	6,509	7,068
c) Banks	15,638	383	–	16,021	12,759
d) Other financial companies	117,609	18	210	117,837	134,609
e) Non-financial companies	656,588	5,743	15,145	677,476	359,414
f) Households	60,428	12,624	844	73,896	71,614

Commitment and intermediation for third parties

	Nominal value **Total 30/06/2021**	Nominal value **Total 31/12/2020**
Other guarantees given	**3,418,753**	**3,103,099**
of which: non-performing loans	48,194	60,894
a) Central banks	–	–
b) Public administrations	66,703	65,380
c) Banks	141,233	83,785
d) Other financial companies	32,283	34,178
e) Non-financial companies	2,990,246	2,719,444
f) Households	188,288	200,312
Other commitments	**3,043,575**	**3,142,004**
of which: non-performing loans	49,534	59,727
a) Central banks	–	–
b) Public administrations	16,496	27,026
c) Banks	213,059	212,505
d) Other financial companies	102,880	67,014
e) Non-financial companies	2,641,720	2,736,293
f) Households	69,420	99,166

Management and intermediation for third parties

Type of service	Amount
1. **Execution of orders on behalf of customers**	**753,593**
a) purchases	431,281
1. settled	428,818
2. not settled	2,463
b) sales	322,312
1. settled	321,476
2. not settled	836
2. **Portfolio management**	**1,794,213**
a) Individual	1,794,213
b) Collective	–
3. **Custody and administration of securities**	**53,721,517**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	3,501,710
1. securities issued by consolidated companies	–
2. other securities	3,501,710
b) Third-party securities on deposit (excluding portfolio management): other	16,969,670
1. securities issued by consolidated companies	2,045,023
2. other securities	14,924,647
c) third-party securities on deposit with third parties	20,250,419
d) own securities on deposit with third parties	12,999,718
4. **Other transactions**	**–**

Information on the consolidated income statement

Interest - line items 10 and 20

Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 30/06/2021**	**Total 30/06/2020**
1. **Financial assets measured at fair value through profit or loss**:	**589**	**3,665**	**–**	**4,254**	**3,778**
1.1 Financial assets held for trading	63	–	–	63	139
1.2 Financial assets designated at fair value	–	–	–	–	–
1.3 Other financial assets mandatorily measured at fair value	526	3,665	–	4,191	3,639
2. **Financial assets measured at fair value through other comprehensive income**	**5,357**	**–**	**–**	**5,357**	**6,432**
3. **Financial assets measured at amortised cost**:	**26,276**	**236,351**	**–**	**262,627**	**260,964**
3.1 Loans and receivables with banks	4,880	965	–	5,845	6,313
3.2 Loans and receivables with customers	21,396	235,386	–	256,782	254,651
4. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**
5. **Other assets**	**–**	**–**	**665**	**665**	**–**
6. **Financial liabilities**	**–**	**–**	**–**	**45,198**	**11,443**
Total	**32,222**	**240,016**	**665**	**318,101**	**282,617**
of which: interest and similar income on impaired financial assets	–	14,891	–	14,891	18,982
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 these explanatory notes.

Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 30/06/2021**	**Total 30/06/2020**
1. **Financial liabilities measured at amortised cost**	**(7,452)**	**(31,390)**	**–**	**(38,842)**	**(44,789)**
1.1 Due to central banks	(2)	–	–	(2)	(26)
1.2 Due to banks	(1,456)	–	–	(1,456)	(3,760)
1.3 Due to customers	(5,994)	–	–	(5,994)	(9,281)
1.4 Securities issued	–	(31,390)	–	(31,390)	(31,722)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**(1)**	**(1)**	**–**
5. **Hedging derivatives**	**–**	**–**	**(1,761)**	**(1,761)**	**(2,862)**
6. **Financial assets**	**–**	**–**	**–**	**(13,460)**	**(1,908)**
Total	**(7,452)**	**(31,390)**	**(1,762)**	**(54,064)**	**(49,559)**
of which: interest expense relating to lease liabilities	(1,612)	–	–	(1,612)	(1,829)

Differentials on hedging transactions

Items	Total 30/06/2021	Total 30/06/2020
A. Positive differentials relating to hedging transactions	–	–
B. Negative differentials relating to hedging transactions	(1,761)	(2,862)
C. Balance (A-B)	**(1,761)**	**(2,862)**

Commissions - line items 40 and 50

Fee and commission income: breakdown

Type of service/Amounts	Total 30/06/2021	Total 30/06/2020
a) **guarantees given**	**13,431**	**11,644**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services**:	**53,433**	**46,261**
1. trading in financial instruments	2,020	2,080
2. trading in foreign currencies	–	–
3. portfolio management	5,358	4,917
3.1. individual	5,358	4,917
3.2. collective	–	–
4. custody and administration of securities	5,087	4,209
5. custodian bank	2,859	2,202
6. placement of securities	18,377	15,844
7. order receipt and transmission	6,269	6,945
8. consultancy	–	–
8.1. investments	–	–
8.2. corporate finance	–	–
9. distribution of third-party services	13,463	10,064
9.1. portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2. insurance products	12,057	9,010
9.3. other products	1,406	1,054
d) **collection and payment services**	**45,782**	**38,553**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**11,074**	**9,876**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**18,279**	**17,213**
j) **other services**	**37,696**	**36,988**
Total	**179,695**	**160,535**

The sub-item other services is essentially made up of loan commissions and commissions generated by the foreign currency exchange activities.

Fee and commission expense: breakdown

Services/Amounts	Total 30/06/2021	Total 30/06/2020
a) **guarantees received**	**(62)**	**(228)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(3,526)**	**(2,994)**
1. trading in financial instruments	(1,961)	(1,755)
2. trading in foreign currencies	–	–
3. portfolio management:	–	–
3.1 own	–	–
3.2 delegated to third parties	–	–
4. custody and administration of securities	(1,565)	(1,239)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(3,405)**	**(3,631)**
e) **other services**	**(1,721)**	**(1,487)**
Total	**(8,714)**	**(8,340)**

Dividends and similar income – line item 70

Dividends and similar income: breakdown

	Total 30/06/2021		Total 30/06/2020	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,088	63	1,138	127
B. Other financial assets mandatorily measured at fair value	–	501	–	572
C. Financial assets measured at fair value through other comprehensive income	2,482	36	1,102	11
D. Equity investments	36	–	–	–
Total	**3,606**	**600**	**2,240**	**710**

Net trading income – line item 80

Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	**Profit (loss) [(A+B) – (C+D)]**
1. **Financial assets held for trading**	**12,616**	**18,405**	**(1,048)**	**(60)**	**29,913**
1.1 Fixed-yield securities	1	1	(109)	(20)	(127)
1.2 Variable-yield securities	3,554	5,535	(870)	(33)	8,186
1.3 Mutual funds	3,605	981	(39)	(7)	4,540
1.4 Loans	–	–	–	–	–
1.5 Other	5,456	11,888	(30)	–	17,314
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. **Financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**25**
4. **Derivatives**	**3,829**	**6,357**	**(3,241)**	**(5,629)**	**1,361**
4.1 Financial derivatives:	3,829	6,357	(3,241)	(5,629)	1,361
– On debt securities and interest rates	2,919	2,663	(2,806)	(2,355)	421
– On equities and equity indices	910	396	(435)	–	871
– On currency and gold	–	–	–	–	45
– Other	–	3,298	–	(3,274)	24
4.2 Credit derivatives	–	–	–	–	–
of which: natural hedges linked to the fair value option	–	–	–	–	–
Total	**16,445**	**24,762**	**(4,289)**	**(5,689)**	**31,299**

Net trading income passes from -18.663 million to 31.299 million, with a rise in net trading income on securities from - 0.732 million to a gain of 6.457 million and an overall positive imbalance, between capital gains and losses on securities and currency of 11.568 million compared with a negative one of 19.726 million in the comparative period.

