Banca Popolare di Sondrio

ANNUAL REPORT 2018

Banca Popolare
di Sondrio

2018 FINANCIAL
STATEMENTS
148th YEAR

Banca Popolare di Sondrio

Founded in 1871

ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING 27 APRIL 2019

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

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

Rating:

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

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

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

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

ADVISORY COMMITTEE

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

GENERAL MANAGEMENT

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

Financial Reporting Officer MAURIZIO BERTOLETTI

* Members of the Chairman's Committee

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

THE BANKING GROUP IN

BPS (SUISSE)

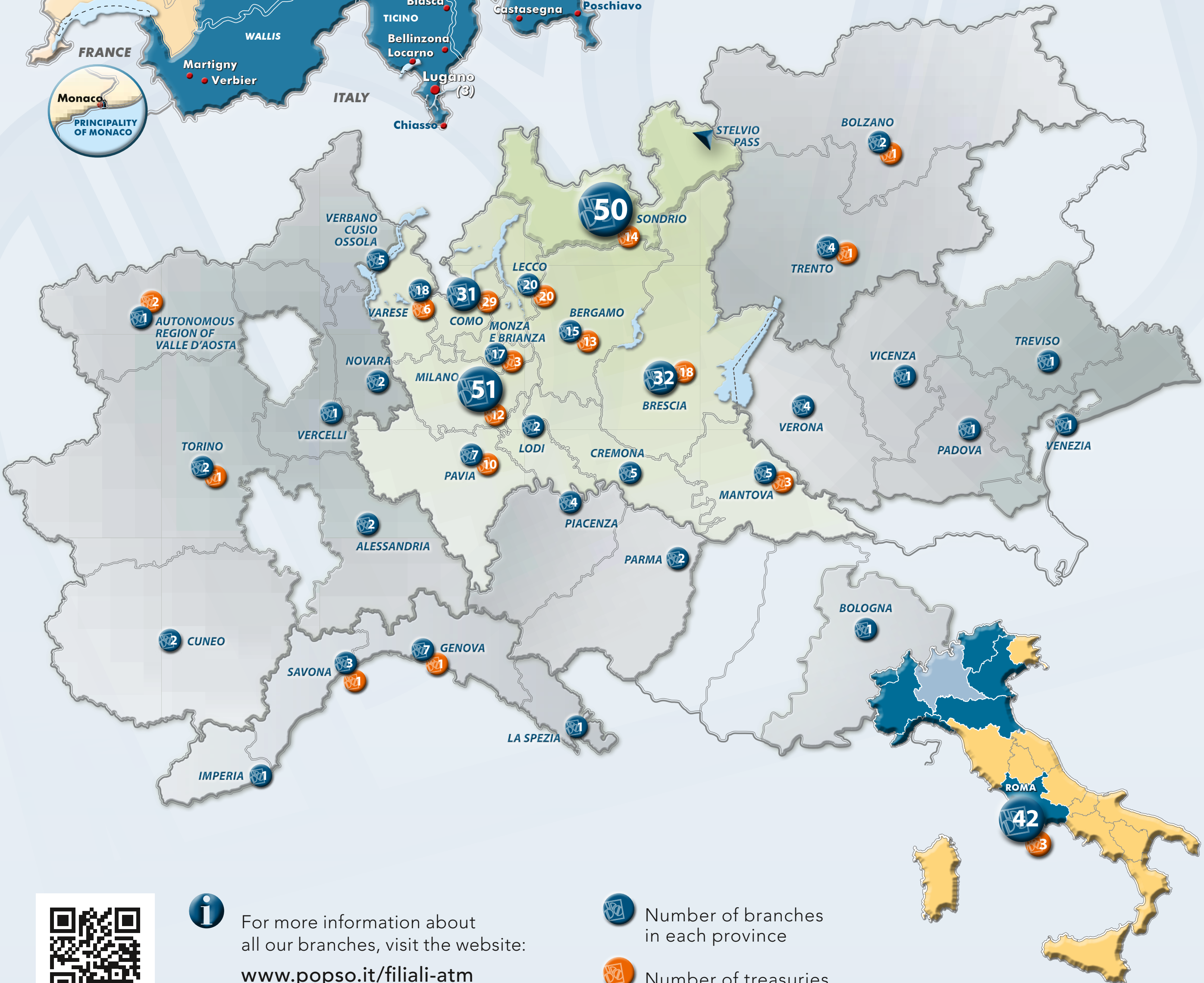
Banca Popolare di Sondrio (SUISSE)

Branches in:

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

Principality of Monaco:

- MONACO



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

T H E   H E A R T   O F   T H E   A L P S

Banca Popolare di Sondrio
Founded in 1871

Dati aggiornati all'11 aprile 2019 - Updated to 11 April 2019

BRANCHES by province:

- 50 SONDRIO and 14 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
- 20 LECCO and 20 Treasuries
- 2 LODI
- 5 MANTOVA and 3 Treasuries
- 51 MILANO and 12 Treasuries
- 17 MONZA E BRIANZA and 3 Treasuries
- 2 NOVARA
- 2 PARMA
- 7 PAVIA and 10 Treasuries
- 4 PIACENZA
- 42 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, IMPERIA, LA SPEZIA, PADOVA, TREVISO, VENEZIA, VERCELLI and VICENZA
- 1 in the Autonomous Region of Valle d'Aosta and 2 Treasuries

DESKS ABROAD C/O EXTERNAL PARTNERS:

• **ARGENTINA** (Buenos Aires and Mendoza) • **AUSTRALIA** (Perth and Sydney) • **BELGIUM** (Brussels) • **BRAZIL** (Belo Horizonte and Sao Paulo) • **BULGARIA** (Sofia) • **CANADA** (Toronto and Vancouver) • **CHILE** (Santiago) • **CHINA** (Shanghai and Hong Kong) • **CZECH REPUBLIC** (Prague) • **DENMARK** (Aarhus) • **DOMINICAN REPUBLIC** (Santo Domingo) • **EGYPT** (Cairo) • **FINLAND** (Helsinki) • **FRANCE** (Marseille) • **GERMANY** (Frankfurt) • **GREECE** (Athens) • **GUATEMALA** (Guatemala City) • **HUNGARY** (Budapest) • **INDIA** (Mumbai) • **ISRAEL** (Tel Aviv) • **LUXEMBOURG** (Luxembourg) • **JAPAN** (Tokyo) • **MALTA** (Valletta) • **MEXICO** (Mexico City) • **MONGOLIA** (Ulaanbaatar) • **NETHERLANDS** (Amsterdam) • **PERU** (Lima) • **POLAND** (Warsaw) • **PORTUGAL** (Lisbon) • **REPUBLIC OF MOLDOVA** (Chisinau) • **ROMANIA** (Bucharest) • **RUSSIA** (Moscow) • **SERBIA** (Belgrade) • **SINGAPORE** (Singapore) • **SPAIN** (Madrid) • **SOUTH AFRICA** (Johannesburg) • **SOUTH KOREA** (Seoul) • **SWEDEN** (Stockholm) • **THAILAND** (Bangkok) • **TUNISIA** (Tunis) • **TURKEY** (Istanbul) • **UKRAINE** (Kiev) • **UNITED ARAB EMIRATES** (Dubai) • **UNITED KINGDOM** (London) • **UNITED STATES OF AMERICA** (Chicago, Los Angeles and Miami) • **UZBEKISTAN** (Tashkent) • **VIETNAM** (Hanoi)

Factorit

Factoring – working capital solutions, credit risk protection and accounts receivable book-keeping

Branch offices in:
• MILANO • TORINO • PADOVA
• BOLOGNA • ROMA
and a network of foreign correspondents in over 90 countries. Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.

Headquarter:
Milano, via Cino del Duca 12

www.factorit.it
info@factorit.it

BNT BANCA
Banca della Nuova Terra

General Management:
Roma, via Baldo degli Ubaldi 267
Offices in: Milano, Palermo, Catania and Napoli
www.bancanuovaterra.it
infobanca@bancanuovaterra.it

PrestiNuova

Registered Office:
Roma, via Baldo degli Ubaldi 267
www.prestinuova.it
info@prestinuova.it

Sinergia Seconda

Popso Covered Bond

PIROVANO
L'UNIVERSITÀ DELLO SCI
SNOWBOARD UNIVERSITY
L'UNIVERSITÀ DELLA MONTAGNA

Quarto Pirovano Hotel
Stelvio Pass (m 2.760-3.450)

Registered
and Administrative Office
Information and Booking Office
Sondrio, via Delle Prese 8

Holiday Apartments
BORMIO (SO):
"Pirovano" Apartments
(CIR: 014009-REC-00017)
"Chalet Felse" Apartments
(CIR: 014009-REC-00018)

www.pirovano.it - info@pirovano.it

A L   C E N T R O   D E L L E   A L P I

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO
Founded in 1871

GENERAL MANAGEMENT AND HEAD OFFICE

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

FIELD OFFICES

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

VIRTUAL UNIT
corso Vittorio Veneto 7, Sondrio

BRANCHES AND TREASURIES

PROVINCE OF SONDRIO
ALBOSAGGIA via al Porto 11
APRICA corso Roma 140
ARDENNO via Libertà
BERBENNO DI VALTELLINA - fraz. San Pietro - via Nazionale Ovest 110
BIANZONE piazza Ezio Vanoni 11
BORMIO
Head Office, via Roma 131 - ang. via don Evaristo Peccedi
Branch no. 1, via Roma 64
BUGLIO IN MONTE piazza della Libertà 1
CAMPODOLCINO via Corti 67
CASPOGGIO piazza Milano 13
CEDRASCO via Vittorio Veneto 15
CEPINA VALDISOTTO via Roma 13/E
CHIAVENNA via Francesco e Giovanni Dolzino 67
CHIESA IN VALMALENCO via Roma 138
CHIURO via Stelvio 8
COLORINA via Roma 84
COSIO VALTELLINO - fraz. Regoledo - via Roma 7
COSIO VALTELLINO - fraz. Cosio Stazione - piazza San Martino 14
DELEBIO piazza San Carpoforo 7/9
DUBINO - Nuova Olonio - via Spluga 83
DUBINO via Valeriana 39
GORDONA via Scogli 9
GROSIO via Roma 67
GROSIO - fraz. Ravoledo - via Pizzo Dosdè
GROSOTTO via Statale 73
ISOLACCIA VALDIDENTRO via Nazionale 31
LANZADA via Palù 388
LIVIGNO
Head Office, via Sant'Antoni 135
Branch no. 1, via Saroch 728/730
LIVIGNO via Dala Gesa 557/A
MADESIMO via Giosuè Carducci 3
MADONNA DI TIRANO piazza Basilica 55
MAZZO DI VALTELLINA via Santo Stefano 20
MELLO piazza San Fedele 1
MONTAGNA IN VALTELLINA via Stelvio 336
MONTAGNA IN VALTELLINA via Cicci 36
MORBEGNO
Head Office, piazza Caduti per la Libertà 7
Branch no. 1, via V Alpini 172
NOVATE MEZZOLA via Roma 13
PASSO DELLO STELVIO località Passo dello Stelvio
PIANTEDO via Colico 43
PONTE IN VALTELLINA piazza della Vittoria 1
SAMOLACO - fraz. Era - via Trivulzia 28
SAN CASSIANO VALCHIAVENNA via Spluga 108
SAN NICOLÒ VALFURVA via San Nicolò 82
SEMOGO VALDIDENTRO via Cima Piazzi 28
SONDALO via Dr. Ausonio Zubiani 2
SONDRIO
Head Office, piazza Giuseppe Garibaldi 16
Branch no. 1, via Bernina 1
Branch no. 2, via 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 59
Branch no. 2, via Solferino 61
Branch no. 3, viale Piave 61/A
Branch no. 4, via Fratelli Ugoni 2
CAPO DI PONTE via Aldo Moro 26/A
CEVO via Roma 15
CHIARI via Consorzio Agrario 1 - ang. viale Teosa 23/B
COCCAGLIO via Adelchi Negri 12
COLLEBEATO via San Francesco d'Assisi 12
CORTE FRANCA piazza di Franciacorta 7/C
CORTENO GOLGI via Brescia 2
DARFO BOARIO TERME
Branch no. 1, corso Italia 10/12
Branch no. 2, piazza Patrioti 2
DESENZANO DEL GARDA via Guglielmo Marconi 1/A
EDOLO piazza Martiri della Libertà 16
ERBUSCO via Provinciale 29
ESINE via Chiosi 79
GARDONE VAL TROMPIA via Giacomo Matteotti 300
GIANICO piazza Roma 3
ISEO via Roma 12/E
LONATO DEL GARDA corso Giuseppe Garibaldi 59
LUMEZZANE - fraz. Sant'Apollonio - via Massimo D'Azeglio 108
MALONNO via Valle Camonica 6
MANERBA DEL GARDA via Valtenesi 43
MANERBIO via Dante Alighieri 8
MARONE via Zanardelli 5
MONTE ISOLA frazione Siviano 116
MONTICHIARI via Mantova - ang. via 3 Innocenti 74
ORZINUOVI piazza Giuseppe Garibaldi 19
OSPITALETTO via Brescia 107/109
PALAZZOLO SULL'OGLIO via Brescia 23
PIAN CAMUNO via Agostino Gemelli 21
PISOGNE via Trento 1
PONTE DI LEGNO piazzale Europa 8
PONTE DI LEGNO - loc. Passo Del Tonale - via Case Sparse 84
REZZATO via Broli 49
SALE MARASINO via Roma 33/35
SALÒ viale Alcide De Gasperi 13
SALÒ via Giuseppe Garibaldi 21
SAREZZO via della Repubblica 99
TOSCOLANO MADERNO piazza San Marco 51
TOSCOLANO MADERNO viale Guglielmo Marconi 9
VEZZA D'OGLIO via Nazionale 80
ZONE via Orti 1

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

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

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

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

PROVINCE OF MANTOVA
CASTIGLIONE DELLE STIVIERE piazza Ugo Dallò 25
GAZZOLDO 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
MILANO - CCIAA di Milano - via Meravigli 9/B Ⓣ
MILANO - Istituto Nazionale Tumori - via Giacomo Venezian 1 Ⓣ
MILANO - ASP Golgi Redaelli - via Bartolomeo D'Alviano 78 Ⓣ
MILANO - Bicocca - piazza dell'Ateneo Nuovo 1 - Edificio U 6 Ⓣ
MILANO - Istituto Neurologico - via Giovanni Celoria 11 Ⓣ
MILANO - I.U.L.M. - via Carlo Bo 1 Ⓣ
MILANO - Pio Albergo Trivulzio - via Antonio Tolomeo Trivulzio 15 Ⓣ
MILANO - Pirelli - via Fabio Filzi 22 Ⓣ
PERO via Mario Greppi 13
SEGRATE via Rodolfo Morandi 25
SEGRATE via Fratelli Cervi 13 - Residenza Botteghe Ⓣ
SESTO SAN GIOVANNI
Branch no. 1, piazza Martiri di via Fani 93
Branch no. 2, piazza della Resistenza 52
TREZZO SULL'ADDA via Antonio Gramsci 10
TURBIGO via Allea Comunale 17 Ⓣ
VIZZOLO PREDABISSI - A.S.S.T. Melegnano e della Martesana via Pandina 1 Ⓣ

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

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

PROVINCE OF PADOVA • PADOVA via Ponte Molino 4

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

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

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

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

PROVINCE OF SAVONA
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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BANCA POPOLARE DI SONDRIO (SUISSE) SA
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BRANCHES AND AGENCIES
LUGANO - LUGANO Cassarate - BASEL - BELLINZONA - BERN - BIASCA - CASTASEGNA - CELERINA - CHIASSO - CHUR - LOCARNO - MARTIGNY - NEUCHÂTEL - PONTRESINA - POSCHIAVO - ST. MORITZ - VERBIER - ZURICH
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tel. +39 02 58150.1 - fax +39 02 58150.205
www.factorit.it - info@factorit.it

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Toll-free number 800-77 00 33
www.bancanuovaterra.it - infobanca@bancanuovaterra.it

PRESTINUOVA SPA
Registered Office: Roma, via Baldo degli Ubaldi 267
Toll-free number 800-73 58 00
www.prestinuova.it - info@prestinuova.it

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www.pirovano.it - info@pirovano.it

"LUIGI CREDARO" LIBRARY
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www.popso.bibliotecacredaro.it - info@popso.bibliotecacredaro.it

Ⓣ Treasury - Updated to 11 April 2019

BANCA POPOLARE DI SONDRIO

Società cooperativa per azioni – Founded in 1871 - Official List of Banks no. 842,
Official List of Cooperative Banks no. A160536, Official List of Banking Groups no. 5696.0,
Sondrio Companies Register no. 00053810149 - Share capital € 1,360,157,331,
made up of 453,385,777 ordinary shares - Reserves € 1,034,954,284

NOTICE OF CALLING TO THE SHAREHOLDERS' MEETING

The shareholders of Banca Popolare di Sondrio are called to the ordinary and extraordinary annual general meeting (AGM) at the head office in Piazza Garibaldi 16, Sondrio, at 10.00 a.m. on Friday, 26 April 2019 and, if necessary, on second calling in Bormio (SO) at the Centro Polifunzionale Pentagono, via Alessandro Manzoni 22, at **10.30 a.m. on Saturday, 27 April 2019** to discuss the following

AGENDA

Ordinary part

1) Presentation of the financial statements as of 31 December 2018: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions; presentation of the consolidated financial statements as of 31 December 2018;

2) Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;

3) Approval of the Remuneration Report, as per art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act);

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

5) Determination of directors' emoluments;

6) Appointment of five Directors for the three-year period 2019-2021;

7) Appointment of advisors and alternate advisors for the three-year period 2019-2021.

Extraordinary part

1) Proposal to amend article 6 of the Articles of Association. Related and consequent resolutions;
2) Proposal to give the Board of Directors a mandate (i) pursuant to art. 2443 of the Italian Civil Code to increase the share capital for payment, on one or more occasions, excluding option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, through the issue of ordinary shares with the same characteristics as those outstanding to be paid up by means of a contribution in kind; and (ii) pursuant to art. 2420-ter of the Italian Civil Code to issue bonds convertible into ordinary shares, on one or more occasions, with the exclusion of option rights pursuant to art. 2441, fifth paragraph, of the Italian Civil Code, with consequent increase in capital to service the conversion through the issue of ordinary shares with the same characteristics as those outstanding; without prejudice to the requirement that the maximum total value, including any premium, of the increase in capital for payment made on one or more occasions through the issues or conversions referred to in points (i) and (ii) above shall be euro 40,000,000.00 (forty million/00). Furthermore, in exercising the mandate within eighteen (18) months of the date of the shareholders' resolution and in accordance with the limits indicated above, from time to time, the Board of Directors shall have the fullest right to establish methods, terms and conditions of the increase in capital.
   Consequent amendments to Article 6 of the Articles of Association. Related and consequent resolutions.

Share capital

The share capital, fully subscribed and paid up, amounts to € 1,360,157,331 and is made up of 453,385,777 ordinary shares. There are 168,782 shareholders with voting rights.

Attendance at the Meeting

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

Shareholders are asked to bring a copy of this declaration to the meeting to facilitate entry formalities.

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

Each shareholder has the right to only one vote, regardless of the number of shares they hold.

Shareholders may be represented at the meeting by another shareholder, by means of a proxy ballot issued in compliance with Italian law. No shareholder can be a proxy for more than ten other shareholders. Proxy forms are available at all branches of the Bank and on its website www.popso.it/assemblea2019.

The proxy will have to be handed over when entering the meeting.

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

Addition of items to the agenda for the Meeting

In accordance with article 26 of the Articles of Association, one or more Shareholders, registered in the shareholders' register for at least 90 days, holders of a total shareholding not lower than 2.5% of the share capital can ask for additional topics to be added to the agenda, or present proposals for resolutions on matters already on the agenda, according to the terms and procedures established by art. 126 bis of Legislative Decree 58/98, Consolidated Law on Finance.

The request, to be submitted to the head office at Piazza Garibaldi 16, Sondrio, should contain an indication of the new topics being proposed or of the motions proposed on matters already on the agenda. The applications have to be presented in writing. Shareholders have to declare the number of shares that they own in total and certify their ownership of this shareholding.

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

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

Documentation

The explanatory reports of the Board of Directors containing the proposed resolutions and documents that will be submitted to the Shareholders' Meeting will be made available at head office, on the «eMarket STORAGE» authorised storage mechanism (www.emarketstorage.com) and on the Company's website at www.popso.it/assemblea2019 by the current legal deadline. Shareholders have a right to look at this documentation and to obtain a copy of it at their own expense.

Appointment of five Directors for the three-year period 2019-2021

With reference to paragraph 6) on the agenda for the Ordinary Shareholders' Meeting - Appointment of five directors for the three-year

period 2019-2021 - the following is the text of art. 35 of the articles of association.
""""

Art. 35

Presentation of lists of candidates

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

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

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

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

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

One or more shareholders with the requisites laid down in art. 13.2 and who have a total interest of not less than 0.50% in the share capital can also present lists. Shareholders have to declare the number of shares that they own in total and certify their ownership of this shareholding.

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

By the deadline for depositing these voting lists, there also has to be filed at head office the curriculum vitae of each candidate and the declarations by which the candidates accept their candidature and attest, under their own responsibility, that there are no reasons why they should not be elected or why they might be incompatible, also confirming that they have the requisites prescribed by law and by the Articles of Association for holding office as a director. The candidates must declare if they possess the independence requirements as per article 33, paragraph 2 and the fulfillment of that criteria is shown in the lists. Any lists which are deposited without complying with procedure and deadlines set out above will be considered as if they were not presented.

""""

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

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

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

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

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

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

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

For the presentation of lists, the shareholders are required to take into account the document «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio» published on the Company's website at www.popso.it/assemblea2019.

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

Appointment of advisors and alternate advisors for the three-year period 2019-2021

The Shareholders' Meeting is called upon to renew the Advisory Committee. Election will be by a majority vote.

Sondrio, 22 March 2019

FOR THE BOARD OF DIRECTORS
Chairman
(Francesco Venosta)

The notice of calling was published, as required by law, on the Company's website at www.popso.it/assemblea2019 and, as an extract, in the daily newspaper «Il Sole 24 Ore» on 27 March 2019.

Note. The figures in this report are in euro.
Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of amounts expressed in different units.

DIRECTORS' REPORT ON OPERATIONS

SUMMARY OF RESULTS

Shareholders,

While opening on the crest of the vigorous economic wave rolling in the prior year, 2018 encountered increasing difficulties in maintaining the pace of growth.

In truth, while a number of countries found themselves becalmed, others, led by the United States, contained to run with the wind at the stern. The coming months will clarify whether the international economy can continue to enjoy easy sailing or whether, as the latest indications suggest, it will be necessary to cope with the heavy seas of a new recession.

Limiting this assessment to the year just ended, conditions in the Euro area slowed steadily due, at least in part, to the tensions between the leading players in the world economy, which had an adverse effect on international trade. The monetary policy of the ECB continued to be accommodating, albeit with a steady reduction in the purchasing of government securities.

Economic growth faltered in Italy, burdened by exogenous factors, such as the slowdown of the German locomotive, and for a number of endogenous reasons, including the doubts shared by many operators about the management of public finances and relations with the European Commission.

The domestic banking sector benefited against from the improvement in asset quality, with a significant reduction in non-performing loans.

The continuation of rates close to historical minimums and lively competition among operators combined to guarantee the availability of credit to customers on good conditions. The adverse performance of the financial markets, linked in part with the wider yield differential between Italian BTPs and German Bunds, impacted on the results of banks. These were also burdened by the systemic charges incurred to safeguard the stability of the banking sector.

Against this challenging background, the bank reported a 29.37% reduction in profits to 83.62 million. These were penalised, in particular, by a marked decline in the results from financial activities given, as discussed, the general market conditions.

Despite the difficulties, there was still room to increase the coverage, already high, of impaired loans.

The key statistics summarised below are the result of the intense efforts made by our staff, comprising 2,740 people, up by 38.

Total assets came in at 37,167 million, -2.25%. Capital and reserves, including the valuation reserves and net profit for the year, total 2,367 million following a small reduction of 11 million compared with the prior year, as adjusted upon the FTA of IFRS 9.

Direct deposits eased 2.55% to 28,290 million, while loans to customers total 21,484 million, -1.23%.

Net interest income was 437 million, +2.73%; net fee and commission income reached 276 million, +4.99%. Total income amounted to 754 million, -10.67%.

www.popso.it

Banca Popolare di Sondrio

FOUNDED IN 1871

THE BANKING GROUP IN

www.bps-suisse.ch

BPS (SUISSE)

in the context of a banking system such as the Swiss one, which increasingly combines innovation with traditional skills and professionalism, our subsidiary has given continuity to the strategic repositioning process aimed at moving from a generalist approach to declination of its own action towards increasingly targeted areas and operating segments

General Management:
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Tel. +41 58 85 53 000

Main office:
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contact@bps-suisse.ch

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Factorit

consistent with the objectives established for 2018 and the approved business development plan, the activities of this subsidiary focused above all on increasing the number of customers, the volume of business and the profitability of lending, while dedicating ever greater attention to asset quality

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info@factorit.it

www.bancanuovaterra.it

BNT BANCA
Banca della Nuova Terra

activities during the year concentrated on launching the Assignment of income business, consolidating the processes and procedures underlying the distribution of its products via the branch network of Bps, and activating a series of agreements with public bodies, private firms and insurance partners of international repute in support of the business

General Management:
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Toll free number 888 77 00 33
infobanca@bancanuovaterra.it

QUOTED ON PAGE 37-40

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www.prestinuova.it

PrestiNuova

the company specialises in the granting of loans backed by the assignment of one-fifth of salary or pension and the fulfilment of payment instructions. After joining the Bps Group, the company continued to administer its portfolio of loans and, backed by the commercial agreements signed with Banca della Nuova Terra, was able to safeguard their value

Registered offices:
I - 00167 ROMA - Via Baldo degli Ubaldi 267
Toll free number 800 73 58 00
info@prestinuova.it

SINERGIA SECONDA

I - 20123 MILAN
Via Santa Maria Fulcorina 1

POPSO COVERED BOND

I - 31015 Conegliano TV
Via Vittorio Alfieri 1

www.pirovano.it

PIROVANO
L'UNIVERSITÀ DELLO SCI
SNOWBOARD UNIVERSITY
L'UNIVERSITÀ DELLA MONTAGNA

at the Stelvio Pass, the "capital" of summer skiing, a hotel with every comfort and a renowned ski school attract numerous mountain enthusiasts every year. The traditional activity has recently been joined by short-term tourist rentals all year round of two holiday homes located in Bormio

Registered and Administrative Office
Information and Booking Office:
I - 23100 SONDRIO - Via delle Prese 8
Tel. +39 0342 210 040 / 515 450

ALBERGO QUARTO PIROVANO
I - 23032 Bormio SO - Loc. Passo dello Stelvio
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"PIROVANO" APARTMENTS
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RESULTS IN BRIEF

(in millions of euro)

Balance sheet	31/12/2018	01/01/2018*	% Change
Loans to customers	21,484	21,752	-1.23
Loans and receivables with customers measured at amortised cost	21,243	21,626	-1.77
Loans and receivables with customers measured at fair value through profit or loss	241	126	91.06
Loans and receivables with banks	2,217	2,815	-21.25
Financial assets that do not constitute loans	11,109	11,875	-6.45
Equity investments	562	507	10.94
Total assets	37,167	37,977	-2.13
Direct funding from customers	28,290	29,029	-2.55
Indirect funding from customers	28,619	28,550	0.24
Direct funding from insurance premiums	1,410	1,336	5.59
Customer assets under administration	58,320	58,915	-1.01
Other direct and indirect funding	9,838	9,595	2.53
Equity	2,367	2,378	-0.46

Income statement	31/12/2018	31/12/2017*	% Change
Net interest income	437	426	2.73
Total income	754	844	-10.67
Profit from continuing operations	109	175	-37.81
Profit for the period	84	118	-29.37

Key ratios %		
Cost/income ratio	55.73	47.51
Net interest income/Total assets	1.18	1.12
Net financial income/Total assets	1.42	1.52
Net interest income/Total income	57.97	50.41
Administrative expenses/Total income	58.18	51.94
Profit for the period/Total assets	0.22	0.31
Non-performing loans/Loans and receivables with customers	3.54	3.43
Loans to customers/Direct funding from customers	75.94	74.93

Capital ratios (%)		
CET1 Capital ratio	12.64%	11.92%
Total Capital ratio	14.40%	14.22%
Free capital	1,182	1,227

Other information on the banking group		
Number of employees	2,740	2,702
Number of branches	343	343

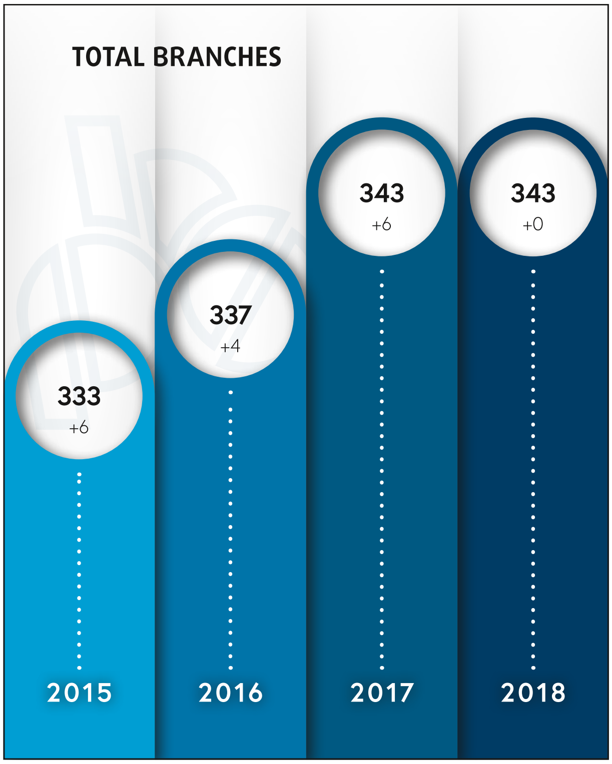
* The comparative figures are shown as follows: balance sheet figures are at 1 January 2018 are shown after applying IFRS 9; income statement figures at 31 December 2017 have been calculated in accordance with IAS 39, as are the ratios, so they are not fully comparable

As mentioned, the loan adjustments made have increased the coverage of impaired balances.

The BPS stock, which is listed in the MTA, the screen-based market of the Italian Stock Exchange, closed the year with a fall of 13.53%.

There are now 170,671 shareholders.

The companies included in our Banking Group, in primis Banca Popolare di Sondrio (SUISSE) SA, Factorit S.p.A. and Banca della Nuova Terra S.p.A., helped us to expand and requalify our commercial offer, with positive economic results. As soon as the acquisition process has been completed, Cassa di Risparmio di Cento S.p.A. will join the BPS Group.



TERRITORIAL EXPANSION

The territorial nature of the Bank is confirmed and reinforced by the branch network. The branches ensure direct customer contact, confirming with their concrete and continuous efforts the ability of our products and services to respond adequately to the needs of households and businesses.

This proactive work facilitates and stimulates constant improvements to the commercial range of products and services offered and, no less important, to the ability of our staff to interact positively with all counterparties, interpreting their needs and requirements so that the best possible solutions can be customised for them.

Being a territorial bank also means playing an active role in the growth achieved by our customers. Accordingly, we prefer to employ the savings of our depositors in the same areas in which they live and work, thus facilitating their economic and social growth. The branch network developed to date makes it possible to perform the lending function effectively, with direct knowledge of our borrowers and the economic environment in which they operate. In this way, we can obtain precious news and information both when granting credit and, subsequently, when managing the loans made.

Over the years, the traditional doors of physical access to the Bank have, of course, been complemented by new channels that play a supporting role in the development of our customer relations. These telematic tools have steadily diversified the nature of customer relations.

We support this innovation with conviction and commitment, in the knowledge that the role of electronic banking, already fundamental, will become even more so in future.

Electronic banking makes it possible to access an ever more vast range of products and services from any location, at any time, overcoming both physical and temporal barriers, until recently insurmountable, securely and with ease.

Territorial expansion

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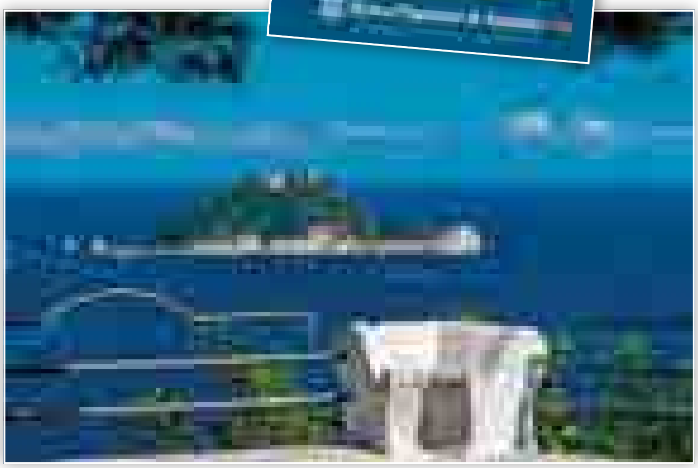
branch presence has been addressed by action to enhance the quality of our territorial coverage, by building on the network effect. At the same time, we have sought to rationalise the distribution of branches in the context of the dynamics in play in the various areas in which we are present

Alassio is known internationally as the “Città del Muretto”, an original VIP wall whose origins stem from the meeting between Mario Berrino, artist, and Ernest Hemingway, writer. Today, over 1,000 ceramic tiles of differing colours, signed by celebrities, adorn the perimeter of a public garden



Among the numerous advantages, one in particular must not be neglected: the ability to focus branch action on managing the critical moments of the banking relationship. All this, without ever forgetting the ultimate goal of our work: the maximum satisfaction of customer needs, with propriety and transparency.

Against this background, the branch network was once again involved in action during the year to enhance the interpersonal and commercial relations of operators, who play a fundamental front-line role in contacts with our counterparties. The management of customers requires ever greater professionalism and the possession of broad skills that enable 360-degree interactions with everyone.

Branch presence has also been addressed by action to enhance the quality of our territorial coverage, by building on the network effect. At the same time, we have sought to rationalise the distribution of branches in the context of the dynamics in play in the various areas in which we are present.

This was the case in Sondrio where, via certain organisational changes, we have been able to reduce by one the number of branches in the town.

Conversely, we have continued to expand the overall number of branches, albeit at a slower pace than in the past. This approach took account of the imminent purchase of Cassa di Risparmio di Cento, which has as many as 47 branches in Ferrara, Bologna, Ravenna and Modena. This will broaden and strengthen our commercial structure.

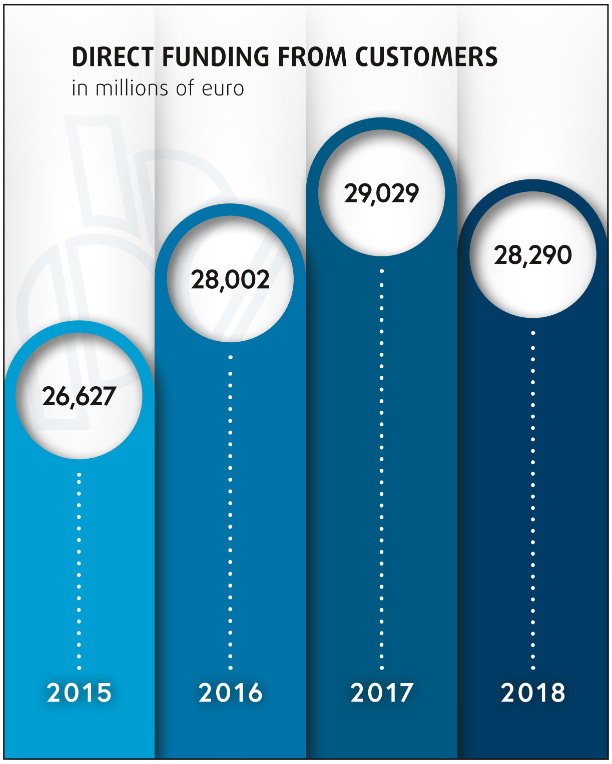
The only opening during the year took place in Alassio, in the province of Savona (Liguria) with almost 11,000 inhabitants. Alassio is known internationally as the «Città del Muretto», an original VIP wall whose origins stem from the meeting between Mario Berrino, artist, and Ernest Hemingway, writer. Today, over 1,000 ceramic tiles of differing colours, signed by celebrities, adorn the perimeter of a public garden.

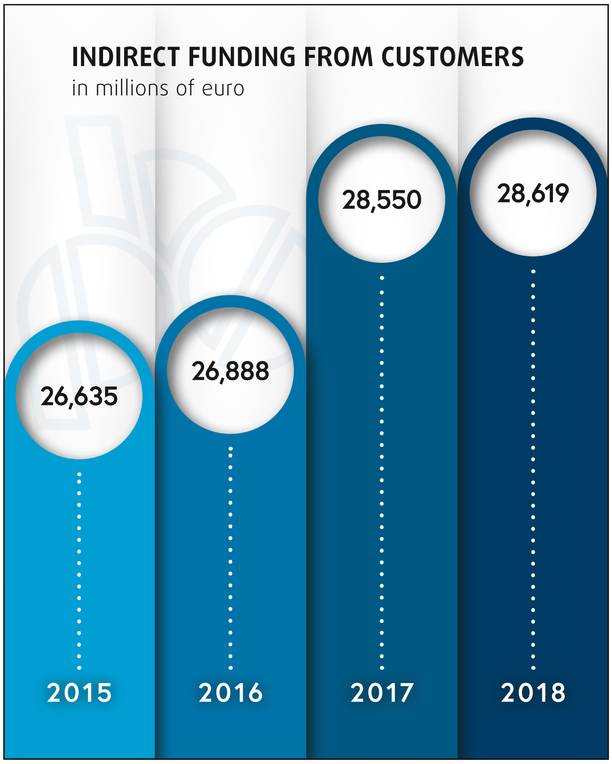
The «Muretto» is a symbol of a lively town with an important tradition rooted in tourism dating back to the end of the 19th century, not least due to the important English «colony» based there. The beauty of the area, warm climate and seafront location make Alassio one of the most dynamic holiday destinations in Liguria, with a major flow of tourists from both Italy and abroad. Operators have proven their ability to adapt over time to new market requirements, with demand for a high level of quality suitable for both summer and winter visitors, many of the latter coming from Northern Europe.

At the end of 2018, our network counted 343 branches, present in 8 regions. We also have 139 treasury branches and 540 ATMs, following an increase of 5 during the year.

FUNDING

Hard times for savers: while, on the one hand, monetary policy has remained expansionary, albeit with progressive adjustments, on the other, the financial markets have endured a long period of inclement conditions.





DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	31/12/2018	%	31/12/2017	%	% Change
Savings deposits	389,052	1.38	409,493	1.41	-4.99
Certificates of deposit	1,594	0.01	2,101	0.01	-24.11
Bonds	2,330,053	8.24	2,675,469	9.22	-12.91
Repo transactions	100	0.00	356,725	1.23	-99.97
Bank drafts and similar	80,899	0.29	107,238	0.37	-24.56
Current accounts	24,194,471	85.52	23,768,000	81.87	1.79
Time deposit accounts	806,856	2.84	1,122,442	3.87	-28.12
Foreign currency accounts	487,376	1.72	587,818	2.02	-17.09
Total	**28,290,400**	**100.00**	**29,029,286**	**100.00**	**-2.55**

TOTAL FUNDING

(in thousands of euro)	31/12/2018	%	31/12/2017	%	% Change
Total direct funding from customers	28,290,400	41.51	29,029,286	42.37	-2.55
Total indirect funding from customers	28,619,195	41.99	28,550,165	41.67	0.24
Total direct funding from insurance premiums	1,410,180	2.07	1,335,569	1.95	5.59
Total	**58,319,775**	**85.56**	**58,915,020**	**85.99**	**-1.01**
Due to banks	5,480,393	8.04	5,635,658	8.23	-2.76
Indirect funding from banks	4,358,442	6.40	3,959,663	5.78	10.07
Grand total	**68,158,610**	**100.00**	**68,510,341**	**100.00**	**-0.51**

The uncertainties afflicting the global markets - not least, the commercial dispute between China and the United States - were compounded in Italy by fears linked to the size of the public debt and its dynamics, as well as by the related problems of interaction with the European Union. The effects of this are expressed in the yield differential between Italian and German government securities, as well as in prices quoted on the Milan Stock Exchange, which are traditionally conditioned by the performance of the banking sector.

In this complex situation, it has become increasingly difficult to make investment decisions. An analysis of bank funding speaks eloquently about the attitude of many savers: the further growth of the short-term component, to the detriment of the medium/long-term element represented, in particular, by bonds, highlights a widespread uncertainty that essentially obliges decisions to be made in favour of greater liquidity.

Our bank knows that it is fundamental to maintain the relationship of trust established with customers. This has been achieved with a commercial range of products and services that balances the preferences of savers with the accounting need to contain the cost of funding. We have been assisted in this by our reputation in the marketplace and the considerable liquidity available to us over the entire year.

Direct deposits, comprising liability line items 20 «due to customers» and 30 «debt securities in issue», total 28,290 million, -2.55%.

Indirect funding from customers amounts to 28,619 million, +0.24%, at market values. Direct funding from insurance premiums increased to 1,410 million (+5.59%).

Total funding from customers therefore amounts to 58,320 million, -1.01%.

Deposits received from banks amounted to 5,480 million, down from 5,636 million. This liabilities is largely linked to long-term refinancing operations with the European Central Bank totalling 4,600 million, as explained in the chapter on «Treasury and trading operations». The securities under administration lodged by banks have increased from 3,960 to 4,358 million, +10.07%.

Total deposits from customers and banks therefore came to 68,159 million (-0.51%).

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

Considering the individual components, current accounts in euro and foreign currency rose to 24,682 million, +1.34%, and make up 87.24% of all direct funding. Bonds have decreased by 12.91% to 2,330 million following redemptions, given that the Bank did not make any new issues during the year.

Time deposit accounts have fallen to 807 million, -28.12%. Repurchase agreements have almost been eliminated, totalling just 0.1 million; savings deposits declined at a slower pace to 389 million, -4.99%. Certificates of deposit were essentially stable at 1 million, confirming their marginal status. Bank drafts amount to 81 million, -24.56%.

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

LOANS TO CUSTOMERS

The international economic cycle slowed steadily during 2018 from the peak growth seen in the prior year, but remained robust, especially in the United States.

Economic conditions on the other side of the Atlantic, in the Euro area, were less dynamic with a steady slowdown in Italy, not least due to the doubts of financial operators about the management of public debt.

Erosion of the climate of confidence among businesses and the spread of doubt about future prospects had an immediate effect on the propensity to invest. Consequently, the level of lending to the productive sector was lower than in 2017.

At the same time, the banking sector was able to reduce further the level of impaired loans. There are undoubtedly many reasons for this good news, including improvements in the care taken and in the ability of the system as a whole to grant and manage credit.

The widening spread between Italian and German government bonds started to affect, in a small way, the rates charged on new loans granted towards year end.

Against this complex general background, with both positive and negative elements to be managed, the Bank continued to play its cooperative role to the full: provider of support to households and businesses in our territories. This was of course accompanied by efforts to improve the governance of all aspects of credit risk, in the conviction that the strengthened specialist supervision, the implementation of management procedures and the collaboration arranged with experienced external parties, including those active in the impaired loans sector, would ensure achievement of the established operational objectives.

Loans to customers, as shown in the table below, constitute a restatement of the balances reported in the balance sheet and consist solely of loans, with the exclusion of securities, except for those that do not constitute a financial investment because of their nature.

They are equal to the sum of the loans included in line item «40. financial assets measured at amortised cost - b) loans and receivables with customers» and line item «20. financial assets measured at fair value through profit or loss - c) other financial assets mandatorily measured at fair value».

Loans and receivables with customers amounted in total to 21,484 million, down by 1.23% on the 2017 balance as restated on the FTA of IFRS 9. The comparative figure differs from the amount of loans and receivables with customers at 31 December 2017 by 67 million, consisting of negative adjustments recognised on the FTA of IFRS 9.