The income from trading in other financial assets of 11.888 million is made up principally of exchange gains.

This table does not include the result of the securities in the post-employment fund, which is shown under another item.

Net hedging gains (losses) – line item 90

Net hedging gains (losses): breakdown

Income items/Amounts	Total 30/06/2021	Total 30/06/2020
A. **Income related to:**		
A.1 Fair value hedging derivatives	1,881	2,571
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)	**1,881**	**2,571**
B. **Charges relating to:**		
B.1 Fair value hedging derivatives	(1,802)	(2,575)
B.2 Hedged financial assets (fair value)	-	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Financial derivatives - Cash-flow hedges	-	-
B.5 Assets and liabilities in currency	-	-
Total charges from hedging activities (B)	**(1,802)**	**(2,575)**
C. **Net hedging gains (losses) (A – B)**	**79**	**(4)**
of which: result of hedging on net positions	-	-

The income consists of 1.881 million from the fair value valuation of hedging derivatives against a negative valuation of 1.802 million of the fair value of the loans being hedged. The net result of measuring the hedging structure at fair value is a positive balance of 0.079 million.

Gains (losses) on sale or repurchase – line item 100

Gains (losses) from sales or repurchases: breakdown

	Total 30/06/2021			Total 30/06/2020		
Items/income items	Gains	Losses	Gain (loss)	Gains	Losses	Gain (loss)
Financial assets						
1. **Financial assets measured at amortised cost**	**13,242**	**–**	**13,242**	**7,843**	**(48,245)**	**(40,402)**
1.1 Loans and receivables with banks	–	–	–	–	–	–
1.2 Loans and receivables with customers	13,242	–	13,242	7,843	(48,245)	(40,402)
2. **Financial assets measured at fair value through other comprehensive income**	**11,577**	**(2,423)**	**9,154**	**7,112**	**–**	**7,112**
2.1 Fixed-yield securities	11,577	(2,423)	9,154	7,112	–	7,112
2.2 Loans	–	–	–	–	–	–
Total assets (A)	**24,819**	**(2,423)**	**22,396**	**14,955**	**(48,245)**	**(33,290)**
Financial liabilities valued at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**
1. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Due to customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Securities issued**	**6**	**(27)**	**(21)**	**19**	**(15)**	**4**
Total liabilities (B)	**6**	**(27)**	**(21)**	**19**	**(15)**	**4**

Net gains/losses on financial assets and liabilities measured at fair value through profit or loss - line item 110

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**	**22,311**	**1,046**	**(11,766)**	**(408)**	**11,183**
1.1 Fixed-yield securities	2,547	1,013	–	(375)	3,185
1.2 Variable-yield securities	42	14	–	–	56
1.3 Mutual funds	11,684	19	(3,401)	(33)	8,269
1.4 Loans	8,038	–	(8,365)	–	(327)
2. **Financial assets: exchange differences**	**–**	**–**	**–**	**–**	**1,189**
Total	**22,311**	**1,046**	**(11,766)**	**(408)**	**12,372**

The gains and losses recognised mainly concern mutual funds and Italian government securities. This line item also includes the change in fair value of loans which did not pass the SPPI test.

Net adjustments for credit risk – line item 130

Net adjustments for credit risk related to financial assets measured at amortised cost: breakdown

	Adjustments (1)			Write-backs (2)			
	First and second stage	Third stage		First and second stage	Third stage	**Total**	**Total**
Transactions/Income items		Write–off	Other			**30/06/2021**	**30/06/2020**
A. **Loans and receivables with banks**	**(1,719)**	**–**	**–**	**938**	**–**	**(781)**	**(6,449)**
– Loans	(1,510)	–	–	534	–	(976)	(1,030)
– Fixed-yield securities	(209)	–	–	404	–	195	(5,419)
of which: impaired loans acquired or originated	–	–	–	–	–	–	–
B. **Loans and receivables with customers**	**(54,188)**	**(7,065)**	**(141,690)**	**83,691**	**54,520**	**(64,732)**	**(35,693)**
– Loans	(53,554)	(7,065)	(141,690)	81,920	54,520	(65,869)	(34,136)
– Fixed-yield securities	(634)	–	–	1,771	–	1,137	(1,557)
of which: impaired loans acquired or originated	(454)	–	(21,522)	751	3,812	(17,413)	(997)
Total	**(55,907)**	**(7,065)**	**(141,690)**	**84,629**	**54,520**	**(65,513)**	**(42,142)**

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 second stage	Third stage		**Total**
Transactions/Income items		Write-off	Other	**30/06/2021**
1. Loans subject to forbearance complying with the GL	(83)	-	(361)	(444)
2. Loans subject to other forbearance measures	(6,113)	-	(5,270)	(11,383)
3. New loans	(220)	-	(2,640)	(2,860)
Total	**(6,416)**	**-**	**(8,271)**	**(14,687)**

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)			
	First and second stage	Third stage		First and second stage	Third stage	Total 30/06/2021	Total 30/06/2020
		Write-offs	Other				
A. **Debt securities**	**(387)**	**–**	**–**	**1,053**	**–**	**666**	**(5,295)**
B. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Customers	–	–	–	–	–	–	–
– Banks	–	–	–	–	–	–	–
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
Total	**(387)**	**–**	**–**	**1,053**	**–**	**666**	**(5,295)**

Value adjustments relate to the measurement of credit risk on debt securities classified under financial assets measured at fair value through other comprehensive income.

Gains/losses on contractual changes not resulting in derecognition - line item 140

Gains (losses) on contractual changes: breakdown

Contractual changes not resulting in derecognition amounted to 2.987 million, with respect to 5.389 million in the comparative period.

Administrative expenses - line item 190

Personnel expenses: breakdown

Type of expense/Amounts	**Total 30/06/2021**	**Total 30/06/2020**
1) **Employees**	**(130,293)**	**(120,356)**
a) wages and salaries	(82,782)	(80,475)
b) social security contributions	(21,431)	(20,369)
c) post-employment benefits	(11)	(6)
d) pension expenses	(2,954)	(3,027)
e) provision for employee termination indemnities	(3,680)	(3,646)
f) provision for pension and similar obligations:	(7,496)	(859)
– defined contribution	–	–
– defined benefits	(7,496)	(859)
g) payments to external supplementary pension funds:	(2,002)	(1,943)
– defined contribution	(1,992)	(1,934)
– defined benefits	(10)	(9)
h) costs deriving from payment agreements based on own capital instruments	–	–
i) other personnel benefits	(9,937)	(10,031)
2) **Other working personnel**	**(157)**	**(62)**
3) **Directors and Statutory Auditors**	**(1,243)**	**(1,325)**
4) **Retired personnel**	**–**	**–**
Total	**(131,693)**	**(121,743)**

Average number of employees by category

	Total 30/06/2021	Total 31/12/2020
1) **Employees**	**3,329**	**3,286**
a) managers	35	37
b) officials	814	811
c) other employees	2,480	2,438
2) **Other personnel**	**5**	**5**

	Total 30/06/2021	Total 31/12/2020
– Number of employees at year-end	3,392	3,328
– Other personnel	5	6
BRANCHES	**370**	**369**

Other administrative expenses: breakdown

Type of service/Amounts	30/06/2021	30/06/2020
Telephone, post and data transmission	(7,411)	(7,297)
Maintenance of property, equipment and investment property	(4,176)	(4,148)
Rent of buildings	(276)	(191)
Security	(2,133)	(2,008)
Transportation	(1,356)	(1,407)
Professional fees	(22,378)	(22,700)
Office materials	(946)	(915)
Electricity, heating and water	(2,624)	(2,705)
Advertising and entertainment	(1,627)	(1,576)
Legal	(7,099)	(8,815)
Insurance	(907)	(1,161)
Company searches and information	(3,809)	(3,839)
Indirect taxes and dues	(30,383)	(27,181)
Software and hardware rental and maintenance	(12,929)	(10,689)
Data entry by third parties	(1,186)	(1,345)
Cleaning	(3,181)	(3,040)
Membership fees	(967)	(1,114)
Services received from third parties	(4,303)	(3,814)
Outsourced activities	(11,870)	(11,638)
Deferred charges	(1,015)	(141)
Goods and services for employees	(279)	(278)
Other	(37,709)	(29,312)
Total	**(158,564)**	**(145,314)**

Net accruals to provisions for risks and charges - line item 200

Net accruals to provisions for risks and charges: breakdown

The line item is positive for 18.392 million made up of the difference between provisions for the year and reallocations.

Net gains (losses) on equity investments - line item 250

Net gains (losses) on equity investments: breakdown

Income elements/Sectors	Total 30/06/2021	Total 30/06/2020
1) **joint control companies**		
A. Income	8	14
1. Revaluations	8	14
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	-	(17)
1. Write-downs	-	(17)
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net gain (loss)	**8**	**(3)**
2) **Associated companies (subject to significant influence)**		
A. Income	16,302	14,015
1. Revaluations	16,302	13,909
2. Gains on disposal	-	106
3. Write-backs	-	-
4. Other income	-	-
B. Charges	(80)	(52)
1. Write-downs	(80)	(52)
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net gain (loss)	**16,222**	**13,963**
Total	**16,230**	**13,960**

Net gains on sale of investments - line item 280

Net gains on sales of investments:

Income item/amount	Total 30/06/2021	Total 30/06/2020
A. **Buildings**	**152**	**101**
– Gains on disposal	152	101
– Losses on disposal	-	-
B. **Other assets**	**16**	**(1)**
– Gains on disposal	16	1
– Losses on disposal	-	(2)
Net gain (loss)	**168**	**100**

Earnings per share

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.

	30/06/2021	30/06/2020
number of shares	453,385,777	453,385,777

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.

There are no circumstances under which earnings can be diluted and the financial statements do not show discontinued activities to be sold for which basic and diluted EPS must be stated separately.

	30/06/2021	30/06/2020
Basic EPS	0.301	0.032
Diluted EPS	0.301	0.032

Information on risks and related hedging policy

The information provided in this part may be based on internal management figures and, therefore, may not coincide with the tables showing the balance sheet and income statement figures.

Risks of the Banking Group

Credit risk

QUALITATIVE INFORMATION

Qualitative information about credit risk is provided in the financial statements at 31/12/2020. With reference to impaired financial assets, please refer to the information in the report on operations, in the paragraph on Lending, and in the notes, in the Financial assets measured at amortised cost section. A summary of the most important aspects with reference to the first half of 2021 is shown below.

New Definition of Default (New DoD)

For the purposes of the classification of non-performing exposures, it should be noted that starting from 1 January 2021, the Group adopted the New Definition of Default. 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. For more details, see the contents of the financial statements as at 31.12.2020, Part E - Section 1 Credit risk.

The final decisions of the inspections made on the AIRB (Advanced Internal Rating Based) models by the ECB are expected in 2021. The decisions will allow the Group to put into production the updates to the model that also take into account the new definition of default.

Methods of measuring expected losses - changes 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 Group introduced a series of evolutionary specifications into its methodological framework.

More precisely, starting from the last accounting 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 and periodically update, within the counterparties that have submitted a request for a moratorium, a list of high risk positions (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 maintain the geo-sectoral differentiations and state interventions in support of the economy in the modelling of the credit risk parameters (PD and LGD) introduced for a more precise modelling of the effects of the pandemic.

Methods for measuring expected losses - ECL sensitivity analysis

In general, the macroeconomic scenarios reflect changes in dozens of macro-factors forecast over long-term time horizons and usually updated on a quarterly basis in market conditions that are considered standard[1]. These forecasts are subjected to specific analysis, discussion and approval by management committees appointed for this purpose. 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.

The first half of 2021 just ended was characterised by a general improvement in the forecasts regarding how the macroeconomic context was likely to evolve, followed by a simultaneous decline in the level of dispersion between the macroeconomic forecasts issued by the main national and international research institutes. In order to ensure optimal monitoring of these aspects, given the particular importance they have acquired in the light of the pandemic, the Bank has maintained its specific oversight in this area, as well as its analysis, benchmarking and use of almost monthly updates issued 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 June 2021, the Parent Company adopted the following three different macro-scenarios:

- a baseline scenario, which is the one issued by the official supplier in the latest forecast report available at the date of calculating the write-downs. This scenario is considered that one that is most plausible and future-oriented in the current macroeconomic context;
- a (slightly) adverse scenario, which is the one issued by the official supplier in the latest forecast report available at the date of calculating the collective write-downs;
- a (slightly) favourable scenario[2], corresponding which is the one issued by the official supplier in the latest forecast report available at the date of calculating the collective write-downs.

Lastly, as regards the weighting with which these scenarios contribute to the final calculation of the write-downs, the baseline scenario - which, in accordance with its name, shows the evolution of the macroeconomic context that is considered most plausible and future-oriented at the time of making the forecasts - is assigned the highest probabilistic coefficient, whereas the so-called alternative scenarios, due to their residual nature, are assigned lower weighting factors, which are more or less equally probable.

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 parameters used in this scenario assume evolutionary dynamics which are in any case extreme compared with the conditions that are considered standard, as can be seen from Table 1.

Table 1 shows the evolutionary dynamics of the main macroeconomic and financial variables for each of these scenarios over a three-year horizon.

Table 1 – Annual forecasts for the main macro variables.