LOANS TO CUSTOMERS

(in thousands of euro)	31/12/2018	%	01/01/2018	%	% Change
Current accounts	4,402,986	20.49	4,395,852	20.21	0.16%
Foreign currency loans	611,516	2.85	651,962	3.00	-6.20%
Advances	390,642	1.82	381,307	1.75	2.45%
Advances subject to collection	230,584	1.07	210,606	0.97	9.49%
Discounted portfolio	5,801	0.03	17,376	0.08	-66.61%
Artisan loans	58,858	0.27	47,743	0.22	23.28%
Agricultural loans	20,765	0.10	23,746	0.11	-12.55%
Personal loans	250,267	1.16	239,096	1.10	4.67%
Other unsecured loans	6,713,557	31.24	6,959,895	31.99	-3.54%
Mortgage loans	6,571,184	30.59	6,520,239	29.97	0.78%
Non-performing loans	759,774	3.54	745,408	3.43	1.93%
Repo transactions	1,204,429	5.61	1,221,596	5.62	-1.41%
Fixed-yield securities	263,374	1.23	337,534	1.55	-21.97%
Total	**21,483,737**	**100.00**	**21,752,360**	**100.00**	**-1.23%**

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

The principal line item consists of unsecured loans and transactions that, while decreasing by 3.54% to 6,714 million, still represent 31.24% of total lending. Closing in, mortgage loans total 6,571 million, +0.78%, representing 30.59% of the total.

This last item includes loans assigned but not derecognised in relation to the issue of covered bonds. These loans were not derecognised because the requirements of IAS 39 were not met.

Current accounts have increased slightly to 4,403 million, +0.16%. Advances with recourse also made progress to 231 million, +9.49%, as did other advances, +2.45% to 391 million, and personal loans, +4.67% to 250 million. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, have decreased from 1,222 to 1,204 million, -1.41%, as have foreign currency loans, 612 million, -6.20%. Debt securities amounted to 263 million, -21.97% following redemptions, and relate to the securitisation of loans granted to customers by Banca della Nuova Terra S.p.A. and Alba Leasing S.p.A.

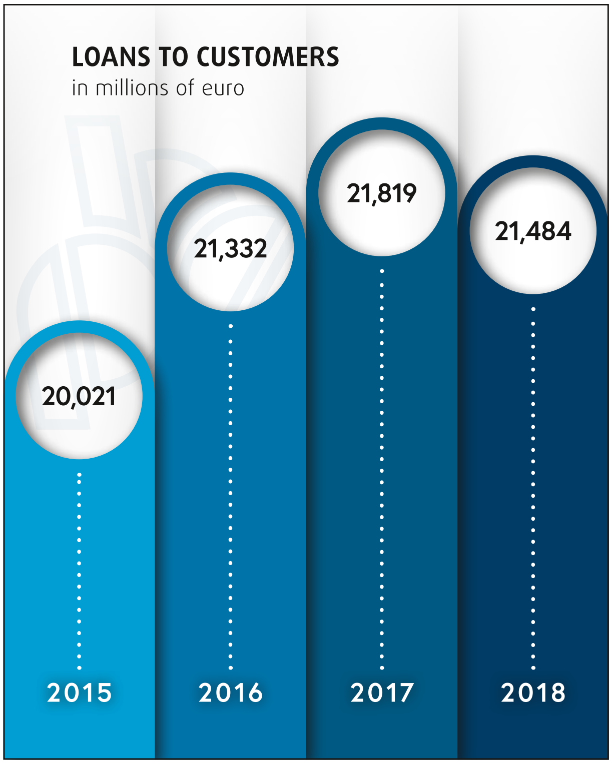
The ratio of loans to amounts due to customers has risen to 75.94% from 74.93%.

The general economic situation has resulted in a gradual improvement in the quality of loans. In this regard, we have worked to strengthen the activities carried out to contain risk, both when granting new loans and when managing those already outstanding. The steps taken have begun to produce effects, although the level of impairment adjustments charged to the income statement remains high. Having said that, the provisions recorded by the Bank are often based on very prudent assessments.

From 15 October 2018, the Bank was subjected to ECB audits that analysed our policies and processes, together with individual lending positions

(Credit File Review) within the Corporate and SME Corporate portfolios. In the discussions that ensued, the Bank took full note of the highly prudent considerations expressed by the inspectors and, accordingly, arranged to increase the impairment adjustments made. This has further raised the coverage of non-performing loans to among the highest levels within the Italian banking system: this provides important assurance about the quality of our loans portfolio.

Total net impaired loans - consisting of non-performing loans, unlikely-to-pay loans and past due and/or impaired overdrawn exposures - amount to 1,788 million, -9.34%, representing 8.32% of loans and receivables with customers, compared with 9.19% at the end of 2017, as restated to reflect the negative adjustments recognised on the FTA of IFRS 9.



Total adjustments to impaired loans amount to 2,254 million, being 55.76% of the gross amount, compared with 51.18% in the year prior to IAS 39 and 52.00% following the adjustments made on the FTA of IFRS 9. The table provides an overview of impaired and performing loans,

LOANS TO CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/12/2018	01/01/2018	(+/-)	% change
Impaired loans	Gross exposure	4,041,601	4,108,817	-67,216	-1.64%
	Adjustments	2,253,638	2,136,741	116,897	5.47%
	Net exposure	**1,787,963**	**1,972,076**	**-184,113**	**-9.34%**
– Non-performing loans	Gross exposure	2,447,319	2,267,984	179,335	7.91%
	Adjustments	1,687,545	1,522,576	164,969	10.83%
	Net exposure	**759,774**	**745,408**	**14,366**	**1.93%**
– Unlikely to pay	Gross exposure	1,520,580	1,741,700	-221,120	-12.70%
	Adjustments	551,737	602,875	-51,138	-8.48%
	Net exposure	**968,843**	**1,138,825**	**-169,982**	**-14.93%**
– Past due and/or impaired overdrawn	Gross exposure	73,702	99,133	-25,431	-25.65%
	Adjustments	14,356	11,290	3,066	27.16%
	Net exposure	**59,346**	**87,843**	**-28,497**	**-32.44%**
Performing loans	Gross exposure	19,804,194	19,900,190	-95,996	-0.48%
	Adjustments	108,421	119,905	-11,484	-9.58%
	Net exposure	**19,695,773**	**19,780,285**	**-84,512**	**-0.43%**
Total loans and receivables with customers	Gross exposure	23,845,795	24,009,007	-163,212	-0.68%
	Adjustments	2,362,059	2,256,646	105,413	4.67%
	Net exposure	**21,483,736**	**21,752,361**	**-268,625**	**-1.23%**

with comparative amounts at 31 December 2017, as restated to reflect adjustments recognised on FTA of IFRS 9.

Net non-performing loans, after writedowns, total 760 million, +1.93%, or 3.54% of total customer loans, compared with 3.43% at 31 December 2017. These statistics confirm the slowdown in the growth of this aggregate, which is well contained despite the effects of the crisis in the construction sector.

To cover estimated losses on non-performing loans, adjustments rose to 1,688 million, +10.83% compared with the comparative figure, providing coverage of 68.95%, compared with 65.67% at 31 December 2017 before the FTA of IFRS 9. The level of coverage reflects our prudent provisioning policy and, as mentioned, positions the Group among those with the highest level of coverage in Italy.

Considering the amounts written off in prior years against non-performing loans that are still on the books in the hope of future recoveries, the coverage of such loans amounts to 77.82%.

Unlikely to pay loans are credit exposures, other than non-performing loans, for which it is deemed improbable that the obligor will pay its credit obligations in full without recourse to measures such as the enforcement of guarantees. They have come in at 969 million, -14.93%, or 4.51% of total loans and receivables with customers, compared with 5.23%, while the related adjustments amount to 552 million, -8.48%, with a level of coverage of 36.28% compared with 34.61%.

Past due exposures and/or impaired overdrawn accounts, other than non-performing loans or unlikely-to-pay loans, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 continuous days and which exceed a set materiality threshold, amount to 59 million, -32.44%, and represent 0.28% of the total compared with 0.40% at the end of 2017.

Performing loans amounted to 19,696 million, -0.43%, with writedowns of 108 million, corresponding to 0.55% of them, compared with 0.60%.

Total adjustments come to 2,362 million, +4.67%.

TREASURY AND TRADING OPERATIONS

Stock markets

The financial markets had an especially difficult year in 2018.

Almost all leading stock markets declined considerably, with performance varying greatly in the various areas. In particular, there was a clear dichotomy between the US and European markets for most of the year.

Favourable economic conditions in the United States during the early part of 2018 provided strong support for the market indices, which rose to new record levels on double-digit increases. Fears about the persistence of trade tensions between the USA and China only began to generate adverse effects towards the end of the year.

In Europe however, investor sentiment was immediately conditioned by the signs of an economic slowdown, which were compounded by concern about the Italy/EU budget dispute and the open question of Brexit. Adding in the planned ending of QE by the ECB, it is easy to understand the reasons for the negative attitude displayed by the markets.

These economic conditions were reflected in the annual performance of the principal global indices: Euro Stoxx 50 index, -14.34%; MSCI World Index, -10.44%; Standard & Poor's 500 Index, -6.24%; Nikkei 225 index, -12.08%; FTSE Mib Index, -16.15%.

The international bond markets also displayed weakness.

The downward trend was guided by the US Fed, in particular, which sought to remove monetary stimulus by raising official rates on four occasions, by 25 basis points each. Accordingly, the Fed Funds rates lay in the 2.25%-2.50% range at year end. Against this background, Treasury yields trended upwards for most of the year. The current, less aggressive approach of the US monetary authorities only emerged towards year end, with growing signs of weaker international economic conditions that have checked, in part, the rise in rates. The yield on 10-year treasuries therefore closed the year around 2.70%, with the two-year notes at 2.50%.

Monetary policy in Europe became steadily less accommodating over the year.

While confirming official rates at their historical minimum of zero percent, the ECB gradually prepared the markets for a reduction in securities purchasing programme (QE), which led to its termination at year end.

At the last Board meeting held in December, the ECB recognised the economic slowdown in progress and decided to continue the reinvestment of maturing securities for an extended period, reiterating that the rise in official rates is anchored to its decision to maintain the status quo at least until the summer of 2019.

In this context, the yields on German government securities moved without a clear direction for a good part of the year. The search for safety only took over during the last quarter, when the heightened international uncertainties caused the 10-year yields to contract strongly, closing the year down at around 0.20%.

Markets in Italy had to face two critical moments, marked by a veritable flood of sales of domestic government securities: the first occurred in May and June, on formation of the new government, while the second took place in November and December on discussion of the compatibility of the Italian budget with European constraints.

The reduction in Italy's rating by the principal agencies caused yields to spike strongly: 10-year rates peaked at around 3.80% in October (from 2% at the end of 2017), while the 2-year rates reached 2.80% in May (from -0.20%). The Btp-Bund spread widened to more than 320 basis points in November. Attitudes calmed subsequently, following resolution of the impasse between the Italian government and the EU, by reducing the deficit/GDP ratio envisaged in the budget, and the market recovered somewhat. The above-mentioned yields dropped back to around 2.75% and 0.50% respectively.

Treasury operations were intense, drawing on the abundant liquidity available to the Bank and within the system, with the continued prevalence of lending, albeit much reduced, with the same characteristics seen in recent years i.e. focused in the extremely short term (overnight, tomorrow-next and spot-next).

The Bank continued to operate in the e-MID during the year, although to a lesser extent than in 2017, again with a prevalence of lending transactions.

By contrast, the high volume of repurchase agreements arranged in the MMF market, drawing on Clearing House guarantees, gave preference to funding activities.

The net interbank position was 3,263 million negative at 31 December 2018, compared with 2,820 million negative at the end of 2017. Cash and liquid assets total 969 million, compared with 112 million. At year end, there were two T-LTRO II outstanding with the ECB totalling 4,600 million. The first, arranged for 1,100 million on 23 June 2016, with repayment on 24 June 2020 and a right to early repayment from 27 June 2018, is a zero rate operation (subject to reduction in the event of an increase in eligible lending, with respect to the assigned benchmark). The second was signed in March 2017 for 3,500 million, repayable on 24 March 2021, in order to take part in the last ECB operation to refinance the T-LTRO II programme, with the target of stimulating the real economy by guaranteeing further liquidity to the banking system. These operations have accrued negative interest in favour of the Bank, as the loans that we disbursed exceeded the threshold assigned by the ECB. Therefore, net of these T-LTRO II operations, the balance would have been positive for 1,337 million.

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

Following the entry into force of IFRS 9 on financial instruments, the Bank has applied the new requirements from 1 January 2018. The decisions taken have not led to any significant reclassifications in the composition of the portfolio of financial instruments based on their accounting categories. The bulk of the portfolio measured at amortised cost continues to be accounted for in this way, whereas a marginal portion of financial instruments («Held to maturity» and «Loans and receivables») has been subjected to a change in accounting treatment, from amortised cost to fair value through profit or loss. More specifically, the mutual funds, closed-end funds and open-end funds, if not «held for trading», have been reclassified as financial assets that have to be measured at fair value through profit or loss, also as a result of in-depth analyses and accounting interpretations made at national and international level. Within the securities portfolio, the debt instruments previously classified as «held to maturity» have been included in the portfolio of financial assets measured at amortised cost, with the exception of those securities which have been included in the portfolio of financial assets mandatorily measured at fair value through profit or loss as they did not pass the Solely

Payments of Principal and Interest (SPPI) test. Debt securities previously classified as «Available for sale» have been transferred to the «held to collect and sell» business model and included in the portfolio of financial assets measured at fair value through other comprehensive income, except for certain bonds that are included in the portfolio measured at amortised cost. The portfolio of financial assets measured at fair value through profit or loss with an impact on comprehensive income also includes the majority of debt securities previously classified in the «held-for-trading» portfolio, always subject to passing the SPPI test. For most of the variable-yield securities already classified in the AFS portfolio, the «Fair Value OCI Option» was chosen. Held-for-trading financial assets include debt securities denominated in foreign currencies, as well as variable-yield securities and mutual funds held for trading. The portfolio of financial assets measured at fair value according to IAS 39 was entirely reclassified, given that the new standard limits the possibility of exercising the fair value option, so we decided not to exercise it for now. The portfolio of financial assets that have to be measured at fair value through profit or loss includes some securitisations, in addition to the financial assets already mentioned previously and the debt instruments that have not passed the SPPI test.

At 31 December 2018, the portfolios of financial assets represented by securities total 11,109 million, down 6.45% following the sharp increase in the prior year, which was essentially due to the purchases of government securities (Italian, Spanish and French) during the second and third quarters, for the most part, not least because of the abundant liquidity made available by the T-LTRO II refinancing operations already mentioned. The following table summarises the various amounts involved and the percentage changes.

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

(in thousands of euro)	31/12/2018	01/01/2018	% Change
Financial assets held for trading	263,768	327,458	-19.45
of which, derivatives	44,392	52,851	-16.01
Financial assets mandatorily measured at fair value through profit and loss	398,310	421,764	-5.56
Financial assets measured at fair value through other comprehensive income	4,423,027	6,886,442	-35.77
Financial assets measured at amortised cost	6,024,006	4,239,671	42.09
Total	**11,109,111**	**11,875,335**	**-6.45**

As in the past, the portfolio mostly comprises domestic government securities, despite the substantial sales of, in particular, securities near to maturity. The year was marked by a good volume of buying and selling, which mostly involved the HTCS and Trading portfolios. At the same time, similar new securities with a limited duration were purchased. In this regard, the continuation of expansionary monetary policy has held the yields on public debt securities at their historical lows: zero or even negative rates for short dates. The duration of the portfolio is now slightly more than three-and-a-half years, compared with about four in the prior year.

Financial assets held for trading

The size of the trading portfolio throughout 2018 remained much lower than in the prior year, with transactions limited almost entirely to shares. This portfolio totals 264 million, down 19.45% from 327 million previously.

(in thousands of euro)	31/12/2018	01/01/2018	% Change
Floating-rate Italian government securities	59,089	–	–
Fixed-rate Italian government securities	54,008	–	–
Foreign government securities designated in foreign currencies	–	83,232	-100.00
Bank bonds	11,109	–	–
Bonds of other issuers	1,925	–	–
Variable-yield securities	83,095	151,870	-45.29
Mutual funds	10,150	39,505	-74.31
Net book value of derivative contracts	44,392	52,851	-16.01
Total	**263,768**	**327,458**	**-19.45**

The composition of the trading portfolio is simple and transparent. Sales of financial assets have continued, with shares falling to 83 million from 152 million in the prior year (-45.29%), which represents 31.50% of the portfolio compared with 46.38%. All foreign government securities have been sold or redeemed, while further purchases of Italian government securities have been made. The profit from trading has fallen considerably and the volatility of the financial markets has caused a deterioration in the net balance of unrealized gains and losses.

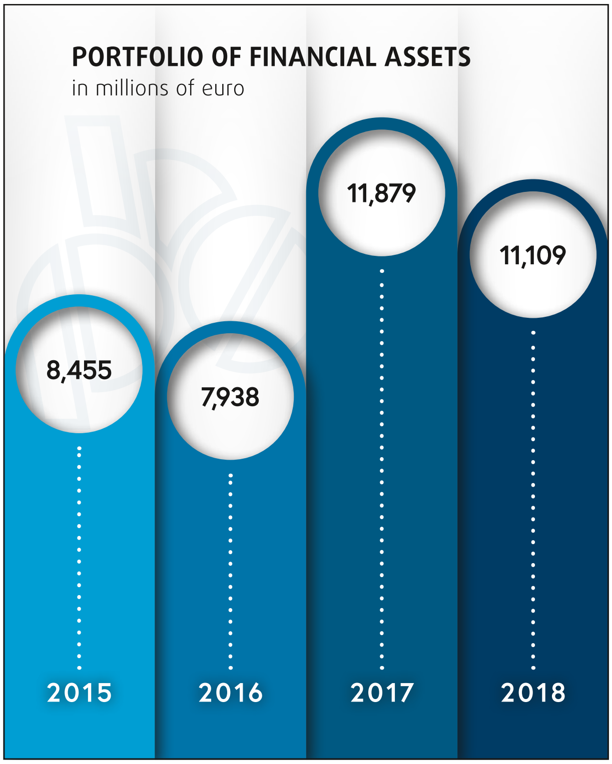
Overall net trading income totalled 2.430 million compared with 37.930 million in 2017, due to the weakness of the financial markets during, in particular, the second half of the year.

This result would have been worse, except for the good contribution made by the profits from exchange and currency transactions that, compared with the prior year, improved slightly to 25.184 million.

Analysing in detail the net results from security transactions, the overall loss of 26.459 million arose as follows: with regard to fixed-yield securities as a whole, net trading profits totalled 0.827 million, while unrealised gains and losses amounted to 0.047 million and 6.775 million respectively. Then we have to add profits of 3.871 million and net losses of 24.429 million on variable-yield securities and mutual funds. In 2017, the following results were generated by the securities element of the portfolio:

net profits of 18.936 million; gains of 2.313 million; losses of 16.534 million.

As mentioned, the profit from exchange and currency transactions rose to 25.184 from 25.021 million, while that from derivative transactions fells from 15.252 to 3.778 million. The strengthening of the US dollar against the euro reduced the level of exchange losses from 7.058 million in the prior year to just 73,000 euro.



Other financial assets mandatorily measured at fair value

The other financial assets mandatorily measured at fair value have decreased by 5.56% to 398 million from 422 million.

The portfolio relates almost entirely to various types of funds and Sicavs. The decrease was essentially due to the disposal of bond holdings.

(in thousands of euro)	31/12/2018	01/01/2018	% Change
Other bonds	6,233	30,427	-79.51
Variable-yield securities	2	820	-99.76
Mutual funds in euro	371,167	370,534	0.17
Mutual funds in foreign currency (USDA)	20,908	19,983	4.63
Total	**398,310**	**421,764**	**-5.56**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS) totals 4,424 million, -35.77%. This total began to decrease from the second quarter, due to the sale of Italian government securities and, to a lesser extent, the Spanish government securities held Bond holdings were increased by subscribing for high-rated issues (especially covered and supranational (EIB) bonds).

Among these, Italian government securities have decreased by 36.03% to 3,491 million and represent the principal component, accompanied by fixed-income Spanish and French government securities for 273 million, with a view to diversification. In accordance with established operational practices, this portfolio contains part of the invested liquidity in order to contain, if only partially, the impact on the income statement of the volatility always found in the financial markets. The bond component was essentially stable (+1.79%), while variable-yield securities increased by 4.46%.

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

(in thousands of euro)	31/12/2018	01/01/2018	% Change
Floating-rate Italian government securities	592,896	788,044	-24.76
Fixed-rate Italian government securities	2,898,339	4,669,642	-37.93
Foreign government securities	273,356	784,532	-65.16
Bank bonds	483,996	465,939	3.88
Other bonds	70,160	78,458	-10.58
Variable-yield securities	104,280	99,827	4.46
Total	**4,423,027**	**6,886,442**	**-35.77**

Financial assets measured at amortised cost

The securities measured at amortised cost comprise part of the financial assets measured at amortised cost (HTCS) and total 6,024 million, compared with 4,240 million, +42.09%. The market increase derives from the reallocation of the various portfolios. In particular, the increase during the first part of the year related to Italian and foreign government securities, while later increases were due to the purchase of high-rated bonds. These are government securities with a duration of about 4 years.

(in thousands of euro)	31/12/2018	01/01/2018	% Change
LOANS AND RECEIVABLES WITH BANKS	**75,059**	**6,829**	**–**
Italian bank bonds	15,744	6,829	130.55
Foreign bank bonds	59,315	–	–
LOANS AND RECEIVABLES WITH CUSTOMERS	**5,948,947**	**4,232,842**	**40.54**
Floating-rate Italian government securities	809,779	400,624	102.13
Fixed-rate Italian government securities	3,599,927	2,804,936	28.34
Foreign government securities	1,418,467	980,398	44.68
Other bonds	120,774	46,884	157.60
Total	**6,024,006**	**4,239,671**	**42.09**

Asset management

After an extremely positive 2017, the asset management industry experienced a year to forget in 2018. Performance was adversely influenced by the circumstances involving Italy's public finances and the volatility of the financial markets, which helped to encourage a more prudent allocation of savings.

The Bank was also affected by these general conditions. Funding activities performed well overall, but there was a marginal decline in volume. The assets managed in various forms totalled 4,982 million at the end of the year, down by 0.60%.

EQUITY INVESTMENTS

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

At 31 December 2018, equity investments total 562 million, up by 55 million, +10.94%, due to purchasing the entire equity interest in Prestinuova S.p.A. and 33% of the quota capital of Rent2Go S.r.l., as well as increasing the quota capital of Servizi Internazionali e Strutture Integrate 2000 S.r.l.; it was also necessary to cover the 2017 loss reported by Pirovano Stelvio S.p.A.

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

In the context of the Swiss banking system, marked by traditional skills and professionalism and supported by increasing levels of innovation, our subsidiary has continued the process of strategic repositioning from a provider of general services towards a much more targeted focus on specific areas and segments of business.

The efforts made in this direction and the investment allocated have benefited the bottom line, with an increase in net profit by 6.63% to CHF 15.152 million. This satisfactory result reflects the increased volume of activity and confirms the quality of the strategic and operational guidelines pursued.

Total deposits decreased slightly, -1.25%, to CHF 4,821 million, while direct deposits totalled CHF 3,023 million, +0.49%. Loans to customers totalled CHF 4,201 million (+7.47%), of which CHF 3,752 million (+8.05%) relate almost entirely to home mortgages.

With regard to the branch network, where effective territorial coverage in support of our commercial activities is balanced by a need for rationalisation, the Samaden branch in Cantone dei Grigioni was merged with the nearby Saint Moritz branch, while a representative office was opened at Verbier, in the Vallese area.

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

Consistent with the objectives established for the year and the approved business development plan, the activities of this subsidiary focused above all on increasing the number of customers, the volume of business and the profitability of lending, while dedicating ever greater attention to asset quality.

In particular, commercial action involved focusing more on corporates and larger customers; expanding penetration in the area of trade receivables and tax credits due from the public administration; taking effective steps to develop the market for the production and distribution of energy; proposing new products, including the discounting of summary account sheets (DCR) for the pharmacy sector; taking account of the territorial presence of the reference banking networks of the Parent Company, and concentrating commercial efforts on the economically more significant areas (Lombardy and Northern Italy in general). In this regard, the «Lombardy Branch» was strengthened.

The «FA.PA. FatturaPagata®» (invoice paid) project has been developed with a view to offering DIY factoring services to the customers of Banca Popolare di Sondrio.

This tool, applied initially to make occasional advances against invoices, on a with-recourse basis without informing the debtor, will become a new electronic commercial channel in support of the Parent Company. Dedicated to the retail segment, this channel will provide new financial services, including the occasional assignment without recourse of receivables certified via the MEF platform and occasional assignments with recourse, with notification of the debtors.

Factorit ranks among the leading companies in the sector, being the 4th Italian operator (1st among its direct competitors, being the factors that belong to medium-sized banking groups), with a 5.74% share of turnover.

Operating for forty years, Factorit reported a profit of 7.9 million that represented a reduction with respect to 2017. This was essentially due to the provisions that increased by 18.7 million the gross adjustments to cover the credit risk on financial assets.

Banca della Nuova Terra S.p.A. – BNT S.p.A. (100%) This bank is wholly owned.

This «product-specific» bank focuses on the granting of loans backed by the assignment of one-fifth of salary (CQS) or pension (CQP) and the fulfillment of payment instructions (DEL), while also continuing its traditional activity of making advances to farmers against their grants from the Common Agricultural Policy (CAP Advances).

Activities during the year concentrated on launching the «CQ - assignment of income» business, consolidating the processes and procedures underlying the distribution of its products via the branch network of the Parent Bank, and activating a series of agreements with public bodies, private firms and insurance partners of international repute in support of the business. The traditional business of making advances to farmers against their CAP grants was boosted by the agreements signed with leading national Confederations.

On 23 July 2018 the Parent Bank acquired full control of Prestinuova S.p.A., a financial intermediary specialised solely in the CQ sector that had ceased lending operations in July 2017. Under an agreement signed with PrestiNuova, during the second half of the year Banca della Nuova Terra was therefore able to extend its services to the customers of the new Group subsidiary, thus providing a form of indirect continuity to the administration and safeguarding of the related loan portfolio.

Via the merger by absorption of PrestiNuova by Banca della Nuova Terra, due for completion during the first half of 2019, the Group structure will be optimised and cost efficiencies will be achieved by concentrating all CQ business within one specialist organisation. BNT closed the year with a net profit of 3.3 million.

PrestiNuova S.p.A. (100%) This financial intermediary became a wholly-owned subsidiary on 23 July 2018, when the Parent Bank acquired the entire share capital and became the sole shareholder. The company specialises in the granting of loans backed by the assignment of one-fifth of salary (CQS) or pension (CQP) and the fulfillment of payment instructions (DEL).

Having suspended lending operations in July 2017, during the first half of 2018 PrestiNuova focused solely on the administration of its portfolio. After joining the Group, during the second half of the year the company continued to administer its portfolio of loans and, backed by the commercial agreements signed with Banca della Nuova Terra, was able to safeguard their value.

As mentioned above, work to merge PrestiNuova with Banca della Nuova Terra is in progress. PrestiNuova closed the year with a net profit of 3.3 million.

Pirovano Stelvio S.p.A. (100%). This company manages hotel facilities in the Stelvio Pass, dedicated above all to summer skiing and to knowledge of all aspects of mountain life.

Attendance levels were about 12% higher in 2018 than in 2017; this might have been even better, except the season closed early due to the heavy snowfalls that literally blocked the Stelvio Pass during the last week of opening.

As a statement of fact, our University of skiing and the mountains must always take its lead from the random weather conditions; hot periods from June to August reduce the opportunities for skiing on the glacier, followed by heavy snows from the end of September onwards.

Considering this, new forms of tourism have been developed over time, such as tours in the Stelvio National Park including appreciation of the environment in which the «Great War» was fought locally, the services of the Tesla Holistic Naturopathy School promoting personal wellbeing, and an invitation to cyclists and motorcyclists to «scale» the Stelvio, the «sacred mountain», promoting hospitality in all its forms, with a special focus on the eno-gastronomic aspects.

Efforts are now being made to relaunch the Stelvio area, with a new tourist development project under examination by the provinces of Lombardy and Bolzano that will hopefully bring good results. Whatever the outcome, Pirovano Stelvio will play an increasing leadership role in the future development of the Stelvio area.

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

This subsidiary mostly provides operational support linked to the property requirements of the Bank and the Banking group. During the year under review, further efforts were made to enhance the real estate assets acquired by the company as part of managing the Parent Company's impaired loans.

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

The company's results are positive.

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

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

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

Its results should close around break even.

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

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

The company's results are positive.

Related-party transactions

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

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

Related-party transactions, as identified in accordance with IAS 24 and the Consob Regulation, form part of the Bank's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred. These transactions amount to 10.26% of total loans to customers and banks and financial assets and 1.41% of direct deposits from customers and banks and financial liabilities.

In compliance with disclosure obligations prescribed in article 5 of the Consob Regulation, during the period 1 January to 31 December 2018, the Bank's corporate bodies decided the following transactions of greatest significance:

- Release S.p.A., associated company; renewal of lines of credit totalling € 139,000,000 available until revoked; resolution of 23/3/2018;
- Factorit S.p.A., subsidiary; grant of revolving facility for guarantees in favour of residents of € 300,000,000, returnable on demand; renewal of lines of credit totalling € 2,870,100,000 available until revoked; resolutions of 23/3/2018;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; renewal of lines of

credit totalling € 2,170,916,197 available until revoked; resolution of 23/3/2018;

– Alba Leasing S.p.A., associated company; renewal of lines of credit totalling € 448,480,702 available until revoked; resolution of 4/10/2018;

– Factorit S.p.A., subsidiary; renewal of lines of credit totalling € 3,020,140,000 available until revoked; resolution of 12/11/2018;

– Alba Leasing S.p.A., associated company; granting of a commercial guarantee in favour of residents of € 640,500, repayable on demand; resolution of 18/12/2018.

In addition, as part of the programme for the issue of covered bonds authorised by the Board of Directors in 2014 and updated in 2017, on 29 September 2018, with effect from 1 October 2018, the bank assigned to Popso Covered Bond S.r.l. a portfolio of performing mortgages amounting to € 323 million.

No transactions with related parties in the period under review, whether of greater or lesser significance, have had a significant impact on the financial position or results of the Bank. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the Bank's 2018 balance sheet or results with regard to the related-party transactions carried out during 2017; in any case none were atypical, unusual or not on market terms.

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

During 2018 and in the current year, no positions or transactions deriving from atypical or unusual operations have arisen. According to Consob Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those - not arising in the ordinary course of business - that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.

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

REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE

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

INTERNATIONAL UNIT

The dynamics of the world economy have always been intertwined with the health of global trade: the more the latter develops, the more the former benefits. This is evidenced, albeit in reverse, by the recent case of actual or threatened customs duties on US imports from China. These obstacles to free trade have weighed significantly on the global economic cycle, which was already slowing without any help.

As a territorial bank, we have always sought to develop the support provided to firms involved in international relations, not least by making available experienced specialists, a wealth of relationships built over decades with counterparts present throughout the world and adequate financial support, both directly and via relevant partners.

This approach, almost a challenge, was first adopted with pioneering spirit at a time when national boundaries still appeared insurmountable to the majority of businesses. Above all, this entrepreneurial decision made it possible for the bank to embrace foreign markets with a penetration that went far beyond our weight at national level. In this way, we have been able to contribute significantly to the growth in scale of our customers, thereby fulfilling our fundamental mission: facilitate the economic growth of our home territories. Territories that were initially limited to the areas bordering Switzerland, representing an historical and natural contact with foreign business, but which later expanded into the lively manufacturing environment of Lombardy, our home region, where the more dynamic entrepreneurs have always viewed foreign markets as a fundamental opportunity for growth. Now, together with the other companies in our banking group, we are able to guarantee support to an increasing number of businesses throughout northern Italy and in the Rome area. In addition, we also work with numerous experienced institutional counterparts active internationally.

Our One-stop Shop for Internationalisation has managed the wide variety of opportunities offered by global markets, tackling various types of initiative involving multiple countries.

A total of 14 events were organised for businesses during the year: from country presentations to training on international trade, from business missions abroad to the reception of foreigner buyers in Italy, attracting over 500 participants. This action particularly involved those firms interesting in starting or consolidating their internationalisation processes.

We have also facilitated contacts between firms and the Italian Chambers of Commerce abroad, which provide them with detailed advice about their individual reference markets.

Our renewed membership of the Invest in Lombardy programme seeks to support foreign operators wanting to invest in the more dynamic region of Italy.

Significant publishing and publicity initiatives included the «Business Class» monthly newsletter and the folders entitled «FX and Rates 2018» and «FX Calendar».

Participation in the Cooperation Bancaire pour l'Europe, an EEIG based in Brussels, enables us to offer information and advice to suitable customers about European projects, topics and funding programmes.

The correspondent banking sector has continued to develop its relations in the various markets, supporting the activities of the bank and, above all, our customers. The consolidated network of correspondents numbers 137 account relationships and about 1,800 agency relationships in 162 countries.

The activities of the Shanghai office were relaunched during the year.

– This location, operated via Servizi Internazionali e Strutture Integrate 2000 S.r.l., makes a customised, professional service available to firms for the development of their business interests in the Chinese market. Among other activities during the year, personnel from this office met our customers at SIAL Shanghai, a fair dedicated to food and drinks, and participants in the mission that went to China.

Since the 1990s, the International Unit has implemented a system of management and governance that is certified compliant with the ISO 9001:2015 standard. DNV, a certification agency, visited our central and branch offices in June to carry out the usual periodic checks, confirming that all requirements were satisfied in full. Five certifications are held at present, covering various operational areas. We have renewed our membership of the Global Compact, which is a project launched in 2005 by the United Nations. With almost 10,000 business members located in 160 countries, this is the largest initiative promoting CSR in the world. Participants share ideas and commit to supporting the 10 universally recognised principles that address human rights, employment, the environment and the fight against corruption. We sent our first «Non-financial statement», included in the 2017 Report, to New York last year in place of our usual Communication on Progress.

We also formally joined Fondazione Global Compact Network Italia, together with other Italian businesses and organisations striving to achieve a sustainable economy that is inclusive and beneficial for all people, communities and markets.

COMMERCIAL SERVICES AND PROJECTS

Our bank has always worked hard to integrate closely with the economic and social fabric of the territories that we serve. Just as a tree stores the nutrients absorbed via its roots and makes them available to all via its fruit, so the savings of our customers are managed with care and professionalism so that credit and services can be offered to the economy. This is the true logic of a territorial bank, a logic that has been shown to spark a virtuous cycle and bring wealth and stability to the system.

The following information covers the most significant services provided during 2018, both directly and via specialist subsidiaries and affiliates. Firstly, it is worth remembering that initiatives are often launched to satisfy the requests made by customers and, indeed, taking their suggestions into account. These direct discussions between the bank and the users of our services provide the additional leverage needed for growth.

The coverage afforded by our network and telematic technologies provides a constant source of energy for our electronic banking channel, which continues to grow the number of customers and the volume of transactions, without ignoring the value of the information provided. Our bouquet of electronic services now includes additional proposals covering more complex transactions. In addition to traditional credit transfers, F24 tax payments, telephone top-ups and prepaid cards, these services now encompass payments to the public administration (pagoPA), instant transfers of up to 15,000 euro within a few seconds, the updated management of electronic invoicing (obligatory for firms from 1 January 2019), and enhanced security for payment cards.

SCRIGNOInternet Banking

A new version of SCRIGNOInternetBanking was made available to private customers last spring. Among the first banks in Italy, we have also introduced the use of blockchain technology (by keeping a digital register of events on the blockchain to ensure that it cannot be changed) to support the collection of consents for the renewal of third-party vehicle insurance. This seeks to optimise internal procedures while, at the same time, enhancing the user experience of our customers.

Lastly, for certain segments of counterparts resident in areas not served by our branches, a method of remote customer recognition has been made available together with the electronic adoption of certain products (current accounts and credit cards), thereby extending the range of electronic transactions that can be carried out.

Arca Fondi Sgr

In terms of the products packaged in order to meet the needs of savers, Arca Fondi SGR has extended its «PIR» range of individual savings plans by launching the «Arca Economia Reale Bilanciato 15» fund. This affiliate has also updated and enriched its range with two new funds: «Arca Cedola Attiva 2023 V, VI, VII, VIII» and «Arca 2023 Reddito Multivalore Plus IV, V, VI, VII». Customer interest in Arca Previdenza, the supplementary pension solution offered by Arca Fondi Sgr, was confirmed in 2018.

Arca Vita

Dynamic innovation has continued in the insurance sector. The product catalogue has been extended with the additions of Obiettivo 2.0, a unit-linked policy proposed by Arca Vita and linked to three internal funds that invest primarily in ETFs, which allow diversified, efficient and low-cost access to global financial markets, and Piano Cassaforte TFM, a policy dedicated to investing the amounts set aside by firms for future termination payments to their directors and statutory auditors.

Banca della Nuova Terra S.p.A.

A focus on specific financial needs has resulted in making new forms of funding available. In particular, in February 2018, Banca della Nuova Terra S.p.A. started to distribute products secured on one-fifth of the salary or pension of the customers concerned. This tool enables customers to obtain personal loans not dedicated to the purchase of specific goods or services, even if - for various reasons - they usually have limited access to credit.

www.popso.it

The institutional portal popso.it presents the products and services on offer in an easy-to-understand manner, while also enabling customers to request additional information about them. The websites of the bank are also accessible by people with disabilities that affect, even severely, their senses or movements.

RISK MANAGEMENT

These days, the control of typical banking risks is implemented within a regulatory framework that has undergone drastic changes.

The difficulties encountered by the sector and the responses provided by the Supervisory Authorities have attracted growing attention from analysts and the press alike; in addition to the circumstances involving individual banks, the public debate has centred on more general issues such as the adoption of measures to relieve balance sheets from the burden of non-performing loans, the exposure of European banks to their respective sovereign debt, the application of the new restructuring rules and the orderly resolution of failing intermediaries. Looking ahead, the transformations underway also give rise to uncertainties: threats on the horizon derive from the impact of technological change, the consolidation of economic and social trends, current geo-political dynamics and the redefinition of the international equilibrium.

As they evolve naturally, under the proactive guidance of the Supervisory Bodies, the available risk management techniques and systems provide support for the business strategies adopted, offering an integrated overview of the risks faced and enabling operators to focus the action of their controls with reference to the environmental conditions and their individual appetite for risk. The analysis of risk factors, increasingly supported by the evaluation of scenarios, is becoming ever more detailed and forward looking, applying methodologies - constantly updated - that are more precise than ever; as a consequence, personnel are required to specialise to an even greater extent.

The Risk *Appetite Framework* (RAF), which pulls together parameters, guidelines and internal alert mechanisms designed to orient risk acceptance policies in accordance with prudent criteria, contributes to the progress made in the right direction. The Internal Capital Adequacy Assessment Process

(ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), both more complex and detailed than in the past, examine the ability of available capital and liquidity to cover all significant risks on an ongoing basis and prospectively, in order to identify any vulnerabilities and the appropriate countermeasures.

Similarly, the arsenal available to Regulators for the effective management of banking crises has been strengthened with additional tools to protect the stability of the banking system. In addition to the routine review by each bank of the Recovery Plan required by European regulations that were introduced several years ago, over the past year the Single Resolution Mechanism has called on the bank to support the preparation of a Resolution Plan, which enables the competent bodies to plan action readily applicable to our banking group, should an irreversible crisis arise, so that an orderly solution can be found and implemented.

Shortly, in addition to the traditional equity funding, banks will be required to establish a minimum cushion of liabilities available to absorb the losses arising from difficulties, in order to avoid the need for recourse to public rescues or other forms of aid. This Minimum Requirement for own funds and Eligible Liabilities (MREL), also imposed by the new framework of European rules for the management of crises, seeks to ensure the proper functioning of bail-in procedures; the need to comply, albeit after a reasonable transition period, will mean changing the structure of funding and will increase the cost of access to funds.

The stress testing required of major EU banks by the European Banking Authority (EBA) and the ECB was a significant challenge. As in 2014 and 2016, our Supervisor invited us to take part in this activity, which spread over most of the year, without any obligation to publish the results.

As expected, the testing absorbed most of the time available to the teams concerned, while also representing a challenge in terms of the intensity of the work required and the deadlines to be met; once again, this exercise proved to be useful in terms of demonstrating the adequacy of our capital at a time of hypothetical systemic adversity.

As the Parent Company, we dedicated special attention during the year to the integration of new subsidiaries within the Group, ensuring the harmonious transfer of operating policies and guidelines, and communicating the wealth of supporting methods, processes and tools.

The system of internal controls, further strengthened during the year and assisted by a daily flow of alerts and information for senior executives, managers and «front line» teams, ensures the proper conduct of operations and the functioning of business processes, confirming the consistency of the related procedures and the conduct of personnel with corporate values, as well as constant compliance with the applicable regulations.

The incessant work carried out to strengthen the control structure reminds us of cathedral maintenance: constantly ready to prevent damage, consolidate the structure from the foundations up and maintain the beauty of the buildings which, in our case, is something that we have been doing proudly for almost 150 years.

Credit and counterparty risks

Building on the measures taken in prior years, as part of a single medium-term project, once again much work was done over the past year to strengthen the organisation and procedures in place for the containment of non-performing loans (NPL), for preventing the onset of serious lending problems, for maintaining adequate coverage of impaired loans and for the proactive recovery of doubtful amounts.

Considerable effort was dedicated to oiling the gears of the «operational machinery» and equipping it to become more proactive in all phases of the value chain. This work included: strengthening the units responsible for managing and recovering anomalous loans, with changes made to the procedures followed and the tools used to process the accounts, in order to improve operational efficiency; completion of the work to rationalise the processes and systems for the classification of loans by class of risk, as well as for granting forbearance terms to requesting customers; intensified recourse to experienced external account managers, as a way to optimise the monitoring, chasing and recovery of doubtful loans; a more marked differentiation in the approach to determining impairment adjustments, based on the types of counterpart and the administrative classification of the positions concerned; refinement of the tools for drawing on the property guarantees that cover problem loans, including the creation on a major specialist web portal of a «property shopwindow» intended to streamline recovery procedures.

In March 2018, the European Commission presented draft legislation governing the adjustment of impaired loans and the ECB published the final text of the «Addendum» to its earlier guidelines for the proper management of non-performing loans. Both measures envisage tight timetables for the write-off by banks of new anomalous loans, distinguishing between secured and unsecured amounts. Overall, these measures seek to reduce uncertainties about the measurement of problem loans and facilitate their derecognition from the banking assets reported. Here, as with other significant regulatory changes, specific work on alignment has commenced following the performance of appropriate impact analyses and assessments; these analyses and assessments provide some comfort as, although severe, the new measures are unlikely to affect the equilibrium of the financial statements.

On the internal ratings front, coveted recognition is imminent for our models used to calculate the lending risk capital requirement under the *Advanced Internal Rating-Based Approach* (AIRB) envisaged by the supervisory regulations, having regard for our exposures to the *Corporate* and *Retail* segments that represented 57% of the individual lending portfolio at year end (and 92% in terms of the number of counterparts).

During the year we amended and recalibrated to a limited extent our models for estimating the PD, LGD and EAD parameters, not least to take account of the indications obtained from lengthy discussions with the Supervisory Authorities. We then commenced the complex authorisation process, in the conviction that we have put in place methodologies and procedures which are technically robust, integrated with our management systems, and known and welcomed at all levels within our organisation.

Once obtained, validation will be reason for pride and collective satisfaction, representing the coronation of our massive investment in human resources and technologies, as well as the tangible result of the energy expended by the many collaborators dedicated to the project. In addition to drawing on the capital saved to support significant further growth, we also intend to make further improvements to the efficiency and effectiveness of the processes underlying the granting and monitoring of loans, promoting a more careful, selective and predictive assessment of the risk profiles of counterparts and lending transactions. The beneficial effects of this work should be reflected in the credit quality indicators, not least via a further reduction of the rate at which new impaired loans are recognised.

Lastly, much has been done to adopt the accounting principles established in IFRS 9. The first-time adoption of the new standard has involved significant changes to the way in which loans and financial assets are measured and classified, introducing new models for estimating from a prospective standpoint the provisions required to cover impairment losses and - when necessary - the fair value of individual items. Major changes have also been made to organisational control and processes, procedures and the production of internal regulations. Work is currently in progress to refine the levels of IT automation and synchronisation, as well as to strengthen the chain of controls in the many operational areas concerned.

Market risks

Analysis of the portfolio of financial instruments shows, once again, the prevalence of Italian public debt securities. Nevertheless, there has been some diversification to increase the weighting of other European sovereign debt (especially French and Spanish bonds) and corporate and financial issuers.

The market tensions that, from the end of May, affected the market for Italian government securities and the Italian stockmarket, also reduced the value of the instruments held. This climate of uncertainty resulted in greater volatility; as a consequence, the statistical parameters used to estimate potential portfolio losses also peaked. In stages, the yield differential between 10-year BTPs and the German Bund rose to heights not seen over the past five years.