	Baseline Dec 2020			Adverse Dec 2020			Favourable Dec 2020		
Macro-variable	2021	2022	2023	2021	2022	2023	2021	2022	2023
Italy's GDP (% on an annual basis)	5.3%	4.1%	2.6%	4.6%	2.3%	2.3%	5.9%	6.5%	2.7%
Italy's unemployment	10.7%	11.2%	11.1%	10.8%	12.2%	13.1%	10.6%	10.2%	8.9%
Italy's inflation (% on an annual basis)	1.5%	1.3%	1.4%	1.5%	1.1%	1.2%	1.6%	1.6%	1.6%
Italy stock index (% on an annual basis)	21.8%	9.4%	8.5%	15.7%	-5.9%	6.8%	26.1%	25.6%	10.6%
Interest rate on 10-year BTPs (%)	0.8%	1.0%	1.2%	0.8%	1.2%	1.6%	0.8%	1.0%	1.1%
Price index of Italian residential properties (% on an annual basis)	0.8%	1.3%	1.7%	0.7%	-0.3%	0.3%	0.9%	0.2%	0.3%
Euro/dollar exchange rate	1.20	1.18	1.18	1.20	1.18	1.18	1.20	1.18	1.18
Brent oil: $ for barrel	69	69	67	69	69	67	69	69	67
3-month Euribor	-0.5%	-0.5%	-0.4%	-0.5%	-0.5%	-0.4%	-0.5%	-0.5%	-0.2%

For more information on the inclusion of forward-looking information (FLI) in the impairment model, please refer to paragraph 2.3 of Section 1 Credit risk of Part E of the Notes to the financial statements at 31/12/2020.

In order to quantify the variability to which the final write-downs are subject, given all the[3] 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.

In particular, with reference to the effects of specific scenario-dependency on the amount of impairment limited to the risk parameters, note that the use of alternative scenarios, on a stand-alone basis, would entail a change in the overall level of write-downs of performing loans between -1.10% (favourable scenario) and +2.5% (adverse scenario) with respect to that officially calculated with appropriate weighting. This analysis confirms the fact, which is already evident from the above table, that the alternative scenarios contain moderate variations compared with the baseline scenario, so they are actually a reasonable alternative.

On the other hand, as regards the effects deriving from a different definition of the weighting coefficients by which the macro-scenarios are included in the determination of the final provisions, it emerges that (slightly) different weighting schemes from the one actually used would entail changes in the overall level of impairment between -0.15% (for a weighting scheme in which slightly less importance is given to the moderately adverse scenario to the benefit of the moderately favourable one) and +0.35% (for a weighting scheme in which slightly more importance is given to the moderately adverse scenario to the detriment of the moderately favourable one).

Lastly, as regards the combined effects of the modelling of scenario-dependency on the stage allocation and on quantification of the risk parameters, note that the adoption of alternative scenarios in the stage allocation process as well would involve changes in the materiality of the stock classified in Stage 2 in terms of positions between -0.5% (favourable scenario) and +1.3% (adverse scenario) compared with the stock currently in stage 2, which would be associated with changes in collective write-downs of performing loans of between -1.0% (moderately favourable scenario) and +6.4% (moderately adverse scenario).

3 See for example the paper ESMA32-63-791 of 22 October 2019.

Impacts resulting from the Covid-19 pandemic

With reference to credit risk, the Banca Popolare di Sondrio Group 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 Group'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.

The Banca Popolare di Sondrio Group has established guidelines 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 Group 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 the Banca Popolare di Sondrio Group still outstanding at 30 June 2021 are summarised below, distinguishing between those that comply with the EBA guidelines (8%) and those that do not (92%).

	Gross carrying amount (millions of €)	Net carrying amount (millions of €)
Moratoria EBA compliant	137	135
Moratoria not EBA compliant	1,652	1,605
Total	**1,789**	**1,740**

Over 53% 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 Group at 30 June 2021.

	Gross carrying amount (millions of €)	Net carrying amount (millions of €)
Loans subject to government guarantees	2,431	2,423

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 30 June 2021 the Group has temporarily reclassified to Stage 2 approximately 1 billion of loans subject to Covid-19 moratoria and identified as high risk, in order to avoid a possible cliff effect.

In addition, expert-based overlays act on the entire performing loan portfolio, including these moratorium positions: 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 pandemic crisis.

QUANTITATIVE INFORMATION

Asset quality

Non-performing and performing loans: size and adjustments

Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/quality	Bad loans	Unlikely-to-pay loans	Non-performing past due exposures	Performing past due exposures	Other performing exposures	**Total**
1. Financial assets measured at amortised cost	316,181	610,629	63,355	404,433	40,542,775	41,937,373
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	3,025,222	3,025,222
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	27,420	1,505	14,186	440,693	483,804
5. Financial assets being sold	–	–	–	–	–	–
Total 30/06/2021	**316,181**	**638,049**	**64,860**	**418,619**	**44,008,691**	**45,446,400**
Total 31/12/2020	**345,812**	**694,656**	**51,642**	**100,949**	**40,913,994**	**42,107,055**

The word exposures is understood as excluding equities and mutual funds.

Distribution of financial assets by portfolio and quality of lending (gross and net values)

	Non-performing				Performing			
Portfolio/quality	Gross exposure	Total write-downs	Net exposure	Write-off sub-totals	Gross exposure	Total write-downs	Net exposure	**Total (net exposure)**
1. Financial assets measured at amortised cost	2,221,303	1,231,138	990,165	183,436	41,106,079	158,871	40,947,208	41,937,373
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	3,026,524	1,302	3,025,222	3,025,222
3. Financial assets designated at fair value	–	–	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	43,276	14,351	28,925	–	–	–	454,879	483,804
5. Financial assets being sold	–	–	–	–	–	–	–	–
Total 30/06/2021	**2,264,579**	**1,245,489**	**1,019,090**	**183,436**	**44,132,603**	**160,173**	**44,427,310**	**45,446,400**
Total 31/12/2020	**2,292,322**	**1,200,210**	**1,092,112**	**195,724**	**40,808,566**	**188,837**	**41,014,943**	**42,107,055**

With reference to financial assets held for trading, those at fair value and hedging derivatives, the gross exposure is shown at the value resulting from the valuation at period-end.

Consolidation for supervisory purposes – On- 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 exposures**					
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	–	1,333	3	1,330	–
– of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	–	3,813,729	9,494	3,804,235	–
– of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**–**	**3,815,062**	**9,497**	**3,805,565**	**–**
B. **Off-balance sheet credit exposures**					
a) Non-performing	–	–	–	–	–
b) Performing	–	529,878	92	529,786	–
Total (B)	**–**	**529,878**	**92**	**529,786**	**–**
Total (A+B)	**–**	**4,344,940**	**9,589**	**4,335,351**	**–**

On-balance sheet 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. Off-balance sheet exposures are represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