These adverse general conditions inevitably raised the level of supervision required. Market variables were subject to constant and intense scrutiny; the necessary approach and actions were adjusted almost daily, supported by updated analyses of the dynamics affecting our exposure to risk, simulations and targeted impact studies.

In terms of control, measurements continued to focus on daily estimation of the Value at Risk (VaR), being the risk to which the value of financial assets held is exposed, especially under extreme scenarios. The system of operational limits, discussed separately, on the exposure to instruments held for trading

(trading portfolio) and to the bank book is well established; starting from high level aggregates, this system drills down to more detailed alert thresholds for each risk factor. Given its materiality, «sovereign risk» is monitored separately.

The system of controls also envisages the daily and monthly measurement of additional risk metrics, calculated by type of instrument and portfolio, in order to determine with greater accuracy the sensitivity of financial asset values to changes in the scenario.

The range of monitoring techniques and tools applied reflects the most advanced standards observable in the banking industry. As an example, a new platform for calculating the Value at Risk was identified during the second half of the year, following a rigorous selection process. This tool, based on simulations that replicate the historical trends in market factors, will be used as an alternative to the existing «parametric» platform, which is based on statistical estimates of the risk parameters.

Interest-rate risk

The system for monitoring interest-rate risk is also stronger and more robust overall. This improves our ability to investigate the various aspects and impact of potential market rate fluctuations on the economic value of the business and, looking ahead, on the trend in the interest margin.

In addition to the routine re-estimation and update of parameters, important changes have also been made to the behavioural models for «demand items» – particularly important for a bank with our characteristics – and for «prepayments», when customers elect to repay early the loans granted to them; the models for the former have been extended to cover separately the «demand items» of BPS (SUISSE).

Given the growing influence of behavioural models on the outcome of risk measurements, verification processes and tools (backtesting) were introduced during the year to test and confirm on a regular basis their predictive properties.

With regard to the monitoring tools, the reports summarising the monthly analyses of the sensitivity of the economic value of the business to unexpected rate changes (sensitivity analyses) have been partially redesigned to reflect changes in the regulatory environment and adapt to the changing dynamics of operations, as have those addressing the interest margin generated by the assets and liabilities held (repricing analyses).

Alongside this development of the techniques for measuring interest rate risk, the work has also continued on the maintenance and improvement of the supporting IT tools.

Liquidity risk

The liquidity position is ample, given the large investment in securities that are readily marketable.

The control of liquidity risk involves a wide range of analyses and measurements carried out for operational and regulatory compliance reasons. The objective is to monitor closely both «operational» liquidity – via daily observation of the short-term cash flow dynamics typical of treasury and similar operations, as well as the potential inflows available from the sale of financial assets or their use in central refinancing operations – and «structural» liquidity, which seeks to maintain a balance between the sources and applications of funds over a longer time horizon. In addition, intra-day liquidity and intercompany financing are also monitored constantly.

Various changes were made to the risk management system during the year, even though the level of maturity and complexity already achieved has been commended by the Supervisor. Key action included working on the Contingency Funding Plan for the management of liquidity issues faced by the Group, as well as the annual review of stress scenarios, monitoring indicators and alert thresholds.

Additional activity at the start of last year included preparation of the annual report on the outcome of the Internal Liquidity Adequacy Assessment Process (ILAAP) while, during the second half, we participated in the SSM Liquidity Exercise covering the entire system, promoted by the ECB, which involved the daily processing and submission to the Authority of detailed lists of data on the exposure to liquidity risk; this was a type of «stress test» imposed on the banks supervised to check their ability to monitor their liquidity needs and surpluses, as well as to calculate on a proper and timely basis all the required risk parameters.

Operational and IT risks

Crowning the investment incurred in recent years to strengthen the system for identifying and managing operational risks, from 30 June 2018 the bank is allowed to determine the individual and consolidated capital required to cover the above risks using the Traditional Standardised Approach (TSA). This represents a step up from use of the Basic Indicator Approach (BIA) towards the adoption of a more sophisticated prudential approach, consistent with the practices adopted by a number of leading Italian banks.

The work has also continued on extending the entire system for the monitoring and control of operational risk to the companies that have recently joined the banking group, while also refining the well-established processes in place for Loss Date Collection and Risk Self Assessment, with a view to examining more closely possible issues associated with the application of new EU regulations (e.g. privacy, provision of investment services) and the process of granting loans.

The investment in technology and innovation has been considerable. Drawing on the periodic analyses performed by the dedicated functions within the «SOSI and Security» department, specific work has been carried out to strengthen the protection of our IT applications, with particular reference to defending against cyber crimes perpetrated using the new digital technologies. In this regard, there has been a dangerous increase in

«IT piracy», deploying attack techniques of increasing sophistication. Our ICT security tools are constantly enhanced to meet new operational requirements and tackle the risk of unauthorised access to our systems via fraudulent and malicious schemes. As a consequence, these tools have proved to be effective in minimising the potential losses generated by attempted fraud and/or efforts to compromise the services provided. Significant efforts have been made to tackle these threats, especially in the area of internet banking, resulting in refinement of the prevention and monitoring processes, as well as the actions taken when IT attacks are identified.

The usual annual comprehensive test of the Business Continuity plan was completed successfully at the end of November for the twelfth time. The test, involving technical and organisational verification work, covered the performance of critical processes at one of the alternative locations, simulating such risk scenarios as the destruction of or inability to access facilities and premises housing the operational units or critical equipment, as well as the non-availability of infrastructure, personnel and significant documentation. Similar tests covered the various IT resources, as part of work to verify the adequacy of the disaster recovery plan, which is designed to mitigate the risks associated with the non-availability of critical IT systems. During the year, successful tests were carried out on the various components of the corporate IT system to confirm our ability to recover data and restore operations.

Reputational and money laundering risk

We constantly renew our commitment to safeguard the most important asset of the bank: its reputation. In this regard, via the systematic collection and analysis of internal and external sources of information about possible risk phenomena and actual experience (Reputational Risk Assessment), suitable measures are adopted to tackle the emergence or escalation of events with a potentially adverse impact on the reputation of the bank, including direct action to mitigate their effects.

As in the case of operational risk, the work during the year aimed at monitoring more rigorously the actions taken to prevent and attenuate those primary risk factors that typically give rise to the emergence of reputational risks. We also expanded reporting to top management to include new sections on the analysis of complaints made by customers, and the review of major news found in the press or on websites, as these are factors that indicate the level of our reputation and related trends.

The EU IVth Directive, transposed into Italian law by Decree 90 dated 25 May 2017, confirmed and – if possible – strengthened the need for financial intermediaries to adopt robust systems for controlling and managing the risks associated with money laundering and the financing of international terrorism.

The effectiveness of this action is determined by a risk self assessment, promoted by the Authorities, which examines in each business sector the scale of the current and prospective risks faced and the corresponding measures in place to mitigate them.

Over the past year, the anti-money laundering function - responsible for supervising regulatory compliance and the effectiveness of the related controls - implemented a dedicated «AML Dashboard» as a preferential IT entry point for managing the verification work that the various functions are required to perform. This tool seeks to optimise the controls implemented at branch level and by the relevant central functions, enabling the assessment processes followed to be tracked more effectively.

Regulatory non-compliance risk

It is especially important to monitor compliance with and changes in the applicable regulatory instructions. This work is carried out by the Compliance Unit, unless other second-level control structures are responsible for specific activities. This Unit dedicates particular attention to matters related to consumer protection and the management of conflicts of interest. The operational model adopted for the management of non-compliance risk, known as «extended compliance», includes recourse to specialist functions and experts for each regulated area not supervised directly by the Unit.

This model is under constant development, as evidenced by the increasing number of compliance tests that address, in ever greater depth, not only the usual matters (such as transparency, usury, investment services, processing of personal data), but also new areas not previously examined. In particular, analysis in 2018 addressed for the first time the compliant retention of IT documents and the telematic negotiation of cheques via the Check Image Truncation (CIT) procedure; in addition, the Unit also checked compliance with the US regulations designed to tackle fraud and tax evasion, Qualified Intermediaries (QI) and the Foreign Account Tax Compliance Act (FATCA).

The Compliance Unit also played a significant role in the work to comply with the complex regulatory instructions, of European origin, that came into force during the year. Specifically, these included MiFID 2 (Market in Financial Instruments Directive) on investment services, GDPR (General Data Protection Regulation) on the processing of personal information and IDD (Insurance Distribution Directive) on the intermediation of insurance products. These activities included, on the one hand, participation in working parties responsible for the preparation of policies and, on the other, the performance of sector verification work in relation to the new requirements.

Other relevant risks

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

With regard to the former and in application of the provisions of the 9th update to Circular 263 dated 27 December 2006 «New prudential supervisory instructions for banks», published by the Bank of Italy on 12 December 2011, which updated Title V – Chapter 5 on «Risk assets and conflicts of interest with related parties», the checks carried out are covered by the «General regulation of the risks deriving from related-party transactions», which describes policies and processes that mitigate the risks accepted at banking group level in relation to related parties. In accordance with the regulatory requirements, the policy is reviewed at least every three years and is made available for inspection by the Authorities upon request.

The Regulation has not been amended since the latest update approved by the Board on 23 March 2018. It will be made available to the Shareholders' Meeting called for 26/27 April 2019 and on the institutional website at the following address: www.popso.it/assemblea2019.

Adequacy of the system of internal controls

The Internal Audit department reports directly to the Board of Directors, in order to ensure its autonomy and independence of action. The duties of this department include examining the completeness and strength of the controls over risk, as well as the functioning of our business processes.

The scope of internal audit activities was further extended during the year and now encompasses the other business functions with control duties, as well as operational segments of the bank of particular importance in terms of the risks faced by them.

Careful attention was dedicated to the overall system for the monitoring of risk and, in a more targeted manner, to lending, international payments, financial reporting standards and application of the principal regulations. With regard to the monitoring of credit risk, audit work covered the management of non-performing loans and project to develop an internal rating system; in addition, sample checks were also carried out on impaired exposures at the request of the Supervisory Authorities.

At banking group level, the Internal Audit department carried out multiple checks on compliance by subsidiaries with the guidelines issued by the Parent Company, sometimes with support from the IA functions active at local level.

Activities also included routine work, by a dedicated team of central and seconded inspectors, to verify the propriety of operations at branch level and at the central offices of the bank. The purpose of these checks, carried out both remotely and on site, with support from a system that flags anomalies, was to verify the propriety and adequacy of operational activities, as well as their constant compliance with the current regulatory framework and internal directives.

The internal audit function supports and participates directly in the work of the Control and Risks Committee and the Supervisory Body established pursuant to Decree 231/2001, while also holding frequent, constructive discussions with representatives of the Supervisory Authorities and members of the Board of Statutory Auditors, which is a fundamental internal control body that frequently requests help from the Internal Audit department in the performance of its duties.

Last but not least, the department uses a specialist team of EDP auditors to perform IT audits that include coverage of matters of increasing importance, such as cyber crime, business continuity, outsourced activities and processes, the security of ICT infrastructure and devices and, more generally, the management of IT risks.

HUMAN RESOURCES

Over the past 148 years, the steady growth of the bank has been founded, not least, on the commitment and efforts made by all personnel. Our well prepared and conscientious staff dedicate all necessary energy to their work, in order to provide efficient, beneficial and secure services to members and customers, whether they be savers or borrowers. During these years of great technological change and fluctuations in the global economy, the men and women who manage the central services and branches of the bank have dedicated great attention to the proper conduct of their activities and the satisfaction of all our counterparts. We are proud of them.

In passing, we can report that Banca Popolare di Sondrio is considered one of the best employers in Italy. Specifically, the prestigious Forbes magazine prepared its annual global list of the top 500 employers last October, ranking the bank 219th overall and 5th in Italy.

The HR department is responsible for managing this key business resource: a delicate task that ranges from personnel selection to the enhancement of employees, with the assignment of wide-ranging projects that, over time, guarantee the professionalism needed for the harmonious development of all areas of operation.

This challenging task carries great responsibilities, as illustrated by the principal 2018 statistics provided below.

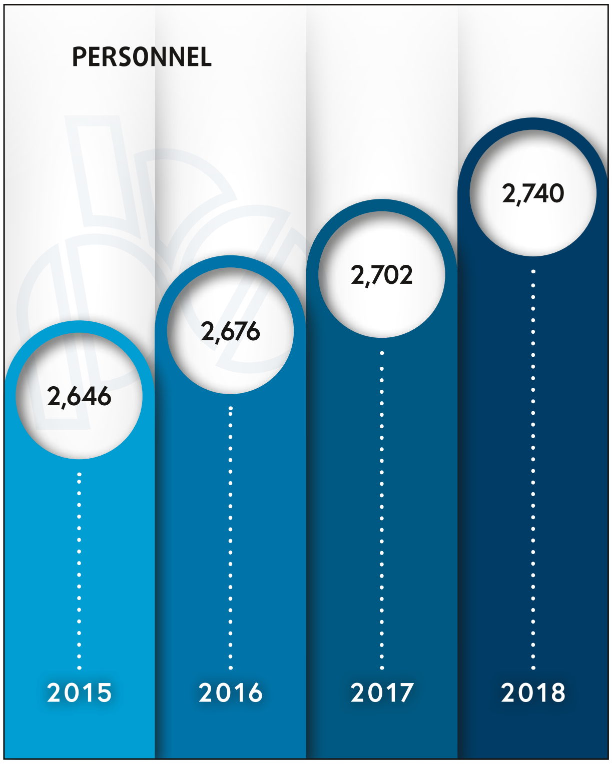
At year end, the Bank employed 2,740 people - up by 38, +1.41% -, of which 76% work within the branch network and the remaining 24% at the central offices. The average age of our employees, 41 years and 1 month, and their average length of service, 17 years, have increased by 4 and 5 months respectively.

It is important to understand, especially at a time when it is fashionable to talk of rationalisation, reorganisation, surplus, retraining..., that the above statistics provide clear evidence of the healthy progress made by our business, which accompanies implementation of the long-established growth model with the necessary attention to all aspects of personnel development. Our professional selection of new employees provides an assurance to well prepared and committed young people that they have found a sound and worthwhile career. As they progress, they can rely on a solid and effective platform of education and refresher courses that, inter alia, enable the bank as a whole to remain competitive.

Training is carried out through classroom courses and multimedia tools. In 2018, the former involved 1,903 co-workers, for a total of 45,043 man hours, while the latter involved 2,557 employees, for a total of 79,075 man hours.

The issues to which particular attention has been paid are courses on sector regulations, such as anti-money laundering, MiFID II and insurance intermediation. Training in this last area was also directed towards obtaining the related sales licence pursuant to IVASS Regulation.

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



The multimedia courses mainly focused on such topics as privacy, transparency, MiFID, market abuse, retail mortgages and anti-money laundering activities.

During the year, 237 new recruits received basic training. Again via a combination of classroom and multimedia courses, they completed sessions on various topics, such as governance of the employment relationship, branch activities, safety at work, banking regulations and techniques, bank products and services, introduction to lending, the securities markets and international business.

The important collaboration with technical schools and universities active in the territories served by the bank enabled 181 students to complete internships at our branches and central offices.

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

PROMOTIONAL AND CULTURAL ACTIVITIES

Does it still make sense to promote culture using traditional tools in today's Internet world, where ideas, news, information and pictures are always available to everyone, at the click of a mouse?

Before us, others with far greater skills have already asked this same question. We share the opinion of those who still believe that editorial publications, conferences attended in person and live cultural and sporting events provide opportunities for involvement and communication that remain unequalled, at least for now.

Just as the traditional book seems capable of withstanding the e-book challenge, so we believe that our local initiatives and traditional tools - ranging from the Notiziario magazine to the publications distributed to our shareholders at the annual meeting - remain entirely relevant, as confirmed by the appreciation expressed by their recipients.

This explains the efforts dedicated to these activities, while not ignoring the new opportunities made available to us by technological progress. In particular, our website provides access to PopsoArte, the art gallery that displays all the artistic wealth accumulated by the bank over the past fifty years.

With regard to the initiatives promoted in 2018, as in the past we produced and disseminated various types of illustrative material, including leaflets, brochures and publications. In addition, our branches and offices were always available to assist the public with detailed explanations and practical examples. All this has enabled customers, regardless of the situation, to make calm decisions with certainty based on their needs. Among the many initiatives promoted, we are pleased to draw attention to the various meetings and seminars held on import-export matters, which were attended by numerous interested firms, including those that are not yet customers of the bank. This is discussed more extensively in the chapter of this report dedicated to the International Unit.

With regard to the cultural sector where, as usual, we have prioritised quality over quantity, at least in our intent, we must first highlight the Notiziario, our elegant four-monthly magazine that recipients await anxiously for its intelligent articles on a wide range of topics. Among the various sections, the one on «The changing planet» was introduced in 2018 to focus on the problems of pollution, the concerns about global warming and their consequences, which have been topics of great debate in various arenas for a number of decades. The magazine also hosted an extensive monograph on Clay Regazzoni, the talented Swiss racing driver known for his aggressive but safe style, who died in December 2006 and is still remembered warmly by his multitude of fans. This monograph also accompanied the 2017 Annual Report of Banca Popolare di Sondrio (SUISSE) SA based in Lugano.

The 2017 Annual Report of our bank was illustrated throughout by pictures drawn from our collection of Valtellinese art from the second half of the last century. These works were also displayed at the Shareholders' Meeting held on 28 April 2018 in the Bormio Multifunction Hall, in an exhibition entitled «Traces – The Countryside depicted in Valtellinese Art of the Late Twentieth Century». Members attending that meeting also received «Alpine paintings», an elegant publication prepared specifically as a gift for that occasion. This work contains special images of attractive alpine locations and the animals that inhabit them, with short accompanying commentaries.

The «Invitation to the Palace» initiative, which we have always supported, was devised many years ago by ABI with a view to presenting the art hidden within bank properties via guided tours conducted on a specified day. The XVIIth edition on Saturday, 6 October 2018, contributed to the series of events held throughout Europe in support of the «European Year of Cultural

Heritage». We opened our Sondrio headquarters to the public, presenting many paintings and objects of value; together with the Carlo Donegani Museum situated within the Stelvio Pass branch, where sections of trench are presented together with war memorabilia dating back to the First World War; as well as our Luigi Credaro library located in Sondrio, whose users are expanding continuously given the vast and growing collection of books held there.

As part of the «Festival of Creative Culture», also organised by ABI, the bank and the Chiavenna «Crotto Caurga» professional school organised, in collaboration with the University of Pavia, a conference entitled: «Chiavenna: the tradition continues…local gastronomy on the table», which was attended as a speaker by Lino Stoppani, our Deputy Chairman. This conference was followed by «Touring the school», a visit to the Chiavenna «Crotto Caurga» professional school guided by students, and a dinner based on local specialities.

Activities at Pirovano, our University of skiing and the mountains located at the Stelvio Pass, covered many sporting disciplines and social-cultural matters during 2018. Athletes and their supporters, the famous and holiday-makers of all ages moved up to the higher ground to experience the wild nature that survives in the mountains. Key events included the King of Stelvio Mapei Day, which involved about three thousand people, counting the athletes, their families and other sports enthusiasts; the Dainese Day Rally–super SIC58; the XVIIth Interbank Pirovano Meeting, a skiing competition among 14 banks, including our own, which did rather well as usual; and so on.

The cycle of annual conferences commenced on 2 February 2018 with monsignor Dario Edoardo Viganò, a Vatican expert, who explained «The reform of communications desired by Pope Francis» to the many attendees.

On 26 October, Carlo Cottarelli (economics professor) and Ferruccio de Bortoli (publisher) spoke at an event organised by Arca Fondi SGR. They addressed the crowded auditorium on, respectively, «The seven capital sins of the Italian economy», inspired by the book written by Prof. Cottarelli, and «The current contrast and the outlook for growth in Italy».

The series of meetings ended on 14 December with talks given by Alessandra Dolci, deputy prosecuting magistrate and coordinator of the anti-mafia department in Milan. In the morning, she spoke to several hundred students at the Sondrio Policampus on «Teaching lawfulness so that citizens can help fight criminality». In the evening, she spoke in our Fabio Besta Hall on «Laundering and criminality: the role of banks in prevention».

The two events added weight to the 94th World Savings Day, which is a particularly important occasion for the bank. Celebrating the day dedicated to savings - as we do every year with special events - means, above all, upholding a value protected by the constitution and honouring the Italian population, as some of the greatest savers in the world, for the beneficial effects of their savings on the community and the country as a whole, not least in terms of education.

This past year has been difficult, with a need to cut costs in every possible way to cover for reduced unit margins; nevertheless, our bank has not ignored those who are suffering and, accordingly, has maintained our commitment to performing charitable work. In this regard, we made grants to help mitigate several cases of serious human difficulty. Additionally, via the Solidarity Current Account, a form of ethical account established in 1996, the bank also helped to fund AISLA, UNICEF, AVIS, AIRC and ADMO. These are noble organisations, worthy of admiration and support.

EQUITY

Shareholders' equity at 31 December 2018, inclusive of valuation reserves and the profit for the year, amounts to 2,366.820 million. This compares with 2,377.779 million at 31 December 2017, after the IFRS 9 FTA adjustment, with a reduction of 10.959 million. The change is explained by the distribution of part of the profit earned in the prior year, recognition of the profit for the current year and a reduction in the valuation reserves due to the decline in the financial markets.

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

The share premium reserve remained unchanged at 79.005 million.

The equity reserves rose to 885.551 million; the increase was essentially attributable to the difference between the allocation of a significant part of the 2017 profit and the provisional negative reserve of 56.925 million, net of tax effect, recognised on the FTA of IFRS 9. In this regard, note that the Parent Company's Shareholders' Meeting of 28 April 2018 approved the result for 2017 and the distribution of a dividend of 0.07 euro for each of the 453,385,777 shares outstanding at 31 December 2017.

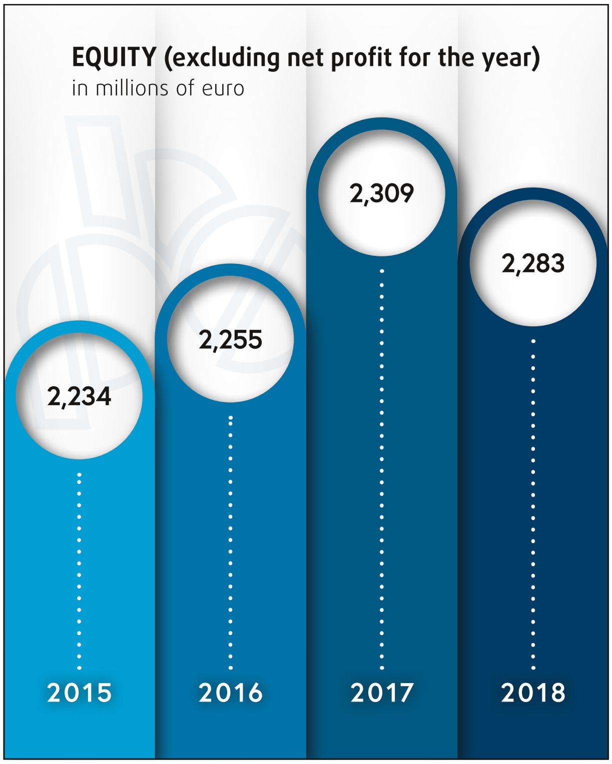
The valuation reserves, representing the net unrealised gains and losses recorded on financial assets measured at fair value through profit or loss and the actuarial gains and losses recorded on the defined benefit plans of employees, have a negative value of 16.196 million, compared with a positive value of 46.399 million at the end of 2017, including 7.756 million recognised on the FTA of IFRS 9, due to the poor performance of the financial markets.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force pursuant to Regulation (EU) no. 575/2013 (CRR) and EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new minimum thresholds for capital ratios that, from January 2019, are 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio; these ratios were lower in 2018 because of the transition phase.

In the context of its powers, the ECB has the authority, using information gathered during the prudential review and assessment process, to set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the bank was informed in a communication dated 28 November 2017 of the Supervisory Board decision regarding the new minimum coefficients applicable from 1 January 2018.

The minimum capital levels required of our Banking Group are:

– a minimum Common Equity Tier 1 ratio of 8.375% (formerly 7.25%), calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.875%, formerly 1.25%) and an additional Second Pillar requirement (2%, formerly 1.50%);
– a minimum Total Capital ratio of 11.875% (formerly 10.75%), being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (1.875%, formerly 1.25%) and an additional Pillar 2 requirement (2%, formerly 1.50%).



While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank. A «Pillar 2 Guidance", which aims to offer a guideline to the prospective evolution of the Group's capital, was added to the two ratios in 2017. This parameter is confidential, by contrast with the two minimum requirements, and - based on guidelines issued by the ECB - is not deemed relevant for the determination of distributable dividends.

On 5 February 2019, following the annual Supervisory Review and Evaluation Process (SREP) carried out in 2018, the ECB notified the bank of the new prudential minimum requirements applicable at consolidated level from 1 March 2019. The new minimum Common Equity Tier 1 ratio (CET 1 Ratio) is 9.25%, with a minimum Tier 1 ratio of 10.75% and a minimum Total Capital ratio of 12.75%.

Consolidated own funds for supervisory purposes, including allocation of profit for the period, amount to 2,980.860 million at 31 December 2018.

The implementation of these new requirements and the reclassification of financial instruments have given rise to the recognition of a consolidated negative equity reserve of 45.118 million, net of the tax effect and with an impact on the CET 1 ratio of approximately 29 basis points. In the interests of full disclosure, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their class 1 primary capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of the new standard. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 95% in 2018 to 25% in 2022, until it is completely eliminated in 2023. The expected impact on capital ratios calculated under the transitional (or «Phased in») rules is therefore more limited.

Set out below are the Group's adequacy requirements at 31 December 2018 and the minimum requirements :

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	12.03%	8.375%
Tier 1 Capital Ratio	12.07%	8.375%*
Total Capital Ratio	**13.61%**	**11.875%**

* minimum requirements.

In accordance with the provisions of the ESMA document no. 725/2012, which originated from the observation that the market value of various listed companies was lower than their book value, the Bank carried out an impairment test on the entire structure. The results of this test showed that the Group was worth 3,876 million, 1,225 million more than its consolidated equity, which amounted to 2,651 million. Further details are provided in Part F «Information on equity» of the notes.

The following ratios of capital (and reserves, including profit for the period) to the principal balance sheet aggregates are shown with comparative figures at 31 December 2017 (IAS 39):

– *capital/direct funding from customers*
 8.37% v. 8.36%

– *capital/customer loans*
 11.02% v. 11.12%

– *capital/financial assets*
 21.30% v. al 20.43%

– *capital/total assets*
 6.37% v. al 6.38%

– *net non-performing loans/capital*
 32.10% v. 32.08%

BPS STOCK

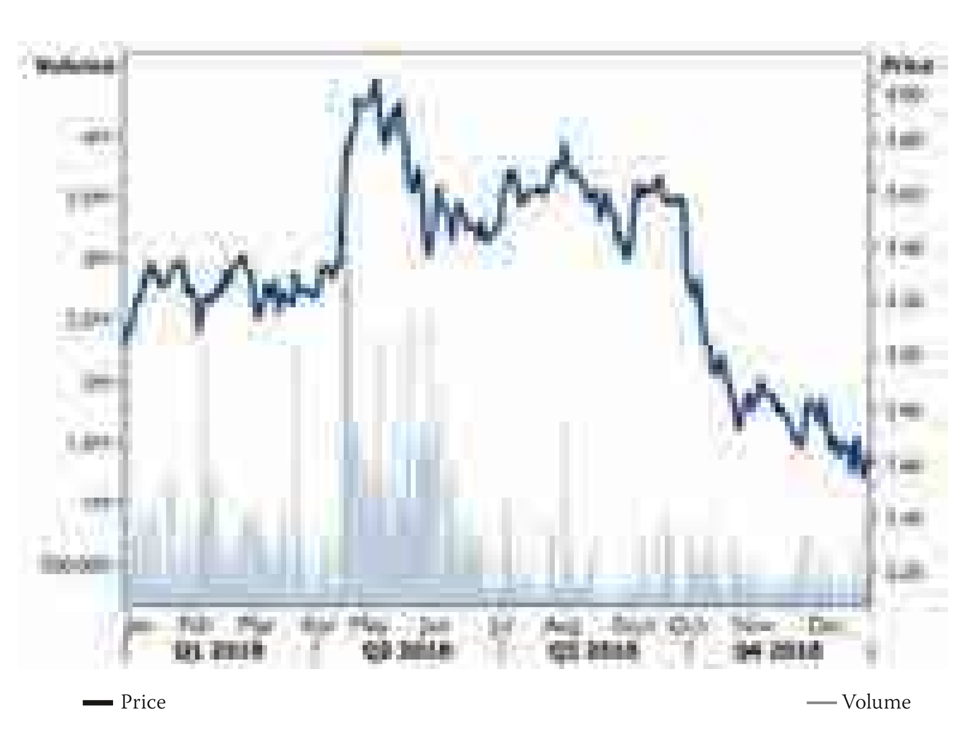
BPS stock is listed on the Screen-Traded Market (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed 2018 with a negative performance of 13.53%, marking a reference price at 28 December of 2.632 euro, compared with 3.044 euro at the end of 2017.

During the same period, the FTSE Italia All-Share index fell by 16.71%, while the FTSE Italia All-Share Banks index dropped 30.33%.

The average daily volume of securities traded on the MTA market of Borsa Italiana in the year was 680 thousand, up from 652 thousand in 2017.

As regards the treasury shares held in own securities, the balance at 31 December 2018 was equal to 3,650,000 shares, for a book value of 25.322 million, unchanged on the end of 2017, as no purchases or sales were made.

BANCA POPOLARE DI SONDRIO stock –
MTA segment of Borsa Italiana



Source: THOMSON REUTERS

The shareholder base consists of 170,671 shareholders at 31 December 2018.

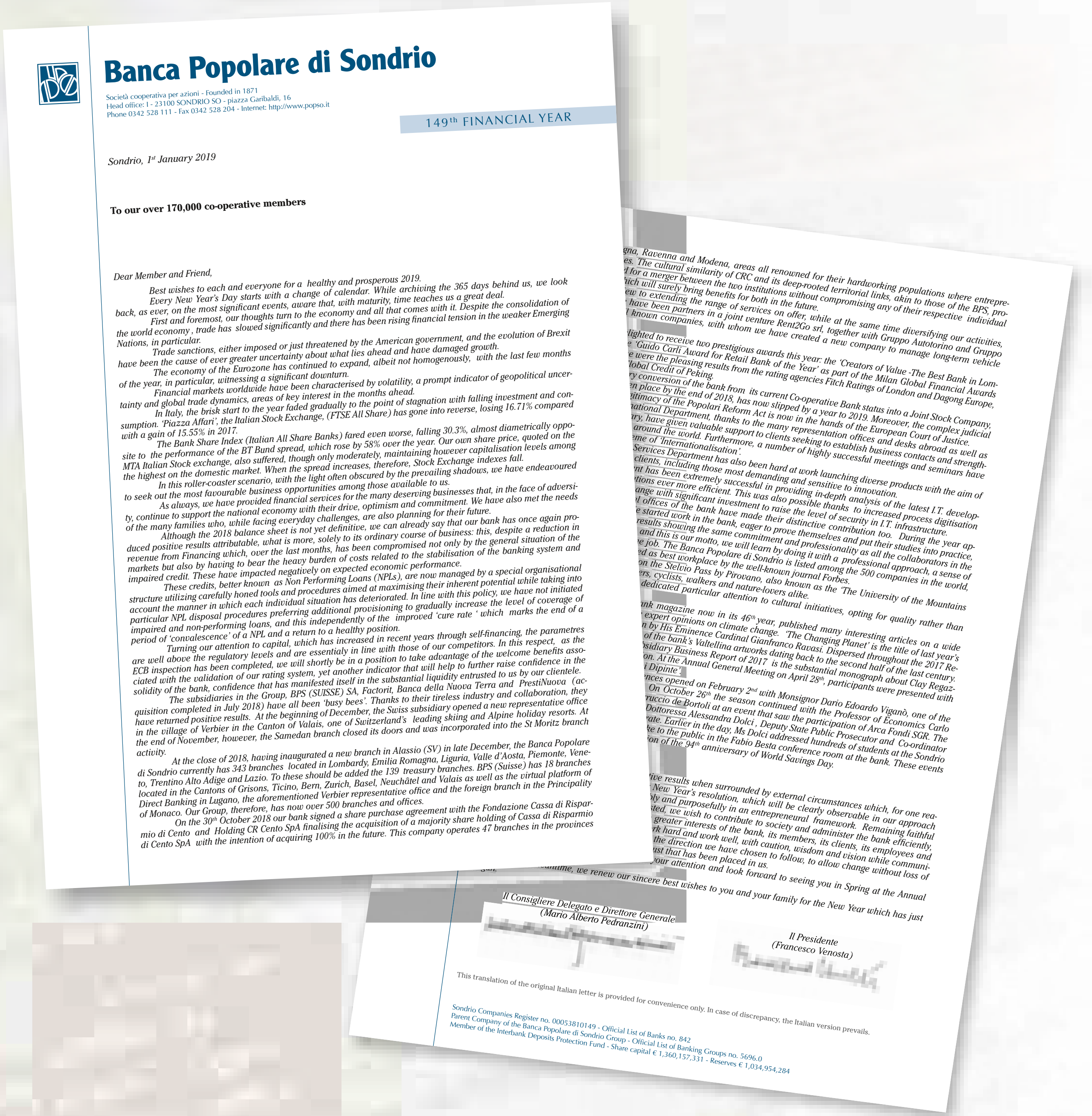
Applications for admission as a member received during the year were examined by the Board of Directors in accordance with the law and the articles of association (as per art. 2528, last para., of the Italian Civil Code). In particular, art. 9 of the articles of association states that: «the Board of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

RATINGS

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

Their latest ratings, unchanged with respect to last year, were released on 13 June 2018 and 20 November 2018 respectively.

Letter to the Shareholders



Banca Popolare di Sondrio

Società cooperativa per azioni - Founded in 1871
Head office: I - 23100 SONDRIO SO - piazza Garibaldi, 16
Phone 0342 528 111 - Fax 0342 528 204 - Internet: http://www.popso.it

149th FINANCIAL YEAR

Sondrio, 1st January 2019

To our over 170,000 co-operative members

Dear Member and Friend,

Best wishes to each and everyone for a healthy and prosperous 2019.

Every New Year's Day starts with a change of calendar. While archiving the 365 days behind us, we look back, as ever, on the most significant events, aware that, with maturity, time teaches us a great deal.

First and foremost, our thoughts turn to the economy and all that comes with it. Despite the consolidation of the world economy , trade has slowed significantly and there has been rising financial tension in the weaker Emerging Nations, in particular.

Trade sanctions, either imposed or just threatened by the American government, and the evolution of Brexit have been the cause of ever greater uncertainty about what lies ahead and have damaged growth.

The economy of the Eurozone has continued to expand, albeit not homogenously, with the last few months of the year, in particular, witnessing a significant downturn.

Financial markets worldwide have been characterised by volatility, a prompt indicator of geopolitical uncertainty and global trade dynamics, areas of key interest in the months ahead.

In Italy, the brisk start to the year faded gradually to the point of stagnation with falling investment and consumption. 'Piazza Affari', the Italian Stock Exchange, (FTSE All Share) has gone into reverse, losing 16.71% compared with a gain of 15.55% in 2017.

The Bank Share Index (Italian All Share Banks) fared even worse, falling 30.3%, almost diametrically opposite to the performance of the BT Bund spread, which rose by 58% over the year. Our own share price, quoted on the MTA Italian Stock exchange, also suffered, though only moderately, maintaining however capitalisation levels among the highest on the domestic market. When the spread increases, therefore, Stock Exchange indexes fall.

In this roller-coaster scenario, with the light often obscured by the prevailing shadows, we have endeavoured to seek out the most favourable business opportunities among those available to us.

As always, we have provided financial services for the many deserving businesses that, in the face of adversity, continue to support the national economy with their drive, optimism and commitment. We have also met the needs of the many families who, while facing everyday challenges, are also planning for their future.

Although the 2018 balance sheet is not yet definitive, we can already say that our bank has once again produced positive results attributable, what is more, solely to its ordinary course of business: this, despite a reduction in revenue from Financing which, over the last months, has been compromised not only by the general situation of the markets but also by having to bear the heavy burden of costs related to the stabilisation of the banking system and impaired credit. These have impacted negatively on expected economic performance.

These credits, better known as Non Performing Loans (NPLs), are now managed by a special organisational structure utilizing carefully honed tools and procedures aimed at maximising their inherent potential while taking into account the manner in which each individual situation has deteriorated. In line with this policy, we have not initiated particular NPL disposal procedures preferring additional provisioning to gradually increase the level of coverage of impaired and non-performing loans, and this independently of the improved 'cure rate ' which marks the end of a period of 'convalescence' of a NPL and a return to a healthy position.

Turning our attention to capital, which has increased in recent years through self-financing, the parametres are well above the regulatory levels and are essentialy in line with those of our competitors. In this respect, as the ECB inspection has been completed, we will shortly be in a position to take advantage of the welcome benefits associated with the validation of our rating system, yet another indicator that will help to further raise confidence in the solidity of the bank, confidence that has manifested itself in the substantial liquidity entrusted to us by our clientele.

The subsidiaries in the Group, BPS (SUISSE) SA, Factorit, Banca della Nuova Terra and PrestiNuova (acquisition completed in July 2018) have all been 'busy bees'. Thanks to their tireless industry and collaboration, they have returned positive results. At the beginning of December, the Swiss subsidiary opened a new representative office in the village of Verbier in the Canton of Valais, one of Switzerland's leading skiing and Alpine holiday resorts. At the end of November, however, the Samedan branch closed its doors and was incorporated into the St Moritz branch activity.

At the close of 2018, having inaugurated a new branch in Alassio (SV) in late December, the Banca Popolare di Sondrio currently has 343 branches located in Lombardy, Emilia Romagna, Liguria, Valle d'Aosta, Piemonte, Veneto, Trentino Alto Adige and Lazio. To these should be added the 139 treasury branches. BPS (Suisse) has 18 branches located in the Cantons of Grisons, Ticino, Bern, Zurich, Basel, Neuchâtel and Valais as well as the virtual platform of Direct Banking in Lugano, the aforementioned Verbier representative office and the foreign branch in the Principality of Monaco. Our Group, therefore, has now over 500 branches and offices.

On the 30th October 2018 our bank signed a share purchase agreement with the Fondazione Cassa di Risparmio di Cento and Holding CR Cento SpA finalising the acquisition of a majority share holding of Cassa di Risparmio di Cento SpA with the intention of acquiring 100% in the future. This company operates 47 branches in the provinces

...gna, Ravenna and Modena, areas all renowned for their hardworking populations where entrepre-
...es. The cultural similarity of CRC and its deep-rooted territorial links, akin to those of the BPS, pro-
...d for a merger between the two institutions without compromising any of their respective individual
...hich will surely bring benefits for both in the future.
...ew to extending the range of services on offer, while at the same time diversifying our activities,
... have been partners in a joint venture Rent2Go srl, together with Gruppo Autotorino and Gruppo
...l known companies, with whom we have created a new company to manage long-term vehicle
...lighted to receive two prestigious awards this year: the 'Creators of Value -The Best Bank in Lom-
...e 'Guido Carli Award for Retail Bank of the Year' as part of the Milan Global Financial Awards
...e were the pleasing results from the rating agencies Fitch Ratings of London and Dagong Europe,
...lobal Credit of Peking.
...ry conversion of the bank from its current Co-operative Bank status into a Joint Stock Company,
...en place by the end of 2018, has now slipped by a year to 2019. Moreover, the complex judicial
...gitimacy of the Popolari Reform Act is now in the hands of the European Court of Justice.
...national Department, thanks to the many representation offices and desks abroad as well as
...ry, have given valuable support to clients seeking to establish business contacts and strength-
... around the world. Furthermore, a number of highly successful meetings and seminars have
...eme of 'Internationalisation'.
... Services Department has also been hard at work launching diverse products with the aim of
... clients, including those most demanding and sensitive to innovation.
...nt has been extremely successful in providing in-depth analysis of the latest I.T. develop-
...tions ever more efficient. This was also possible thanks to increased process digitisation
...ange with significant investment to raise the level of security in I.T. infrastructure.
...l offices of the bank have made their distinctive contribution too. During the year ap-
...e started work in the bank, eager to prove themselves and put their studies into practice,
... results showing the same commitment and professionality as all the collaborators in the
... and this is our motto, we will learn by doing it with a professional approach, a sense of
...e job. The Banca Popolare di Sondrio is listed among the 500 companies in the world,
...ed as best workplace by the well-known journal Forbes.
... on the Stelvio Pass by Pirovano, also known as the 'The University of the Mountains
...ers, cyclists, walkers and nature-lovers alike.
... dedicated particular attention to cultural initiatives, opting for quality rather than
...nk magazine now in its 46th year, published many interesting articles on a wide
... expert opinions on climate change. 'The Changing Planet' is the title of last year's
...n by His Eminence Cardinal Gianfranco Ravasi. Dispersed throughout the 2017 Re-
... of the bank's Valtellina artworks dating back to the second half of the last century.
...bsidiary Business Report of 2017 is the substantial monograph about Clay Regaz-
...on. At the Annual General Meeting on April 28th, participants were presented with
...i Dipinte'.
...nces opened on February 2nd with Monsignor Dario Edoardo Viganò, one of the
... On October 26th the season continued with the Professor of Economics Carlo
...ruccio de Bortoli at an event that saw the participation of Arca Fondi SGR. The
... Dottoressa Alessandra Dolci , Deputy State Public Prosecutor and Co-ordinator
...rate. Earlier in the day, Ms Dolci addressed hundreds of students at the Sondrio
...ke to the public in the Fabio Besta conference room at the bank. These events
...ion of the 94th anniversary of World Savings Day.
...tive results when surrounded by external circumstances which, for one rea-
... New Year's resolution, which will be clearly observable in our approach
...bly and purposefully in an entrepreneural framework. Remaining faithful
...sted, we wish to contribute to society and administer the bank efficiently,
... greater interests of the bank, its members, its clients, its employees and
...rk hard and work well, with caution, wisdom and vision while communi-
... the direction we have chosen to follow, to allow change without loss of
...ust that has been placed in us.
...your attention and look forward to seeing you in Spring at the Annual
...antime, we renew our sincere best wishes to you and your family for the New Year which has just

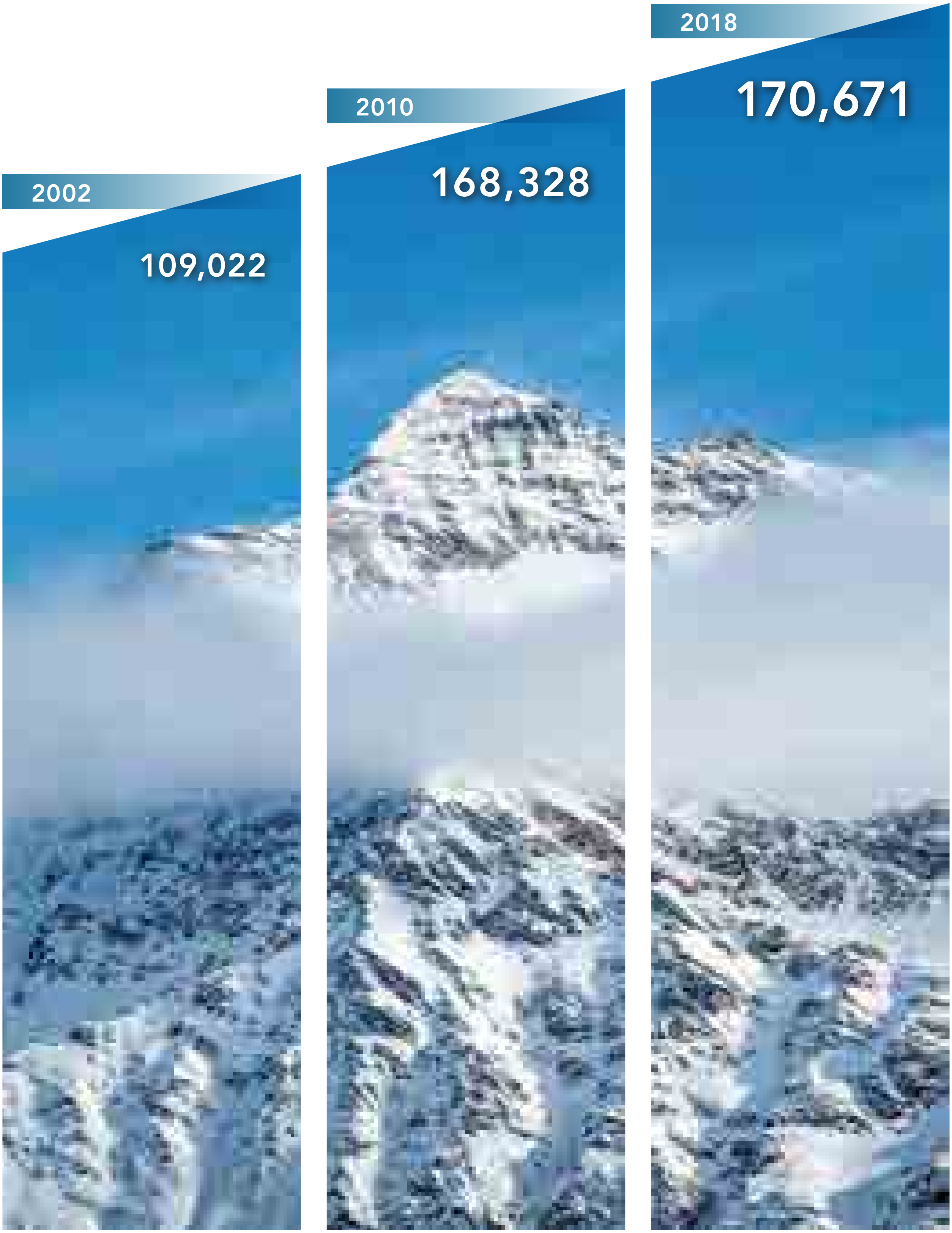
Il Consigliere Delegato e Direttore Generale
(Mario Alberto Pedranzini)

Il Presidente
(Francesco Venosta)

This translation of the original Italian letter is provided for convenience only. In case of discrepancy, the Italian version prevails.

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Parent Company of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0
Member of the Interbank Deposits Protection Fund - Share capital € 1,360,157,331 - Reserves € 1,034,954,284

Our Shareholders



FITCH RATINGS – issued on 13 June 2018

	RATING
LONG-TERM It is a measure of the probability of default and reflects the bank's ability to repay medium/long-term loans. It is expressed on a scale from AAA to D, for a total of 11 levels.	**BBB-**
SHORT – TERM It measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within the next 13 months. The scale includes seven levels (F1, F2, F3, B, C, RD and D).	**F3**
VIABILITY RATING It aims to assess what the bank's situation would be if it were completely independent and could not rely on external support. It is expressed on a scale from aaa to d, for a total of 11 levels.	**bbb-**
SUPPORT It reflects Fitch's assessment of the probability that an external body would provide support to the bank, if it needed it. The scale has five levels from 1 (best) to 5 (worst).	**5**
SUPPORT RATING FLOOR It reflects Fitch's assessment of the minimum level below which it will not lower the long-term rating of the issuer in the event that it found itself in financial difficulty, given the propensity of potential supporters (government or institutional owner) to help the bank in such circumstances. The scale of values associated with this assessment reflects that of a long-term rating. A further possible score, represented by the «No Floor» (NF), indicates that according to Fitch it is unlikely that aid could come from an external source (probability of support lower than 40%).	**No Floor**
OUTLOOK It is a prospective evaluation regarding possible changes in the long-term rating over a period of 1-2 years. It can be «positive», «stable» or «negative»	**Stable**

DAGONG EUROPE CREDIT RATING – issued on 20 November 2018

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

INCOME STATEMENT

2018 closed with a net profit of 83.623 million, down by 29.37% from 118.400 million in the previous year.

This outcome was principally due to the marked contraction in the results from securities, which were affected by the volatility of the financial markets. By contrast, favourable conditions in 2017 made it possible to realise significant disposal gains. The resulting loss of earnings outweighed the positive performance of net interest income, commissions and dividends received.

When considering the various items and the changes in the income statement, it is necessary to remember that IFRS 9 and IFRS 15 came into force on 1 January 2018. In fact, the comparative data at 31 December 2017 is not consistent as, pursuant to the FTA election made, it has not been redetermined.

Net interest income

Net interest income increased by 2.73%, coming in at 437.313 million. This was achieved, despite a reduction in the margin from customers, due to the increase in interest earned on the securities portfolio. The reduction in the overall interest rate spread was less marked than in the prior year.

The prolonged period of expansionary monetary policy has had an adverse effect on the growth of net interest income; this has also been affected by the limited ability to adjust lending and funding rates, given the ever more intensive price competition faced by the bank.

Interest income fell by 2.42% to 534.126 million, whereas interest expense came to 96.813 million, down by 20.46%. The size of the latter reduction was sufficient to have a positive effect on the net margin.

Net fee and commission income totalled 275.832 million, +4.99%, principally due to the rise in commissions from the placement of financial products including, in particular, asset management and insurance products, but also those earned on current accounts, currency transactions, collections and payments. By contrast, commissions from the acceptance of orders declined.

Dividends received of 45.365 million were 143.58% higher due, in the main, to the extraordinary dividend of 20.883 million declared by Nexi S.p.A., as part of work to restructure the Group.

The result of financial activities, relating to the securities portfolio and currency and derivative transactions, was a negative contribution of 4.181 million compared with a positive contribution of 137.421 million in the prior year. This sub-total represents the sum of income statement items 80 – 100 – 110, as detailed below.

The portfolio of assets held for trading (line item 80) generated a net profit of 2.430 million, compared with 37.930 million of the previous yea. There was a sharp decrease in profits from trading in securities, from 18.936 million to 4.698 million, while gains from foreign exchange rose from 25.021 million to 25.184 million, +0.65%. The reduction in the result of financial activities was also affected by the increase in net unrealised losses, from 14.221 million to 31.157 million, and a reduction in the results from derivatives to 3.778 million from 15.252 million of the previous year.

By contrast, the reduction in exchange losses from 7.058 million to 73,000 euro made a positive contribution.

The profit from trading (line item 100) was 5.486 million compared with 95.244 million. Based on the new classification required by IFRS 9, this line item comprises: results from financial assets measured at amortised cost, 2.122 million; financial assets measured at fair value through other comprehensive income, 3.381 million; financial liabilities, -0.017 million.

The net loss from other assets and liabilities measured at fair value through profit or loss (line item 110) was 12.097 million, including 5.257 million from the cost of the FITD rescue of Carige, which was expensed in full.

Income from banking activities

Income from banking activities amounted to 754.329 million, -10.67%, due to the adverse performance of security activities.

SUMMARY INCOME STATEMENT

(in thousands of euro)	31/12/2018	31/12/2017	(+/-)	% change
Net interest income	437,313	425,676	11,637	2.73
Dividends	45,365	18,624	26,741	–
Net fee and commission income	275,832	262,734	13,098	4.99
Result of financial activities	-4,181	137,421	-141,602	–
Total income	**754,329**	**844,455**	**-90,126**	**-10.67**
Net adjustments to loans and financial assets	-222,796	-267,785	44,989	-16.80
Gains/losses on contractual amendments not resulting in derecognition	-2,839	–	–	–
Net financial income	**528,694**	**576,670**	**-47,976**	**-8.32**
Personnel expenses	-182,869	-180,423	-2,446	1.36
Other administrative expenses	-254,440	-249,236	-5,204	2.09
Other operating income/expense	54,583	59,197	-4,614	-7.79
Net accruals to provisions for risks and charges	-8,965	-2,218	-6,747	–
Adjustments to property, equipment and investment property and intangible assets	-28,661	-28,481	-180	0.63
Operating costs	**-420,352**	**-401,161**	**-19,191**	**4.78**
Operating profit (loss)	**108,342**	**175,509**	**-67,167**	**-38.27**
Net gains (losses) on equity investments and other investments	424	-610	1,034	–
Profit (loss) before tax	**108,766**	**174,899**	**-66,133**	**-37.81**
Income taxes	-25,143	-56,499	31,356	-55.50
Profit (loss)	**83,623**	**118,400**	**-34,777**	**-29.37**

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Personnel expenses and other operating income have been reclassified, excluding the contra-entry represented by the proceeds from the post-employment benefits fund of € 1.576 million.

Within this aggregate, the weighting of net interest income rose to 57.97% from 50.41%.

The adjustments/write-backs for credit risk on the exposures to customers, banks and securities totalled 222.796 million, compared with 267.785 million, -16.80%, in the prior year.

In more detail, adjustments to financial assets measured at amortised cost fell by 2.25%, compared with a contraction in the prior year of 37.74%. This sub-item totalled 226.766 million and, ignoring modest net provisions and write-backs on securities and banks, related almost entirely to loans to customers. The amounts concerned remain considerable, due to the intense and prolonged recession that, especially for the banking system, has resulted inevitably in a trail of impaired loans. The reductions during the first and second quarters in the adjustments made to the amounts due from customers were interrupted in the third quarter, primarily due to the crises faced by leading companies operating in the construction/infrastructure sector. The overall reduction was made possible by the slowdown in the pace of new impaired loans. The models used to determine the writedowns highlight, in particular, the improvement in the PD of performing loans. In addition to the improvement in the general economic situation, albeit not yet consolidated, this contraction can reasonably be attributed, at least in part, to the various measures adopted by the bank to improve lending quality and refine the processes adopted for the assessment of loans. This is particularly the case with regard to the writedowns for non-performing loans, unlikely-to-pay loans, loans past due by more than 90/180 days, determined in accordance with the supervisory regulations, and performing loans.

Sub-item 130b relating to financial assets valued at fair value through other comprehensive income made a positive contribution of 3.970 million.

In the prior year, the adjustments to available for sale financial assets totalled 35.801 million, mainly due to the writedown of the quotas held in the Atlante Fund.

Line item 140, comprising the gains/losses on contractual amendments to cash flows not resulting in derecognition, reflects a net loss for the year of 2.839 million.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has fallen slightly from 1.07% to 1.06%.

Financial income has therefore decreased to 528.694 million, -8.32%.

Despite the efforts made to improve the efficiency of our banking structuring, operating costs rose to 420.352 million, +4.78%, due in large measure to the new regulations governing the provisions for credit risk on the guarantees and commitments given.

The ratio of operating costs to income from banking activities, otherwise known as the cost-income ratio, has risen to 55.73%, from 47.51% in the prior year, while the ratio of operating costs to total assets eased 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 437.309 million, +1.78%; of these, personnel costs rose from 180.423 to 182.869 million, +1.36%, with other administrative expenses increased from 249.236 to 254.440 million, +2.09%. Once again, other significant expenses included the use of the interbank networks, consultancy, IT costs and contributions to the National Resolution Fund and to FITD. These last contributions totalled 26.944 million compared with 26.892 million in the prior year.

«Net provisions for risks and charges» amounted to 8.965 million, compared with 2.218 million, of which 10.811 million in credit risk provisions regarding guarantees and commitments given, while 1.846 million was released from other provisions.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 28.661 million, +0.63%.

Other income, stated after the above mentioned reclassification and net of other operating expenses, amounted to 54.583 million, -7.79%.

Profits/losses on equity investments and other investments reflect a net positive balance of 0.424 million, comprising the collection of a price adjustment of 0.801 million under the contracts, signed in 2010, for the sale of the interests held in Arca Vita S.p.A. and Arca Assicurazioni S.p.A., the writedown by 0.398 million of Pirovano Stelvio S.p.A. and income of 21,000 euro on the sale of fungible assets; the net negative balance in the prior year was 0.610 million.

Profit for the year

Profit before income taxes therefore totalled 108.766 million, -31.81%. After deducting income taxes of 25.143 million, down 55.50% on the previous year, the net profit for the year was 83.623 million, -29.37%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 23.12% compared with 32.30% in the previous year.

REFORM OF PEOPLE'S BANKS

It is worth discussing briefly the complex transformation of Banca Popolare di Sondrio into a limited company, as required by Law 33 dated 24 March 2015 on the reform of people's banks, by summarising the events that took place in 2018.

The Constitutional Court confirmed the legitimacy of the reform on 20 March, following examination of the questions that were posed by the Council of State prior to issuing its ruling. Following this, the Council of State examined the matters again on 18 October and, in an order published on 26 October, referred a number of key questions to the European Court of Justice, which might cast doubt on the principles underpinning the Reform.

On the legislative front, the deadline for the transformation into limited companies (SpA) of those people's banks subject to the legal requirements was deferred to 31 December 2019 by the «2019 Tax Decree», enacted by Law 136/2018.

2018 NON-FINANCIAL REPORT PURSUANT TO DECREE 254/16

The «Non-financial statement» for 2018, prepared pursuant to Decree 254/2016, will be presented at the Shareholders' Meeting called for 26/27 April 2019 and made available on the institutional website: www.popso.it/assemblea2019.

CRITERIA FOR MUTUALISTIC ACTIVITIES

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

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

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

These guiding principles of identity, solidarity and support are also written into the Statute for the Valtellina Community.

Loans to customers amounted to 21,484 million, -1.23% on the previous year. This statistic highlights the always substantial financial support provided to households and businesses.

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

In terms of funding, customers were given all necessary support, including expert advice, when choosing between the various investments.

This reflects our absolute transparency and respect for the propensity to accept risk of each person.

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

Direct deposits came in at 28,290 million, -2.55%. This amount confirms the ongoing confidence expressed in the bank, due to the substantive actions taken to safeguard savings and investment.

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

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

There are 170,671 shareholders at the end of the year. The wide membership confirms our ability to involve new members in our work. A simultaneous increase in the number of member-customers is a concrete reflection of the way we implement the founding principles of the cooperative banking movement, which identifies the members as the most important and stable core of customers.

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

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

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

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

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

– running the library in Sondrio named after Luigi Credaro, illustrious compatriot and former Education Minister from 1910 to 1914. In addition to making available to the general public our significant heritage of books and documents, we have also established useful contacts with the world of education;
– support for Pirovano Stelvio S.p.A. and through it for the tourist complex of the Stelvio and the Upper Valtellina;
– the cultural events we organize on an ongoing basis such as conferences and seminars, as well as the publications we edit and publish, and the sporting events that involve a large number of participants;
– the traditional celebration of World Savings Day;
– the support provided, in collaboration with other parties, for the improvement of economic and social conditions in the various geographical areas of activity;
– the contributions made in favour of public and private entities, universities, hospitals and institutions to which we provide treasury services;
– donations – from the amount allocated for this purpose at the shareholders' meeting – to support entities and associations that carry out cultural, sporting or voluntary work.

SIGNIFICANT SUBSEQUENT EVENTS

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

On 11 January, the Boards of Directors of Banca della Nuova Terra S.p.A. and Prestinuova S.p.A. approved the draft plan for the absorption of PrestiNuova by BNT. Via the merger of these two companies, Banca Popolare di Sondrio intends to optimise the Group structure by concentrating the «assignment of one-fifth of income» business to just one specialist entity, thereby optimising the investment already made by BNT to launch this activity.

On 6 February, the bank informed the market about the communication received from the ECB following completion of the annual Supervisory Review and Evaluation Process (SREP) carried out during 2018. This detailed the prudential requirements to be satisfied at banking group level with effect from 1 March 2019.

As described in the chapter on Equity, the minimum required Common Equity Tier 1 ratio is 9.25%. The minimum Total Capital ratio is 12.75%.

At 31 December 2018, the CET1 and Total Capital ratios of the Banca Popolare di Sondrio Group, calculated under the transitional (phased-in) regulations, were 12.03% and 13.61% respectively and, therefore, well above the specified thresholds.

On 13 February, Banca Popolare di Sondrio and Bper Banca announced their acquisition of the shares in Arca Holding S.p.A. auctioned by the administrators of Banca Popolare di Vicenza and Veneto Banca, both of which are in compulsory liquidation.

The acquisition relates, in total, to 39.99% of the share capital of Arca Holding, which wholly owns Arca Fondi SGR. Following this operation, Bper Banca and Popolare di Sondrio will own 57.06% and 36.83% respectively of the share capital of Arca Holding, following the payment by our bank of 54.1 million. The objective is to strengthen the position of Arca Sgr as the point of reference in the asset management sector, confirming its operational independence.

On 7 March, following the outcome of the competitive procedure organised by the liquidators, the bank signed a contract with Banca Popolare di Vicenza S.p.A in LCA (compulsory liquidation) for the purchase by BPS of 70.77% of the share capital of Farbanca S.p.A, for a maximum of 30 million. Founded in 1997 by an association of pharmacists with a view to providing its members with specialist services in the pharmaceuticals and healthcare sectors, Farbanca had an equity of 60.7 million at 30 June 2018 and operates at national level.

From a strategic point of view, this operation represents an interesting opportunity to develop an integrated platform, dedicated to particular customer segments, that is able to offer collection and payment services and loans, as well as asset management and insurance products.

The public offer for the voluntary exchange of specified BPS bonds, up to a maximum amount of 314 million, was closed on 8 March 2019. This offer, reflecting the need to optimise the structure of our liabilities pursuant to the Bank Recovery and Resolution Directive (BRRD), attracted ordinary bonds with a total nominal value of 195 million.

OUTLOOK FOR OPERATIONS

The economy is expected to slow steady, both internationally and in Italy above all. General reasons, from the slowdown of Chinese growth to the problems afflicting international trade due to the threatened reintroduction of tariffs, combined with domestic reasons, such as the high level of public borrowing and the low productivity of our economic system, suggest that there will be no shortage of obstacles to growth in the coming months.

With regard to our bank, the guidance provided by the monetary authorities regarding this possible deterioration in the economic climate means that we cannot expect the net interest income to improve significantly, although it is reasonable to believe that commission income will grow. Despite this general economic context, we believe that the improvement in credit quality can continue, with positive effects on the amount of adjustments being charged to the income statement. The result of securities trading will continue to be affected by the performance of the financial markets, but it is difficult to make any kind of forecast about them in light of the numerous elements of uncertainty. Any increase in operating costs is expected to be limited.

Taken together, the above factors should enable our profitability levels to be maintained.

* * *

Shareholders,

The 2018 financial statements, comprising the balance sheet, the income statement and the attachments forming an integral part of these documents, are presented for your examination and approval. These financial statements, which show a profit for the year of € 83,623,117, have been audited by EY S.p.A.

BALANCE SHEET

Total assets			€	37,166,653,363
Liabilities and equity	€	34,799,833,651		
Valuation reserves	€	-16,195,773		
Share capital	€	1,360,157,331		
Share premium reserve	€	79,005,128		
Treasury Shares	€	-25,321,549		
Reserves	€	885,551,458		
Total liabilities and equity (excluding profit for the year)			€	37,083,030,246
Net profit for the year			€	83,623,117

ALLOCATION OF PROFIT FOR THE YEAR

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

– to the legal reserve 10%	€	8,362,311.70
– to the statutory reserve 30%	€	25,086,935.10
– dividend to shareholders of € 0.05 per share	€	22,669,288.85
– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	27,404,581.35
Total	€	**83,623,117.00**

EQUITY

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

– Valuation reserves	€	-16,195,773
– Share capital – 453,385,777 shares, par value € 3 each	€	1,360,157,331
– Share premium reserve	€	79,005,128
– Treasury Shares	€	-25,321,549
– Reserves	€	946,405,286
Total	**€**	**2,344,050,423**

Shareholders,

The 2018 financial statements discussed above report positive results despite having experienced a difficult year. We are particularly grateful to those responsible for the good work performed and to those who, in one way or another, have supported our activities.

Our first thoughts turn to our customers who, by exercising their preference, contributed in favour of our wor and, in many cases, have recommended BPS to their contacts, family and friends for their banking and financial needs.

Special thanks go to our members for their support and, indeed, for the advice that many of them have given us.

Our gratitude goes to the members of the Board of Statutory Auditors for their professionalism and their boundless commitment to the performance of their duties. Similar thoughts go to the members of the Advisory Committee who, although high profile individuals, are always available and attentive.

We also want to take this opportunity to recognise the assiduous efforts, beneficial to the Group, of the corporate bodies and employees of Banca Popolare di Sondrio (SUISSE) SA, Factorit S.p.A. and Banca della Nuova Terra S.p.A..

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

Further gratitude goes to the senior personnel at the European Central Bank. In primis our thanks are directed to Chairman Mario Draghi, astute economist and wise banker of great experience and balanced thinking.

Special thanks also to the management of the Bank of Italy, from the Governor, Ignazio Visco, to the Members of the Directorate, to the Chief of Supervision and his staff, to the general officers and the managers of the main branches and of offices located in the provinces where we are present. On this last point, we want to mention Giuseppe Sopranzetti in Milan and Luigi Mariani in Rome, who are skilled bankers of great merit.

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

Our admiration and recognition goes to FINMA–Swiss Federal Authority for the Supervision of Financial Markets which, as in the past, has supervised constructively the activities of BPS (SUISSE) SA. We are also grateful to Banque de France, the French Supervisory Body, which monitors the Monaco branch of our «Suisse» subsidiary.

Notably, the daily commitment of our collaborators, each to the extent of their responsibilities, has contributed to the progress made by our bank. We are truly grateful to them all.

A number of employees retired from service during 2018: Antonella D'Aschieri, Enrica Libera and Ambra Verde, as well as Paolo Bevilacqua, Alfredo Calza, Mauro Flavio Cesari, Maurizio Cota, Piermartino Cusini, Lorenzo Dell'Avanzo, Edoardo Lazzari, Aldo Matteri, Enrico Natale Scaramuzzi, Giuseppe Schiantarelli, Antonello Tarabini, Elio Tondini and Giuseppe Ungerer. We believe that our new pensioners will remember with pleasure their time with Banca Popolare di Sondrio and we would like to thank each of them, here and now, for their contributions to the bank. We wish them, both individually and collectively, a long and happy retirement together with their loved ones.

In conclusion if, by mischance, we have forgotten to thank those who have helped us in 2018 with their advice, ideas and other support, we would like to apologise to them now, without reservation. Clearly, our sincere gratitude extends to them as well.

Shareholders,

In presenting the 2018 financial statements for your approval, the directors invite the Shareholders' Meeting – having read the reports of the Statutory and Independent Auditors – to adopt the following resolution: «The ordinary meeting of the shareholders of Banca Popolare di Sondrio, meeting today, having heard the directors' report on operations during 2018 and the proposed allocation of profit for the year, which includes the payment of a dividend to the shareholders of € 0.05 per share; having noted the report of the Board of Statutory Auditors and that of the Independent Auditors; having taken as read the balance sheet, the income statement, the explanatory notes and, in addition, the financial statements of the subsidiary and associated companies,

approves:

– the directors' report on operations;
– the financial statements at 31 December 2018, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 83,623,117. The Shareholders' Meeting therefore specifically approves the allocation of profit for the year of € 83,623,117 as proposed by the Board of Directors in accordance with current legislation and the articles of association and, in particular, resolves:

a) to allocate:		
– 10% to the legal reserve	€	8,362,311.70
– 30% to the statutory reserve	€	25,086,935.10
b) to pay a dividend of € 0.05 to each of the 453,385,777 shares in circulation at 31/12/2018 with dividend rights as from 1/1/2018, transferring to the statutory reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of	€	22,669,288.85
c) to allocate the residual profit:		
– to the reserve for donations	€	100,000.00
– to the legal reserve, a further,	€	27,404,581.35

In accordance with the Stock Exchange calendar, the dividend will be paid from 22 May 2019, going ex-coupon (no. 41) on 20 May 2019.

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

Shareholders,

According to the implementation of the Supervisory instructions for banks on compensation and incentive policies, pursuant to Directive 2013/36/EU (CRD IV) dated 23 June 2013, the Shareholders' Meeting held on 28 April 2018 approved the «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

At the board meeting held on 22 March, the directors of the Bank resolved to make a number of changes to the «Policies» proposed by the Remuneration Committee.

Compared with last year, a number of simple updates were made and the list of key personnel was revised. In terms of the substance, the most significant change was to increase from 30% to 35% the maximum individual amount of variable remuneration with respect to the fixed remuneration earned. Without changing the prudent approach that our Group has always adopted, this change makes it possible to manage in a more appropriate and targeted manner the various levels of recognition shown for the efforts made by collaborators and for the quality of their work.

The limit for key personnel in the various control functions remains 30%. With regard to these people, current regulations in fact establish that their variable remuneration cannot exceed 33% of the fixed remuneration earned.

Necessary changes were also made to align remuneration policies with the new regulations recently added to the Supervisory instructions. In particular, the deferral period for the variable element of remuneration has been extended from three to five years. In addition, the portion of deferred variable remuneration to be recognised using financial instruments has been raised from 50 to 55%. Lastly, the lock-up period for shares recognised as part of the variable remuneration paid has been reduced to one year.

In implementing the Bank of Italy's instructions and art. 29 of our current articles of association, we submit for your approval the document containing the «Compensation policies of the Banca Popolare di Sondrio Banking Group», which has been made available as required by law, in particular through publication on the Bank's website www.popso.it/assemblea2019 and distributed to all shareholders present.

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

Shareholders,

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

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

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

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

For its part, the Remuneration Committee has fulfilled the tasks entrusted to it by legislation and the specific Regulations approved by the Board of Directors. In carrying out its work the Committee met 3 times in 2018 and has, in particular, served in an advisory role, making proposals to the Board of Directors. It has monitored the correct application of the rules relating to the remuneration of those in charge of internal control functions. The main activities carried out are summarised below.

The Remuneration Committee explained its activities to the Board of Directors and the Shareholders' Meeting in the report approved at the meeting held on 22 March 2018.

The Remuneration Committee recommended the adoption of the Compensation Policies for the BPS Banking group that, following approval by the Board of Directors on 23 March 2018, were then authorised at the Shareholders' Meeting held on 28 April.

The Remuneration Committee recommended the adoption by the Board of Directors of the Remuneration Report required by art. 123-ter of the Consolidated Finance Law, which was then approved at the Shareholders' Meeting, to the extent of its responsibilities, as well as the public disclosure on remuneration and incentive policies and practices required by the supervisory regulations and the Information Document on the 2018 Compensation Plan based on financial instruments.

The Remuneration Committee also recommended the adoption by the Board of Directors of the proposals to be made to the Shareholders' Meeting regarding the annual remuneration of the Board and the annual remuneration, valid for the three-year period, of the Board of Statutory Auditors.

Additionally, the Remuneration Committee made proposals regarding the remuneration of those people whose compensation and incentive systems are decided by the Board of Directors. For this purpose, it checked that the established quantitative, qualitative and functional objectives have been met.

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

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

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

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

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

Shareholders,

according to the implementation of art. 123-ter of Legislative Decree 58/98, Consolidated Finance Act, and related regulations approved by CONSOB, the Board of Directors has approved the Compensation Report, which is made up of two sections: the first section explains the bank's compensation policies for

Directors, the General Manager and Managers with strategic responsibilities, with reference to at least the next financial year; as well as the procedures for the adoption and implementation of this policy. The second section illustrates with charts and tables, in the form required and with reference to the positions involved by the regulations, the compensation paid during the year concerned.

Under art. 123-ter, paragraph 1, of the CFA, the «Compensation Report» is distributed and made available to the public in the manner and terms established by current legislation, in particular via publication on the Bank's website www.popso.it/assemblea2019. It is also distributed to the shareholders present at the meeting.

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

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

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

Shareholders,

art. 21 of the Articles of Association provides that: «The Board of Directors may acquire the Bank's shares in accordance with art. 2529 of the Italian Civil Code, to the extent of the specific reserve established out of distributable profits allocated for this purpose at the shareholders' meeting. The shares thus acquired may be re-sold or cancelled».

The matter is governed by the Italian Civil Code, i.e. articles 2529 and 2357 e seq, and by article 132 of Legislative Decree 58/98 CFA and by CONSOB Regulation 11971 of 14 May 1999 and subsequent amendments. In particular, articles 73 and 144 bis of this Regulation establish how information should be communicated to the General Meeting and the procedures for carrying out purchases and sales. In accordance with para. 33 of IAS 32 «Financial Instruments: Presentation in the financial statements and supplementary information», any treasury shares purchased must be deducted from equity.

In implementation of this regulation, the Board would like to invite the Meeting to pass the following resolution:

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

hereby resolves

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

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

Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2019 financial statements. Purchases will have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned «Reserve» of Euro 30,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 2% of the shares making up the share capital. Sales will have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned «Reserve» of Euro 30,000,000.

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

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

Shareholders,

The Bank has updated the Compensation Policies for 2019, which are submitted to the Shareholders' Meeting for approval.

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

– an up-front amount representing 60% of the total variable remuneration is paid in the following year, by the end of June:
– five equal annual tranches, equalling 40% of the total variable remuneration, are deferred over a five-year period commencing from the year after that in which the up-front amount is paid;
– 50% of the up-front part and 55% of the deferred part is paid via the

allotment of shares in Banca Popolare di Sondrio scpa. These shares are subject to a retention period of 1 year.

Based on the theoretical requirement estimated for the 2019 Compensation Plan based on financial instruments, covering the variable remuneration of key personnel and totalling a maximum of Euro 496,600, the Shareholders' Meeting is requested to approve a mandate for the Board of Directors to use the ordinary shares of Banca Popolare di Sondrio already held at the date of this resolution, up to a total amount of Euro 496,600, in order to service the 2019 Compensation Plan based on financial instruments.

The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

The characteristics of the 2019 Compensation Plan based on financial instruments are described in the specific Prospectus prepared, which is available at the head office of the Bank and in the corporate information section of the website www.popso.it.

In this regard, we note that at 31 December 2018 and at today's date, the Bank holds 3,650,000 treasury shares with a carrying amount of Euro 25.322 million.

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

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

hereby resolves

to authorise the Board of Directors to use, up to a maximum total amount of Euro 496,600, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2019 Compensation Plan based on financial instruments during the life of that plan. The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

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

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

Shareholders,

pursuant to art. 41 of the Articles of Association, it is up to the Shareholders' Meeting to determine the annual remuneration of the Board of Directors. The Meeting also has to determine the amount of the attendance fees and, as a lump sum, the reimbursement of expenses for directors' attendance at meetings of the corporate bodies. According to the remuneration policies of the Banca Popolare di Sondrio Banking Group, this remuneration has always been set as a fixed amount, without having much of an impact on the financial statements, given that the amount involved is relatively small. Forms of incentive pay based on financial instruments or linked to the company's performance are not foreseen for directors.

At its meeting of 22 March, the Board of Directors approved the proposal made by the Remuneration Committee for the annual remuneration of the directors. It is now submitted to the General Meeting.

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

– directors' emoluments: Euro 40,000 for each director, giving a total of Euro 600,000;
– individual attendance fees:
  € 300 for attending meetings of the Board of Directors; € 150 for attending meetings of the Chairman's Committee and other Board committees;
– personal flat-rate reimbursements for the travel expenses incurred in order to attend meetings of the Board of Directors, the Chairman's Committee, the other Board committees:
– for residents in the province of Sondrio: € 100;
– for residents outside the province of Sondrio: € 200.

Point 6) on the agenda: appointment of five Directors for the three-year period 2019-2021.

Shareholders,

In accordance with the articles of association, the Shareholders' Meeting is called upon to renew the appointment of directors. The mandates of the following directors have expired: Federico Falck, Cristina Galbusera, Serenella Rossi, Domenico Triacca, Francesco Venosta.

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

«The composition of the Board of Directors must ensure gender balance in accordance with current regulations.» The requirements of the directors and the causes of ineligibility are governed by Article 33 of the Articles of Association, as follows:
""""""

Art. 33
Requisites – Reasons for ineligibility

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

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

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

””””

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

““““

Art. 35
Presentation of lists of candidates

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

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

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

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

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

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

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

By the deadline for depositing these voting lists, there also has to be filed at head office the curriculum vitae of each candidate and the declarations by which the candidates accept their candidature and attest, under their own responsibility, that there are no reasons why they should not be elected or why they might be incompatible, also confirming that they have the requisites prescribed by law and by the Articles of Association for holding office as a director.

The candidates must declare if they possess the independence requirements as per article 33, paragraph 2 and the fulfillment of that criteria is shown in the lists.

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

””””

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

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

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

The results of this analysis are reported in the document entitled «Optimal qualitative and quantitative composition of the Board of Directors of Banca Popolare di Sondrio», published on the Bank's website www.popso.it/assemblea2019.

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

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

““““““

Art. 36
Election of the directors

Each member may vote for only one list of candidates.

Directors are elected as follows:

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

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

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

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

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

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

If the composition of the Board of Directors resulting from the votes does not respect the gender balance principle and the minimum number of independent directors, the director who does not comply with that principle and the requirement placed at the highest position in the winning list is replaced by the next candidate from the same list who complies with them. If even after applying this criteria suitable replacements are not identified then the replacement criteria is applied to the director elected in the list obtaining the second highest number of votes. If even then suitable replacements are not identified or in case it is impossible to apply this mechanism then the Shareholders' Meeting decides by simple majority from amongst the individual candidates, thereby putting in replacements in the order indicated above.

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

""""""

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

Point 7) on the agenda: Appointment of advisors and alternate advisors for the three-year period 2019-2021.

Shareholders,

Under art. 54 of the articles of association, the Advisory Committee consists of three members and two alternate members, elected by the Ordinary General Meeting from among the shareholders. They hold office for three years and expire at the Shareholders' Meeting called to approve the financial statements for their third year of office; they can be re-elected.

In accordance with the Articles of Association, the Shareholders' Meeting is called upon to elect the entire Advisory Committee for the three-year period 2019-2021. Election will be by a relative majority vote.

The mandates of the following members have expired: Giuseppe Guarino, Andrea Monorchio, members, Diana Bracco and Antonio La Torre, alternate members.

Sondrio, 22 March 2019

THE BOARD OF DIRECTORS

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

Shareholders,

During 2018, the Board of Statutory Auditors of Banca Popolare di Sondrio (hereinafter, the «Bank») performed the institutional duties envisaged in the Italian Civil Code, Decree nos. 385/1993 (TUB) and 58/1998 (TUF), the articles of association and the instructions issued by the domestic and European supervisory and control authorities, in compliance with the principles of conduct established for the Boards of Statutory Auditors of listed companies by the Italian Accounting Profession.

Our report also includes the information required by Consob Communication 1025564/2001 and subsequent amendments and additions.

By way of introduction, this Board of Statutory Auditors was appointed at the Shareholders' Meeting held on 28 April 2018, and will remain in office until the Shareholders' Meeting held to approve the financial statements at 31 December 2020. In view of the above, due importance has been given in this report to the results of the activities carried out during 2018 by the previous Board of Statutory Auditors.

The financial statements at 31 December 2018, approved by the Board of Directors on 22 March 2019, were presented to this Board, together with the report on operations and the other required documentation, in good time for the preparation of this report, in which, as required by law, the Board of Statutory Auditors reports on the supervisory activities carried out and on any omissions or censurable facts identified, as well as on the observations and recommendations expressed, to the extent of its responsibilities, with regard to the financial statements and their approval.

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

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

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

In terms of further details about the performance of our supervisory activities, we confirm that during 2018 we:

- attended the Ordinary Shareholders' Meeting, as well as all the meetings of the Board of Directors (12) and the Presidential Committee (47); in addition, the Chairman of the Board and/or at least one of the Statutory Auditors also attended 17 meetings of the Control and Risks Committee.

This enabled us, as envisaged in art. 150 of Legislative Decree no. 58/98 (TUF), to obtain information about the principal economic, financial and equity transactions carried out during the year by the Bank and its subsidiaries;

- carried out an inspection plan (52), based on the scheduled and periodic meetings with the second and third-level control functions and with other offices and functions, with regard to specific aspects or operational matters;
- with support from the Internal Audit Department - Central and Branch Inspection Office, this Board considered it useful as part of its supervisory activities to carry out 12 inspections at branches in order to check the proper conduct of operations. In this way, we obtained concrete evidence that processes and procedures are properly implemented.

Lastly, this Board has interacted actively with the Supervisory Body required pursuant to Decree 231/2001, whose 6 meetings were always attended by the Chairman and/or a serving auditor to ensure the constant exchange of information on specific matters of mutual importance.

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

The main activities in 2018 are described in detail in the report on operations. We can confirm that, to the best of our knowledge, the underlying decisions have been taken in compliance with the law, the articles of association and the provisions issued by the Italian supervisory authorities (Bank of Italy and Consob) and the European authorities (ECB and ESMA).

Based on the results of our supervisory activities and the information provided to the Board of Statutory Auditors by the Directors pursuant to art. 150 TUF, we are able to report the following significant operations and facts that occurred during 2018:

- On 18 October 2018, the Council of State decided to refer five important questions to the European Court of Justice for an opinion on legitimacy. These questions relate to Law 33 dated 24 March 2015 on the reform of People's Banks with total assets of at least 8 billion and their related transformation into companies with liability limited by shares (SpA). While awaiting the decision from the EU Court of Justice, the Council of State confirmed that the precautionary measures already authorised with regard to the above transformation will remain in place.
  In view of the above, the legislator passed Law 136 dated 17 December 2018 extending to 31 December 2019 the deadline for transforming into an SpA. At present, the Bank awaits the rulings of the EU Court of Justice and the Council of State on this matter, in order to make the necessary decisions against the background of a stable regulatory framework.
- During 2018, the Bank continued the work, in line with the established operational plan to align IT and organisational procedures and the set of

contracts used with the new regulatory framework that governs investment services (Mi-FID2). The Board of Statutory Auditors has monitored the process of adopting these regulatory requirements.

– The work continued during 2018 on validation of the regulatory calculation of the capital requirement for credit risk under the advanced approach using internal ratings (AIRB). Following completion of the on-site inspection carried out by the ECB in August, the Bank should receive the related authorisation from the ECB within the next six months.

– The Bank has applied IFRS 9 (financial instruments) from 1 January 2018, calculating the retrospective effects and recognising in shareholders' equity the impact of the transition. Give the first-time adoption of IFRS 9, the income statement data presented for the year ended 31 December 2017 is not comparable, on a consistent basis, with that reported for the year ended 31 December 2018.
The notes to the financial statements describe in detail all the effects deriving from application of the new accounting standard. The Bank has also applied IFRS 15 (revenue from contracts with customers) from 1 January 2018, the adoption of which has had no significant effects.

– The Board of Statutory Auditors has dedicated particular attention to the management of non-performing loans (NPL), not least in view of the importance attached to them by the ECB. The strategy adopted by the Bank for the management of NPLs includes their disposal, although this option has not yet been activated. This Board has obtained knowledge of the new plan for the management of NPLs approved by the Board of Directors on 22 March 2019, which envisages stronger recovery action via the diversification of initiatives and the strengthening of the tools available to the competent functions.

– Since October 2018 the Bank has been subjected to ECB audits covering the analysis of accounting processes, policies and practices, as well as the examination of the individual loan positions (*Credit File Review*) of customers in the Corporate and SME-Corporate segments. The Bank has taken note of the considerations expressed by the auditors and, with regard to specific positions, has carried out certain reclassifications and/or increased the prudent provisions already recorded.

– With effect from 1 October 2018, the Bank assigned to Popso Covered Bond S.r.l., a vehicle company, a portfolio of performing mortgage loans totalling 323 million as part of the programme for the issue of additional covered bonds.

– At 31 December 2018, two TLTRO-II operations were in place with the European Central Bank for a total of Euro 4,600 million. The first one of 1,100 million was activated in June 2016 and will expire on 24 June 2020; the second, activated in March 2017 and amounting to 3,500 million, will expire on 24 March 2021. These operations, originally at a zero interest rate, accrue negative interest in favour of the Bank, as it has granted total loans exceeding the threshold assigned by the ECB.

- The Bank recorded contributions to the Resolution and Guarantee Funds totalling 26.944 million during 2018; in addition, 5.257 million was charged in full to the income statement following the action taken by the FITD Voluntary Fund to save Banca Carige.
- On 23 July 2018, the Bank completed the acquisition from Banca Popolare di Vicenza, in compulsory liquidation, of the entire equity interest in PrestiNuova S.p.A., which specialises in lending against the assignment of one-fifth of salary or pension and in the execution of payment instructions.

Significant subsequent events

The following events worthy of mention took place after the end of 2018:

- The absorption of PrestiNuova S.p.A. by Banca della Nuova Terra S.p.a. (BNT), both wholly owned by the Bank, commenced in January 2019; this operation should be completed during the first half of 2019.
- On 13 February 2019, following the presentation of a joint offer, Banca Popolare di Sondrio and BPER Banca S.p.A. were awarded a total of 19,999,000 ordinary shares in Arca Holding, which were previously held by Banca Popolare di Vicenza S.p.A., in compulsory liquidation, and Veneto Banca S.p.A., in compulsory liquidation. The Bank already held a 21.14% interest in Arca Holding, which wholly owns Arca SGR; following this transaction, the Bank will own 36.83% of the share capital of Arca Holding.
- On 7 March 2019, the Bank signed a contract with Banca Popolare di Vicenza S.p.A., in compulsory liquidation, for the purchase of 70.77% of the share capital of Farbanca S.p.A., which provides specialist services to customers in the pharmaceuticals and healthcare sectors.
- On 22 March 2019, the Bank signed a supplementary and amendment agreement with Fondazione CR Cento and Holding CR Cento S.p.A. that finalises the acquisition of a controlling interest in Cassa di Risparmio di Cento S.p.A.

Compliance with the principles of proper administration

During the year, we acquired information from the Directors, the General Management and the heads of the various company departments. To the best of our knowledge, we can reasonably exclude that the Bank has carried out any transactions, directly or via subsidiaries, that are manifestly imprudent or risky, in potential conflict of interest without proper management, or in contrast with the principles of correct administration or resolutions adopted by the Bank that would compromise the integrity of its assets.

We also believe that the Bank did not arrange and is not party to atypical or unusual transactions with third parties, companies of the Banking Group or other related parties, pursuant to art. 2391 bis of the Italian Civil Code.

With regard to the transactions carried out with the above parties and associated companies, we can confirm that the Board of Directors has complied with the regulations governing related-party transactions issued by Consob resolution 17221/2010 and subsequent amendments, the Bank of Italy measure entitled «Risk assets and conflicts of interest with related parties» and IAS 24 on the disclosure of information about related parties, as well as the related internal policies. Such transactions were settled on market terms or, in the absence of suitable comparative parameters, at cost and, in all cases, based on an assessment of the objective mutual benefit and propriety. We hereby certify that the transactions referred to in art. 136 of the Consolidated Banking Act were unanimously approved by the Board of Directors and with the favourable vote of all members of the Board of Statutory Auditors and, in any case, in compliance with the regulatory provisions.

By attending the various meetings of the Board of Directors and the Chairman's Committee, the Board of Statutory Auditors has monitored the compliance of the decision-making process with the law and the articles of association and determined that the related resolutions were adopted on the basis of adequate information.

Adequacy of the organisational structure

This Board has monitored carefully the extensive efforts made by the Bank to adopt suitable measures designed to strengthen and evolve the organisational structure, in order to tackle at a time of rapid changes not only the market dynamics, but also the development of banking regulations and the requirements of the European Supervisor.

More specifically, the Bank has continued with the gradual quali-quantitative strengthening of the internal control functions and the offices with differing levels of responsibility for lending, both with regard to the general implementation of lending policies, and in relation to the management of non-performing positions.

With a view to implementing the latest strategies defined by the Bank, a number of working parties were formed in 2018 to increase efficiency and further complete the organisational structure. To achieve this objective it was felt necessary to have recourse, albeit temporarily, to the support of external consultants.

Having regard for the information acquired during our inspections, by attending the meetings of the Board of Directors, the Chairman's Committee and the Control and Risks Committee, and from the results of the work carried out by the control functions, this Board believes that there are no significant issues that should be reported regarding the adequacy of the organisational structure of the Bank. This Board nevertheless concurs with the need to continue the quali-quantitative consolidation of the organisational structure, not least in view of the expanded size of the Group. This work is also an integral part of efforts to complete the projects already planned and tackle the ever greater and more absorbing challenges that stem from the technological, regulatory and institutional changes in progress.

Adequacy of the system of internal control

Pursuant to Bank of Italy Circular 285, Title IV, Chapter 3, this Board has supervised the completeness, adequacy and functioning of the overall system of internal controls, with particular reference to the effectiveness of the work performed and the coordination among the responsible structures and functions. In performing our supervisory activities, we interacted constantly with the second and third-level control functions in order to check compliance with corporate rules and procedures. Additionally, as part of the management and coordination duties assigned to them, those functions kept this Board constantly updated about the control activities carried out by the equivalent functions within the various Group companies. As already stated with regard to the adequacy of the organisational structure in general, the Board of Statutory Auditors has dedicated particular attention to certain aspects of the business control functions including, in particular, their qualitative and quantitative scale and strength given the increase in the tasks assigned to them consequent to the current and future expansion of the Group. The results of this work have been presented to the Managing Director, who, agreeing the objectives, has continued efforts to strengthen both the qualitative and quantitative aspects of the system of internal controls.

We can confirm that during our supervisory work we maintained fruitful relations with the individual control functions, which informed us constantly about the results of their checks and the outcome of subsequent follow-up work.