Consolidation for supervisory purposes – On-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	Net exposure	Write-off sub-totals
A. **On-balance sheet exposures**					
a) Bad loans	1,085,981	–	769,798	316,183	162,767
– of which: exposures subject to forbearance	256,176	–	182,906	73,270	10,116
b) Unlikely-to-pay loans	1,104,700	–	466,650	638,050	20,669
– of which: exposures subject to forbearance	679,571	–	271,770	407,801	–
c) Non-performing past due exposures	73,900	–	9,040	64,860	–
– of which: exposures subject to forbearance	28,151	–	3,356	24,795	–
d) Performing past due exposures	–	425,050	7,761	417,289	–
– of which: exposures subject to forbearance	–	20,295	1,021	19,274	–
e) Other performing exposures	–	40,371,700	142,909	40,228,791	2
– of which: exposures subject to forbearance	–	758,393	30,008	728,385	–
Total (A)	**2,264,581**	**40,796,750**	**1,396,158**	**41,665,173**	**183,438**
B. **Off-balance sheet credit exposures**					
a) Non-performing	219,454	–	22,050	197,404	–
b) Performing	–	20,383,391	17,825	20,365,566	–
Total (B)	**219,454**	**20,383,391**	**39,875**	**20,562,970**	**–**
Total (A+B)	**2,484,035**	**61,180,141**	**1,436,033**	**62,228,143**	**183,438**

On-balance sheet exposures include the customer loans shown in item 40b) as well as other financial assets represented by non-bank securities included in items 20, 30 and 40 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposures are represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

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. **BAD LOANS**	**163**	**–**	**163**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–
b) Subject to other forbearance	–	–	–	–
c) New loans	163	–	163	–
B. **UNLIKELY TO PAY LOANS**	**82,152**	**22,794**	**59,358**	**–**
a) Subject to forbearance compliant with GLs	1,862	508	1,354	–
b) Subject to other forbearance measures	67,874	18,019	49,855	–
c) New loans	12,416	4,267	8,149	–
C. **PAST DUE AND NON-PERFORMING LOANS**	**3,649**	**138**	**3,511**	**–**
a) Subject to forbearance compliant with GLs	18	2	16	–
b) Subject to other forbearance measures	868	88	780	–
c) New loans	2,763	48	2,715	–
D. **PAST DUE AND PERFORMING LOANS**	**2,915**	**104**	**2,811**	**–**
a) Subject to forbearance compliant with GLs	–	–	–	–
b) Subject to other forbearance measures	1,507	100	1,407	–
c) New loans	1,408	4	1,404	–
E. **OTHER PERFORMING LOANS**	**4,138,035**	**31,908**	**4,106,127**	**–**
a) Subject to forbearance compliant with GLs	135,052	1,864	133,188	–
b) Subject to other forbearance measures	1,582,218	28,858	1,553,360	–
c) New loans	2,420,765	1,186	2,419,579	–
TOTAL (A+B+C+D+E)	**4,226,914**	**54,944**	**4,171,970**	**–**

Significant risks

	30/06/2021	31/12/2020
Number of positions	18	17
Exposure	25,671,169	22,821,057
Risk position	5,677,359	6,199,279

The introduction of EU Regulation 876/2016 (CRR2) which took place from an accounting point of view on 30 June 2021 involved a change in the type of regulatory capital to be used for the identification of a high risk within the ambit of significant risks. In particular, in accordance with this EU Regulation, a customer or group of related customers whose exposure exceeds 10% of Tier 1 capital is defined as high risk, whereas previously only positions exceeding 10% of own funds were qualified as high risk. This exposure limit of 10% with respect to Tier 1 capital is commensurate with the nominal amount of the exposure, determined as the sum of on-balance sheet risk assets and off-balance sheet transactions with a customer or group of related customers. On the other hand, the risk position, on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

The above positions include the Republic of Italy (nominal exposure, 10,816 million; risk position, 6.6 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione Garanzia - Clearing House (nominal exposure, 738 million; risk position, nil), principally in relation to lending repo transactions, as well as nominal exposures to Spain of 1,731 million with zero risk positions.

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.

Banking group - Market risk

Qualitative information about interest rate, price and exchange rate risks is provided in the financial statements at 31/12/2020.

Derivative instruments and related hedging policy

Financial derivatives

Financial trading derivatives: notional values at period end

	Total 30/06/2021				Total 31/12/2020			
	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**	**–**	**–**	**1,520,485**	**–**	**–**	**–**	**1,518,642**	**–**
a) Options	–	–	28,178	–	–	–	29,820	–
b) Swaps	–	–	1,492,307	–	–	–	1,488,822	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**107,442**	**–**	**–**	**–**	**26,500**	**–**
a) Options	–	–	107,442	–	–	–	26,500	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**4,369,343**	**–**	**–**	**–**	**3,971,643**	**–**
a) Options	–	–	61,899	–	–	–	45,503	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	4,307,444	–	–	–	3,926,140	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**108,150**	**–**	**–**	**–**	**34,196**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**6,105,420**	**–**	**–**	**–**	**5,550,981**	**–**

Financial trading derivatives: gross positive and negative fair value - breakdown by product

Underlying assets/Type of derivative	Total 30/06/2021				Total 31/12/2020			
	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	–	–	7,601	–	–	–	6,721	–
b) Interest rate swaps	–	–	7,503	–	–	–	11,605	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	45,574	–	–	–	40,097	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	4,486	–	–	–	1,319	–
Total	**–**	**–**	**65,164**	**–**	**–**	**–**	**59,742**	**–**
2. **Negative fair value**								
a) Options	–	–	2,064	–	–	–	1,679	–
b) Interest rate swaps	–	–	6,075	–	–	–	10,146	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	21,069	–	–	–	20,694	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	4,418	–	–	–	1,297	–
Total	**–**	**–**	**33,626**	**–**	**–**	**–**	**33,816**	**–**

Financial hedging derivatives

Financial hedging derivatives: notional values at period end

Underlying assets/Type of derivative	Total 30/06/2021				Total 31/12/2020			
	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. **Fixed-yield securities and interest rates**	**–**	**–**	**160,382**	**–**	**–**	**–**	**196,352**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	160,382	–	–	–	196,352	–
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	**–**	**–**	**160,382**	**–**	**–**	**–**	**196,352**	**–**

Financial hedging derivatives: gross positive and negative fair value - breakdown by product

	positive and negative fair value							
	Total 30/06/2021				**Total 31/12/2020**			
	Over the counter				Over the counter			
		Without Central Counterparties				Without Central Counterparties		
Types of derivatives	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	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	–	–	4,054	–	–	–	6,271	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**4,054**	**–**	**–**	**–**	**6,271**	**–**

Banking group - Liquidity risk

Qualitative information about liquidity risk is provided in the financial statements at 31/12/2020.

Securitisation transactions and disposal of assets

Covered bonds

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%
Coupon	Annual
Applicable law	Italian

Sales of loans

At 30 June 2021 the Group’s exposure in Asset Backed Securities (ABS) deriving from securitisations amounts to 678.898 million.

The breakdown of ABS securities is as follows:

- 154.923 million relating to the securities issued by Diana SPV, which the Group holds following the GACS securitisation of bad loans, called Diana, completed in June 2020 (senior tranche of 154.255 million; mezzanine tranche and junior of 0.668 million);
- 95.323 million relating to the securities issued by Pop NPLs 2020 Srl, which the Group holds following the GACS securitisation of bad loans, called Luzzatti, completed in December 2020 (senior tranche of 95.222 million; mezzanine tranche of 0.101 million);
- 428.652 million relating to the securities of third party securitisations, issued by BNT Portfolio SPV, established in 2014 to complete the securitisation of the agricultural loans of Banca della Nuova Terra, and by Alba 6 SPV..