Considering the individual functions, the following information summarises the most significant matters discussed with the respective managers:

– Internal Audit Department: as the function responsible for checking the adequacy and effectiveness of the system of internal controls and related processes, this department has adopted new methodology that enables specific audit techniques to be applied in each area, thus ensuring that anomalies are classified and monitored more incisively, with the timely prioritisation of action. Working in collaboration with the Central and Branch Inspection Office within this department, the Board of Statutory Auditors carried out checks at branch level during the year in order to verify compliance with operating procedures and identify any weaknesses in the branch organisation. In addition, at the planning stage, we agreed the audit work to be performed with the Internal Audit Manager and periodically during the year assessed the outcome of their checks and the steps taken by the Bank in areas that could be improved. Lastly, in addition to the planned work, the Internal Audit Department carried out further checks and provided operational support during 2018 in order to satisfy the special requests made by the JST and the Bank of Italy. This Board was kept fully informed about the outcome of these activities, which have had a marked impact on the function.

– The Risk Control Unit has further refined its organisational model to strengthen the effectiveness of the action taken to prevent, measure and mitigate the various types of risk. The Directors' Report provides full information about the actions taken to manage risk, focusing on their evolution as a result of the ever more intense and coordinated supervision imposed by the banking authorities. The increased requirement for specialist skills has been addressed by improving the efficiency and professionalism of staff, as well as by enhancing the organisational structure of the Unit. The objective of this work, which is still in progress, is to be able to monitor adequately the types of risk already identified, as well as those that will become important in the future. This Board has dedicated special attention to the activities of this Unit, not least by holding periodic meetings with the manager and the lead collaborators in the various offices that comprise the Risk Control Unit: in addition to supervising and monitoring the various types of risk, specific supervisory efforts have been dedicated to the processing of defining the Risk Appetite Framework (RAF) , which is revised periodically to become more sophisticated and detailed, harmonising better with other key business processes. This Board also interacted with the Unit at the time of exercises to determine capital adequacy (ICAAP, *Internal Capital Adequacy Assessment Process*) and liquidity adequacy (ILAAP, *Internal Liquidity Adequacy Assessment Process*), which require ever more complex processes and assessments founded on the use of increasingly compatible simulation and risk modelling techniques. We can confirm that, as far as our sphere of competence is concerned, we did not find any significant critical issues in regard to these processes.

– The Compliance Unit developed the «broad compliance» operational model even further during 2018, both in terms of personnel and with regard to the procedures and topics covered, in order to further enhance efficient monitoring of the regulatory non-compliance risk. This Board has held periodic constructive discussions with the manager of this Unit, examining and assessing the matters arising from regulatory framework and the instructions received from the Italian and European Supervisory Authorities. The Unit was particularly active in performing checks on consumer protection matters (investment services, transparency, usury, privacy, handling complaints, etc.) and the governance of conflicts of interest with related parties and associated people. During 2018, the Unit also gave advice and carried out implementation checks on the implementation of various regulations: MiFID2 (investment services), IDD (insurance broking) and the GDPR (privacy protection). Based on our periodic meetings held to examine the half-yearly and annual reports, as well as on the specific checks performed, this Board can confirm that the risks for which the Unit is responsible are monitored effectively.

– The organisation and structure of the Anti-money laundering Unit was progressively strengthened during 2018, not least with the implementation of the «AML Dashboard» and steady expansion of the coverage of this IT application, as well as the introduction of the new «Whistleblowing» application, which is an independent channel for the anonymous reporting by personnel of AML violations. In addition, the regulatory context in which this Unit works was revised heavily during the year, with the definition and implementation of actions to comply with the provisions of the IVth Directive on anti-money laundering matters. This work contributed to the implementation of an action plan approved by the Bank, as well as adoption of the recommendations made during the audits of this area by the Supervisory Authorities. With support from the Internal Audit Department, this Board checked during 2018 that the necessary action has been taken to further improve the effectiveness of the controls in place.
– The regulatory context in which the Validation Unit works continued to evolve during 2018. Against this background, the Unit continued its checks on the internal rating system and, more generally, on the internal risk assessment models. The Board of Statutory Auditors has constantly discussed with this Unit the outcome of the checks performed, which have resulted in the formation of an overall positive opinion covering the following audit areas: Credit risk - AIRB - IFRS 9, Interest-rate risk, Operational risk, ICAAP, ILAAP. This Unit has played a key role in the validation of the internal models (AIRB), including systematic interaction with the Supervisory Authorities during the on-site inspection carried out between June and August 2018

Based on the work performed, this Board can confirm that, in a context of reciprocal independence and respect for the different roles, the various business control functions have collaborated with each other and, in general, with the other functions within the Bank, thus ensuring that the different methodologies adopted remain consistent with the strategies and operations of the business.

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

This Board has monitored the adequacy of the administration and accounting system, as well as its ability to record the results of operations and present them properly in the financial statements, by obtaining information from the managers of the relevant business functions, examining significant documentation and analysing the results of the work performed by the Legal Auditor and the Manager responsible for preparing the company's accounting documents (hereinafter the «Responsible Manager»).

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

– the adequacy and effective application of the administration and accounting procedures for the preparation of the financial statements at 31 December 2018;
– their agreement with the underlying accounting records and entries;
– the ability of the financial statements to present a true and fair view of the economic and financial position of the Bank.

This Board acknowledges the essentially positive outcome, with respect to the established objectives, of the internal audit carried out on the checks performed by the office of the Responsible Manager on the accounting disclosures made. This Board also read the assessment of the structure and model adopted for the Banking group pursuant to Law 262/2005 (Savings and Investment Law), prepared with support from a firm of consultants, which identified the need to optimise and rationalise certain aspects in line with Italian and international best practices.

Based on the checks performed on the suitability of the accounting and administrative processes and related controls, designed to ensure the full and proper presentation of the results of operations in the periodic and annual economic and financial reports, this Board believes that the accounting and administration system, taken as a whole, responds adequately to the requirements of the relevant current regulations. This Board also believes it necessary to continue implementation of specific improvements intended to strengthen the governance and coordination of Group companies.

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

We confirm that the Bank has drawn up the «Report on corporate governance and ownership structures» pursuant to art. 123-bis of the TUF and that the Board of Directors, in the meeting held on 22 March 2019, approved the text that was published on the Bank's website. In this regard, we would remind you that, as in previous years, the Bank has decided not to formally adhere to the «Code of Conduct of Listed Companies» published by Borsa Italiana S.p.A. Nevertheless, the model approved by the Board of Directors expresses principles and provides a framework of rules and procedures that assure substantial consistency with the objectives of the Code.

With reference to the work performed in 2018 and considering the provisions of arts. 123-bis and 148 of Decree 58 dated 24 February 1998 (TUF) and art. 26 of Decree 385/1003 (TUB), as well as the instructions contained in the Bank of Italy Circular 285/2013 and subsequent amendments, this Board has performed a self-assessment and formed an overall positive opinion on its functioning, the overall adequacy of the work performed and the complementary nature of the skills contributed by its members. In view of the evolution of the regulations (CRD IV), it was also considered appropriate to continue the promotion of training and refresher activities, as well as the organisation of specific meetings with the second and third-level control functions, with a view to ensuring that the controls in place are monitored constantly. The Board verified that the requisites of independence, integrity and professionalism envisaged for Statutory Auditors remain valid, as well as compliance with the provisions regarding the aggregation of offices and the absence of impediments or forfeiture.

Instructions given to Group companies

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

An adequate flow of information was guaranteed during 2018 due to the existence of close functional and operational ties, as well as the presence of contact people within the subsidiaries; this Board also maintained contacts with the corresponding Boards active at Group companies.

In particular, there were constant exchanges of information and meetings during the year with the control bodies and contact people within the control functions of each Group company.

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

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

– because Swiss regulations do not require Banca Popolare di Sondrio (SUISSE) SA (100%) to have a Board of Statutory Auditors, control activities consist in constant interaction between the Internal Audit Department of the Bank and the equivalent department within the subsidiary. This company operates in accordance with the instructions issued by FINMA, the authority that supervises financial activities in Switzerland. Based on the results of the checks carried out by the Bank's Internal Audit Department, the Board has not identified any critical matters or information to report about compliance by the subsidiary with the regulations. Based on EY SA's audit report and considering the information obtained from discussions with the directors and managers of BPS Suisse, we can confirm that no matters worthy of mention have come to light;
– with regard to Factorit S.p.a. (60.5%), the control activities of this Board mainly consisted of interaction with the Internal Audit Department of the Bank, which performs the internal audit function of the subsidiary under an outsourcing agreement, and examination of the periodic reports on the

work performed presented to the Board of Directors of the Bank; the coordination with Factorit's Statutory Auditors is guaranteed by the fact that the Chairman of that Board is also a Statutory Auditor of the Bank. This Board has also held discussions with EY S.p.A., the auditing firm, obtaining all necessary information on economic and financial matters;

– with regard to Popso Covered Bond S.r.l. (60%), a company formed to issue covered bonds, we have taken into consideration the report issued by BDO Italia S.p.A., which currently acts as asset monitor in 2018, and the work performed by the Internal Audit Department, which issues an annual report on the covered bond issue programme, as required by Bank of Italy Circular 285;

– the work of this Board in relation to Banca della Nuova Terra (100%) during 2018 was principally carried out via interactions with the Internal Audit Department of the Bank, which performed specific checks during the year on the system of internal controls of the subsidiary and made the results available to us for examination; we also met the manager of the equivalent department within that subsidiary for an appropriate exchange of information. Additionally, this Board held discussions with EY S.p.A., the auditing firm, obtaining all necessary information on economic and financial matters;

– in carrying out our activities in relation to Sinergia Seconda S.r.l. (100%), which essentially provides the Bank with supporting services, and Pirovano Stelvio S.p.A. (100%), we benefited from the fact that a member of this Board is also member of their Boards of Statutory Auditors. This Board also held discussions with EY S.p.A., the auditing firm, obtaining all necessary information on economic and financial matters.

Therefore, we can confirm that, with support from the Bank's Control Units, which periodically met the equivalent functions within the subsidiaries, we have monitored the implementation by Group companies of the directives and regulations issued by the Parent Company.

The checks carried out during the year, as briefly described above, did not reveal any issues that should be mentioned in this report.

Relations with the Supervisory Authorities and the SREP process

As the Parent Company of a significant banking group, since November 2014 the Bank is subject to the ECB Single Supervisory Mechanism (SSM) that uses the JST (Joint Supervisory Team) to perform audit work. The Bank maintains constant contact and holds regular discussions with the management of this team, via the central offices and functions, in order to define, assess and update the activities already performed and those planned for the future.

In response to the various requests made by the Supervisory Authorities, this Board has found that the work performed by the Bank consistently demonstrates an attentive, aware and collaborative approach. This Board has also continued to monitor the implementation of the methodological and organisational initiatives taken by the Bank in response to the matters raised, observations and suggestions made by the ECB and the Bank of Italy during their inspections and/or investigations covering key areas.

In performing this work, the Board of Statutory Auditors has drawn on the support provided by the Internal Audit Department, which has dedicated great care in ensuring the completeness of the activities carried out and compliance with the agreed deadlines. In particular, the following work was performed:

– inspection by the Bank of Italy on anti-money laundering matters during April and May 2017, which focused on the identification of politically-exposed people (PEPs). In response to the recommendations made by the Bank of Italy, the Bank approved a plan of action that was completed in 2018 following implementation of the related work;

– inspections carried out in December 2017 and January 2018 by the Bank of Italy on the transparency of transactions and the propriety of relations with customers at fifteen branches of the Bank. The respective outcomes were notified to the Bank, which approved a suitable action plan to tackle the weaknesses identified;

– on-site inspection by the ECB during the period June-August 2018 arranged, as usual, as a key part of obtaining authorisation to use the system of internal ratings defined under the AIRB approach for the Retail and Corporate segments. As stated, the Bank is currently waiting for the related authorisation;

– inspection by the Bank of Italy on transparency and anti-money laundering matters that started on 28 January 2019 and is still in progress;

– inspection by Consob that began on 20 March 2019 in order to determine the degree of alignment with the new regulations following the adoption of EU Directive 2014/65 (MiFID2), which is also still in progress.

In addition to the above, the Bank also prepared an appropriate plan of action for the Supervisor in response to the following investigations:

– analysis of profitability factors and the business model carried out by the ECB in order to assess, on a systemic basis, the key elements underlying the profitability of the business models and the sustainability over the medium term of the strategies pursued;

– analysis promoted by the ECB at a systemic level regarding the implementation of IFRS 9, in order to assess the degree to which banks are prepared and the impact of the new accounting rules on internal processes, infrastructure and capital adequacy for supervisory purposes;

– analysis of the management of credit risk by selecting a targeted sample of loan positions (deep dive on credit risk);

– analysis of the internal processes adopted by the Group for the management of derivative and FX contracts (deep dive on the activity in derivatives and foreign currencies).

Furthermore, the offices and managers of the senior structures within the Bank have continued their constant interactions and intense discussions with the Supervisory Bodies on various matters of particular importance, some of which were part of routine annual activities, while others addressed specific requests following the implementation of instructions contained in updates or new measures issued by the authorities. Among the most important matters discussed, this Board notes: RAF, ICAAP, ILAAP, Recovery plan, Resolution plan/MREL, NPL strategic and operational plan, business plan, stress tests, IT questionnaire.

In February 2019, the Bank received notification of the SREP Decision in which the ECB fixed the minimum capital levels to be maintained by the Group from 1 March 2019, including in particular: a) a minimum requirement of Common Equity Tier 1 ratio of 9.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%), and an additional Second Pillar requirement (2.25%); b) a minimum requirement of total capital ratio of 12.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8.00%), the Capital Conservation Buffer (2.50%) and an additional Second Pillar requirement (2.25%). At 31 December 2018, the Bank had the following separate (phased-in) capital ratios: CET 1 Capital ratio 12.64%; Tier 1 Capital ratio 12.64%, Total Capital ratio 14.40%, and the following consolidated (phased in) capital ratios: CET 1 Capital ratio 12.03%; Tier 1 Capital ratio 12.07%, Total Capital ratio 13.61%.

With regard to the SREP process, the Supervisory Body requested the Bank to revise the three-year NPL strategic and operational plan. As mentioned, the Bank responded by preparing a new long-term programme that was approved by the Board of Directors on 22 March 2019. The Authority also called for continuation of the process of enhancing and optimising the internal governance mechanisms, not least in view of the recent acquisitions of new legal entities. In this regard, the Board of Statutory Auditors will continue to monitor the implementation of the improvements identified and suggestions made.

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

Pursuant to art. 17, para. 9.a), of Decree 39/2010 and art. 149-duodecies of Consob Regulation 11971, as well as arts. 4 and 5 of EU Directive 537/2014, this Board identifies below the consideration recognised to the auditing firm and its network for services provided to the Group during 2018, excluding audit services, as specified in the notes to the financial statements, to which reference is made for further details.

euro Type of services	Parent Company EY S.p.A.	 EY Network	Subsidiaries EY S.p.A.	 EY Network	Total
Audit services	273,150	–	172,000	406,500	851,650
Certification services	127,000	–	–	–	127,000
Other services	140,000	171,000	–	–	311,000
Total	**540,150**	**171,000**	**172,000**	**406,500**	**1,289,650**

The certification services are additional to the legal audit work assigned by law or by a Supervisory Authority; these services include activities that represent an extension of the legal audit work (limited examination of the consolidated non-financial declaration, limited examination of the separate non-financial declaration, comfort letters, TLTRO-related certifications, etc.). The above services are usually assigned to the legal auditor as, by their nature, they are not deemed to compromise its independence.

For services other than audit work («other services»), the Bank has recognised to EY S.p.A. and the EY network a total of euro 311,000 for due diligence work on the accounts of Cassa di Risparmio di Cento S.p.A. and the assessment of certain business processes.

With regard to the audit work performed, the remuneration recognised to EY S.p.A. and its network in 2018, in compliance with current regulations, totalled euro 273,150 from the Bank and euro 578,500 from the other companies (Italian and foreign) in the Group.

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

The auditing firm has confirmed to this Board that it did not issue any opinions pursuant to the law during the year, given that the conditions that would have required them did not arise.

We also certify that we obtained the report on the independence of EY S.p.A. on 4 April 2019 and confirm that we do not consider there to be any critical aspects regarding independence or causes of incompatibility pursuant to articles 10, 10-bis and 17 of the Consolidated Law on Legal Audits and related implementing provisions.

Lastly, as required by art. 150 TUF, we confirm that we have held regular meetings with the auditing firm, establishing a mutually beneficial exchange of information covering the principal topics relevant to preparation of the financial statements. Discussions also included the policies for measuring loans and guarantees and, in particular, the criteria for NPL writedowns adopted by the Bank, as well as the processes for recognising the impairment of equity investments. In turn, this Board provided the auditing firm with information about our control activities and, to the extent known, any significant matters relating to the Bank. This Board confirms that no matters have emerged that are deemed censurable and/or that require mention pursuant to art. 155, para. 2, TUF.

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

In accordance with the above requirements, we confirm that:

– this Board did not receive any complaints pursuant to art. 2408 of the Italian Civil Code during 2018, or at any subsequent time prior to the date of this report;
– during the year, this Board did not receive any statements from shareholders or customers of the Bank. In addition, no reports were received via the whistleblowing channel;
– opinions were given in the cases where this is required by law and or by the Supervisory Authorities.

Non-financial statement

We have verified that the Bank also fulfilled its obligations under Legislative Decree 254/2016 and drafted the Non-Financial Statement in 2018 in compliance with the provisions of articles 3 and 4 of the said decree. The Bank made use of the exemption from the obligation to draw up a separate non-financial statement pursuant to art. 6, paragraph 1 of the decree, opting for a Consolidated non-financial statement pursuant to art. 4; in compliance with art. 1, para. 1073, of Law 145 dated 30 December 2018, the Bank describes both the principal risks associated with its activities and how they are managed.

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

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

Financial Statements and Report on operations

We have examined the financial statements at 31 December 2018, which are presented today for your examination and approval. In this regard, we confirm that they were approved by the Board of Directors of Banca Popolare di Sondrio on 22 March 2019 and, on that date, they were provided to us together with the Directors' report on operations and the other obligatory documentation.

You are reminded that the financial statements have been audited by EY S.p.A., the appointed legal auditor of the accounts and the separate and consolidated financial statements.

We hereby certify that, on 4 April 2019, the Independent Auditors issued their auditors' report pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of Regulation (EU) 537/2014, the content of which respects, in terms of its form, the certifications and information provided, the requirements of Legislative Decree no. 135/2016.

The audit report, published together with the separate and consolidated financial statements, does not contain any qualifications or emphases of matter. In addition, in compliance with the applicable regulations, the report states the auditing standards applied and identifies the following «key aspects»: (i) impact of the FTA of IFRS 9 – financial instruments; (ii) classification and measurement of loans to customers in the separate and consolidated financial statements.

On 4 April 2019, the audit firm submitted to us the additional report envisaged by art. 1 of the Regulation (EU) no. 537/2010. This report does not highlight the presence of significant weaknesses in the internal control system for the preparation of financial information, which are worth bringing to the attention of the Board of Directors. The report also attests that during the audit no situations of non-compliance with laws and regulations or with rules contained in the articles of association were found.

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

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

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

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

– the financial statements for 2018 reflect the balances on the books of account and have been prepared in accordance with the IAS/IFRS adopted by the European Commission and applied according to the principles and methods explained in the Notes;

– the report on operations can be considered exhaustive and consistent with the figures and the other information provided in the financial statements; this report describes the operations and events arising during the year, both with regard to the related economic and financial information, and with reference to the «other information», such as management of the risks

relating to the activities of the bank, human resources, the criteria underlying the bank's mutual activities, promotional and cultural activities;
– the report on operations also properly describes the significant events and transactions that have taken place subsequent to year end.

Consolidated Financial Statements

With regard to the consolidated financial statements, which report a profit of 110.804 million euro compared with 159.210 million in 2017, we note that they were correctly prepared in accordance with the relevant accounting standards, in terms of the definition of the scope of consolidation and with regard to compliance with the relevant regulations. In doing so, we were able to evaluate the functioning of the underlying systems for feeding in data and checking it.

Closing remarks

Shareholders,

Given all of the above, to the extent of our responsibilities and after taking note of the auditors' reports issued by EY S.p.A. and the certifications given by the Managing Director and the Manager responsible for the preparation of accounting documents, we have no objections to the proposals made to the Shareholders' Meeting by the Board of Directors, including the allocation of the profit for the year that, pursuant to the ECB recommendation dated 7 January 2019, satisfies the requirement to adopt an appropriate dividend distribution policy.

Sondrio, 4 April 2019

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

- Equity investments
- International unit
- Online Bank
- The Bank and young people
- “MULTIplus” account
- Carta +ma
- Amico Quinto
- Advance on accrued end-of-service benefits
- Asset management
- Bancassurance and supplementary pension schemes
- Publishing
- Cultural appointments
- 94th World Savings Day
- Gift to the shareholders

Equity investments

QUOTED ON PAGE 37

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

Subsidiaries

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FACTORIT SPA

BANCA DELLA NUOVA TERRA SPA

PRESTINUOVA SPA

PIROVANO STELVIO SPA

SINERGIA SECONDA SRL

POPSO COVERED BOND SRL

RAJNA IMMOBILIARE SRL

SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 SRL

Main associated companies

UNIONE FIDUCIARIA SPA

ARCA HOLDING SPA

ARCA VITA SPA

ALBA LEASING SPA

POLIS FONDI SGR PA

RENT2GO SRL

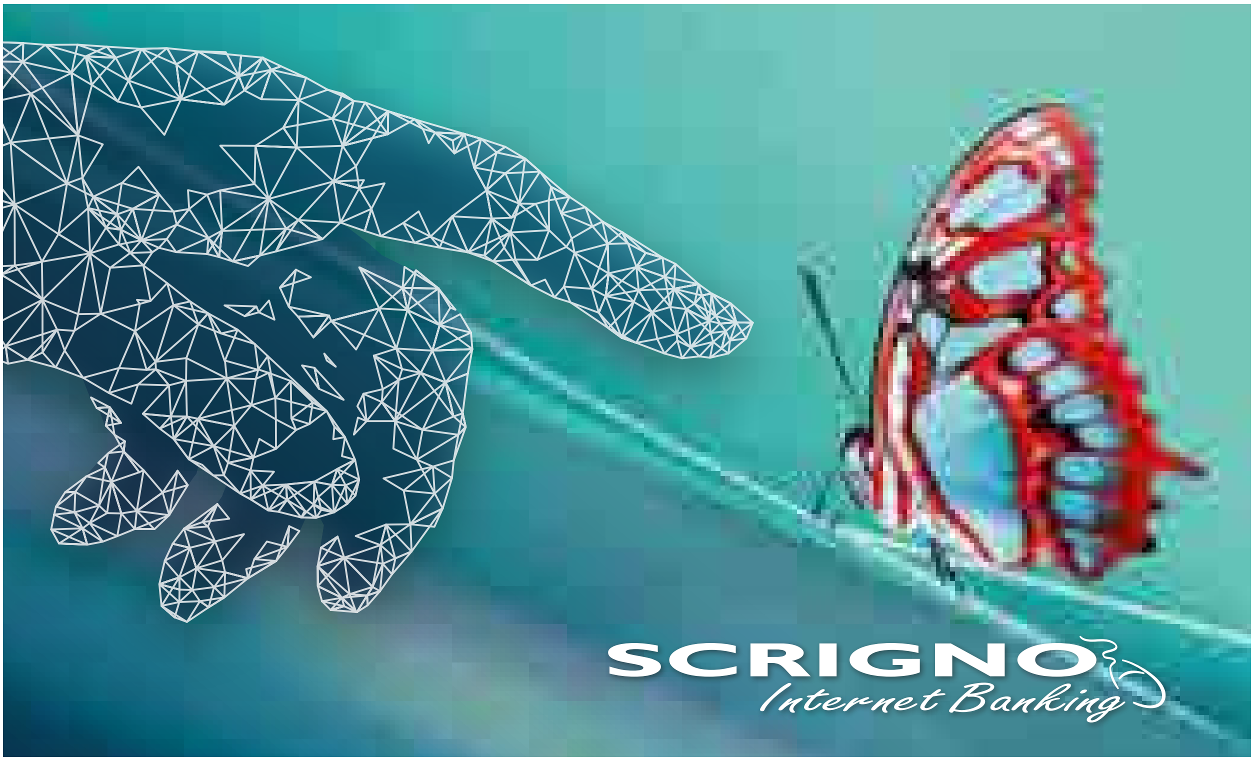
SOFIPO SA

International unit

the global offer of services for internationalisation is a real "One-Stop Shop" which companies can address for all their needs: from the first phase of approaching foreign markets to financial support for businesses across the border

QUOTED ON PAGE 42

Online Bank



16 different payments through **SCRIGNO** including:

- Instant transfer
- pagoPA
- Post office payment slip
- M.Av.

... with a click!

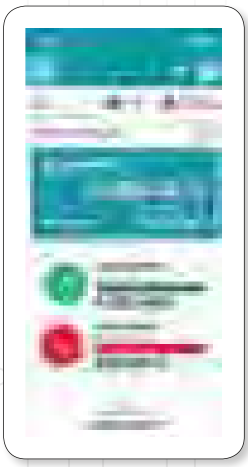
SCRIGNO
Internet Banking

Operate easily and intuitively!

Fast: in a few seconds it is possible to send an **instant transfer** throughout the SEPA area!

Immediate: everything under control, browsing through the previews of the operational areas

Specific features are also available for business needs



SCRIGNO*app*

The bank always in your pocket!

Easy: just take a picture and the bulletin (or the M.Av.) is paid!

User-friendly: all at your fingertips... even easier access!

QUOTED ON PAGE 44

SCRIGNO*IdentiTel*

Security and peace of mind when operating online

Usable via smartphone app!

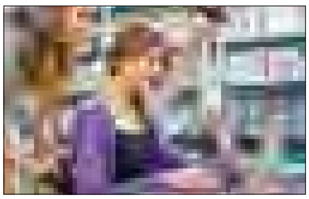
Payments with credit cards through the Nexi pay app

- Samsung Pay®
- Google Pay®
- Garmin Pay®

The Bank and young people

Banca Popolare di Sondrio
accompanies young customers in their specific needs
with dedicated products and services

a savings book
reserved for children aged 0-12



the 1º **Conto POPSOWeb**
current account is a product
tailored for young people

ateneo+

one card,
+ opportunities...
always "in your pocket"

“MULTIplus” account

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

Make it according to your needs!

Complete and flexible!

BONUS under 27

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

BONUS credit your salary or pension

Do you have your salary or pension credited to your current account?
With **MULTIplus** you can get a **reduction** on the monthly fee

BONUS FOR BPS SHAREHOLDERS

Are you a shareholder with at least 100 shares of Banca Popolare di Sondrio?
MULTIplus offers you an **exclusive benefit** on the monthly fee

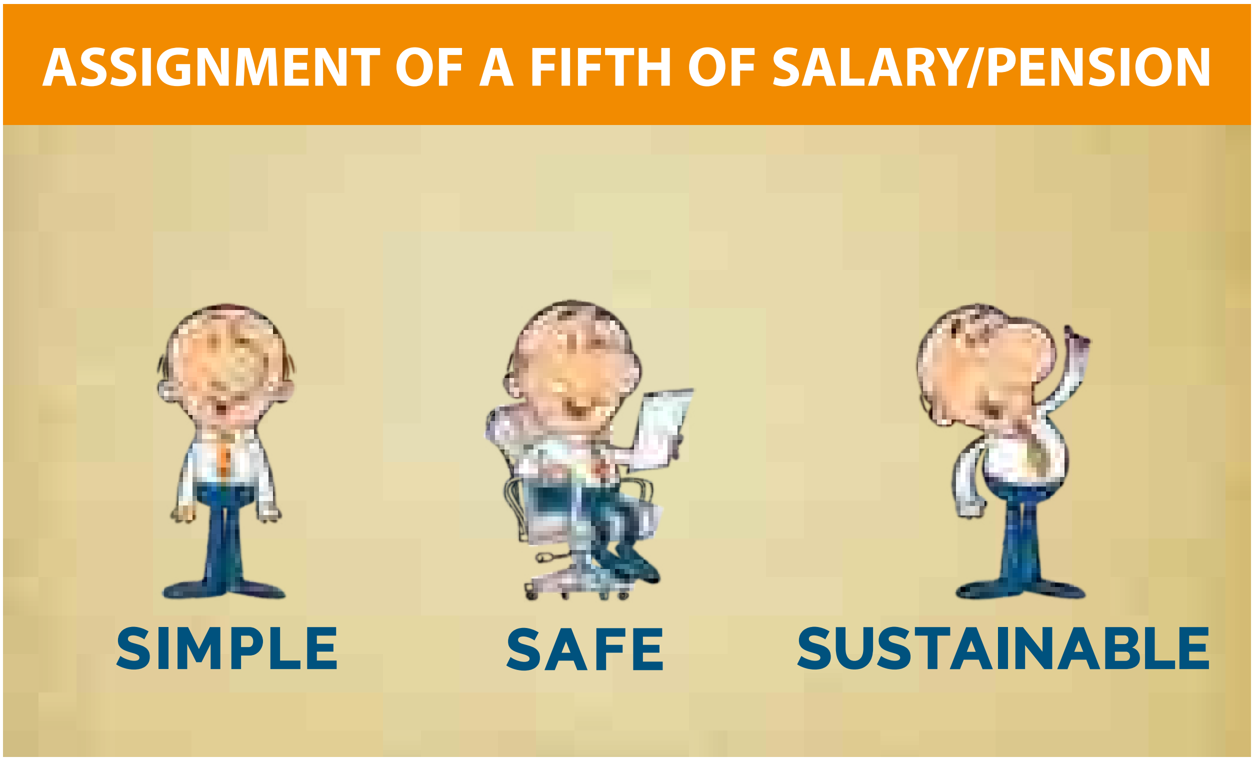
Carta +ma

the prepaid rechargeable card with IBAN
that has multiple features in a single payment instrument,
starting from the age of 14

+young

+free

+complete



a loan against the assignment of a fifth of salary/pension
is ideal for employees and pensioners

QUOTED ON PAGE 45

BNT BANCA
Gruppo Banca Popolare di Sondrio

Advance on accrued end-of-service benefits (ESB)

reserved exclusively for retired public sector employees, it allows pensioners to obtain an advance on their accrued end-of-service benefits

For retired public sector employees

Advance

on accrued end-of-service benefits

tfs

Trattamento di Fine Servizio

Getting your accrued end-of-service benefits in advance is now possible!

Asset management

years of experience and professionalism to best meet
the most diversified investment objectives of savers

QUOTED ON PAGE 44

GPM
GESTIONI PATRIMONIALI MOBILIARI

GPF Multimarca
GESTIONI IN FONDI E SICAV INTERNAZIONALI

ARCA VITA

SIDERA FUNDS SICAV

Popso (SUISSE) Investment Fund SICAV

FONDI COMUNI D'INVESTIMENTO — ARCA SGR

FONDI COMUNI D'INVESTIMENTO ETICI — etica SGR Investimenti responsabili

Bancassurance and supplementary pension schemes

QUOTED ON PAGE 44

with the collaboration of long-standing partners such as Arca Vita, Arca Assicurazioni and Arca Fondi SGR, the bank offers complete and innovative solutions in the insurance and pension sector

ARCA SGR

BANCASSICURAZIONE
Insieme perché il tuo mondo è unico

Arca Previdenza

ARCA ASSICURAZIONI

ARCA VITA

Publishing

following the tradition, publishing projects are carried out to enhance the peculiarities of the Bank's territory and to spread its culture; a function also performed by the four-monthly magazine *Notiziario* and by the "Luigi Credaro" library

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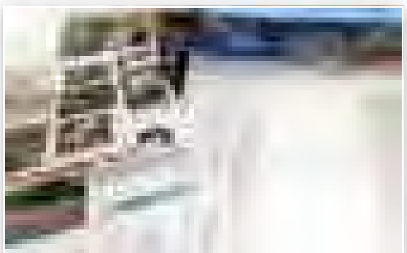

Cultural appointments

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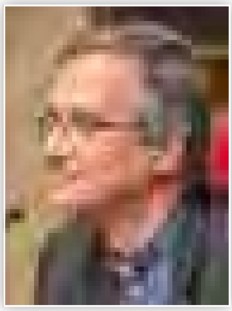
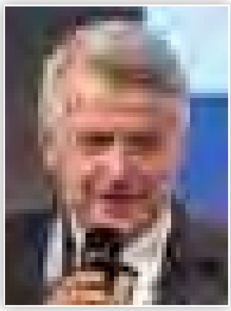
since 1961 the Bank has been promoting public meetings held by distinguished speakers, dedicated to a wide variety of topics including current affairs, to stimulate a cultural debate *for* the territory e *in* the territory

2 February 2018



DARIO EDOARDO VIGANÒ
Councillor for the Department of Communication of the Holy See

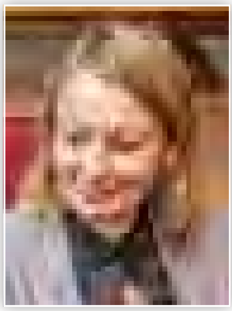
26 October 2018
in collaboration with Arca Fondi SGR



FERRUCCIO DE BORTOLI
Former Chief Editor of *Corriere della Sera* and *Il Sole 24 Ore*

CARLO COTTARELLI
Director of the Observatory on Italian Public Accounts at Università Cattolica del Sacro Cuore (Milan)

14 December 2018



ALESSANDRA DOLCI
Deputy Prosecutor and Coordinator of the Milan Anti-Mafia Department and of the Preventive Measures Office

94th World Savings Day

Alessandra Dolci, Deputy Prosecutor and Coordinator of the Milan Anti-Mafia Department spoke to a large audience of young people and students on topics of great urgency and relevance

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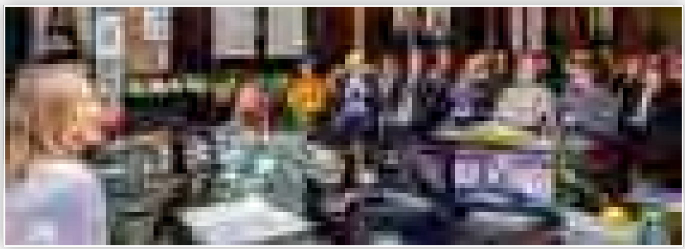


I luoghi del vino di Valtellina

INTRODUZIONE

di Marco Vitale
Economista d'impresa

Carlo Cattaneo, grande cantore della Lombardia, conobbe certamente la Valtellina. Basta leggere la descrizione che egli fa del sistema delle Alpi Centrali e della connessione fra ghiacciai, fiumi rovinosi, laghi, contenuta nel suo *Notizie naturali e civili su la Lombardia* (1844) per rendersene conto: «*Per tal modo le alpi eccelse e gli abissi dei laghi, i fiumi incassati e l'uniforme pianura silicea, le correnti sotterranee e le acque tepide nel verno, gli aquiloni intercetti e le influenze marine, le generose piogge e l'estate lucida e serena, erano come le parti d'una vasta macchina agraria, alla quale mancava solo un popolo, che compiendo il voto della natura, ordinasse gli sparsi elementi a un perseverante pensiero*».

È su questa natura che l'uomo lombardo esercita la sua capacità di lavoro e costruisce quella che Cattaneo chiama la "patria artificiale":

«*Dacchè il destino dell'uomo fu quello di vivere coi sudori della fronte, ogni regione civile si distingue dalle selvagge in questo, ch'ella è un immenso deposito di fatiche… Quella terra adunque per nove decimi non è opera della natura; è opera delle nostre mani; è una patria artificiale. La lingua tedesca chiama con una medesima voce l'arte di edificare e l'arte di coltivare; il nome dell'agricoltura (ackerbau) non … na costruzione; il colono è un edificatore (bau- … tribù germaniche videro all'ombra dell'aquile … nti, le vie, le mura, e con poco dissimile fatica … vergini riviere del Reno e della Mosella, esse … elle opere con un solo nome. Sì, un popolo … pi, come le sue città*».

… coltori che hanno creato e mantenuto il … terrazzati e di muretti a secco delle Alpi … i, colonizzatori, artefici di una "patria … Cattaneo dà a questa espressione: una … frutto dell'uomo artefice e della sua … certamente "un immenso deposito di … petenza, di intelligenza, di passione, di … tto, per la propria terra, per la propria …

… ticoltori dobbiamo essere molto grati … intelligente opera, gli artefici del si… un luogo appropriato e ben visibile … e delle Alpi Retiche una scultura o … e tipo quella che è stata eretta alle … lpini e alpinisti, dedicata alla "Ma… Gavia dedicata ai ciclisti o quella al "Signora delle Acque".

Il valore della cooperazione

Ma poi il viticoltore ha bisogno dell'enologo per arricchire l'esperienza con la scienza; dell'imprenditore per arricchire il saper produrre con la buona amministrazione, la buona distribuzione, la buona comunicazione; del gastronomo per inserire il proprio vino in un appropriato progetto enogastronomico; del ristoratore che sappia offrire il prodotto ai clienti con intelligenza; dell'amministratore pubblico consapevole che sappia valorizzare il territorio e i suoi doni. Insomma, il viticoltore ha bisogno di un sistema e di essere parte attiva, anzi protagonista, dello stesso. Perché, come dice un efficace proverbio siciliano: "unu sulu nun è bonu mancu 'n paradiso". È qui espresso, in forma icastica, efficace e sintetica, un tema al quale, negli ultimi anni, in tutte le scuole di management del mondo sono state dedicate migliaia di ore di lezione e centinaia di libri: il valore del lavoro in team, la necessità di fare squadra, il disvalore della solitudine. Forse qualcuno che non ha conosciuto il mondo contadino potrà meravigliarsi che questo principio faccia parte della cultura contadina. Ma chi ha conosciuto da bambino e ricorda le vendemmie, le fienagioni, il lavoro delle mondine, tipici lavori di squadra svolti in allegria, non condividerà certo questa sorpresa. Fosco Maraini, una ventina di anni fa, in una bellissima lezione in Bocconi sul Giappone, ci spiegò che la predisposizione dei Giapponesi al teamworking aziendale deriva dalla coltura del riso. Nella coltivazione del riso, infatti, si lavora sempre in squadra, o meglio in squadre, ciascuna dedicata a una funzione e tutte armonicamente inserite l'una nell'altra.

Vedo nel bel libro: *I luoghi del vino di Valtellina* un deciso e confortante movimento proprio nella direzione auspicata di fare sistema. E ciò molto mi rallegra condividendo io totalmente quanto leggo nel capitolo iniziale intitolato "Il nome delle cose": «*c'è nella stratificazione secolare del paesaggio vitivinicolo valtellinese e valchiavennasco, una ricchezza di significato tutta da scoprire*».

Io feci la conoscenza con i vini valtellinesi da ragazzo almeno dieci anni prima di conoscere personalmente la Valtellina, perché mio padre, di nascita napoletana, ma attento buongustaio, non faceva mai mancare sulla nostra tavola, nelle occasioni adatte, un buon *Sassella* o un buon *Inferno*, e alcuni nomi storici e rispettati come Pelizzatti e Negri erano a noi, sin da ragazzi, familiari. Poi, quando la finanza mise le mani su queste aziende, i valtellinesi sparirono dalla nostra tavola, come da tante altre tavole, nella certezza che i finanzieri avrebbero fatto male, come fecero. E i vini valtellinesi caddero in lunga e prolungata crisi.

Gift to the shareholders

an accurate historical narrative
runs through *The Places of Valtellina Wine*,
a work that well interprets the bank's genuine commitment
to the virtuous combination of "territory and wine"

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

PRESENTATION OF COMPARATIVE AMOUNTS

In the financial statements set out below, the comparative balance sheet and income statement amounts at 31/12/2017 have simply been restated using the financial statement format required by the fifth update to Bank of Italy Circular 262/2005 without any changes in amounts determined via the application of accounting standards prevailing at the time.

Accordingly, balance sheet and income statement amounts at 31 December 2017, which do not reflect the impact of applying IFRS 9, are not comparable with the amounts presented in the financial statements as of 31 December 2018.

BALANCE SHEET

(in euro)

IFRS 9	IAS 39		31-12-2018		31-12-2017
10.	10.	CASH AND CASH EQUIVALENTS		**969,358,505**		**112,049,023**
20.		FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		**902,816,282**		**-**
20 *a)*	20.	FINANCIAL ASSETS HELD FOR TRADING		**263,767,542**		**327,458,084**
20 *c)*		OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE		**639,048,740**		**-**
	20.	FINANCIAL ASSETS HELD FOR TRADING		**-**		**24,104,531**
	30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE		**-**		**351,053,774**
	40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**-**		**40,599,496**
	50.	HELD-TO-MATURITY INVESTMENTS		**-**		**6,005,196**
	70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**-**		**132,532,389**
30.		FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**4,423,027,149**		**-**
	20.	FINANCIAL ASSETS HELD FOR TRADING		**-**		**256,357,703**
	40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**-**		**6,630,084,374**
40.		FINANCIAL ASSETS MEASURED AT AMORTISED COST		**29,409,225,554**		**-**
40 *a)*	60.	LOANS AND RECEIVABLES WITH BANKS		**2,217,280,673**		**2,815,465,621**
	50.	HELD-TO-MATURITY INVESTMENTS		**-**		**6,855,926**
40 *b)*	70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**27,191,944,881**		**21,686,496,069**
	40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**-**		**116,824,176**
	50.	HELD-TO-MATURITY INVESTMENTS		**-**		**4,119,710,562**
70.	100.	EQUITY INVESTMENTS		**562,154,499**		**506,727,965**
80.	110.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**186,740,161**		**184,145,045**
90.	120.	INTANGIBLE ASSETS		**14,762,412**		**14,396,056**
100.	130.	TAX ASSETS		**414,827,084**		**385,613,399**
		a) Current	26,977,883		41,717,531	
		b) Deferred	387,849,201		343,895,868	
120.	150.	OTHER ASSETS		**283,741,717**		**305,819,797**
		TOTAL ASSETS		**37,166,653,363**		**38,022,299,186**

THE CHAIRMAN
Francesco Venosta

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

IFRS 9	IAS 39	EQUITY AND LIABILITY ITEMS		31-12-2018		31-12-2017
10.		FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		**33,770,793,630**		**-**
10 *a)*	10.	DUE TO BANKS		**5,480,393,123**		**5,635,658,170**
10 *b)*	20.	CUSTOMER DEPOSITS		**25,877,854,869**		**26,244,477,812**
10 *c)*	30.	SECURITIES ISSUED		**2,412,545,638**		**2,784,807,929**
20.	40.	FINANCIAL LIABILITIES HELD FOR TRADING		**42,532,267**		**51,079,682**
60.	80.	TAX LIABILITIES		**15,058,256**		**27,779,910**
		b) Deferred	15,058,256		27,779,910	
80.	100.	OTHER LIABILITIES		**710,725,874**		**599,522,297**
90.	110.	POST-EMPLOYMENT BENEFITS		**40,637,713**		**42,848,291**
100.		PROVISIONS FOR RISKS AND CHARGES		**220,085,911**		**-**
100 *a)*		Commitments and guarantees given	45,018,292		-	
	100.	OTHER LIABILITIES		**-**		**29,699,468**
	120.	PROVISIONS FOR RISKS AND CHARGES		**-**		**179,477,008**
100 *b)*	120 *a)*	Pension and similar obligations	139,028,680		141,658,773	
100 *c)*	120 *b)*	Other provisions for risks and charges	36,038,939		37,818,235	
110.	130.	VALUATION RESERVES		**(16,195,773)**		**38,642,710**
140.	160.	RESERVES		**885,551,458**		**856,064,897**
150.	170.	SHARE PREMIUM RESERVE		**79,005,128**		**79,005,128**
160.	180.	SHARE CAPITAL		**1,360,157,331**		**1,360,157,331**
170.	190.	TREASURY SHARES (-)		**(25,321,549)**		**(25,321,549)**
180.	200.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**83,623,117**		**118,400,102**
		TOTAL LIABILITIES AND EQUITY		**37,166,653,363**		**38,022,299,186**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

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

INCOME STATEMENT

(in euro)

IFRS 9	IAS 39		31-12-2018		31-12-2017	
10.	10.	INTEREST AND SIMILAR INCOME		534,125,726		547,390,208
		of which: Interest income calculated using the effective interest method		528,340,168		543,315,563
20.	20.	INTEREST AND SIMILAR EXPENSE		(96,813,061)		(121,713,804)
30.	30.	**NET INTEREST INCOME**		**437,312,665**		**425,676,404**
40.	40.	FEE AND COMMISSION INCOME		291,056,086		277,187,608
50.	50.	FEE AND COMMISSION EXPENSE		(15,223,850)		(14,453,872)
60.	60.	**NET FEE AND COMMISSION INCOME**		**275,832,236**		**262,733,736**
70.	70.	DIVIDENDS AND SIMILAR INCOME		45,365,465		18,623,815
80.	80.	NET TRADING INCOME		2,430,035		37,930,083
100.	100.	GAINS/LOSSES FROM SALE OR REPURCHASE OF:		5,486,518		95,243,843
100 *a)*		Financial assets measured at amortised cost	2,122,269		-	
	100 *a)*	Loans	-		(102)	
100 *b)*		Financial assets measured at fair value through other comprehensive income	3,381,111		-	
	100 *b)*	Available-for-sale financial assets	-		94,795,083	
100 *c)*		Financial liabilities	(16,862)		-	
	100 *d)*	Financial liabilities	-		448,862	
110.	110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		(12,097,686)		4,247,438
		a) Financial assets and liabilities designated at fair value	-		4,247,438	
		b) Other financial assets mandatorily measured at fair value	(12,097,686)		-	
120.	120.	**TOTAL INCOME**		**754,329,233**		**844,455,319**
130.	130.	NET ADJUSTMENTS FOR CREDIT RISK RELATING TO:		(222,795,628)		(267,784,980)
		a) Financial assets measured at amortised cost	(226,766,003)		(231,983,535)	
		b) Financial assets measured at fair value through profit or loss with an impact on comprehensive income	3,970,375		(35,801,445)	
140.		GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(2,838,879)		-
150.	140.	**NET FINANCIAL INCOME**		**528,694,726**		**576,670,339**
160.	150.	ADMINISTRATIVE EXPENSES:		(438,884,829)		(438,614,938)
		a) Personnel expenses	(184,445,102)		(189,379,026)	
		b) Other administrative expenses	(254,439,727)		(249,235,912)	
170.	160.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(8,964,783)		(2,217,925)
		a) Commitments for guarantees given	(10,811,263)		(7,164,234)	
		b) Other net provisions	1,846,480		4,946,309	
180.	170.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(13,982,158)		(14,362,189)
190.	180.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(14,680,285)		(14,118,928)
200.	190.	OTHER OPERATING INCOME/EXPENSE		56,159,483		68,152,303
210.	200.	**OPERATING COSTS**		**(420,352,572)**		**(401,161,677)**
220.	210.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		402,849		(622,325)
250.	240.	NET GAINS ON SALE OF INVESTMENTS		21,212		12,354
260.	250.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**108,766,215**		**174,898,691**
270.	260.	INCOME TAXES		(25,143,098)		(56,498,589)
280.	270.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**83,623,117**		**118,400,102**
300.	**290.**	**PROFIT (LOSS) FOR THE PERIOD**		**83,623,117**		**118,400,102**

STATEMENT OF COMPREHENSIVE INCOME

IFRS 9	IAS 39		2018	2017
10.	10.	**Profit (loss) for the period**	**83,623,117**	**118,400,102**
		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	10,614,393	5,090,467
70.	40.	Defined-benefit plans	2,869,166	(4,334,121)
		Other income items net of income taxes that may be reclassified subsequently to profit or loss		
140.	100.	Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	(76,079,545)	529,840
170.	130.	**Total other income items net of income taxes**	**(62,595,986)**	**1,286,186**
180.	140.	**Comprehensive income (Item 10+170)**	**21,027,130**	**119,686,288**

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2017	Change in opening balances	Opening balance at 1.1.2018	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations
Share capital:					
a) ordinary shares	1,360,157,331	–	1,360,157,331	–	–
b) other shares	–	–	–	–	–
Share premium reserve	**79,005,128**	**–**	**79,005,128**	**–**	**–**
Reserves					
a) from earnings	856,064,897	(56,925,477)	799,139,420	86,818,599	–
b) other	–	–	–	–	–
Valuation reserves	**38,642,710**	**7,757,504**	**46,400,214**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**
Profit for the year	**118,400,102**	**–**	**118,400,102**	**(86,818,599)**	**(31,581,503)**
Equity	**2,426,948,619**	**(49,167,973)**	**2,377,780,646**	**–**	**(31,581,503)**

A dividend from the results for 2017 of € 0.07 per share, totalling € 31.737 million, was paid from 23 May 2018. The directors have proposed a dividend of € 0.05 from the results for 2018. This dividend is subject to approval by the shareholders and, accordingly, has not been reported as a liability in these financial statements.