For more details, see Part E - section 2 - C. Securitisations, in the notes to the financial statements at 31 December 2020.

The Group also holds 16.334 million of structured credit securities relating to units of mutual funds subscribed following multi-originator sales of NPL portfolios carried out during the previous year and in the first half of 2021. For comments on the mutual funds deriving from multi-originator sales, please refer to Part E - Section 2 - D.3 Disposals - Financial assets sold and fully derecognised in the notes to the financial statements at 31 December 2020.

The increase of approximately 5 million compared with the carrying amount at 31 December 2020 (12 million) is mainly attributable to the new sale of NPLs (Illimity) completed during the first half of 2021.

Banking group - Operational risks

Qualitative information about operational risks is provided in the financial statements at 31/12/2020.

Information on exposure to sovereign debt

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

In this regard, the overall exposure of the bank at 30/06/2021 amounted to 11,931 million and was structured as follows:

a) Italian Government securities: 7,445 million;

b) Securities of other issuers: 2,767 million;

c) Loans to government departments: 263 million;

d) Loans to local or state-owned enterprises: 1,212 million;

e) Loans to other public administrations and miscellaneous entities: 244 million.

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

Information on equity

Consolidated capital

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 has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. Indeed, 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 credit quality and the uncertain value of assets. Without forgetting the need to support the economy in order to stimulate a recovery.

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy 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 the Group features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up *en masse*.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the Group to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

The crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit Spa with a view to providing specialist tools in support of the real economy.

The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of 343 million.

The ordinary shareholders' meeting of 11 May 2021, called to approve the 2020 financial statements and the allocation of the profit for the year, approved the payment of dividends for a total of 27.203 million.

The responsibilities that the Group 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.

QUANTITATIVE INFORMATION

The component parts and amounts of the Group's equity are described in the following tables.

Consolidated equity: breakdown

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**	**1,523,323**		**513**	**76,366**	**1,600,202**
4. **Equity instruments**					**–**
5. **(Treasury shares)**	**(25,455)**		**–**	**–**	**(25,455)**
6. **Valuation reserves**	**30,857**	**–**	**191**	**5,133**	**36,181**
– Variable-yield securities measured at fair value through other comprehensive income	80,512	–	–	–	80,512
– 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	19,106	–	–	–	19,106
– Property, equipment and investment property					–
– Intangible assets					–
– Hedges of foreign investments					–
– Cash-flow hedges					–
– Hedging instruments (non-designated elements)					–
– Exchange differences	–	–	–	(139)	(139)
– 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	(68,761)	–	–	–	(68,761)
– Portions of valuation reserves related to subsidiaries carried at equity	–	–	–	5,272	5,272
– Special revaluation regulations	–	–	191	–	191
7. **Profit (loss)**	**135,494**	**–**	**(469)**	**4,355**	**139,380**
Total	**3,141,318**	**–**	**236**	**85,853**	**3,227,407**

Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

	Consolidation for supervisory purposes		Insurance companies		Other companies		Consolidated eliminations and adjustments		**Total 30/06/2021**	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	21,077	(1,971)	–	–	–	–	–	–	21,077	(1,971)
2. Variable-yield securities	83,568	(3,056)	–	–	–	–	–	–	83,568	(3,056)
3. Loans	–	–	–	–	–	–	–	–	–	–
Total 30/06/2021	**104,645**	**(5,027)**	**–**	**–**	**–**	**–**	**–**	**–**	**104,645**	**(5,027)**
Total 31/12/2020	**103,414**	**(3,550)**	**–**	**–**	**–**	**–**	**–**	**–**	**103,414**	**(3,550)**

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**	**25,700**	**74,164**	**–**
2. **Positive changes**	**7,272**	**9,953**	**–**
2.1 Increases in fair value	6,562	9,856	–
2.2 Adjustments for credit risk	708	–	–
2.3 Transfer to income statement of negative reserves from disposals	2	–	–
2.4 Transfer to other components of equity (variable-yield securities)	–	97	–
2.5 Other changes	–	–	–
3. **% negative change**	**(13,866)**	**(3,605)**	**–**
3.1 Reductions in fair value	(4,014)	(240)	–
3.2 Write-backs for credit risk	(9,852)	–	–
3.3 Transfer to income statement from positive reserves: from disposals	–	–	–
3.4 Transfer to other components of equity (variable-yield securities)	–	(3,365)	–
3.5 Other changes	–	–	–
4. **Closing balance**	**19,106**	**80,512**	**–**

Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans is negative by 68.761 million. This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

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 30 December 2021 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.

Related-party transactions

Related party disclosures

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Parent Company adopted its own Internal procedures on related party transactions. A related party is understood as being a person in a certain position who could exercise an influence over the Group such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

Related parties have been identified in accordance with IAS 24 and with the above mentioned Consob Regulation. Related parties are:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Group just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the period.

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 period 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	799	10,264	8	12	635	1,537
Statutory auditors	239	697	2	–	938	895
Management	–	1,557	–	5	620	–
Family members	2,561	15,136	18	30	1,174	12,204
Subsidiaries	4,158,754	42,908	1,869	128	1,942,515	12,387
Associated companies	905,589	142,540	1,567	29	265,847	1,203
Other	42,141	19,526	218	6	107,246	6,108

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA and Factorit spa, while loans to associated companies relate for 362.2 million to Alba Leasing S.p.A. and for 350.6 million to Arca Holding S.p.A..

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.

Primary format

Distribution by business segment: income statement

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 30/06/2021**
Interest income	152,726	126,577	–	97,043	376,346	-58,245	318,101
Interest expense	-14,267	-43,921	–	-54,121	-112,309	58,245	-54,064
Net interest income	**138,459**	**82,656**	**–**	**42,922**	**264,037**	**–**	**264,037**
Fee and commission income	77,361	35,994	55,018	11,301	179,674	21	179,695
Fee and commission expense	-2,828	-2,601	-3,366	206	-8,589	-125	-8,714
Dividends and similar income	–	–	–	4,206	4,206	–	4,206
Net trading income	–	–	–	31,299	31,299	–	31,299
Net hedging gains (losses)	–	195	–	-116	79	–	79
Gains/losses from sales or repurchases	692	–	–	21,683	22,375	–	22,375
Net change in financial assets and liabilities carried at fair value	1,091	-1,419	–	12,700	12,372	–	12,372
Total income	**214,775**	**114,825**	**51,652**	**124,201**	**505,453**	**-104**	**505,349**
Net adjustments to financial assets	-59,880	-8,149	–	195	-67,834	–	-67,834
Net financial income	**154,895**	**106,676**	**51,652**	**124,396**	**437,619**	**-104**	**437,515**
Administrative expenses	-62,871	-84,841	-27,056	-83,229	-257,997	-32,260	-290,257
Net accruals to provisions for risks and charges	12,827	6,257	–	-692	18,392	–	18,392
Depreciation and net impairment losses on property, equipment and investment property	-5,008	-7,203	-2,406	-3,765	-18,382	–	-18,382
Amortisation and net impairment losses on intangible assets	-1,852	-2,612	-861	-2,018	-7,343	–	-7,343
Other operating income/expense	1,873	1,208	14	1,445	4,540	32,364	36,904
Net gains (losses) on equity investments	–	–	–	16,230	16,230	–	16,230
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-320	-320	–	-320
Gains/losses on sale of investments	–	–	–	168	168	–	168
Gross profit	**99,864**	**19,485**	**21,343**	**52,215**	**192,907**	**–**	**192,907**