The proposed dividend is payable from 22 May. The payout envisaged totals € 22.669 million.

STATEMENT OF CHANGES IN EQUITY

	Opening balance at 31.12.2016	Change in opening balances	Opening balance at 1.1.2017	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations
Share capital:					
a) ordinary shares	1,360,157,331	–	1,360,157,331	–	–
b) other shares	–	–	–	–	–
Share premium reserve	**79,005,128**	**–**	**79,005,128**	**–**	**–**
Reserves					
a) from earnings	803,540,688	–	803,540,688	52,963,473	–
b) other	–	–	–	–	–
Valuation reserves	**37,356,524**	**–**	**37,356,524**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,321,549)**	**–**	**(25,321,549)**	**–**	**–**
Profit for the year	**80,047,620**	**–**	**80,047,620**	**(52,963,473)**	**(27,084,147)**
Equity	**2,334,785,742**	**–**	**2,334,785,742**	**–**	**(27,084,147)**

Changes during the year								
	Equity transactions							
Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income	**Equity at al 31.12.2018**
–	–	–	–	–	–	–	**–**	**1,360,157,331**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
(406,561)	–	–	–	–	–	–	**–**	**885,551,458**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**(62,595,987)**	**(16,195,773)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**83,623,117**	**83,623,117**
(406,561)	**–**	**–**	**–**	**–**	**–**	**–**	**21,027,130**	**2,366,819,712**

Changes during the year								
	Equity transactions							
Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income	**Equity at al 31.12.2017**
–	–	–	–	–	–	–	**–**	**1,360,157,331**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,005,128**
(439,264)	–	–	–	–	–	–	**–**	**856,064,897**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**1,286,186**	**38,642,710**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,321,549)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**118,400,102**	**118,400,102**
(439,264)	**–**	**–**	**–**	**–**	**–**	**–**	**119,686,288**	**2,426,948,619**

CASH FLOW STATEMENT (Indirect method)

	31/12/2018	31/12/2017
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**527,410,389**	**506,945,649**
- profit for the year (+/-)	83,623,117	118,400,102
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through other comprehensive income (-/+)	45,494,900	23,817,424
- net hedging gains (losses) (-/+)	–	–
- net impairment losses (+/-)	–	293,860,201
- net adjustments for credit risk (+/-)	248,563,459	–
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	28,662,443	28,481,117
- provisions for risks and charges and other costs/revenues (+/-)	35,280,146	22,289,108
- unpaid taxes, duties and tax credits (+/-)	25,143,098	56,498,589
- net impairment adjustments to disposal groups, net of tax effect (-/+)	–	–
- other adjustments (+/-)	60,643,226	(36,400,892)
2. **Cash generated/absorbed by financing activities**	**1,214,622,639**	**(714,239,693)**
- financial assets held for trading	41,003,832	404,412,307
- financial assets measured at fair value	–	(189,936,224)
- available-for-sale financial assets	–	(172,952,059)
- loans and receivables with banks: sight	–	(26,889,185)
- loans and receivables with banks: other receivables	–	(27,526,043)
- loans and receivables with customers	–	(741,275,846)
- financial assets designated at fair value	–	–
- other financial assets mandatorily measured at fair value	(166,232,578)	–
- financial assets measured at fair value through other comprehensive income	2,462,525,115	–
- financial assets measured at amortised cost	(1,102,484,282)	–
- other assets	(20,189,448)	39,927,357
3. **Cash generated/absorbed by financial liabilities**	**(782,155,228)**	**4,303,618,964**
- due to banks: sight	–	41,700,457
- due to banks: other payables	–	3,361,554,144
- customer deposits	–	1,331,676,070
- securities issued	–	(300,203,741)
- financial liabilities measured at amortised cost	(867,101,446)	
- financial liabilities held for trading	(17,937,537)	(57,501,407)
- financial liabilities measured at fair value	–	–
- financial liabilities measured at fair value	–	–
- other liabilities	102,883,756	(73,606,559)
Net cash generated/absorbed by operating activities	**959,877,800**	**4,096,324,920**

	31/12/2018	31/12/2017
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**16,327,165**	**59,825,369**
- sales of equity investments	–	–
- dividends collected from equity investments	16,311,510	13,128,167
- sales and reimbursements of held-to-maturity investments	–	46,685,633
- sales of property, equipment and investment property	15,655	11,569
- sales of intangible assets	–	–
- sale of business divisions	–	–
2. **Cash absorbed by**	**(87,448,395)**	**(4,112,923,678)**
- purchases of equity investments	(55,824,473)	(20,003,742)
- purchases of held-to-maturity investments	–	(4,051,180,871)
- purchases of property, equipment and investment property	(16,577,281)	(27,537,270)
- purchases of intangible assets	(15,046,641)	(14,201,795)
- purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**(71,121,230)**	**(4,053,098,309)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	–	–
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(31,737,004)	(26,984,147)
Net cash generated/absorbed by financing activities	**(31,737,004)**	**(26,984,147)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**857,019,566**	**16,242,464**

Key:
(+) generated (-) absorbed

RECONCILIATION

Line items	**31/12/2018**	**31/12/2017**
Cash and cash equivalents at beginning of year	112,049,023	96,466,584
Total net cash generated/absorbed in the year	857,019,566	16,242,464
Cash and cash equivalents: effect of change in exchange rates	289,916	(660,025)
Cash and cash equivalents at the end of the year	**969,358,505**	**112,049,023**

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

Section 1 *Declaration of compliance with International Financial Reporting Standards*

Banca Popolare di Sondrio s.c.p.a. declares that these financial statements have been prepared in accordance with the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2018 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4 para 1 and 2 of Legislative Decree 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the EC Regulation 1606/2002 concerning international accounting standards».

The format of the financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by Legislative Decree 38/2005 and subsequent updates.

The financial statements of the Bank at 31 December 2018 were approved by the Board of Directors on 22 March 2019.

Section 2 *Basis of preparation*

The financial statements have been prepared in accordance with the following general criteria described in IAS 1:

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations. Considering the structure of funding, based essentially on customer current accounts, repurchase agreements and, to a lesser extent, the issue of bonds, and lending, mainly to retail customers and SMEs which the Bank monitors constantly, as well as the prevalence of government securities and prime corporate bonds, the management is of the opinion, even considering the difficulties encountered by sovereign debt securities in the recent past, that there are no critical areas that could adversely influence the Bank's capital solidity and profitability, which are prerequisites for adopting the going concern basis.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information.

   If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent updates.

4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation. The Bank has chosen not to present comparative information in compliance with IFRS 9 and 15, which took effect from 1 January 2018, concerning the recognition and measurement of financial instruments and revenue from contracts with customers and related disclosures. Explanatory and descriptive information is included when this helps to provide a better understanding of the financial statements.

As allowed on the first-time adoption of IFRS 9 and IFRS 15, the effects of which were recognised by adjusting the opening shareholders' equity at 1 January 2018, the Bank has chosen not to restate the comparative information provided. Accordingly, the prior year balance sheet and income statement are not fully comparable with the new accounting categories and related measurement criteria introduced by the new standards as, with specific reference to financial instruments, they were prepared in conformity with IAS 39 (i.e. the accounting standards in force at 31 December 2017, which were used to prepare the financial statements at that date and to which reference is made).

The financial statements are prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, these financial statements reflect the requirements of Legislative Decree 136/2015, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

The figures in the notes are shown in thousands of euro.

Section 3 *Subsequent events*

No events have taken place between the reference date for these financial statements and the date of their approval by the Board of Directors on 22/03/2019 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 4 *Other aspects*

The accounting policies adopted for the year are essentially consistent with those applied in 2017, except for the adoption from 1 January 2018 of IFRS 9 (Financial instruments) and IFRS 15 (Revenue from contracts with customers). The changes resulting from certain EU Regulations that came into force during the year did not have any significant impact on the financial statements.

The financial statements, accompanied by the directors' report on operations, consist of the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes to the financial statements.

Preparing financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, the use of valuation models for identifying the fair value of instruments that are not listed on active markets, equity investments and goodwill and for estimating the recoverability of deferred tax assets. These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Bank defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the financial statements at 31 December 2018, as required by prevailing accounting standards and relevant regulation.

These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale.

The analyses performed confirm the carrying amounts of the items mentioned at 31 December 2018. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a reduced growth and high levels of uncertainty about the prospects, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment which could, as in the previous year, experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2018.

Standards already in force whose application became mandatory from the 2018 financial year:

- Commission Regulation (EU) 2017/1987 of 31 October 2017, which adopts Clarifications of IFRS 15 «Revenues from contracts with customers». The amendments aim to clarify certain requirements and provide a further transitional facilitation for companies applying the standard. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2018.
- Commission Regulation (EU) 2017/1988 of 3 November 2017 adopting the amendments to IFRS 4 «Joint application of IFRS 9 Financial instruments and IFRS 4 Insurance contracts». The amendments to IFRS 4 aim to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 and the effective date of the new accounting standard on insurance contracts that replaces IFRS 4 (IFRS 17). The financial conglomerates referred to in the definition in Article 2, no. 14 of Directive 2002/87/EC can decide that none of its entities operating in the insurance sector within the meaning of Article 2, no. 8, letter b) of the same directive need to apply IFRS 9 to the consolidated financial statements for the financial years commencing before 1 January 2021, if all of the following conditions are met:
  a) after 29 November 2017, between the insurance sector and the other sectors of the financial conglomerate, no financial instruments other than financial instruments measured at fair value are transferred, for which the changes in fair value are recognised through profit or loss for the year from both the sectors involved in the transfers;
  b) the financial conglomerate indicates in the consolidated financial statements the group insurance entities applying IAS 39;
  c) the additional information required by IFRS 7 is provided separately for the insurance sector that applies IAS 39 and for the rest of the group that applies IFRS 9. Companies have to apply the Amendments to IFRS 4 from the date of commencement of their first financial year beginning on or after 1 January 2018. However, subject to the above conditions, financial conglomerates can choose to apply the Amendments to IFRS 4 from the start date of their first financial year beginning on or after 1 January 2018.
- Regulation (EU) no. 1905/2016 dated 22 September 2016 that amends Regulation (EC) 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IFRS 15. This applies from 1 January 2018.

- Regulation (EU) 2067/2016 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 9. This applies from 1 January 2018.
- Regulation (EU) 2018/182 dated 7 February 2018 which amends Commission Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IAS 28, IFRS 1 and IFRS 12. This applies from 1 January 2018.
- Regulation (EU) 2018/289 dated 26 February 2018 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 2 Share-based payments. This applies from 1 January 2018.
- Regulation (EU) 2018/400 dated 14 March 2018 which amends Commission Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IAS 40. This applies from 1 January 2018.
- Regulation (EU) 2018/519 of 28 March 2018 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRIC Interpretation 22. This applies from 1 January 2018. Standards whose application will become mandatory subsequent to 31 December 2018:
- Commission Regulation (EU) 2017/1986 of 31 October 2017, which adopts IFRS 16 Leases, designed to improve the accounting treatment and reporting of lease contracts. Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2019.
- Commission Regulation (EU) 2018/498 dated 22 March 2018 which amends Commission Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IAS 9. This applies from 1 January 2019.
- Regulation (EU) 2018/1595 of 23 October 2018 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRIC Interpretation 23. This applies from 1 January 2019.
- Regulation (EU) 2019/237 dated 11 February 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures. This applies from 1 January 2019.
- Regulation (EU) 2019/402 dated 14 March 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Amendments to IAS 19: Plan Amendment, Curtailment or Settlement. This applies from 1 January 2019.
- Regulation (EU) 2019/412 dated 15 March 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Annual Improvements to IFRS Standards 2015-2017 Cycle. This applies from 1 January 2019.
- Amendments and new accounting standards not yet endorsed:
- Amendments to References to the Conceptual Framework in IFRS Standards. This applies from 1 January 2020.
- Amendment to IFRS 3 Business Combinations. This applies from 1 January 2020.

- Amendments to IAS 1 and IAS 8: Definition of Material. This applies from 1 January 2020.
- IFRS 17 Insurance Contracts. This applies from 1 January 2021, although the IASB has recommended the deferral of application until 1 January 2022.

Banca Popolare di Sondrio transition to IFRS 9

With reference to the entry into force of IFRS 9 (Financial instruments), Banca Popolare di Sondrio has applied the new requirements as from 1 January 2018, having restated the prior year figures and having recognised the effect of the transition in equity. As regards changes introduced concerning accounting, the Bank has elected to continue to apply IAS 39.

Classification and Measurement

The new standard introduces a model under which 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.

Following the decisions taken, the Bank did not make any significant reclassifications of financial instruments based on their accounting category. Management strategy for portfolios was used to determine the applicable business model as envisaged by the new standard.

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 deemed to be eligible only if frequent but not significant or significant but not frequent or if due to an increase in credit risk. Frequency is measured based on the number of sales made in the period, while significance is measured based on the total amount of sales compared to the portfolio at the beginning of the period. The criteria used to determine these requisites have been included by the Bank in specific internal regulations. Banca Popolare di Sondrio holds the following within an HTC business model:

- Almost the entire portfolio of loans to customers and banks, given that the Parent Company mainly undertakes traditional banking activities and holds a loan portfolio that originates from finance granted to households, individuals and businesses;
- Fixed-yield securities that may be subjected to this business model's management logic.

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets.

The Bank has decided not to use the HTC&S business model for loans, but for securities (most of the securities held as financial assets available for sale have been included here).

Others (FVTPL)

This business model is adopted when the Bank takes decisions based on the fair value of financial assets and it manages them in order to realise the latter or when the objective of the business model does not fall within that of the previous two (HTC and HTC&S). Banca Popolare di Sondrio 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 Bank does not require ex post monitoring for credit and loans to verify the consistency of the loan portfolio with the HTC business model within which they are held, while it is required for securities to verify the consistency of securities portfolio management with the HTC and HTC&S business models.

Solely Payment of Principal and Interest Test (SPPI test)

By means of an SPPI test, it is possible to check whether a financial asset may be considered to be a «basic lending arrangement», whereby the contractual cash flows consist solely of payments of principal and interest accrued on the principal amount outstanding.

If the test of the characteristics of the contractual cash flows shows compliance with the requirements of IFRS 9 (SPPI test has been passed), the asset may be measured at amortised cost, provided that it is held within a business model the objective of which is to collect the contractual cash flows during the instrument's life (HTC business model), or at fair value through other comprehensive income (FVOCI), provided that the asset is held within a business model the objective of which is to collect contractual cash flows over the entire life of the asset and to sell the asset (HTC&S business model).

If the test of the characteristics of the contractual cash flows from a financial asset does not show compliance with the requirements of IFRS 9 (SPPI test has not been passed), the asset is measured at fair value through profit or loss (FVTPL).

In accordance with Group guidelines, the test is performed before a loan is granted or a security purchased (origination) in order to gain awareness of the accounting implications in terms of the classification of assets in accordance with IFRS 9. Test procedures make use of an SPPI tool.

For credit and loans, the approach for the execution of the SPPI test differs based on whether they consist of:

- Standard products (e.g. current accounts or loans), for which the test is performed at product level. Upon granting a loan, account is taken of the outcome of the SPPI test at product level, updated following verification of the remuneration of credit risk and a benchmark test, where required.
- Non-standard contracts, for which the test is performed individually for each amount. For the securities portfolio, the results of the SPPI test and benchmark test are acquired for each ISIN from an external info provider. For amounts for which the results of the SPPI test and/or benchmark test obtained from an external info provider are not available and/or complete, the tests are performed within the Bank, using the aforementioned tool.

Reconciliations and explanatory notes

Restatement of financial position at 31 December 2017 (as per IAS 39) using new line items (as per IFRS 9) required by the 5th update to Bank of Italy Circular 262/05.

The following table provides a reconciliation of the asset, liability and equity components published in the financial statements for the year ended 31 December 2017 to the line items introduced by the 5th update to Bank of Italy Circular 262/05 and presents the results of the first-time adoption of IFRS 9 regarding the classification of financial instruments. The asset, liability and equity balance sheet components remain those determined in accordance with IAS 39, but they have been restated using the new line items in line with the business model established by Banca Popolare di Sondrio in accordance with the new accounting standard IFRS 9 (in fact, account was taken of the results of the SPPI test, which is an integral part of the classification phase).

Financial instruments previously classified as «Financial assets held for trading» have been reclassified as follows:

- Euro 327.5 million has been allocated, given the continuity in management strategy thereof, to the line item «Financial assets measured at fair value through profit or loss a) financial assets held for trading»;
- Euro 24.1 million relating to fixed-yield securities, variable-yield securities and mutual funds that are no longer held for trading has been allocated to the line item «Financial assets measured at fair value through profit or loss c) other financial assets mandatorily measured at fair value»;
- Euro 256.4 million of government securities and bonds that have passed the SPPI test has been allocated to the line item «Financial assets measured at fair value through other comprehensive income» that are held within an HTC&S business model.

«Financial assets measured at fair value», which comprise Euro 351.1 million of mutual funds, have been entirely reclassified to the line item «Financial assets mandatorily measured at fair value through profit or loss» since they consist of securities for which the contractual cash flows did not pass the SPPI test and that are held within a fair value business model.

Financial assets previously classified as «Financial assets available for sale» have been reallocated as follows:

- Euro 40.6 million to the line item «Financial assets measured at fair value through profit or loss c) other financial assets mandatorily measured at fair value» since they are held within other business models;
- Euro 6,630.1 million of securities to the line item «Financial assets measured at fair value through other comprehensive income» since they consist of fixed-yield securities held within a Held to Collect & Sell business model and of variable-yield securities for which the Group has decided to elect for the FVOCI option;
- Euro 116.8 million of securities to «Financial assets measured at amortised cost b) loans and receivables with customers» due to a decision to hold them within a Held to Collect business model.

Financial assets previously held to maturity have mostly been reallocated to the line item «Financial assets measured at amortised cost» (Euro 4,126.6 million), while a small part has been allocated to the line item «Financial assets measured at fair value through profit or loss c) other financial assets mandatorily measured at fair value» since they did not pass the SPPI test.

Loans and receivables with banks and customers have also been mostly reclassified to «Financial assets measured at amortised cost», except for 132.5 million of loans and receivables with customers that did not pass the SPPI test and that have thus been classified to the line item «Financial assets measured at fair value through profit or loss c) other financial assets mandatorily measured at fair value».

Circular 262/2005 5th update - ASSETS

(in thousands of euro)

Asset items	31.12.2017 IAS 39	10. Cash and cash equivalents	20. Financial assets measured at fair value through profit or loss: a) financial assets held for trading	20. Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value	30. Financial assets measured at fair value through other comprehensive income
10. **Cash and cash equivalents**	**112,049**	**112,049**	**-**	**-**	**-**
20. **Financial assets held for trading**	**607,920**	**-**	**327,458**	**24,104**	**256,358**
30. **Financial assets measured at fair value through profit or loss**	**351,054**	**-**	**-**	**351,054**	**-**
40. **Available-for-sale financial assets**	**6,787,508**	**-**	**-**	**40,600**	**6,630,084**
50. **Held-to-maturity investments**	**4,132,572**	**-**	**-**	**6,005**	**-**
60. **Loans and receivables with banks**	**2,815,466**	**-**	**-**	**-**	**-**
70. **Loans and receivables with customers**	**21,819,028**	**-**	**-**	**132,532**	**-**
100. **Equity investments**	**506,728**	**-**	**-**	**-**	**-**
110. **Property, equipment and investment property**	**184,145**	**-**	**-**	**-**	**-**
120. **Intangible assets**	**14,396**	**-**	**-**	**-**	**-**
130. **Tax assets**	**385,613**	**-**	**-**	**-**	**-**
a) current	41,718	-	-	-	-
b) deferred	343,895	-	-	-	-
150. **Other assets**	**305,820**	**-**	**-**	**-**	**-**
Total assets	**38,022,299**	**112,049**	**327,458**	**554,295**	**6,886,442**

Circular 262/2005 5th update - LIABILITIES AND EQUITY

(in thousands of euro)

Equity and liability items	31.12.2017 IAS 39	10. Financial liabilities measured at amortised cost: a) due to banks	10. Financial liabilities measured at amortised cost: b) customer deposits	10. Financial liabilities measured at amortised cost: c) debt securities in issue	20. Financial liabilities held for trading	60. Tax liabilities: b) deferred	80. Other liabilities	90. Post-employment benefits
10. **Due to banks**	**5,635,658**	**5,635,658**	**-**	**-**	**-**	**-**	**-**	**-**
20. **Due to customers**	**26,244,478**	**-**	**26,244,478**	**-**	**-**	**-**	**-**	**-**
30. **Securities issued**	**2,784,808**	**-**	**-**	**2,784,808**	**-**	**-**	**-**	**-**
40. **Financial liabilities held for trading**	**51,080**	**-**	**-**	**-**	**51,080**	**-**	**-**	**-**
80. **Tax liabilities**	**27,780**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
b) deferred	27,780	-	-	-	-	27,780	-	-
100. **Other liabilities**	**629,222**	**-**	**-**	**-**	**-**	**-**	**599,523**	**-**
110. **Post-employment benefits**	**42,848**	**-**	**-**	**-**	**-**	**-**	**-**	**42,848**
120. **Provisions for risks and charges**	**179,477**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) pension and similar obligations	141,659	-	-	-	-	-	-	-
b) other provisions	37,818	-	-	-	-	-	-	-
130. **Valuation reserves**	**38,643**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
160. **Reserves**	**856,065**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
170. **Share premium reserve**	**79,005**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
180. **Share capital**	**1,360,157**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
190. **Treasury shares (-)**	**(25,322)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
200. **Profit (loss) for the period**	**118,400**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities and equity	**38,022,299**	**5,635,658**	**26,244,478**	**2,784,808**	**51,080**	**27,780**	**599,523**	**42,848**

IFRS 9							
40. Financial assets measured at amortised cost					100. Tax assets		
a) loans and receivables with banks	b) loans and receivables with customers	70. Equity investments	80. Property, equipment and investment property	90. Intangible assets	a) current	b) deferred	120. Other assets
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	**116,824**	-	-	-	-	-	-
6,856	**4,119,711**	-	-	-	-	-	-
2,815,466	-	-	-	-	-	-	-
-	**21,686,496**	-	-	-	-	-	-
-	-	**506,728**	-	-	-	-	-
-	-	-	**184,145**	-	-	-	-
-	-	-	-	**14,396**	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	41,718	-	-
-	-	-	-	-	-	343,895	-
-	-	-	-	-	-	-	**305,820**
2,822,322	**25,923,031**	**506,728**	**184,145**	**14,396**	**41,718**	**343,895**	**305,820**

IFRS 9								
100. Provisions for risks and charges								
a) commitments and guarantees given	b) pension and similar obligations	c) provisions for risks and charges	110. Valuation reserves	140. Reserves	150. Share premium reserve	160. Share capital	170. Treasury shares (-)	180. Profit (loss) for the year
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
29,699	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	141,659	-	-	-	-	-	-	-
-	-	37,818	-	-	-	-	-	-
-	-	-	**38,643**	-	-	-	-	-
-	-	-	-	**856,065**	-	-	-	-
-	-	-	-	-	**79,005**	-	-	-
-	-	-	-	-	-	**1,360,157**	-	-
-	-	-	-	-	-	-	**(25,322)**	-
-	-	-	-	-	-	-	-	**118,400**
29,699	**141,659**	**37,818**	**38,643**	**856,065**	**79,005**	**1,360,157**	**(25,322)**	**118,400**

The liability line item «Provisions for risks and charges a) commitments and guarantees given» includes the reclassification made in connection with expected losses on financial guarantees and commitments to disburse funds of Euro 29.7 million previously allocated to other liabilities.

Reconciliation of financial position at 31 December 2017 (as per IAS 39) to the new financial position at 1 January 2018 (as per IFRS 9).

The table summarises, for each asset, liability and equity component of the balance sheet format laid down by the 5th update to Bank of Italy Circular 262/05, the impact of the adoption of IFRS 9, in terms of «measurement» and «impairment» as well as the related tax impact.

In particular:

- The «Measurement» column shows the change in carrying amount of each balance sheet component due to a change in measurement criteria;
- The «Impairment» column shows the change in carrying amount of each balance sheet component due to the adoption of the new impairment model introduced by IFRS 9. Please refer below to the «Part relating to the main line items in the financial statements», paragraph «3. Financial assets measured at amortised cost - accounting policies» for an explanation of the main aspects of this new model;
- The «Tax impact» column shows the tax effect of the first-time adoption of IFRS 9.

The «1.1.2018» column shows, for each balance sheet component, the new carrying amounts of assets, liabilities and equity, determined following the transition to the new standard, resulting from the sum of the amounts shown in the other columns.

In compliance with IAS 8 «Accounting policies, changes in accounting estimates and errors», the impact of the first-time application of a new accounting standard is recognised in equity.

In particular, the line item «Valuation reserves» includes 7.756 million relating to the positive impact, net of the tax effect, arising from the measurement at fair value through other comprehensive income of fixed-yield securities previously classified in the line item «Financial assets held for trading», and from the replenishment of the amortised cost of securities previously classified in the line item «Assets available for sale» and that had been reclassified upon FTA as assets measured at amortised cost, by means of the derecognition of the previous «AFS» reserve. The FTA component pertaining to this line item also comprises the reversal of pre-existing reserves pertaining to securities reclassified at fair value through profit or loss.

Lastly, it also includes the impact of the reconstruction of the reserve pertaining to fixed-yield securities for which IFRS 9 requires the change in fair value component arising from a change in the issuer's credit risk to be recognised in profit or loss and no longer in an equity reserve.

The line item «Reserves» includes the impact of all matters arising from the initial application of IFRS 9, totalling a negative amount of 56.925 million, mainly attributable to adjustments to customer loans.

(in thousands of euro)

Asset items	31/12/2017	Impact of IFRS 9 and IFRS 15 Measurement	Impairment	Tax impact	01/01/2018
10. **Cash and cash equivalents**	**112,049**	**-**	**-**	**-**	**112,049**
20. **Financial assets measured at fair value through profit or loss**	**881,753**	**(6,275)**	**-**	**-**	**875,478**
a) Financial assets held for trading	327,458	-	-	-	327,458
c) Other financial assets mandatorily measured at fair value	554,295	(6,275)	-	-	548,020
30. **Financial assets measured at fair value through other comprehensive income**	**6,886,442**	**-**	**-**	**-**	**6,886,442**
40. **Financial assets measured at amortised cost**	**28,745,353**	**(119)**	**(64,974)**	**-**	**28,680,260**
a) Loans and receivables with banks	2,822,322	-	(1,008)	-	2,821,314
b) Loans and receivables with customers	25,923,031	(119)	(63,966)	-	25,858,946
70. **Equity investments**	**506,728**	**-**	**-**	**-**	**506,728**
80. **Property, equipment and investment property**	**184,145**	**-**	**-**	**-**	**184,145**
90. **Intangible assets**	**14,396**	**-**	**-**	**-**	**14,396**
100. **Tax assets**	**385,613**	**-**	**-**	**25,850**	**411,463**
a) current	41,718	-	-	-	41,718
b) deferred	343,895	-	-	25,850	369,745
120. **Other assets**	**305,820**	**-**	**-**	**-**	**305,820**
Total assets	**38,022,299**	**(6,394)**	**(64,974)**	**25,850**	**37,976,781**

(in thousands of euro)

Equity and liability items	31/12/2017	Impact of IFRS 9 and IFRS 15 Measurement	Impairment	Tax impact	01/01/2018
10. **Financial liabilities measured at amortised cost**	**34,664,944**	**-**	**-**	**-**	**34,664,944**
a) Due to banks	5,635,658	-	-	-	5,635,658
b) Customer deposits	26,244,478	-	-	-	26,244,478
c) Debt securities in issue	2,784,808	-	-	-	2,784,808
20. **Financial liabilities held for trading**	**51,080**	**-**	**-**	**-**	**51,080**
60. **Tax liabilities**	**27,780**	**-**	**-**	**(990)**	**26,790**
b) deferred	27,780	-	-	(990)	26,790
80. **Other liabilities**	**599,523**	**323**	**-**	**-**	**599,846**
90. **Post-employment benefits**	**42,848**	**-**	**-**	**-**	**42,848**
100. **Provisions for risks and charges**	**209,176**	**-**	**4,318**	**-**	**213,494**
a) commitments and guarantees given	29,699	-	4,508	-	34,207
b) pension and similar obligations	141,659	-	(190)	-	141,469
c) other provisions for risks and charges	37,818	-	-	-	37,818
110. **Valuation reserves**	**38,643**	**240**	**6,615**	**901**	**46,399**
140. **Reserves**	**856,065**	**(6,957)**	**(75,907)**	**25,939**	**799,140**
150. **Share premium reserve**	**79,005**	**-**	**-**	**-**	**79,005**
160. **Share capital**	**1,360,157**	**-**	**-**	**-**	**1,360,157**
170. **Treasury shares (-)**	**(25,322)**	**-**	**-**	**-**	**(25,322)**
180. **Profit (loss) for the year (+/-)**	**118,400**	**-**	**-**	**-**	**118,400**
Total liabilities and equity	**38,022,299**	**(6,394)**	**(64,974)**	**25,850**	**37,976,781**

Details of the impacts shown in the table are as follows:

- - Euro 6.275 million arising from the fair value measurement of loans and securities that failed the SPPI test and that, in total, are lower than the previous measurement at amortised cost;
- - Euro 1.008 million relating to the impairment of Held to Collect, due from banks;
- - Euro 0.119 million determined by the reversal of the OCI reserve for CCTs that have been reclassified from «Financial assets available for sale» to loans and receivables with customers and thus in «Financial assets measured at amortised cost»;
- - Euro 63.966 million relating to the impairment of Held to Collect loans and receivables with customers;
- + Euro 0.323 million relating to other liabilities arising from the recognition of a refund liability due to the effect of the application of IFRS 15 and attributable to the repayment of amounts already collected linked to variable revenues;
- + Euro 4.508 million relating to the impairment of off-balance sheet items;
- - Euro 0.190 million relating to an adjustment to the pension fund due to the impairment of securities owned thereby;
- + Euro 6.615 million relating to the impairment of fixed-yield securities classified as «Financial assets measured at fair value through other comprehensive income»;
- The above changes arising from the FTA have given rise to the recognition of or adjustments for deferred tax, which is mostly attributable to increased provisioning for credit risk pertaining to financial assets: + Euro 26.840 million, arising from an increase in tax assets of 25.850 million, net of a decrease in tax liabilities of 0.990 million.

Reconciliation of provisions for loans, securities and off-balance sheet items at 31/12/2017 (as per IAS 39) and at 01/01/2018 (as per IFRS 9)

The introduction of IFRS 9 has led to an increase in writedowns of loans compared to IAS 39, with particular reference to stage 2 loans, due to the fact that the recognition has to be made of lifetime expected credit losses. The increase in writedowns related to the impaired portfolio is almost entirely attributable to the introduction of a sale assumption for a sub-portfolio of non-performing loans.

The table below sets out a reconciliation of loan provisions.

		IAS 39			20. Financial assets measured at fair value	40. Assets measured at amortised cost - banks			
					Nominal exposure	Stage 1			
IAS 39 category		Nominal exposure	Accumulated adjustments	Net exposure	c) other financial assets mandatorily measured at fair value	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure
60. **Loans and receivables with banks**	Unimpaired	**2,815,466**	**-**	**2,815,465**	**-**	**2,809,054**	**956**	**2,808,098**	**6,411**
	Impaired	**-**	**-**	**-**	**-**	–	**-**	**-**	**-**
70. **Loans and receivables with customers**	Unimpaired	**19,554,888**	**92,720**	**19,462,168**	**75,507**	**-**	**-**	**-**	**-**
	Impaired	**4,108,807**	**2,102,731**	**2,006,076**	**11,923**	**-**	**-**	**-**	**-**

		40. Assets measured at amortised cost - customers								
Stage 2		Stage 1			Stage 2			Stage 3		
Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure
25	**6,386**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	**-**	**15,833,291**	**35,417**	**15,797,875**	**3,653,531**	**84,160**	**3,569,371**	**-**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,072,584**	**2,112,431**	**1,960,153**

With the introduction of IFRS 9, there is a requirement to apply to securities the same impairment model used for loans; this has resulted in an increase in provisions, since under IAS 39 these instruments were written down only upon the recognition of any impairment losses that arose. The table below sets out a reconciliation of provisions pertaining to securities.

					20. Financial assets measured at fair value		30. Financial assets measured at fair value through other comprehensive income								
					Nominal exposure		Stage 1			Stage 2			Stage 3		
IAS 39		Nominal exposure	Accumulated adjustments	Net Exposure	a) financial assets held for trading	c) other financial assets mandatorily measured at fair value	Nominal exposure	Accumulated adjustments	Net Exposure	Nominal exposure	Accumulated adjustments	Net Exposure	Nominal exposure	Accumulated adjustments	Net Exposure
20. **Financial assets held for trading**	Unimpaired	607,920	-	607,920	327,458	24,105	228,313	314	227,999	28,705	346	28,359	-	-	-
	Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30. **Financial assets measured at fair value through profit or loss**	Unimpaired	351,054	-	351,054	-	351,054	-	-	-	-	-	-	-	-	-
	Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40. **Available -for-sale financial assets**	Unimpaired	6,787,508	-	6,787,508	-	40,599	6,633,173	5,835	6,627,338	2,868	122	2,746	-	-	-
	Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50. **Held-to-maturity investments**	Unimpaired	4,132,572	-	4,132,572	-	6,005	-	-	-	-	-	-	-	-	-
	Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
70. **Loans and receivables with customers**	Unimpaired	368,208	17,424	350,784	-	38,827	-	-	-	-	-	-	-	-	-
	Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand total (securities + loans and receivables)					**327,458**	**460,590**			**6,855,337**			**31,104**			**-**
					327,458	**460,590**									**6,886,442**

IFRS 9

40. Assets measured at amortised cost - banks									40. Assets measured at amortised cost - customers								
Stage 1			Stage 2			Stage 3			Stage 1			Stage 2			Stage 3		
Nominal exposure	Accumulated adjustments	Net Exposure	Nominal exposure	Accumulated adjustments	Net Exposure	Nominal exposure	Accumulated adjustments	Net Exposure	Nominal exposure	Accumulated adjustments	Net Exposure	Nominal exposure	Accumulated adjustments	Net Exposure	Nominal exposure	Accumulated adjustments	Net Exposure
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	116,705	378	116,327	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6,856	27	6,829	-	-	-	-	-	-	4,113,456	3,150	4,110,306	6,254	47	6,208	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	299,034	327	298,707	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		2,814,927			**6,386**			**-**			**20,323,215**			**3,575,578**			**1,960,153**
								2,821,313									**25,858,947**

With the introduction of the new IFRS 9, the scope of off-balance sheet exposures has been changed. Since 1 January 2018, revocable commitments are included in these items, thus broadening the scope compared to that under IAS 39.

Following the introduction of IFRS 9, there has been an increase in adjustments, especially to unimpaired exposures. As regards adjustments to impaired positions, there has not been a significant increase in provisions.

The following table sets out a comparison between IFRS 9 and IAS 39 impairment figures detailed by stage and nature of the amount (gross exposure, adjustment and net exposure).

IAS 39		Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure
Commitments	Unimpaired	1,073,047	–	1,073,047	13,953,214
	Impaired	11,595	–	11,595	–
Guarantees given	Unimpaired	4,342,079	4,553	4,337,526	3,717,853
	Impaired	72,342	25,146	47,196	–
Grand total		**5,499,063**	**29,699**	**5,469,364**	**17,671,067**

Reconciliation of equity at 31/12/2017 (as per IAS 39) to equity at 01/01/2018 (as per IFRS 9)

This table summarises the impact of the first-time application of IFRS 9 on equity, which comes to a total negative amount of Euro 49.169 million, net of the tax effect.

Equity at 1 January 2018 (as per IFRS 9) amounts to Euro 2,378 million, which is lower than equity at 31 December 2017 (as per IAS 39) of Euro 2,427 million.

The table below sets out a summary of the impact of FTA on each financial statement component affected, gross of the tax effect that is presented separately.

Impact of transition to IFRS 9 and IFRS 15

Group's equity at 31/12/2017 as per IAS 39	2,426,948

	Gross impact
20. **Financial assets measured at fair value through profit or loss**	
Fair value measurement of financial instruments carried at amortised cost under IAS 39	(6,275)
40. **Financial assets measured at amortised cost**	
Measurement at amortised cost of financial instruments carried at fair value under IAS 39	(119)
Impairment of financial assets measured at amortised cost	(64,974)
80. **Other liabilities**	
Potential liabilities linked to revenue from contracts as per IFRS 15	(323)
100. **Provisions for risks and charges**	
Impairment of guarantees and commitments	(4,318)
Impact on equity	**(76,009)**
Total tax effect of FTA	26,840
Net impact on equity	**(49,169)**
Equity at 01/01/2018 as per IFRS 9	**2,377,779**

IFSR 9							
Stage 1		Stage 2			Stage 3		
Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure
4,412	13,948,802	570,638	2,211	568,427	–	–	–
–	–	–	–	–	189,180	58	189,122
1,215	3,716,638	624,224	425	623,799	–	–	–
–	–	–	–	–	72,343	25,886	46,456
5,627	**17,665,440**	**1,194,862**	**2,636**	**1,192,226**	**261,523**	**25,944**	**235,578**

IFRS 15, published on 28 May 2014, introduces a new model for the recognition of revenues deriving from contracts with customers, and replaces the current standards on the subject, being IAS 18, IAS 11 and the related interpretations. Entities are required to recognise revenues based on the remuneration expected from the products or services provided, which is calculated in five steps: identification of the contract, identification of the individual obligations arising under the contract, determination of the price of the transaction, allocation of the price to each of the individual obligations and recognition of the revenue when control over the product or service is transferred to the customer.

The impact arising from the FTA of the new standard is not significant in terms of the effect on equity as it mainly relates to the recognition of liabilities (approximately Euro 0.3 million) attributable to the repayment of amounts already collected linked to variable revenues.

IFRS 16: Leases

The new IFRS 16, issued by the IASB (International Accounting Standards Board) and endorsed by the European Commission in Regulation 1986/2017, replaces IAS 17 Leases from 1 January 2019.

IFRS 16 Leases replaces IAS 17 and related interpretations, changing the definition of a lease and eliminating, for the lessee, the difference between finance and operating leases by introducing a single accounting model that recognises a leasing asset (Right of use) and the related leasing liability. For the lessor, IFRS 16 essentially represents the continuation of IAS 17.

The purpose of the new international accounting standard is to «ensure that lessees and lessors disclose appropriate information in a manner that fairly represents the underlying transactions. The disclosures provide the users of financial statements with the information needed to evaluate the effect of the leases on the financial position, economic results and cash flows of the entity».

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

The contract is, or contains, a lease if, in exchange for consideration, it grants the right to control the use of a specified asset for a period of time. In order to establish if the contract is, or contains, a lease, the entity must determine whether, over the entire period of use, the customer will enjoy the right to benefit all the economic benefits deriving from the use of the asset and the right to decide how it will be used.

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

Again on initial recognition, the cost of the asset, being the right of use obtained, comprises the initial amount of the leasing liability, the lease payments made on or prior to the start, net of any leasing incentives received, the initial direct costs incurred by the lessee and the estimated cost of removing or restoring the underlying asset. Subsequently, the asset is measured at historical cost depreciated over the life of the contract concerned.

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

On FTA, the lessee has two options for applying the standard:

The lessee can apply the new standard to its lease contracts:

a) retrospectively applying IAS 8 «Accounting policies, changes in accounting estimates and errors» and restating the comparative data; or

b) retrospectively recognising the cumulative effect of apply the standard as an adjustment of the opening balance of retained earnings on the first-time application date (without restating the comparative data).

In view of the important innovations introduced by IFRS 16, the Bank deemed it necessary to activate a specific project for the conversion of the current infrastructures, applications and internal regulations to the new accounting requirements. These activities were commenced in spring 2018, when a gap analysis was carried out to identify the possible impact deriving from the application of the new accounting standard. This assessment involved an analysis of the accounting aspects, investigation of the contracts and identification of the areas affected by the accounting standard.

The subsequent design and implementation phases were carried out during the second half of the year: the Bank configured the target operational model and updated the documentary framework in order to define and formalise suitably the new processes and responsibilities, and map the applications software and other changes made.

The Administration & Financial Accounting area coordinated these project activities, with assistance from both Information Systems and Logistics and Operational Support.