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 30/06/2020**
Interest income	156,623	134,520	–	60,799	351,942	-69,325	282,617
Interest expense	-18,630	-49,161	–	-51,093	-118,884	69,325	-49,559
Net interest income	**137,993**	**85,359**	**–**	**9,706**	**233,058**	**–**	**233,058**
Fee and commission income	70,272	36,498	48,127	5,662	160,559	-24	160,535
Fee and commission expense	-2,628	-3,063	-2,851	251	-8,291	-49	-8,340
Dividends and similar income	–	–	–	2,950	2,950	–	2,950
Net trading income	–	–	–	-18,663	-18,663	–	-18,663
Net hedging gains (losses)	–	172	–	-176	-4	–	-4
Gains/losses from sales or repurchases	-42,174	-1,684	–	10,572	-33,286	–	-33,286
Net change in financial assets and liabilities carried at fair value	-651	-692	–	-6,964	-8,307	–	-8,307
Total income	**162,812**	**116,590**	**45,276**	**3,338**	**328,016**	**-73**	**327,943**
Net adjustments to financial assets	-30,589	-4,882	–	-17,355	-52,826	–	-52,826
Net financial income	**132,223**	**111,708**	**45,276**	**-14,017**	**275,190**	**-73**	**275,117**
Administrative expenses	-62,750	-83,522	-26,359	-71,763	-244,394	-22,663	-267,057
Net accruals to provisions for risks and charges	-505	-164	–	162	-507	–	-507
Depreciation and net impairment losses on property, equipment and investment property	-5,015	-7,567	-2,485	-3,725	-18,792	–	-18,792
Amortisation and net impairment losses on intangible assets	-1,826	-2,696	-872	-2,011	-7,405	–	-7,405
Other operating income/expense	2,218	1,745	-70	5	3,898	22,736	26,634
Net gains (losses) on equity investments	–	–	–	13,960	13,960	–	13,960
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-518	-518	–	-518
Gains/losses on sale of investments	–	–	–	100	100	–	100
Gross profit	**64,345**	**19,504**	**15,490**	**-77,807**	**21,532**	**–**	**21,532**

Distribution by business segment: balance sheet

Items	Enterprises	Individuals and other customers	Securities	Central functions	**Total 30/06/2021**
Financial assets	19,370,537	12,709,043	–	14,619,917	46,699,497
Other assets	–	–	–	5,651,266	5,651,266
Property, equipment and investment property	120,130	168,795	55,434	224,649	569,008
Intangible assets	5,067	7,039	2,293	16,704	31,103
Financial liabilities	10,448,268	26,541,096	–	10,880,670	47,870,034
Other liabilities	10,304	2,057	–	1,541,929	1,554,290
Provisions	107,319	97,463	25,508	68,853	299,143
Guarantees given	3,665,728	487,510	–	157,257	4,310,495
Commitments	12,200,442	2,697,451	38,826	285,737	15,222,456

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

Secondary format

Distribution by geographical area: income statement

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total**	Reconciliation	**Total 30/06/2021**
Interest income	311,952	31,827	32,833	376,612	-58,511	318,101
Interest expense	-104,149	-3,929	-4,275	-112,353	58,289	-54,064
Net interest income	**207,804**	**27,897**	**28,558**	**264,259**	**-222**	**264,037**
Fee and commission income	145,338	22,561	12,907	180,806	-1,111	179,695
Fee and commission expense	-6,313	-1,812	-1,375	-9,500	786	-8,714
Dividends and similar income	20,081	–	36	20,117	-15,911	4,206
Net trading income	26,050	–	5,127	31,177	122	31,299
Net hedging gains (losses)	–	–	195	195	-116	79
Gains/losses from sales or repurchases	22,375	–	–	22,375	–	22,375
Net change in financial assets and liabilities carried at fair value	11,405	-823	1,747	12,329	43	12,372
Total income	**426,740**	**47,823**	**47,195**	**521,758**	**-16,409**	**505,349**
Net adjustments to financial assets	-64,049	-4,690	1,170	-67,569	-265	-67,834
Net financial income	**362,691**	**43,133**	**48,365**	**454,189**	**-16,674**	**437,515**
Administrative expenses	-209,375	-19,614	-29,435	-258,424	-31,833	-290,257
Net accruals to provisions for risks and charges	16,329	2,755	-468	18,616	-224	18,392
Depreciation and net impairment losses on property, equipment and investment property	-16,246	-1,476	-2,413	-20,135	1,753	-18,382
Amortisation and net impairment losses on intangible assets	-5,455	-552	-690	-6,697	-646	-7,343
Other operating income/expense	6,966	508	20	7,494	29,410	36,904
Net gains (losses) on equity investments	-505	–	–	-505	16,735	16,230
Net result of fair value measurement of property, equipment and investment property and intangible assets	-320	–	–	-320	–	-320
Gains/losses on sale of investments	168	–	–	168	–	168
Gross profit	**154,253**	**24,754**	**15,379**	**194,386**	**-1,479**	**192,907**

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total**	Reconciliation	**Total 30/06/2020**
Interest income	281,588	36,141	35,086	352,815	-70,198	282,617
Interest expense	-104,871	-7,033	-7,287	-119,191	69,632	-49,559
Net interest income	**176,716**	**29,109**	**27,799**	**233,624**	**-566**	**233,058**
Fee and commission income	126,813	22,695	11,975	161,483	-948	160,535
Fee and commission expense	-5,432	-2,301	-1,272	-9,005	665	-8,340
Dividends and similar income	18,561	–	11	18,572	-15,622	2,950
Net trading income	-27,981	–	9,475	-18,506	-157	-18,663
Net hedging gains (losses)	–	–	172	172	-176	-4
Gains/losses from sales or repurchases	-31,495	-1,791	–	-33,286	–	-33,286
Net change in financial assets and liabilities carried at fair value	-8,253	-260	74	-8,439	132	-8,307
Total income	**248,929**	**47,452**	**48,234**	**344,615**	**-16,672**	**327,943**
Net adjustments to financial assets	-39,760	-11,258	-1,943	-52,961	135	-52,826
Net financial income	**209,169**	**36,194**	**46,291**	**291,654**	**-16,537**	**275,117**
Administrative expenses	-195,681	-19,764	-29,395	-244,840	-22,217	-267,057
Net accruals to provisions for risks and charges	-3,825	3,157	39	-629	122	-507
Depreciation and net impairment losses on property, equipment and investment property	-16,554	-1,507	-2,475	-20,536	1,744	-18,792
Amortisation and net impairment losses on intangible assets	-5,521	-555	-683	-6,759	-646	-7,405
Other operating income/expense	5,456	711	144	6,311	20,323	26,634
Net gains (losses) on equity investments	643	–	–	643	13,317	13,960
Net result of fair value measurement of property, equipment and investment property and intangible assets	-518	–	–	-518	–	-518
Gains/losses on sale of investments	100	–	–	100	–	100
Gross profit	**-6,731**	**18,236**	**13,921**	**25,426**	**-3,894**	**21,532**