The Bank decided not to apply the grandfathering option, which would have involved redetermining which leases were subject to the new standard; instead, the Bank chose to recognise the effects of first-time adoption using the «amended retrospective» approach, without therefore recognising them retrospectively in accordance with IAS 8; lastly, lease contracts whose underlying assets are intangible are not subject to IFRS 16.

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

a) exclusion from balance sheet recognition of lease contracts with a residual duration not exceeding 12 months (regardless of the original duration of the contract);

b) estimation of lease duration based on prior experience and the information available on the date of first-time adoption about the future exercise of any extension or early termination options.

The implementation of the new requirement has increased the amount of risk-weighted assets, but the effect of first-time adoption on the shareholders' equity of the Bank was not significant. Overall, based on the simulations carried out, the reduction in Common Equity Tier 1 capital (CET1), was about 14 basis points.

The financial statements are audited by EY S.p.A. in accordance with the shareholders' resolution of 29 April 2017 which appointed them as auditors for the nine year period from 2017 to 2025.

A.2 Part relating to the main line items in the financial statements

1. Financial assets measured at fair value through profit or loss

Classification

Financial assets held for trading (fixed-yield securities, variable-yield securities, loans, mutual funds) have been allocated to this line item. It also includes the derivative contracts with a positive fair value, except those offset pursuant to IAS 32. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index, is settled on maturity and requires a limited initial net investment. If the derivative qualifies as a hedging derivative, the applicable line item is «hedging derivatives». If a financial asset contains an embedded derivative, it is measured by measuring the entire asset at fair value. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This line item also includes financial assets designated at fair value (fixed-yield securities and loans) as the result of the exercise of the fair value option. For the time being, the Bank has decided not to apply the fair value option, but does not exclude the exercise thereof in the future.

Lastly, it includes 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 active and 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 active and official markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

If data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity; cost, in the event that this is the best approximation of fair value).

As regards loans and receivables (due from banks and customers), the models used differ based on the nature and the characteristics of the instruments being measured. Currently, three main base models are applied:

- Discounted Cash Flow Model (DCF).
- Reverse mortgage model.
- ABS model.

The above models are used to measure performing exposures. In the event of non-performing loans or loans repayable on demand, the fair value equates to the gross balance adjusted for impairment.

Recognition of components affecting the income statement

Income statement components generated by changes in fair value of financial assets measured at fair value through profit or loss are recognised in the income statement in the period they arise under «Net trading income» and «Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss» split between the sub-items: «financial assets and liabilities designated at fair value» and «other financial assets mandatorily measured at fair value».

Interest income and dividends are reported in the income statement under «Interest and similar income» and «Dividends and similar income» respectively.

Derecognition

Financial assets measured at fair value through profit or loss are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the substantial transfer of all the related risks and benefits, or when no control is retained over them even though all the related risks and benefits are neither transferred nor substantially retained.

2. Financial assets measured at fair value through other comprehensive income

Classification

This line item includes all financial assets (fixed-yield securities, variable-yield securities and loans) classified in the portfolio measured at fair value through other comprehensive income, distinguishing between those that will subsequently be reclassified to the income statement (fixed-yield securities and loans) and that will not (variable-yield securities).

The following are classified in the portfolio measured at fair value through other comprehensive income:

– fixed-yield securities and loans held within an HTC&S business model and that pass the SPPI test;

– variable-yield securities for which the FVOCI option has been irrevocably exercised upon recognition.

Recognition

The assets classified in this caption are recorded on the settlement date. Financial assets measured at fair value through other comprehensive income are initially recognised at fair value, which normally corresponds to the fair value of the consideration paid to acquire them.

With regard to fixed-yield securities and loans, the Bank requires any changes in business model due to inconsistency between the management of the portfolio and the model chosen, or to significant changes in the strategic choices made, to be decided by the Board of Directors, which will determine if, in rare circumstances, reclassification is needed.

No possibility exists for the reclassification of variable-yield securities. The exercise of the FVOCI option, being the option envisaged by the standard that permits equity instruments to be designated at fair value through other comprehensive income upon initial recognition, is in fact irrevocable.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value in the same manner as financial assets measured at fair value through profit or loss.

The line item «Financial assets measured at fair value through other comprehensive income» comprises equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Bank operates. These instruments show that equities represent the majority in this portfolio. Since the most recent information available for the fair value measurement of these equity investments is insufficient, measurement at cost is deemed to be a more appropriate estimate of fair value.

At each reporting date, fixed-yield securities classified as «fair value through other comprehensive income» are subjected to impairment testing using a framework similar to that established for financial instruments measured at amortised cost (see Chapter 3). 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*[1], are, net of deferred tax effect, classified in separate line items within shareholders' equity: «Valuation reserves: Variable-yield securities measured at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income». As an exception for fixed-yield securities, changes in fair value triggered by changes in risk are recognised in profit or loss in the line item 130 b) «Net impairment adjustments/write-backs relating to credit risk» in relation to financial assets measured at fair value through other comprehensive income. Upon derecognition of fixed-yield securities, accumulated gains or losses pertaining thereto are recognised in profit or loss.

1. For fixed-yield securities, impairment due to expected losses is charged to the income statement as «net adjustments for credit risk»

Upon derecognition of variable-yield securities, accumulated gains or losses pertaining thereto are recognised in an equity reserve (line item 140).

Dividends are shown under «dividends and similar income».

If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within equity.

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the ubstantial transfer of all the related risks and benefits, or when no control is retained over them even though all the related risks and benefits are neither transferred nor substantially 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. For an explanation of the business models for financial instruments, please refer to the «Other aspects» section above that provides disclosures about the adoption of IFRS 9. The following are recognised in this line item:

a) due from banks (current accounts, guarantee deposits, fixed-yield securities, etc.). These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, the distribution of financial products). They also include deposits with Central Banks other than sight deposits included in the line item «Cash and cash equivalents» (for example, mandatory reserve);

b) loans and receivables with customers (mortgage loans, finance leases, factoring, fixed-yield securities, etc.). These also include deposits with post offices and Cassa Depositi e Prestiti, variation margins with clearing houses arising from derivative transactions and operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, servicing activities).

Also included are:

- finance leases relating to assets under construction and assets about to be leased under «transfer of risks» contracts, whereby the risks are transferred to the lessee prior to delivery of the asset and the start of lease instalments;
- loans granted through government or other public entity funding in connection with particular lending transactions provided for and governed by specific laws («loans through third-party funds under administration»), provided that the loans and funds bear interest due and payable to the lender;
- trade notes and documents that the banks receive subject to collection or subsequent to collection and for which the banks handle the collection service on behalf of assignors (recognised only upon settlement of the related amounts).

Recognition

Financial assets measured at amortised cost are recognised on the settlement date at fair value, which normally coincides with the amount paid, including transaction costs.

Financial assets measured at amortised cost include advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables acquired by the bank, and booked in the name of the assigned debtor, for which the related risks and benefits have all been substantially transferred to the bank.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method.

The Bank requires any changes in business model due to inconsistency between the management of the portfolio and the model chosen, or to significant changes in the strategic choices made, to be decided by the Board of Directors, which will determine if, in rare circumstances, reclassification is needed.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans (less than 12 months) without a specific repayment date and loans repayable on demand are recognised at historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this amount. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount expected cash flows, even if there has been a credit change associated with the loan triggered by loan forbearance that has led to a change in the contractual rate.

In order to measure the impairment adjustments required for expected losses, financial assets measured at amortised cost are classified in one of the following stages:

- Stage 1: performing positions for which there has been no significant increase in credit risk since the date of initial recognition;
- Stage 2: performing positions for which there has been a significant increase in credit risk since the date of initial recognition;
- Stage 3: positions classified in one of the credit-impaired categories (overdrawn for more than 90 days, unlikely-to-pay, non-performing).

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts».

At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, 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. Lifetime expected credit losses are those that result from all possible default events over the expected life of the financial instrument, weighted for the probability of occurrence of the default event.

For stage 2 positions, the provisions relating to each counterparty may be amended manually to a level considered appropriate by the competent business functions, based on the results of applying the statistical methodology defined by the bank and specific operational information, if the theoretical expected loss does not accurately reflect the level of risk identified.

As regards performing positions, measurement is performed on an overall basis, taking account of the risk parameters consisting of probability of default (PD) and loss given default (LGD), as well as exposure at default (EAD - Exposure and Default).

As regards credit-impaired positions, measurement may be performed on an overall or detailed basis. More specifically:

- Non-performing loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.
- Exposures classified as unlikely-to-pay loans are exposures, other than non-performing, for which the bank deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.
- Impaired past due and/or overdrawn exposures are exposures, other than those classified as non-performing or unlikely-to-pay, which, at the reporting date, have remained unpaid

and/or overdrawn for more than 90 days and which exceed a set materiality threshold. Impaired past due and/or overdrawn exposures may be determined with reference to the position of the individual debtor or, alternatively, solely for exposures to retail customers, with reference to a single transaction.

Impairment of individual assets measured at amortised cost is the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

- value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan;
- expected timing of recoveries, considering the progress made by recovery procedures;
- internal rate of return.

Non-performing loans are assessed on either a detailed or an overall basis. The specific analysis of non-performing financial assets measured at amortised cost takes the following parameters into account:

- recoveries forecast by the account managers;
- expected timing of recoveries based on historical-statistical data;
- original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

Overall assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

- recoveries forecast by the offices concerned;
- expected timing of recoveries based on historical-statistical data;
- original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of non-performing loans for which no specific estimate has been made of the loss attributable to each individual relationship.

These financial assets are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past. Past due and/or impaired overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters established by regulations in force from time to time.

For the positions in question, it is not possible to quantify expected losses on a detailed basis at the level of individual position. The measurement of the level of impairment thereof – and, thus, of the impairment adjustments to be applied on an overall basis – is performed by taking account of the possibility of return to performing of the positions or of a further deterioration of default and, accordingly, of the amount of the estimated expected loss arising from the established recovery process. Measurement is also performed based on the availability of appropriate information of a macroeconomic and prospective nature that is deemed significant for the estimation of the adjustments.

Recognition of components affecting the income statement

Interest income on financial assets measured at amortised cost is classified in the line item «interest and similar income».

Reductions or recoveries of partial or entire amounts previously written down are booked to the income statement as net adjustments for credit risk.

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the line item «interest and similar income».

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

Financial assets 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 susbstantial transfer of all the related risks and benefits, or when no control is retained over them even though all the related risks and benefits are neither transferred nor substantially retained.

IFRS 9 thus 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 susbstantial transfer of all the related risks and benefits, or when no control is retained over them even though all the related risks and benefits are neither transferred nor substantially retained.

However, the standard includes new guidance on:

- Write-offs of financial assets: when an entity does not reasonably expect to fully or partly recover contractual cash flows from a financial asset, it must directly reduce the gross carrying amount of the financial asset. This writedown constitutes partial or total derecognition of the asset.
- Modification of contractual cash flows: when a modification of contractual cash flows occurs, an entity must assess whether the modification would lead to derecognition, that is, whether the modification is substantial.

When the modification of contractual cash flows from a financial asset leads to the derecognition of a financial asset in compliance with the present standard, an entity should derecognise the existing financial asset and subsequently recognise the modified financial asset: the modified financial asset is deemed to be a «new» financial asset for the purpose of this standard. (IFRS 9 B5.5.25).

When the modification of contractual cash flows from a financial asset does not lead to the derecognition thereof, an entity should redetermine whether there has been a significant increase in credit risk and/or whether the financial asset should be reclassified to stage 3.

At the time of a modification that does not lead to derecognition, the Bank adjusts their carrying amount to the present value of the modified cash flows determined using the original effective interest rate, with a matching entry to the income statement.

3.1 Commitments and guarantees given

Classification

These comprise all the secured and unsecured guarantees given for third-party obligations and commitments to disburse funds.

Recognition and measurement

Endorsement loans are valued on the basis of the riskiness of this particular form loan, taking into account the creditworthiness of the borrower. The impairment model envisaged for this category of financial assets is the same as that for financial assets measured at amortised cost (see paragraph 3 above).

Recognition of components affecting the income statement

The commissions accrued are shown in the income statement under «fee and commission income». Impairment losses, and subsequent reversals, are booked to the income statement under «net provisions for risks and charges» with a contra-entry to «Provisions for risks and charges - a) Commitments and guarantees given».

4. Hedging transactions

Classification and recognition

Financial and credit derivatives held for hedging purposes with a positive or negative fair value are recognised in the corresponding balance sheet line item. The IASB is still developing new macro hedging requirements to complete the hedge accounting requirements already included in IFRS 9, which will replace the rules set out in IAS 39 and, accordingly, until the completion and publication of the new standard, the Bank has decided to continue to apply the hedge accounting requirements set out in IAS 39, as this option is allowed under IFRS 9.

The portfolio of hedging derivatives comprises the derivative instruments used by the Bank to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading portfolio. Hedging instruments are recorded using the «contract date» method.

A transaction can be recorded as a «hedge» if it satisfies the following conditions: a) the hedging relationship must be formally documented; b) the hedge must be effective at its inception and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end.

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined by having regard for the different risk profiles of the instruments subject to measurement. The measurement techniques used are those normally adopted by the market. The resulting gains and losses are recorded in the «Net hedging gains (losses)» caption of the income statement;

- hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement to match the change in the carrying value of the hedged item.

With regard to interest-earning financial instruments, if the hedge ceases to satisfy the recognition criteria, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to the income statement over the residual life of the original hedge; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

Cash flow hedges are measured and recorded on the following basis:

- derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place;
- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

If the hedging instrument expires or is sold, cancelled or exercised without replacement (as part of the hedging strategy), or if it ceases to be designated as a hedging instrument, or if the hedge no longer satisfies hedge accounting criteria, any gains or losses previously recognised as components of other comprehensive income remain classified separately within equity until the expected transaction takes place or the commitment made in relation to foreign currency is called upon.

Derecognition

Risk hedges cease to generate accounting effects when they expire, when they are closed out or terminated early, or when they cease to satisfy the recognition criteria.

5. Equity investments

The portfolio of equity investments comprises holdings in subsidiary companies, associated companies and companies under joint control, other than those classified as «financial assets measured at fair value through other comprehensive income». Control is presumed to exist when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control is therefore deemed to exist in the following circumstances:

a) availability of actual and potential voting rights at a shareholders’ meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;
b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;
c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

A company is an associated company if the Bank exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

a) 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.

Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control.

Recognition

Equity investments are initially recognised at cost on the acquisition date, whereby cost normally coincides with the amount paid, including transaction costs.

Accounting policies

Equity investments are subsequently valued at cost. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

Dividends are accounted for in the year they are collected and shown under «dividends and similar income».

Impairment losses, as well as profit/losses on disposal, are booked to the income statement under «net gains (losses) on equity investments».

Derecognition

Equity investments are derecognised when the financial asset is sold together with the transfer of all the risks and benefits of ownership.

6. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery.

As required by IAS 17, assets held under finance leases are also classified in this caption. In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation.

Recognition

Property, equipment and investment property are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

Accounting policies

Following initial recognition, property, equipment and investment property are stated at cost net of accumulated depreciation and any impairment of value, except for property held for investment purpose, which are valued at fair value. Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life.

Property, equipment and investment property are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying value with respect to their recoverable value is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent writebacks do not exceed the impairment losses recorded previously.

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and writebacks are recorded in the «depreciation and net impairment losses on property, equipment and investment property» caption of the income statement.

With regard to buildings held for investment purposes, the net result of their measurement at fair value is recorded separately in the income statement.

Derecognition

Property, equipment and investment property are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

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 asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement.

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable 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 and disposal groups held for sale

The Bank classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally from sale rather than from continuous use. Non-current assets are only classified in this item when disposal is considered very probable, and the asset or disposal group is available for immediate sale in its current condition, given that management is committed to making the sale, which should be scheduled for completion within one year of the classification date. They are measured at the lower of book value and fair value, net of selling costs. Differences arising on valuation are booked to the income statement.

9. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year, if these amounts are likely to be recovered from or paid to the tax authorities. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes.

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 is assessed by carrying out a probability test, based on the ability of the Bank or its tax group to continue generating taxable income. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal.

Deferred tax assets and liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to comprehensive income or equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This caption comprises the following provisions:

- The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to disburse loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.

– Sub-item «Pensions and similar obligations» only includes the supplementary defined benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other «external» supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed.
– The sub-item «Other provisions for risks and charges» includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
  1. the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
  2. it is likely that settlement of the obligation will involve the use of economic resources;
  3. a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

11. Financial liabilities measured at amortised cost

Classification

This line item includes amounts due to banks and due to customers, regardless of their technical form (deposits, current accounts, loans, securities), other than those recognised in line items 20 «Financial liabilities held for trading» and 30 «Financial liabilities designated at fair value». It also includes operating payables linked to the financial services and activities defined in the Consolidated Banking Act and the Consolidated Finance Act, variation margins with clearing houses arising from derivative transactions and other operating payables associated with the provision of financial services. Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the bank's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions.

Recognition

The above financial liabilities are recognised in the financial statements at the settlement date. 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 criteria applying to such transactions.

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest and similar expense». 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».

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 designated at fair value

The financial statements do not include any financial liabilities at fair value.

14. Currency transactions

Classification

They include all assets and liabilities denominated in currencies other than Euro.

Recognition

Assets and liabilities denominated in currencies other than the Euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise.

Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

15. Termination indemnities

Termination indemnities are treated as a defined benefit plan or a defined benefit obligation. Accordingly, pursuant to IAS 19, the amount of this obligation is determined using the projected unit credit method by extrapolating, using actuarial assumptions, the amount to be paid upon termination of the employment relationship and then discounting to present value the amount already earned. 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 each year by an independent actuary.

As a result of the reform of supplementary pensions by Legislative 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, it has no longer to be taken into account 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 2016 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

Share-based payments - Transactions settled using equity instruments

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank’s long-term business objectives.

The cost of transactions settled using equity instruments is represented by their fair value at the grant date, as determined using an appropriate method of measurement.

This cost and the corresponding increase in equity is recognised as a payroll cost over the period in which the conditions for achieving the objectives and/or providing the service are satisfied. The transaction costs already accumulated at each reporting date prior to the vesting date are projected forward to the vesting date, together with the best estimate of the number of equity instruments that will actually vest. The cost or income recognised in the income statement represents the change in accumulated cost between the start and the end of the year.

The service or performance conditions are ignored when the fair value of the plan is determined at the grant date. However, the probability that these conditions will be satisfied is considered when estimating the number of equity instruments that will actually vest. Market conditions are reflected in the fair value determined at the grant date. All other plan conditions that do not involve a service obligation are not considered to be vesting conditions. Non-vesting conditions are reflected in the fair value of the plan and result in immediate recognition of the cost of the plan, unless service or performance conditions must also be satisfied.

Revenues from contracts with customers

In compliance with IFRS 15, revenue arises from the transfer of goods or services to the customer and is recognised at an amount that reflects the consideration that the Group deems it is entitled to in exchange for the above goods or services using a five-step model (identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue when the entity satisfies a performance obligation).

Revenue from contracts with customers is recognised in profit or loss when it is probable that an entity will receive the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. The consideration is allocated to individual performance obligations in the contract and is recognised in profit or loss based on the timing of the satisfaction of performance obligations. More specifically, revenue is recognised in profit or loss either at a point in time or over time as and when the entity satisfies its performance obligations. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both.

Contractual consideration may vary as a result of price concessions, discounts, rebates, incentives or other similar items and may be contingent on the occurrence or non-occurrence of a future event. In the presence of variable consideration, revenue is recognised in profit or loss if it is possible to reliably estimate the revenue and only if it is highly probable that the entire consideration, or a significant part thereof, will not be subsequently reversed from profit or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements.

The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to.

The principal areas affected by IFRS 15 relate to the revenues from contracts with customers recognised as «Fee and commission income», with particular reference to the distribution of third-party products and services related to current account transactions. The amount of commission recognised on the placement of products is adjusted to take account of any variable revenues that might have to be returned in the future. The revenues earned on current accounts are recognised after allocation to the individual products or services comprising the stand-alone package.

Income from dividends

Dividends are recognised when the right to collect them arises.

Treasury shares

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

Covered bonds

On 6 November 2013, the Board of Directors of the Parent Company authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond S.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015.

On 1 February 2016, a portfolio of performing loans totalling € 576 million was assigned without recourse to POPSO Covered Bond S.r.l., the vehicle company, in relation to the second series of covered bonds amounting to € 500 million issued on 4 April 2016.

On 31 October 2016, a fourth sale without recourse of a € 226 million portfolio of performing loans was carried out. On 1 October 2017, a fifth sale of a € 308 million portfolio of performing loans was carried out. Lastly, on 1 October 2018, a further portfolio of € 323 million performing loans was assigned without recourse.

Given that the Parent Company maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet.

Interbank Deposit Protection Fund - Voluntary Scheme

In December 2015, the bank joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. The Fund intervened in support of Banca Carige in 2018, resulting in a payment by the Bank of 5.257 million matched by the recognition of a financial asset represented by securities measured at fair value through profit and loss. This financial asset has been written down in full in the 2018 financial statements.

Classification criteria and measurement of financial assets and liabilities included in the comparative data presented at 31 December 2017

The financial assets and liabilities included in the comparative data have been classified and measured in accordance with IAS 39. The related accounting policies are described in the financial statements at 31 December 2017.

Information pursuant to art. 1, paras. 125-129 of Law 124 dated 4 August 2017 «Annual law for the market and competition - Measures on the transparency of public payments»

The above law requires firms to publish information in the explanatory notes to their statutory and consolidated financial statements about the «grants, contributions, paid assignments and, in general, economic benefits of any kind» received from the public administration and from the parties referred to in art. 2-bis of Decree 33/2013, from companies directly or indirectly controlled by law or on a de facto basis by the public administration or by companies with public investment. This obligation does not apply if the grants, contributions and paid assignments total less than euro 10,000 in the period considered. Failure to comply with this disclosure requirement results in a requirement to return the amounts to the parties that paid them.

Despite the clarification provided by the Council of State, in opinion 1449 dated 1 June 2018, numerous questions remain about the application of this regulation and, in particular, about the objective scope of its application. The matter has also been addressed by trade associations (Assonime) and the Italian Accounting Profession.

It is considered, having regard for the criteria underlying the law and the guidance given, that the disclosure requirement does not extend to the consideration paid for services provided in the ordinary course of business or to the assistance provided to all firms (such as tax relief measures), as those benefits are not addressed to a specific business. The Bank considers that the transactions with public administrations, public companies, the subsidiaries of public companies and pension funds are carried out in the ordinary course of its banking activities and, therefore, are not covered by the disclosure requirements introduced by Law 124 dated 4 August 2017. The contributions received by the Bank are detailed in the National Register of State Aid, which can be consulted by the public on the related website, totalled euro 133 thousand and were paid by the FBA (banking and insurance fund) as «Assistance with the training of personnel»».

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

There were no transfers during the year due to changes in business model. At 31/12/2018, the securities portfolio no longer includes any securities reclassified in 2008 following the amendment to IAS 39 endorsed by Regulation (EU) 1004 dated 15/10/2008, as that standard has been replaced by IFRS 9.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

IFRS 13 Fair Value Measurement came into force on 1 January 2013. This standard collects in one document the rules governing the determination of fair value that were previously contained in several accounting standards. IFRS 13 essentially does not change the concept of fair value, but provides new application guidelines and envisages additional disclosures.

The information about fair value required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in an orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument.

With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the CVA (Credit value adjustment) and represents the potential loss associated with the counterparty credit risk, while the DVA (Debit value adjustment) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Level 2 inputs exclude the listed prices used in Level 1 and include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market.

This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Level 3 inputs consist of unobservable inputs for the asset or liability concerned and are used to determine fair value to the extent that significant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The inputs not observable in the marketplace derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

A.4.2 Processes and sensitivity of the measurements

The Bank determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;

b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;

c) the rate applicable to risk-free monetary assets of similar duration;

d) the risk premium;

e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful.

With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities measured using prices obtained from previous transactions, or information from third parties without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

The Level 3 instruments whose fair value is determined by processing unobservable quantitative inputs largely relate, therefore, to those financial instruments that did not pass the SPPI test envisage in IFRS 9 for classification as financial assets. The fair value of the majority of these financial instruments is determined using a DCF model or, for demand products, stated at the gross exposure net of any impairment due to credit risk. The economic results do not fluctuate significantly on changes in the unobservable risk parameters.

In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.05% under the adverse scenario and higher by 0.04% 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 by +/-10%. In both cases, the changes in fair value were very limited (fair value lower by 0.13% on a 10% increase in the LGD and greater by 0.12% on a 10% decrease). 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 0.35% following an increase in the rate curves and, conversely, increased by 1.28% 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 of those found with the other two sensitivity analyses, but nevertheless remain low.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Bank.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used.

A.4.4 Other information

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

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

	31/12/2018		
Assets/liabilities carried at fair value	Level 1	Level 2	Level 3
1. **Financial assets measured at fair value through profit or loss**	**498,579**	**44,392**	**359,846**
a) Financial assets held for trading	219,376	44,392	–
b) Financial assets designated at fair value	–	–	–
c) Other financial assets mandatorily measured at fair value	279,203	–	359,846
2. **Financial assets measured at fair value through other comprehensive income**	**4,306,378**	**–**	**116,649**
3. **Hedging derivatives**	**–**	**–**	**–**
4. **Property, equipment and investment property**	**–**	**–**	**–**
5. **Intangible assets**	**–**	**–**	**–**
Total	**4,804,957**	**44,392**	**476,495**
1. **Financial assets held for trading**	**–**	**42,532**	**–**
2. **Financial liabilities designated at fair value**	**–**	**–**	**–**
3. **Hedging derivatives**	**–**	**–**	**–**
Total	**–**	**42,532**	**–**

	31/12/2017		
Assets/liabilities carried at fair value on a recurring basis	Level 1	Level 2	Level 3
1. Financial assets held for trading	530,964	52,851	24,105
2. Financial assets at fair value through profit or loss	281,140	–	69,914
3. Available-for-sale financial assets	6,632,139	–	155,369
4. Hedging derivatives	–	–	–
5. Property, equipment and investment property	–	–	–
6. Intangible assets	–	–	–
Total	**7,444,243**	**52,851**	**249,388**
1. Financial assets held for trading	–	51,080	–
2. Financial liabilities measured at fair value	–	–	–
3. Hedging derivatives	–	–	–
Total	**–**	**51,080**	**–**

Following the adoption of IFRS 9, the portfolios have been reclassified into new categories with respect to those reported at 31 December 2017. See the information provided in «Section 4 Other aspects» of A.1 General information, for details of the transition to the new accounting standard and the related reclassification of financial instruments from the previous to the new line items.

There were no transfers between fair value levels during the year.

The impact of the CVA (Credit value adjustment) and the DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because a large part of the exposures are covered by credit support annexes (CSA).

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (Level 3)

	Financial assets measured at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
Opening balance 31/12/2017	**94,019**	**24,105**	**69,914**	**–**	**155,369**	**–**	**–**	**–**
Adjustments on FTA of IFRS 9	**172,862**	**(24,105)**	**(69,914)**	**266,881**	**(41,303)**	**–**	**–**	**–**
1. **Opening balance**	**266,881**	**–**	**–**	**266,881**	**114,066**	**–**	**–**	**–**
2. **Increases**	**164,813**	**1,602**	**–**	**163,211**	**50,927**	**–**	**–**	**–**
2.1. Purchases	153,875	1,601	–	152,274	879	–	–	–
2.2. Income booked to:	9,787	1	–	9,786	49,870	–	–	–
2.2.1. Income statement	9,787	1	–	9,786	17	–	–	–
- of which realized gains	5,317	–	–	5,317	–	–	–	–
2.2.2. Equity	–	–	–	–	49,853	–	–	–
2.3. Transfers from other levels	–	–	–	–	–	–	–	–
2.4. Other increases	1,151	–	–	1,151	178	–	–	–
3. **Decreases**	**71,848**	**1,602**	**–**	**70,246**	**48,344**	**–**	**–**	**–**
3.1. Sales	1,602	1,602	–	–	26	–	–	–
3.2. Reimbursements	44,662	–	–	44,662	256	–	–	–
3.3. Losses booked to:	14,680	–	–	14,680	39,396	–	–	–
3.3.1. Income statement	14,680	–	–	14,680	–	–	–	–
- of which losses	14,680	–	–	14,680	–	–	–	–
3.3.2. Equity	–	–	–	–	39,396	–	–	–
3.4. Transfers from other levels	–	–	–	–	–	–	–	–
3.5. Other decreases	10,904	–	–	10,904	8,666	–	–	–
4. **Closing balance**	**359,846**	**–**	**–**	**359,846**	**116,649**	**–**	**–**	**–**

The increase during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (loans in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This line item also includes the units in mutual funds not held for trading that were previously classified as «financial assets carried at fair value» and «financial assets available for sale».

A.4.5.3 Annual changes in liabilities carried at fair value on a recurring basis (Level 3)

There are no financial liabilities carried at a level 3 fair value.

A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2018			
	BV	L1	L2	L3
1. Financial assets measured at amortised cost	29,409,225	5,832,355	–	24,469,441
2. Investment property	–	–	–	–
3. Non-current assets and disposal groups held for sale	–	–	–	–
Total	**29,409,225**	**5,832,355**	**–**	**24,469,441**
1. Financial liabilities measured at amortised cost	33,770,794	2,156,641	249,130	31,358,248
2. Liabilities associated with assets held for sale	–	–	–	–
Total	**33,770,794**	**2,156,641**	**249,130**	**31,358,248**

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2017			
	BV	L1	L2	L3
1. Held-to-maturity investments	4,132,572	4,107,793	–	12,769
2. Loans and receivables with banks	2,815,466	–	–	2,815,466
3. Loans to customers	21,819,028	–	–	22,351,570
4. Investment property	–	–	–	–
5. HFS non-current assets and disposal groups	–	–	–	–
Total	**28,767,066**	**4,107,793**	**–**	**25,179,805**
1. Due to banks	5,635,658	–	–	5,635,658
2. Due to customers	26,244,478	–	–	26,244,478
3. Securities issued	2,784,808	2,509,595	302,938	–
4. Liabilities associated with assets held for sale	–	–	–	–
Total	**34,664,944**	**2,509,595**	**302,938**	**31,880,136**

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IFRS 9 para. B5.1.2A derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally to be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

PART B *Information on the balance sheet*

Assets

Section 1 *Cash and cash equivalents - line item 10*

1.1 Cash and cash equivalents: analysis

	31/12/2018	31/12/2017
a) Cash	133,209	112,049
b) Unrestricted deposits with central banks	836,150	–
Total	**969,359**	**112,049**

Section 2 *Financial assets measured at fair value through profit or loss - line item 20*

2.1 Financial assets held for trading: breakdown by sector

	31/12/2018			31/12/2017		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	126,131	–	–	83,232	–	–
1.1 Structured securities	1,925	–	–	–	–	–
1.2 Other fixed-yield securities	124,206	–	–	83,232	–	–
2. Variable-yield securities	83,095	–	–	151,870	–	–
3. Mutual funds	10,150	–	–	39,505	–	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total (A)	**219,376**	**–**	**–**	**274,607**	**–**	**–**
B. **Derivatives**						
1. Financial derivatives:	–	44,392	–	–	52,851	–
1.1 for trading	–	44,392	–	–	52,851	–
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)	**–**	**44,392**	**–**	**–**	**52,851**	**–**
Total (A+B)	**219,376**	**44,392**	**–**	**274,607**	**52,851**	**–**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparties

Items/Amounts	**31/12/2018**	**31/12/2017**
A. **Cash assets**		
1. Fixed-yield securities	126,131	83,232
a) Governments and central banks	–	–
b) Other public entities	113,096	83,232
c) Banks	11,109	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	1,925	–
2. Variable-yield securities	83,095	151,870
a) Banks	26,202	29,124
b) Other financial companies	4,084	12,754
of which: insurance companies	1,854	10,368
c) Non-financial companies	52,809	109,992
d) Other issuers	–	–
3. Mutual funds	10,150	39,505
4. Loans	–	–
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**219,376**	**274,607**
B. **Derivatives**		
a) Central Counterparties	–	–
b) Other	44,392	52,851
Total (B)	**44,392**	**52,851**
Total (A+B)	**263,768**	**327,458**

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

	31/12/2018			**31/12/2017**		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**–**	**–**	**41,750**	**–**	**–**	**83,220**
1.1 Structured securities	–	–	41,750	–	–	83,213
1.2 Other fixed-yield securities	–	–	–	–	–	7
2. **Variable-yield securities**	**–**	**–**	**2**	**–**	**–**	**820**
3. **Mutual funds**	**279,203**	**–**	**112,872**	**281,139**	**–**	**109,377**
4. **Loans**	**–**	**–**	**205,222**	**–**	**–**	**79,739**
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	205,222	–	–	79,739
Total	**279,203**	**–**	**359,846**	**281,139**	**–**	**273,156**

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.

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2018	31/12/2017
1. **Variable-yield securities**	**2**	**820**
of which: banks	2	–
of which: other financial companies	–	–
of which: non-financial companies	–	820
2. **Fixed-yield securities**	**41,750**	**83,220**
a) Central banks	–	–
b) Public administrations	–	7
c) Banks	–	–
d) Other financial companies	35,516	76,891
of which: insurance companies	–	–
e) Non-financial companies	6,234	6,322
3. **Mutual funds**	**392.075**	**390,516**
4. **Loans**	**205.221**	**79,739**
a) Central banks	–	–
b) Public administrations	126	154
c) Banks	–	–
d) Other financial companies	14,355	–
of which: insurance companies	–	–
e) Non-financial companies	111,898	17,202
f) Households	78,842	62,383
Total	**639,049**	**554,295**

Mutual funds are made up of: equity funds and sicavs for € 30.725 million, bond funds for € 237.084 million, balanced funds for € 35.523 million, flexible funds for € 13.111 million and real estate funds for € 75.632 million.

Section 3 *Financial assets measured at fair value through other comprehensive income - line item 30*

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

	31/12/2018			31/12/2017		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**4,305,473**	**–**	**13,274**	**6,772,376**	**–**	**14,239**
1.1 Structured securities	266,311	–	11,979	480,612	–	12,655
1.2 Other fixed-yield securities	4,039,162	–	1,295	6,291,764	–	1,584
2. **Variable-yield securities**	**905**	**–**	**103,375**	**–**	**–**	**99,827**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**4,306,378**	**–**	**116,649**	**6,772,376**	**–**	**114,066**

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.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	31/12/2018	31/12/2017
1. **Fixed-yield securities**	**4,318,747**	**6,786,615**
a) Central banks	–	–
b) Public administrations	3,764,591	6,242,218
c) Banks	483,996	465,939
d) Other financial companies	24,469	28,312
of which: insurance companies	–	–
e) Non-financial companies	45,691	50,146
2. **Variable-yield securities**	**104,280**	**99,827**
a) Banks	9,505	51,966
b) Other issuers:	94,775	47,861
- other financial companies	87,194	41,330
- of which: insurance companies	–	–
- non-financial companies	7,581	6,531
- other	–	–
3. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**4,423,027**	**6,886,442**

3.3 Financial assets valued at fair value through other comprehensive income: gross value and total adjustments

	Gross value				Total adjustments		
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage
Fixed-yield securities	4,313,716	–	7,679	–	2,578	69	–
Loans	–	–	–	–	–	–	–
Total 31/12/2018	**4,313,716**	**–**	**7,679**	**–**	**2,578**	**69**	**–**
Total 31/12/2017	**–**	**–**	**–**	**–**	**–**	**–**	**–**
of which: acquired or originated impaired financial assets	–	–	–	–	–	–	–

From 1 January 2018, following the entry into force of IFRS 9, financial assets valued at fair value through other comprehensive income fall within the scope of the new impairment model.

Section 4 *Financial assets measured at amortised cost - line item 40*

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

	Total 31/12/2018						Total 31/12/2017				
	Book value			Fair value			Book value		Fair value		
Type of transaction/Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**469,600**	**-**	**-**	**-**	**-**	**469,600**	**1,107,575**	**-**	**-**	**-**	**1,107,575**
1. Fixed-term deposits	-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	469,600	-	-	-	-	-	1,107,575	-	-	-	-
3. Repo transactions	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-
B. **Loans and receivables with banks**	**1,747,679**	**-**	**-**	**75,407**	**-**	**1,672,620**	**1,714,747**	**-**	**7,191**	**-**	**1,707,891**
1. Loans	1,672,620	-	-	-	-	1,672,620	1,707,891	-	-	-	1,707,891
1.1 Current accounts and sight deposits	169,883	-	-	-	-	-	197,534	-	-	-	-
1.2. Fixed-term deposits	1,457,839	-	-	-	-	-	1,463,696	-	-	-	-
1.3. Other loans:	44,898	-	-	-	-	-	46,661	-	-	-	-
- Repo transactions	-	-	-	-	-	-	-	-	-	-	-
- Financial leases	-	-	-	-	-	-	-	-	-	-	-
- Other	44,898	-	-	-	-	-	46,661	-	-	-	-
2. Fixed-yield securities	75,059	-	-	75,407	-	-	6,856	-	7,191	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-
2.2 Other fixed-yield securities	75,059	-	-	75,407	-	-	6,856	-	7,191	-	-
Total	**2,217,279**	**-**	**-**	**75,407**	**-**	**2,142,220**	**2,822,322**	**-**	**7,191**	**-**	**2,815,466**

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.

To ensure a straight comparison, the figures in the 2017 financial statements have been restated by indicating in the column «first and second stage» the exposures that were classified according to IAS 39 as «Performing» and in the «third stage» column the exposures that were classified according to IAS 39 as «Impaired».

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

	Total 31/12/2018						Total 31/12/2017				
	Book value			Fair value			Book value		Fair value		
Type of transaction/Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Level 1	Level 2	Level 3
1. **Loans**	**19,244,738**	**1,770,403**	**184,078**	**-**	**-**	**22,087,689**	**19,394,343**	**1,994,161**	**-**	**-**	**21,916,723**
1.1. Current accounts	3,794,686	735,283	72,857	-	-	-	3,855,913	866,480	-	-	-
1.2. Repo transactions	1,204,429	-	-	-	-	-	1,221,602	-	-	-	-
1.3. Mortgage loans	9,494,293	884,486	95,848	-	-	-	9,156,360	984,864	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	243,200	9,015	873	-	-	-	231,397	11,286	-	-	-
1.5. Financial leases	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	-	-	-	-	-	-	-	-	-	-	-
1.7. Other loans	4,508,130	141,619	14,500	-	-	-	4,929,071	131,532	-	-	-
2. **Fixed-yield securities**	**6,176,805**	**-**	**-**	**5,756,947**	**-**	**239,532**	**4,534,526**	**-**	**4,217,137**	**-**	**310,644**
2.1. Structured securities	1,313,239	-	-	1,021,503	-	239,532	1,116,819	-	813,916	-	309,141
2.2. Other fixed-yield securities	4,863,566	-	-	4,735,444	-	-	3,417,707	-	3,403,221	-	1,503
Total	**25,421,543**	**1,770,403**	**184,078**	**5,756,947**	**-**	**22,327,221**	**23,928,869**	**1,994,161**	**4,217,137**	**-**	**22,227,367**

Receivables are not specifically hedged.

Reference should be made to Part E «Information on risks and related hedging policies, Section 1, Credit risk» with regard to impaired assets.

Mortgage loans include € 1,545 million of residential mortgages, which were the subject of a covered bond transaction.

The covered bond transaction involved the sale to the SPV POPSO Covered Bond S.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers. Given that the Bank maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Bank.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

To ensure a straight comparison, the figures in the 2017 financial statements have been restated by indicating in the column «first and second stage» the exposures that were classified according to IAS 39 as «Performing» and in the «third stage» column the exposures that were classified according to IAS 39 as «Impaired».

4.4 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans and receivables with customers

	31/12/2018			31/12/2017	
Type of transaction/Amounts	First and second stage	Third stage	Of which: impaired assets purchased or originated	First and second stage	Third stage
1. **Fixed-yield securities**	**6,176,805**	**–**	**–**	**4,534,526**	**–**
a) Public administration	5,908,263	–	–	4,189,520	–
b) Other financial companies	240,707	–	–	318,082	–
of which: insurance companies	6,266	–	–	6,281	–
c) Non-financial companies	27,835	–	–	26,924	–
2, **Loans to:**	**19,244,738**	**1,770,403**	**184,078**	**19,394,343**	**1,994,161**
a) Public administration	90,338	3	–	175,065	2
b) Other financial companies	4,705,965	15,586	1,135	4,751,447	21,698
of which: insurance companies	132	–	–	5,009	–
c) Non-financial companies	9,137,922	1,258,373	120,404	9,181,454	1,426,561
d) Households	5,310,513	496,441	62,539	5,286,377	545,900
Total	**25,421,543**	**1,770,403**	**184,078**	**23,928,869**	**1,994,161**

4.5 Financial assets measured at amortised cost: gross value and total adjustments

	Gross value				Total adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Partial total write-off
Fixed-yield securities	6,255,333	–	–	–	3,469	–	–	–
Loans	18,925,362	–	2,549,075	4,015,581	38,311	49,167	2,245,179	138,248
Total 31/12/2018	**25,180,695**	**–**	**2,549,075**	**4,015,581**	**41,780**	**49,167**	**2,245,179**	**138,248**
of which: impaired financial assets purchased or originated	–	–	8,396	298,380	–	121	122,577	121

The breakdown of financial assets measured at amortised cost into stages was not envisaged under the previous accounting policies applied at 31 December 2017. See the information provided in «Section 4 Other aspects» of A.1 General information about the first-time adoption of IFRS 9 and the breakdown of financial assets into stages at 1 January 2018, considering both their gross value and the related impairment adjustments.

Section 7 *Equity investments - line item 70*

7.1 Equity investments: disclosure

Name	Registered offices	Operational office	% holding	% of votes
A. **Investments in wholly-owned subsidiaries**				
1. BANCA POPOLARE DI SONDRIO (SUISSE) SA	Lugano	Lugano	100.000	100.000
2. BANCA DELLA NUOVA TERRA	Sondrio	Sondrio	100.000	100.000
3. FACTORIT S.p.a.	Milan	Milan	60.500	60.500
4. SERVIZI INTERNAZIONALI E STRUTTURE INTEGRATE 2000 S.r.l.	Milan	Milan	100.000	100.000
5. SINERGIA SECONDA S.r.l.	Milan	Milan	100.000	100.000
6. PIROVANO STELVIO S.p.a.	Sondrio	Sondrio	100.000	100.000
7. POPSO COVERED BOND S.r.l.	Conegliano	Conegliano	60.000	60.000
8. PRESTINUOVA	Roma	Roma	100.000	100.000
B. **Investments in companies under joint control**				
1. RAJNA IMMOBILIARE S.r.l.	Sondrio	Sondrio	50.000	50.000
2. RENT2GO	Bolzano	Bolzano	33.333	33.333
C. **Associated companies (subject to significant influence)**				
1. ALBA LEASING S.p.a.	Milan	Milan	19.264	19.264
2. ARCA VITA S.p.a.	Verona	Verona	14.837	14.837
3. UNIONE FIDUCIARIA S.p.a.	Milan	Milan	24.000	24.000
4. POLIS FONDI SGR PA	Milan	Milan	19.600	19.600
5. ARCA HOLDING S.p.a.	Milan	Milan	21.137	21.137
6. BORMIO GOLF S.p.a.	Bormio	Bormio	25.237	25.237
7. LAGO DI COMO GAL S.c.r.l.	Canzo	Canzo	28.953	28.953

With limited exceptions, the above equity investments are held to complement the activities of the bank, since they provide supplementary services or help to support the local territories served.

7.5 Equity investments: changes during the year

	31/12/2018	31/12/2017
A. **Opening balance**	**506,728**	**487,347**
B. **Additions**	**55,824**	**20,003**
B.1 Purchases	55,170	20,003
B.2 Write-backs	–	–
B.3 Revaluations	–	–
B.4 Other changes	654	–
C. **Decreases**	**398**	**622**
C.1 Disposals	–	–
C.2 Adjustments	398	622
C.3 Writedowns	–	–
C.4 Other changes	–	–
D. **Closing balance**	**562,154**	**506,728**
E. **Total revaluations**	**–**	**–**
F. **Total adjustments**	**(36,050)**	**(35,652)**

This item passes from € 506.728 million to € 562.155 million.

The increases refer to:

- € 53.370 million to purchase the entire share capital of Prestinuova S.p.A., € 1.800 million to purchase an equity interest in Rent2Go S.r.l.;

- € 0.200 million for a payment on capital account to Servizi Internazionali e Strutture Integrate 2000 S.r.l.;
- coverage of loss of Pirovano Stelvio S.p.A. of € 0.454 million.