Distribution by geographical area: balance sheet

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 30/06/2021**
Financial assets	38,051,231	3,986,107	4,662,159	46,699,497
Other assets	4,800,720	–	850,546	5,651,266
Property, equipment and investment property	490,805	35,871	42,332	569,008
Intangible assets	28,106	1,522	1,475	31,103
Financial liabilities	33,213,654	9,515,303	5,141,077	47,870,034
Other liabilities	1,525,458	2,908	25,924	1,554,290
Provisions	240,278	29,991	28,874	299,143
Guarantees given	3,389,290	667,217	253,988	4,310,495
Commitments	12,950,218	1,933,408	338,830	15,222,456

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

Certification pursuant to para. 5 of art. 154-bis of Legislative Decree 58/98 on the condensed consolidated interim financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Manager responsible for preparing the 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 the period from 1 January 2021 to 30 June 2021;
– 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 condensed consolidated interim financial statements at 30 June 2021:
– 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 interim 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, 4 August 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.

Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

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Review report on the interim condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Sondrio S.C.p.A.

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet as of June 30, 2021, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the period then ended and the related explanatory notes of Banca Popolare di Sondrio S.C.p.A. (the "Bank") and its subsidiaries (the "Banca Popolare di Sondrio Group") . The Directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca Popolare di Sondrio Group as of June 30, 2021 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, September 7, 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

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A member firm of Ernst & Young Global Limited

Attachment 1

FINANCIAL STATEMENTS OF THE PARENT COMPANY AT 30 JUNE 2021

BALANCE SHEET
(in euro)

	Asset items		30/06/2021		31/12/2020
10.	CASH AND CASH EQUIVALENTS		**3,990,481,154**		**4,263,373,371**
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		**1,309,474,522**		**1,239,044,920**
	a) financial assets held for trading	163,161,805		169,744,106	
	c) other financial assets mandatorily measured at fair value	1,146,312,717		1,069,300,814	
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**3,129,507,917**		**2,617,072,850**
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST		**37,673,320,947**		**35,353,029,582**
	a) loans and receivables with banks	4,810,211,842		5,107,527,392	
	b) loans and receivables with customers	32,863,109,105		30,245,502,190	
70.	EQUITY INVESTMENTS		**613,270,698**		**613,487,983**
80.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**385,410,214**		**379,777,099**
90.	INTANGIBLE ASSETS		**16,354,445**		**12,872,557**
100.	TAX ASSETS		**329,992,943**		**378,942,324**
	a) current	21,997,042		43,167,619	
	b) deferred	307,995,901		335,774,705	
120.	OTHER ASSETS		**425,687,740**		**373,759,393**
	TOTAL ASSETS		**47,873,500,580**		**45,231,360,079**

EQUITY AND LIABILITY ITEMS			30/06/2021		31/12/2020
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		**43,387,999,637**		**41,392,257,233**
	a) due to banks	9,709,353,631		8,858,607,901	
	b) customer deposits	30,780,732,374		29,725,068,448	
	c) debt securities in issue	2,897,913,632		2,808,580,884	
20.	FINANCIAL LIABILITIES HELD FOR TRADING		**33,498,985**		**31,785,558**
60.	TAX LIABILITIES		**24,766,827**		**26,177,989**
	a) current	-		-	
	b) deferred	24,766,827		26,177,989	
80.	OTHER LIABILITIES		**1,419,273,017**		**844,105,983**
90.	RESERVE FOR TERMINATION INDEMNITIES		**37,836,431**		**39,854,380**
100.	PROVISIONS FOR RISKS AND CHARGES		**226,902,756**		**256,130,244**
	a) commitments and guarantees given	39,540,249		58,301,001	
	b) pension and similar obligations	160,308,922		162,296,416	
	c) other provisions for risks and charges	27,053,585		35,532,827	
110.	VALUATION RESERVES		**56,203,613**		**49,906,067**
140.	RESERVES		**1,153,995,236**		**1,102,256,637**
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 PERIOD (+/-)		**119,183,168**		**75,045,078**
	TOTAL LIABILITIES AND EQUITY		**47,873,500,580**		**45,231,360,079**

INCOME STATEMENT

(in euro)

ITEMS			30/06/2021		30/06/2020
10.	INTEREST AND SIMILAR INCOME		273,832,244		233,693,356
	of which: Interest income calculated using the effective interest method	269,781,488		230,389,469	
20.	INTEREST AND SIMILAR EXPENSE		(50,935,970)		(42,611,220)
30.	**NET INTEREST INCOME**		**222,896,274**		**191,082,136**
40.	FEE AND COMMISSION INCOME		155,851,792		138,530,438
50.	FEE AND COMMISSION EXPENSE		(6,421,573)		(6,171,803)
60.	**NET FEE AND COMMISSION INCOME**		**149,430,219**		**132,358,635**
70.	DIVIDENDS AND SIMILAR INCOME		20,044,973		18,560,297
80.	NET TRADING INCOME		26,043,822		(27,991,069)
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF		22,374,630		(33,285,975)
	a) financial assets measured at amortised cost	13,242,048		(40,402,001)	
	b) financial assets measured at value through other comprehensive income	9,153,897		7,112,242	
	c) Financial liabilities	(21,315)		3,784	
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		10,581,805		(8,512,908)
	b) Other financial assets mandatorily measured at fair value	10,581,805		(8,512,908)	
120.	**TOTAL INCOME**		**451,371,723**		**272,211,116**
130.	NET ADJUSTMENTS FOR CREDIT RISK RELATED TO:		(66,410,523)		(43,476,482)
	a) financial assets measured at amortised cost	(67,076,239)		(38,181,447)	
	b) financial assets measured at fair value through other comprehensive income	665,716		(5,295,035)	
140.	GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(2,986,738)		(5,389,231)
150.	**NET FINANCIAL INCOME**		**381,974,462**		**223,345,403**
160.	ADMINISTRATIVE EXPENSES:		(247,555,840)		(224,134,279)
	a) personnel expenses	(102,496,911)		(92,135,582)	
	b) other administrative expenses	(145,058,929)		(131,998,697)	
170.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		18,992,249		(302,870)
	a) commitments for guarantees given	18,760,752		(3,663,751)	
	b) other net provisions	231,497		3,360,881	
180.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(15,856,483)		(16,151,328)
190.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(5,930,767)		(5,945,757)
200.	OTHER OPERATING INCOME/EXPENSE		35,318,968		24,114,994
210.	**OPERATING COSTS**		**(215,031,873)**		**(222,419,240)**
220.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		(505,373)		642,540
250.	NET GAINS ON SALES OF INVESTMENTS		110,864		1,047
260.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**166,548,080**		**1,569,750**
270.	INCOME TAXES		(47,364,912)		154,929
280.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**119,183,168**		**1,724,679**
300.	**PROFIT (LOSS) FOR THE PERIOD**		**119,183,168**		**1,724,679**

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