The decreases refer to:

- the write-down of Pirovano Stelvio S.p.A. for € 0.398 million.

7.6 - 7.7 - 7.8 - 7.9 Commitments relating to investments in subsidiaries, companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing S.p.A. granted when this company started up as part of the reorganisation of Banca Italease S.p.A., against which the Bank has made a specific risk provision.

Section 8 Property, equipment and investment property - line item 80

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

Assets/Values	31/12/2018	31/12/2017
1. **Owned assets**	**161,959**	**158,344**
a) land	46,546	44,801
b) buildings	100,414	96,716
c) furniture	4,566	4,887
d) IT equipment	792	989
e) other	9,641	10,951
2. **Assets purchased under finance leases**	**24,781**	**25,801**
a) land	6,803	6,803
b) buildings	17,978	18,998
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
Total	**186,740**	**184,145**
of which: obtained by enforcing guarantees received	–	–

Property, equipment and investment property are valued at cost. Buildings have a fair value of € 344.081 million, as determined by an internal appraisal. Buildings used for business purposes are worth € 186.740 million.

Property, equipment and investment property are free from restrictions and commitments guaranteeing liabilities.

Assets purchased under finance leases are represented by buildings used as bank branches.

8.6 Property, equipment and investment property used for business purposes: changes during the year

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	**Total**
A. **Opening gross amount**	**51,604**	**206,279**	**27,122**	**16,703**	**68,443**	**370,151**
A.1 Total net reductions in value	–	(90,565)	(22,235)	(15,714)	(57,492)	(186,006)
A.2 Opening net amount	51,604	115,714	4,887	989	10,951	184,145
B. **Additions**	**1,745**	**8,522**	**977**	**440**	**4,894**	**16,578**
B.1 Purchases	1,745	5,293	977	440	4,894	13,349
B.2 Capitalised improvement expenditure	–	3,229	–	–	–	3,229
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	–	–	–	–	–	–
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**5,844**	**1,298**	**637**	**6,204**	**13,983**
C.1 Disposals	–	–	–	–	–	–
C.2 Depreciation	–	5,844	1,298	637	6,204	13,983
C.3 Impairment charges booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Fair value decreases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) investment property	–	–	–	–	–	–
b) non-current assets and disposal groups held for sale	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	–	–
D. **Closing net balance**	**53,349**	**118,392**	**4,566**	**792**	**9,641**	**186,740**
D.1 Total net reductions in value	-	(96,408)	(23,533)	(16,351)	(63,696)	(199,988)
D.2 Closing gross amount	53,349	214,800	28,099	17,143	73,337	386,728
E. **Valuation at cost**	**53,349**	**118,392**	**4,566**	**792**	**9,641**	**186,740**

This item totals € 186.740 million.

The principal changes relate to:

- owned buildings:
  purchases in Monza, Rome, Voghera and Brescia;
- work in San Pietro Berbenno, Lodi, Milan-via Sforza, Melegnano, Treviso, Ponte in Valtellina, Mantua, Milan-via Procaccini;
- furniture, installations and other:
  increases relate to head office and branch IT equipment, furniture and fittings and miscellaneous equipment for newly-opened branches.

Depreciation is provided over the estimated useful lives of the fixed assets concerned, as summarised below:

Property, equipment and investment property	depreciation period (years)
buildings	33
furniture and fittings	7
IT equipment	3
miscellaneous machinery and equipment	5
vehicles	3
security counters	3
photovoltaic plant	12
safes	8

In accordance with article 10 of Law 72 of 19 March 1983, an appendix to this report provides information on the buildings still owned by the bank for which monetary revaluations were carried out in the past.

8.9 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 2.956 million, compared with € 1.114 million the previous year.

Section 9 *Intangible assets - line item 90*

9.1 Intangible assets: breakdown by type

	31/12/2018		31/12/2017	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**–**	**–**	**–**
A.2 **Other intangible assets**	**14,762**	**–**	**14,396**	**–**
A.2.1 Carried at cost	14,762	–	14,396	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	14,762	–	14,396	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**14,762**	**–**	**14,396**	**–**

Intangible assets comprise the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years.

These intangible assets are listed below by year of acquisition:

	31/12/2018	31/12/2017
recorded in 2015	–	1
recorded in 2016	–	4,930
recorded in 2017	4,734	9,465
recorded in 2018	10,028	-
Total	**14,762**	**14,396**

9.2 Intangible assets: change in the year

	Goodwill	Other intangible assets generated internally: Specified	Other intangible assets generated internally: Unspecified	Other intangible assets: other: Specified	Other intangible assets: other: Unspecified	Total 31/12/2018
A. **Opening gross amount**	**–**	**–**	**–**	**138,766**	**–**	**138,766**
A.1 Total net reductions in value	–	–	–	(124,370)	–	(124,370)
A.2 Opening net amount	–	–	–	14,396	–	14,396
B. **Additions**	**–**	**–**	**–**	**15,046**	**–**	**15,046**
B.1 Purchases	–	–	–	15,046	–	15,046
B.2 Increases in internally generated intangible assets	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**14,680**	**–**	**14,680**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	14,680	–	14,680
- Amortisation	–	–	–	14,680	–	14,680
- Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
C.4 Transfers to discontinued operations due for disposal	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. **Closing net balance**	**–**	**–**	**–**	**14,762**	**–**	**14,762**
D.1 Total net reductions in value	–	–	–	(139,050)	–	(139,050)
E. **Closing gross amount**	**–**	**–**	**–**	**153,812**	**–**	**153,812**
F. **Valuation at cost**	**–**	**–**	**–**	**14,762**	**–**	**14,762**

9.3 Other information

Contractual commitments to purchase software user rights amount to € 4.872 million, compared with € 4.168 million in the prior year.

Section 10 *Tax assets and liabilities- asset line item 100 and liability line item 60*

10.1 Deferred tax assets: breakdown

	31/12/2018	31/12/2017
Loan write-downs	326,466	307,113
Provisions for risks and charges	22,464	18,741
Securities and equity investments	23,829	856
Administrative expenses, amortisation and depreciation	15,090	17,186
	387,849	**343,896**

The deferred tax assets recorded in relation to the provisions for risks and charges concern the provision for legal disputes, the provision for guarantees given and the provision for personnel charges. Where applicable, deferred tax assets have been recognised in relation to all liabilities generating temporary differences.

The recognition and retention in the financial statements of DTA depends on an assessment of their recoverability, which is based on the future income forecast in business plans approved by the administrative bodies of the bank.

10.2 Deferred tax liabilities: breakdown

	31/12/2018	31/12/2017
Owned buildings	9,018	9,224
Revaluation of securities and gains	6,040	18,556
Total	**15,058**	**27,780**

The amount relating to owned buildings comprises the deferred taxation arising on the adoption of IFRS, with the elimination of the accumulated depreciation of land, and that calculated in 2004 on the elimination of «fiscal interference».

10.3 Change in deferred tax assets (with contra-entry to the income statement)

	31/12/2018	31/12/2017
Opening balance at 31/12/2017	**328,978**	**–**
FTA IFRS 9 Effect	**25,939**	**–**
1. **Opening balance**	**354,917**	**358,094**
2. **Increases**	**8,682**	**6,398**
2.1 Deferred tax assets arising during the year	–	–
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	8.682	6.398
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**10,832**	**35,514**
3.1 Deferred tax assets eliminated during the year	10,832	34,930
a) reversals	10,832	34,930
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	584
a) transformation into tax credits as per Law 214/2011	–	–
b) other	–	584
4. **Closing balance**	**352,767**	**328,978**

Deferred tax assets have not been converted into tax credits in accordance with art. 9 of Decree Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011 as the conditions for doing so do not exist.

10.3 bis Changes in deferred tax assets as per Law 214/2011 (with contra-entry to the income statement)

	31/12/2018	31/12/2017
1. **Opening balance**	**307,113**	**335,353**
2. **Increases**	**–**	**–**
3. **Decreases**	**–**	**28,240**
3.1 Reversals	-	28,240
3.2 Transformation into tax credits	-	–
a) resulting from operating losses	-	–
b) arising from tax losses	-	–
3.3 Other decreases	-	–
4. **Closing balance**	**307,113**	**307,113**

Deferred tax assets have not been converted into tax credits in accordance with art. 9 of Decree Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011 as the conditions for doing so do not exist. There were no other changes in these taxes during the year following regulatory amendments introduced by Law 145 dated 30 December 2018 (2019 Budget Law), which amended the provisions of art. 16, paras. 3-4 and 8-9 of Decree 83/2015. The 10% portion of the loan write-downs that were not deducted at 31 December 2015 has been deferred to 31 December 2026.

10.4 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2018	31/12/2017
Opening balance at 31/12/2017	**9,226**	**–**
FTA IFRS 9 Effect	**–**	**–**
1. **Opening balance**	**9,226**	**10,490**
2. **Increases**	**–**	**–**
2.1 Deferred tax liabilities arising during the year	–	–
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	–	–
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**207**	**1,264**
3.1 Deferred tax liabilities eliminated during the year	207	1,036
a) reversals	207	1,036
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	228
4. **Closing balance**	**9,019**	**9,226**

10.5 Change in deferred tax assets (with contra-entry to equity)

	31/12/2018	31/12/2017
Opening balance at 31/12/2017	**14,918**	**–**
FTA IFRS 9 Effect	**(89)**	**–**
1. **Opening balance**	**14,829**	**15,782**
2. **Increases**	**21,938**	**2,490**
2.1 Deferred tax assets arising during the year	21,938	2,490
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	21,938	2,490
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**1,685**	**3,354**
3.1 Deferred tax assets eliminated during the year	1,685	3,354
a) reversals	1,685	3,354
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**35,082**	**14,918**

This amount includes € 22.615 million in unrealised losses recognised in equity in relation to the securities measured at fair value through other comprehensive income, and € 12.467 million in actuarial losses recognised when determining long-term employee benefits, being the pension fund and termination indemnities recognised in equity, rather than the income statement, pursuant to the revised version of IAS 19.

10.6 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2018	31/12/2017
Opening balance at 31/12/2017	**18,554**	**–**
FTA IFRS 9 Effect	**(989)**	**–**
1. **Opening balance**	**17,565**	**19,981**
2. **Increases**	**4,167**	**7,892**
2.1 Deferred tax liabilities arising during the year	4,167	7,892
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	4,167	7,892
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**15,693**	**9,319**
3.1 Deferred tax liabilities eliminated during the year	15,693	9,319
a) reversals	15,693	9,319
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**6,039**	**18,554**

This amount relates to the tax on the unrealised gains recognised in equity on the securities assigned to the portfolio of financial assets measured at fair value through other comprehensive income.

Section 12 Other assets - line item 120

	31/12/2018	31/12/2017
Advances paid to tax authorities	50,584	51,888
Withholdings on interest due to customers	152	134
Tax credits and related interest	5,901	14,653
Current account cheques drawn on third parties	25,805	25,796
Current account cheques drawn on Group banks	1,005	13,352
Transactions in customers' securities	1,637	2,330
Inventories	1,245	1,133
Costs pertaining to the subsequent year	2,639	3,682
Advances to suppliers	1,030	750
Advances to customers awaiting collections	14,100	21,526
Miscellaneous debits in transit	52,470	50,306
Liquidity of pension fund	3,972	13,162
Accrued expenses not allocated	42,827	38,240
Prepayments not allocated	5,243	4,587
Residual items	75,133	64,281
Total	**283,742**	**305,820**

Liabilities and equity

Section 1 Financial liabilities measured at amortised cost - line item 10

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

	31/12/2018				31/12/2017			
	Book	*Fair Value*			Book	*Fair Value*		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Due to central banks**	**4,613,420**	**–**	**–**	**–**	**4,631,240**	**–**	**–**	**–**
2. **Due to banks**	**866,972**	**–**	**–**	**–**	**1,004,418**	**–**	**–**	**–**
2.1 Current accounts and sight deposits	335,314	–	–	–	432,281	–	–	–
2.2 Fixed-term deposits	300,389	–	–	–	324,542	–	–	–
2.3 Loans	211,645	–	–	–	220,372	–	–	–
2.3.1 Repurchase agreements	100,034	–	–	–	99,959	–	–	–
2.3.2 Other	111,611	–	–	–	120,413	–	–	–
2.4 Payables for commitments to repurchase own equity instruments	–	–	–	–	–	–	–	–
2.5 Other payables	19,624	–	–	–	27,223	–	–	–
Total	**5,480,392**	**–**	**–**	**5,480,392**	**5,635,658**	**–**	**–**	**5,635,658**

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO II): one of € 1.100 million, obtained in June 2016, repayable in June 2020 and a second one of € 3.500 million obtained in March 2017, repayable on 24 March 2021. These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

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

	31/12/2018				31/12/2017			
	Book	*Fair Value*			Book	*Fair Value*		
Type of transaction/Amounts	value	Level 1	Level 2	Level 3	value	Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**25,025,331**	**–**	**–**	**–**	**24,629,486**	**–**	**–**	**–**
2. **Fixed-term deposits**	**816,346**	**–**	**–**	**–**	**1,219,915**	**–**	**–**	**–**
3. **Loans**	**7,085**	**–**	**–**	**–**	**367,838**	**–**	**–**	**–**
3.1 Repurchase agreements	100	–	–	–	356,725	–	–	–
3.2 Other	6,985	–	–	–	11,113	–	–	–
4. **Payables for commitments to repurchase own equity instruments**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Other payables**	**29,093**	**–**	**–**	**–**	**27,239**	**–**	**–**	**–**
Total	**25,877,855**	**–**	**–**	**25,877,855**	**26,244,478**	**–**	**–**	**26,244,478**

These payables are not specifically hedged.

Their fair value corresponds to their book value as they are amounts due on demand or with short-term restrictions.

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

Type of transaction/Amounts	31/12/2018 Book value	31/12/2018 Fair Value Level 1	31/12/2018 Fair Value Level 2	31/12/2018 Fair Value Level 3	31/12/2017 Book value	31/12/2017 Fair Value Level 1	31/12/2017 Fair Value Level 2	31/12/2017 Fair Value Level 3
A. **Securities**								
1. bonds	2,330,053	2,156,641	166,637	–	2,675,469	2,509,595	193,599	–
1.1 structured	137,239	–	137,239	–	163,930	–	163,930	–
1.2 other	2,192,814	2,156,641	29,398	–	2,511,539	2,509,595	29,669	–
2. other securities	82,493	–	82,493	–	109,339	–	109,339	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	–	–	–	–	109,339	–	109,339	–
Total	**2,412,546**	**2,156,641**	**249,130**	**–**	**2,784,808**	**2,509,595**	**302,938**	**–**

The fair value of the «other securities» is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

1.4 Detail of subordinated payables/securities

Subordinated securities amount to € 524.876 million and are made up of the loans indicated below:

- bond loan of € 11.173 million from 8/8/2014 and maturity on 8/8/2021 with a forecast annual repayment of 20% from 8/8/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 3%.
- bond loan of € 16.860 million from 30/9/2014 and maturity on 30/9/2021 with a forecast annual repayment of 20% from 30/9/2017. The interest rate commenced at 2% and will gradually rise to 4%; the coupon current at year end is 3%.
- bond loan of € 18.002 million from 29/12/2014 and maturity on 29/12/2021 with a forecast annual repayment of 20% from 29/12/2017. The interest rate commenced at 2.25% and will gradually rise to 4%; the coupon current at year end is 3%.
- a bond of € 203.389 million from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%.
- a bond of € 275.452 million from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%.

1.6 Payables for finance leases

	31/12/2018	31/12/2017
Payables for finance leases	261	326
Total	**261**	**326**

Variable-rate payables for finance leases amount to € 0.261, compared with € 0.326 million in the previous year, down 19.94%, and relate to buildings used as bank branches.

Total outstanding lease commitments, including interest, amount to 0.264 million.

These payables fall due as follows:

within 1 year	67	68
1 to 5 years	194	262
over 5 years	–	–

Section 2 *Financial liabilities held for trading - line item 20*

2.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/Amounts	31/12/2018					31/12/2017				
		Fair Value					Fair Value			
	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Other	–	–	–	–	–	–	–	–	–	–
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivatives**										
1. Financial derivatives	–	–	42,532	–	–	–	–	51,080	–	–
1.1 for trading	–	–	42,532	–	–	–	–	51,080	–	–
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	**–**	**–**	**42,532**	**–**	**–**	**–**	**–**	**51,080**	**–**	**–**
Total (A+B)	**–**	**–**	**42,532**	**–**	**–**	**–**	**–**	**51,080**	**–**	**–**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
NV = Nominal or notional value

Section 6 *Tax Liabilities - line item 60*

The balance of € 15.058 million relates entirely to deferred taxation. There is no current taxation due to the considerable increase in advances paid, which resulted in the excess payments reported in asset line item 100.

As regards the composition and amount of deferred taxes, please read Assets Section 10 of these notes.

The bank's tax years up to 2013 have been closed.

Decree Law 59/2016, converted by Law no. 119 of 30/06/2016, introduced the possibility of transforming D.T.A. (Deferred Tax Assets) into tax credits by paying a fee, subject to certain conditions. In 2016, the bank applied to retain this right if necessary in the future; no fee has been paid as the conditions for payment did not apply.

Art. 1, para. 14, of the 2017 Budget Law (Law 232/2016) added the concept of VAT groups to Italian legislation and determined that, from 1 January 2018, individual taxpayers established in Italy may elect to be taxed together as one entity for VAT purposes. The Bank has not yet made this choice, which is not under consideration at this time.

Section 8 *Other liabilities - line item 80*

	31/12/2018	31/12/2017
Amounts at the disposal of third parties	337,732	350,596
Taxes to be paid on behalf of third parties	48,713	47,361
Taxes to be paid	1,623	1,196
Employee salaries and contributions	13,473	17,763
Suppliers	9,344	12,689
Transit accounts for sundry entities	17,376	16,651
Invoices to be received	13,402	13,556
Credits in transit for financial transactions	3,707	4,799
Value date differentials on portfolio transactions	162,854	18,927
Directors' and statutory auditors' emoluments	1,089	1,084
Loans disbursed to customers to be finalised	5,577	5,396
Miscellaneous credit items being settled	20,290	39,061
Accrued expenses not allocated	1,026	1,333
Deferred income not allocated	14,859	15,370
Residual items	59,661	53,741
Total	**710,726**	**599,523**

The increase of 18.55% mainly relates to the «value date differentials on portfolio transactions» involving the notes and documents received/sent for crediting with recourse or following collection, which are only recognised in the balance sheet upon settlement.

The value date differences between the related assets/liabilities give rise to the above differentials.

Section 9 *Post-employment benefits - line item 90*

9.1 Termination indemnities: change in the year

	2018	2017
A. **Opening balance**	**42,848**	**42,271**
B. **Additions**	**7,666**	**9,999**
B.1 Provisions	7,666	7,733
B.2 Other changes	–	2,266
C. **Decreases**	**9,876**	**9,422**
C.1 Payments made	1,549	2,241
C.2 Other changes	8,327	7,181
D. **Closing balance**	**40,638**	**42,848**
Total	**40,638**	**42,848**

9.2 Other information

Other decreases relate to payments to the Arca Previdenza Fund for a total of € 5.305 million, compared with € 5.074 million of the previous year, payments to INPS of € 1.909 million, compared with € 1.956 million of the previous year and tax on the annual revaluation of € 0.171 million, compared with € 0.151 million of the previous year. When deciding on the discount rate, we took into account the recommendation made by ESMA in its document 725/2012 of 12 November 2012.

High-quality corporate securities with an AA rating have been taken as a point of reference. We also used a yield curve that takes into account the expected average life of the Bank's obligation.

The provision for termination indemnities required under Italian regulations amounts to €36.829 million.

The actuarial measurement of the provision for termination indemnities was carried out on a closed group. The actuarial simulations were carried out according to the Projected Unit Credit Method.

The Projected Unit Credit Method lays down that the costs to be incurred during the year to build up the termination indemnity are determined according to the proportion of services rendered during the same period. According to the accrued benefits method, the company's obligation to the individual employee is based on the services already rendered at the measurement date.

The actuarial calculations were made on the following assumptions:

	2018	2017
Discount rate	1.14%	0.87%
Rate of inflation	1.50%	1.50%
Annual rate of increase in termination indemnities	1.50%	1.50%

The discount rate has been chosen according to the I-Bo-Corporates Eurozone AA index with a duration of 7-10 years.

Section 10 *Provisions for risks and charges - line item 100*

10.1 Provisions for risks and charges: breakdown

Items/Amounts	31/12/2018	31/12/2017
1. **Provisions for credit risk related to commitments and financial guarantees given**	**45,018**	**29,699**
2. **Provisions on other commitments and other guarantees given**	**–**	**–**
3. **Pension and similar obligations**	**139,029**	**141,659**
4. **Other provisions for risks and charges**	**36,039**	**37,818**
4.1 legal disputes	19,602	21,448
4.2 personnel expenses	15,711	15,644
4.3 other	726	726
Total	**220,086**	**209,176**

At year end, the bank is not aware of being exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above.

It is reasonable to conclude that there are no contingent liabilities.

10.2 Provisions for risks and charges: change in the year

	Provisions on other commitments and other guarantees given	Pension and similar obligations	Other provisions for risks and charges	Total
Opening balance at 31/12/2017	**29,699**	**141,659**	**37,818**	**209,176**
FTA IFRS 9 Effect	**4,508**	**(190)**	**–**	**4,318**
A. **Opening balance**	**34,207**	**141,469**	**37,818**	**213,494**
B. **Increases**	**12,634**	**3,620**	**18,027**	**34,281**
B.1 Provisions for the year	12,634	2,275	18,022	32,931
B.2 Changes due to the passage of time	–	–	–	–
B.3 Changes due to variations in the discount rate	–	–	–	–
B.4 Other changes	–	1,345	5	1,350
C. **Decreases**	**1,823**	**6,060**	**19,806**	**27,689**
C.1 Utilisations during the year	1,823	3,649	16,231	21,703
C.2 Changes due to variations in the discount rate	–	2,402	–	2,402
C.3 Other changes	–	9	3,575	3,584
D. **Closing balance**	**45,018**	**139,029**	**36,039**	**220,086**

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given			
Items/technical forms	First stage	Second stage	Third stage	**Total**
1. Commitments to make loans	4,632	1,356	5	5,993
2, Financial guarantees issued	405	98	38,522	39,025
Total	**5,037**	**1,454**	**38,527**	**45,018**

10.5 Defined-benefit pension plans

10.5.1. Characteristics of the plans and related risks

The Bank's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 373 employees and 273 pensioners.

Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen. 2,224 employees have joined this fund.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

10.5.2 Changes in net (assets) liabilities and redemption rights

	2018	2017
Balance at 31/12/2017	**141,659**	**–**
Changes on FTA of IFRS 9	(190)	–
at 1 January	**141,469**	**130,874**
Service cost	2,471	2,406
Interest cost	1,708	1,967
Actuarial gains/losses	(2,401)	4,820
Payments	(3,650)	(3,512)
Other provisions	(568)	5,104
At 31 December	**139,029**	**141,659**

The changes recorded on the FTA of IFRS 9 comprise impairment adjustments to the securities measured at amortised cost held in the portfolio of the fund.

10.5.3 Information on the fair value of plan assets

Details of the assets of the pension plan are summarised in the following table:

	31/12/2018	31/12/2017
Fixed-yield securities	97,829	87,451
Variable-yield securities	4,481	3,852
Mutual funds invested in shares	15,455	13,502
Mutual funds invested in property	17,292	23,330
Other assets	3,972	13,524
Total	**139,029**	**141,659**

The size of the fund has gone down by € 2.630 million, - 1.86%.

Payments of benefits amount to € 3.650 million compared with € 3.512 million. The contributions paid by the employees totalled € 0.228 million (€ 0.233 million in the prior year).

10.5.4 Description of the principal actuarial assumptions

The actuarial calculations were made on the following assumptions:

	31/12/2018	31/12/2017
Discount rate	1,58%	1,28%
Expected increase in salaries	0,50%	0,50%
Annual rate of inflation	1,50%	1,50%
Underlying rate of pension increases	0,825%*	0,825%*

*average equalisation rate

The average discount rate was determined with reference to the value of the I-Boxx Corporates EUR AA 10+ index at 14 December 2018.

10.5.5 Information on the amount, timing and uncertainties of cash flows

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. The situation reflected in the financial statements was used as the base scenario and the two most significant assumptions (average discount rate and inflation rate) were increased and decreased, obtaining the following results:

Sensitivity

+0.25% increase in the discount rate, liability of € 125.562 million
-0.25% decrease in the discount rate, liability of € 136.582 million
+0.25% increase in the inflation rate, liability of € 132.937 million
-0.25% decrease in the inflation rate, liability of € 128.898 million

In addition, the liability in the coming years was also analysed; as a result, the payments for the next five years were estimated, as shown in the following table:

Future payments (millions of euro)

Year	0-1	1-2	2-3	3-4	4-5
Cash flows	3.743	3.675	3.562	3.501	3.368

10.6 Provisions for risks and charges - other provisions

Items/Amounts	31/12/2018	31/12/2017
Provision for legal disputes	19,602	21,448
Provision for personnel expenses	15,711	15,644
Other provisions	726	726
Total	**36,039**	**37,818**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off for € 1.159 million, and other disputes that have arisen in the ordinary course of business for € 18.442 million. The bank makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2018 as the discount rate.

They decrease by € 1.846 million for the difference between the provisions for the year of € 4.274 million and the release of prior year provisions of € 6.120 million.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. The total increase came to € 0.067 million, + 0.43%.

The provision for charitable donations comprises an allocation from profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2017 profit, while the reduction by the same amount was a consequence of payments made during the year.

Section 12 Equity - line items 110, 130, 140, 150, 160, 170 and 180

12.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2018.

At the year-end, the Bank held treasury shares with a carrying value of € 25.322 million.

12.2 Share capital - Number of shares: changes during the year

Items/Type	Ordinary	Other
A. **Shares in existence at the start of the year**	**453,385,777**	**–**
- fully paid	453,385,777	–
- not fully paid	–	–
A.1 Treasury shares (-)	(3,650,000)	–
A.2 Shares in circulation: opening balance	457,035,777	–
B. **Additions**	**–**	**–**
B.1 New issues	–	–
- for payment:	–	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- others	–	–
- free of charge:	–	–
- to employees	–	–
- to directors	–	–
- other	–	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**–**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	–	–
C.3 Business disposals	–	–
C.4 Other changes	–	–
D. **Shares in circulation: closing balance**	**449,735,777**	**–**
D.1 Treasury shares (+)	3,650,000	–
D.2 Shares in existence at the end of the year	453,385,777	–
- fully paid	453,385,777	–
- not fully paid	–	–

12.3 Share capital: other information

Share premium reserve

It amounts to € 79.005 million, unchanged respect to last year.

12.4 Revenue reserves: other information

Revenue reserves contribute to the capital adequacy of the Bank, considering both current and future operations. They amount to € 885.551 million, + 3.44% on the prior year figure and comprise:

Legal reserve, consisting of profits allocated pursuant to art. 2430 of the Italian Civil Code and art. 60 of the Articles of Association, which amounts to € 320.525 million, +18.94%, following the allocation of € 51.043 million from 2017 profit.

Statutory reserve, required by art. 60 of the Articles of Association, which amounts to € 512.200 million (+7.51%), following the allocation of € 35.520 million out of the 2017 profit, dividends on treasury shares of € 0.255 million and dividends in prescription of € 15 thousand.

Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares.

This reserve amounts to € 30 million (of which € 25.322 million already used) following a reduction of 5 million during the year that was authorised by the shareholders.

Reserve pursuant to art. 13 of Legislative Decree 124/93, € 0.142 million.

Other reserves totalling € 22.684 million, down by € 52.347 million or 69.77% compared with the previous year. This reduction was mainly due to the recognition of negative reserves amounting to 56,925 million, following the adjustments made to financial assets and liabilities on the FTA of IFRS 9 and IFRS 15, the reclassification of 5 million from the reserve for the purchase of treasury shares and the change in the deferred tax assets previously recognised on the deferral of capital increase costs in 2014, net of tax effect.

We inform you that the individual equity items are freely available and distributable, except for the valuation reserves which are only distributable under the circumstances laid down in art. 6 of Legislative Decree 38/2005, the portion of the «share premium reserve» that can only be distributed in its entirety if the legal reserve has reached one-fifth of the share capital (art. 2431 of the Civil Code) and the legal reserve, which is lower than 20% of the share capital.

12.5 Equity instruments: breakdown and change in the year

No equity instruments have been issued.

Other information

1. Commitments and financial guarantees given (excluding those designated at fair value)

	Nominal value on commitments and financial guarantees given			
	First stage	Second stage	Third stage	**Total 31/12/2018**
Commitments to make loans	**13,722,242**	**1,760,010**	**230,059**	**15,712,311**
a) Central banks	–	–	–	–
b) Public administrations	54,635	659,277	–	713,912
c) Banks	26,879	160,094	–	186,973
d) Other financial companies	2,042,009	11,040	306	2,053,355
e) Non-financial companies	10,579,904	807,866	218,940	11,606,710
f) Households	1,018,815	121,733	10,813	1,151,361
Financial guarantees given	**3,454,906**	**414,264**	**125,502**	**3,994,672**
a) Central banks	–	–	–	–
b) Public administrations	491	40,801	–	41,292
c) Banks	652,623	57,538	–	710,161
d) Other financial companies	226,913	5,719	614	233,246
e) Non-financial companies	2,384,635	277,747	120,921	2,783,303
f) Households	190,244	32,459	3,967	226,670

Following the introduction of IFRS 9, the scope of the guarantees and commitments covered by the new impairment model required by that standard has broadened and, as a consequence, the data reported at 31 December 2017 is not comparable. See the «Other aspects» section of «A.1 General information» for details of the exposures concerned at 31 December 2017, in comparison with those identified on the date of transition to the new accounting standard.

The aggregate determined under the previous accounting and reporting rules is presented below, for information purposes only.

Operations	31/12/2017
1) **Financial guarantees:**	**912,325**
a) Banks	166,595
b) Customers	745,730
2) **Commercial guarantees:**	**3,004,757**
a) Banks	93,051
b) Customers	2,911,706
3) **Irrevocable commitments to make loans**	**1,084,638**
a) Banks	16,659
i) certain to be called on	2,247
ii) not certain to be called on	14,412
b) Customers	1,067,979
i) certain to be called on	374,084
ii) not certain to be called on	693,895
4) **Commitments underlying credit derivatives: protection sold**	**–**
5) **Assets lodged to guarantee the commitments of third parties**	**467,639**
6) **Other commitments**	**4**
Total	**5,469,363**

3. Assets lodged to guarantee the bank's liabilities and commitments

Portfolio	31/12/2018
1. Financial assets measured at fair value through profit or loss	14,785
2. Financial assets measured at fair value through other comprehensive income	1,438,072
3. Financial assets measured at amortised cost	6,129,608
4. Property, equipment and investment property	–
of which: property, equipment and investment property held as inventory	–

Portfolio	31/12/2017
1. Financial assets held for trading	146,397
2. Financial assets at fair value through profit or loss	–
3. Available-for-sale financial assets	1,926,550
4. Held-to-maturity investments	2,418,148
5. Loans and receivables with banks	–
6. Loans and receivables with customers	3,378,825
7. Property, equipment and investment property	–

The assets measured at fair value through other comprehensive income and those measured at amortised include securities assigned to customers under repurchase agreements, assigned to guarantee loans from central banks (TLTRO) and to guarantee the operations of the Swiss subsidiary.

The assets measured at amortised cost also include loans that guarantee the funding provided by the Central Bank (ABACO loans) and residential mortgages guaranteeing the covered bonds issued by the Bank.

4. Management and intermediation for third parties

Type of service	31/12/2018
1. **Execution of orders on behalf of customers**	**–**
a) Purchases	–
1. settled	–
2. not settled	–
b) Sales	–
1. settled	–
2. not settled	–
2. **Individual portfolio management**	**1,351,378**
a) individual	1,351,378
b) collective	–
3. **Custody and administration of securities**	**48,868,599**
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,936,109
1. securities issued by the reporting bank	–
2. other securities	1,936,109
b) Third-party securities on deposit (excluding portfolio management): other	17,276,169
1. securities issued by the reporting bank	2,017,363
2. other securities	15,258,806
c) Third-party securities on deposit with third parties	18,211,896
d) Own securities on deposit with third parties	11,444,425
4. **Other transactions**	**–**

5. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

				Correlated amounts not netted in the balance sheet			
Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Financial instruments (d)	Cash deposits received in guarantee (e)	**Net amount at 31/12/2018 (f = c-d-e)**	**Net amount at 31/12/2017**
1. Derivatives	33,352	–	33,352	12,216	19,401	1,735	2,670
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2018	**33,352**	**–**	**33,352**	**12,216**	**19,401**	**1,735**	**–**
Total 31/12/2017	**38,520**	**–**	**38,520**	**11,292**	**24,558**	**–**	**2,670**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements». In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparts, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

Repurchase agreements indicated are subject to netting agreements governed by Global Master Repurchase Agreements (GMRA). The gross amounts (a) shown in the table relating to repurchase agreements are recorded in item 10 a) «Financial liabilities measured at amortised cost - due to Banks»; the related financial instruments (d) are represented by the value of the securities involved in the transactions.

6. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

				Correlated amounts not netted in the balance sheet			
	Gross amount of financial liabilities (a)	Amount of financial assets netted in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c=a-b)	Financial instruments (d)	Cash deposits given in guarantee (e)	**Net amount at 31/12/2018 (f = c-d-e)**	**Net amount at 31/12/2017**
1. Derivatives	34,815	–	34,815	12,216	21,548	1,051	982
2. Repurchase agreements	100,034	–	100,034	100,034	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2018	**134,849**	**–**	**134,849**	**112,250**	**21,548**	**1,051**	**–**
Total 31/12/2017	**142,407**	**–**	**142,407**	**111,251**	**30,174**	**–**	**982**

PART C Information on the income statement

Section 1 Interest - line items 10 and 20

1.1 Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2018**
1. **Financial assets measured at fair value through profit or loss**	**1,487**	**4,299**	**–**	**5,786**
1.1 Financial assets held for trading	490	–	–	490
1.2 Financial assets designated at fair value	–	–	–	–
1.3 Other financial assets mandatorily measured at fair value	997	4,299	–	5,296
2. **Financial assets measured at fair value through other comprehensive income**	**24,592**	**–**	**–**	**24,592**
3. **Financial assets measured at amortised cost**	**39,568**	**439,756**	**–**	**479,324**
3.1 Loans and receivables with banks	24	10,095	–	10,119
3.2 Loans and receivables with customers	39,544	429,661	–	469,205
4. **Hedging derivatives**	**–**	**–**	**–**	**–**
5. **Other assets**	**–**	**–**	**–**	**–**
6. **Financial liabilities**	**–**	**–**	**–**	**24,425**
Total	**65,647**	**444,055**	**–**	**534,127**
of which: interest and similar income on impaired financial assets	–	56,616	–	56,616

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2017**
1. Financial assets held for trading	4,075	–	–	4,075
2. Available-for-sale financial assets	31,360	–	–	31,360
3. Held-to-maturity investments	1,771	–	–	1,771
4. Loans and receivables with banks	–	6,824	–	6,824
5. Loans and receivables with customers	1,575	478,866	–	480,441
6. Financial assets measured at fair value	–	–	–	–
7. Hedging derivatives	–	–	–	–
8. Other assets	–	–	22,919	22,919
Total	**38,781**	**485,690**	**22,919**	**547,390**

Following the change in accounting policy, it was not possible to allocate 2017 interest income to the new line items with precision and, accordingly, the related prior year data is not directly comparable with that for the current year in terms of the breakdown of the balance sheet items that generated it.

1.2 Interest and similar income: other information

Interest income has decreased by 2.42%, from € 547.390 million to € 534.127 million, due to the persistent low interest rates obtained on loans to customers and from financial investments.

1.2.1 Interest and similar income on foreign currency assets

Items	**31/12/2018**	**31/12/2017**
Interest and similar income on foreign currency assets	25,281	24,315

1.3 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 31/12/2018**	**Total 31/12/2017**
1. **Financial liabilities measured at amortised cost**	**(32,358)**	**(50,318)**	**–**	**(82,676)**	**(112,756)**
1.1 Due to central banks	(164)	–	–	(164)	(89)
1.2 Due to banks	(3,859)	–	–	(3,859)	(2,208)
1.3 Due to customers	(28,335)	–	–	(28,335)	(50,568)
1.4 Securities issued	–	(50,318)	–	(50,318)	(59,891)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**–**	**–**	**–**
5. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**
6. **Financial assets**	**–**	**–**	**–**	**(14,136)**	**(8,958)**
Total	**(32,358)**	**(50,318)**	**–**	**(96,813)**	**(121,714)**

1.4 Interest and similar expense: other information

Interest expense has decreased from € 121.714 million to € 96.813 million, – 20.46%. The reduction of € 24.901 million reflects the lower cost of funding from customers and in the interbank market.

1.4.1 Interest and similar expense on foreign currency liabilities

Items	**31/12/2018**	**31/12/2017**
Interest and similar expense on foreign currency liabilities	(7,645)	(3,891)

1.4.2 Interest expense on finance lease transactions

Items	**31/12/2018**	**31/12/2017**
Interest expense on finance lease transactions	(1)	(2)

Section 2 *Commissions - line items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2018	31/12/2017
a) **guarantees given**	**27,488**	**28,405**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**91,666**	**84,153**
1. trading in financial instruments	–	–
2. trading in foreign currencies	10,989	9,933
3. individual portfolio management	10,359	10,491
4. custody and administration of securities	1,507	1,519
5. custodian bank	3,351	3,001
6. placement of securities	34,762	31,467
7. order receipt and transmission	9,460	10,035
8. consultancy	–	92
8.1 investments	–	–
8.2 corporate finance	–	92
9. distribution of third-party services	21,238	17,615
9.1 portfolio management	–	–
9.1.1 individual	–	–
9.1.2 collective	–	–
9.2 insurance products	17,571	14,113
9.3 other products	3,667	3,502
d) **collection and payment services**	**74,486**	**70,371**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**–**	**–**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**35,848**	**34,133**
j) **other services**	**61,568**	**60,126**
Total	**291,056**	**277,188**

«Other services» mainly consist of loan commissions of € 49.496 million and international/foreign exchange fees of € 6.384 million.

2.2 Fee and commission income: distribution channels for products and services

Channels/Amounts	31/12/2018	31/12/2017
a) **bank branches**		
1. portfolio management	10,359	10,491
2. placement of securities	34,762	31,467
3. third-party products and services	21,238	17,615
b) **door-to-door sales**		
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party products and services	–	–
c) **other distribution channels**		
1. portfolio management	–	–
2. placement of securities	–	–
3. third-party products and services	–	–

2.3 Fee and commission expense: breakdown

Channels/Amounts	31/12/2018	31/12/2017
a) **guarantees received**	**(659)**	**(423)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services**	**(2,063)**	**(1,935)**
1. trading in financial instruments	–	–
2. trading in foreign currencies	–	–
3. portfolio management:	–	–
3.1 own	–	–
3.2 delegated by third parties	–	–
4. custody and administration of securities	(2,063)	(1,935)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(9,814)**	**(9,340)**
e) **other services**	**(2,688)**	**(2,756)**
Total	**(15,224)**	**(14,454)**

«Other services» mainly include commissions on security and lending transactions.

Section 3 *Dividends and similar income - line item 70*

3.1 Dividends and similar income: breakdown

	31/12/2018		31/12/2017	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	2,128	100	1.412	247
B. Financial assets mandatorily measured at fair value	–	7,607	–	4,458
C. Financial assets measured at fair value through other comprehensive income	22,038	–	3,495	342
D. Equity investments	13,492	–	8,670	-
Total	**37,658**	**7,707**	**13,577**	**5,047**

Dividends from equity investments amounted to € 3.600 million paid by Factorit S.p.A., € 6.747 million by Arca Vita S.p.A., € 0.363 million by Unione Fiduciaria S.p.A., € 2.642 million by Arca Holding S.p.A., € 0.090 million by Polis Fondi SGRpA and € 0.050 million by Rajna S.r.l. The marked increase in dividends received from financial assets measured at fair value through other comprehensive income reflects the payment of an extraordinary dividend of € 20.884 million by Nexi S.p.A.

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net result [(A+B)-(C+D)] **31/12/2018**
1. **Financial assets held for trading**	**151**	**36,323**	**(31,650)**	**(6,099)**	**(1,275)**
1.1 Fixed-yield securities	47	916	(6,775)	(89)	(5,901)
1.2 Variable-yield securities	–	9,270	(24,429)	(5,616)	(20,775)
1.3 Mutual funds	–	611	–	(394)	217
1.4 Loans	–	–	–	–	–
1.5 Other	104	25,526	(446)	–	25,184
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
3. **Financial assets and liabilities: exchange differences**	**–**	**–**	**–**	**–**	**(73)**
4. **Derivatives**	**9,932**	**42,249**	**(9,391)**	**(38,963)**	**3,778**
4.1 Financial derivatives:	9,932	42,249	(9,391)	(38,963)	3,778
- On debt securities and interest rates	9,288	21,679	(8,733)	(20,879)	1,355
- On equities and equity indices	–	17,416	–	(14,999)	2,417
- On currency and gold	–	–	–	–	(49)
- Other	644	3,154	(658)	(3,085)	55
4.2 Credit derivatives	–	–	–	–	–
of which: natural hedges linked to the fair value option	–	–	–	–	–
Total	**10,083**	**78,572**	**(41,041)**	**(45,062)**	**2,430**

The net trading income amounted to € 2.430 million on € 37.930 million, – 93.59%. Total trading profits amounted to € 30.224 million, down by € 13.386 million from € 43.610 million in the comparative period. The profit from trading in «other» financial assets, € 25.526 million, mainly consisted of exchange gains, while the net exchange losses of € 73 thousand, compared with € 7.058 million previously, related almost entirely to the portion of the securities portfolio denominated in US dollars, which benefited from the appreciation of that currency during 2018.

The overall net unrealised losses on financial assets and liabilities totalled € 31.499 million, compared with € 13.874 million in the prior year. The profit from derivative activities amounted to € 3.778 million, as against € 15.252 million.

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

Section 6 *Gains (losses) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases - breakdown

Items/income items	31/12/2018 Profits	31/12/2018 Losses	31/12/2018 Profit (loss)	31/12/2017 Profits	31/12/2017 Losses	31/12/2017 Profit (loss)
A. **Financial assets**						
1. Financial assets measured at amortised cost	2,240	(118)	2,122	-	-	-
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	2,240	(118)	2,122	-	-	-
2. Financial assets measured at fair value through other comprehensive income	10,704	(7,322)	3,382	100,059	(5,264)	94,795
2.1 Fixed-yield securities	10,704	(7,322)	3,382	82,698	(4,179)	78,519
2.2 Loans	-	-	-	-	-	-
Variable-yield securities and mutual funds				17,361	(1,085)	16,276
Total assets (A)	**12,944**	**(7,440)**	**5,504**	**100,059**	**(5,264)**	**94,795**
B. **Financial liabilities measured at amortised cost**				**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	166	(183)	(17)	782	(333)	449
Total liabilities (B)	**166**	**(183)**	**(17)**	**782**	**(333)**	**449**

Section 7 *Net gains/losses on financial assets and liabilities measured at fair value through profit or loss - line item 110*

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit of loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net result [(A+B)-(C+D)] **31/12/2018**
1. **Financial assets**	**8,063**	**2,318**	**(23,426)**	**-**	**(13,045)**
1.1 Fixed-yield securities	-	2,159	(6,196)	-	(4,037)
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	4,905	159	(10,439)	-	(5,375)
1.4 Loans	3,158	-	(6,791)	-	(3,633)
2. **Foreign currency financial assets: exchange differences**	**-**	**-**	**-**	**-**	**948**
Total	**8,063**	**2,318**	**(23,426)**	**-**	**(12,097)**

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

Section 8 *Net adjustments for credit risk - line item 130*

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

Transactions/ Income items	Adjustments (1)			Write-backs (2)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage	31/12/2018	31/12/2017
		Write-off	Other				
A. **Loans and receivables with banks**	**(192)**	**-**	**-**	**791**	**-**	**599**	**-**
- Loans	(184)	-	-	791	-	607	-
- Fixed-yield securities	(8)	-	-	-	-	(8)	-
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
B. **Loans and receivables with customers**	**(35,881)**	**(17,862)**	**(481,997)**	**99,426**	**208,949**	**(227,365)**	**(231,984)**
- Loans	(34,679)	(17,862)	(481,997)	97,868	208,949	(227,721)	(228,639)
- Fixed-yield securities	(1,202)	-	-	1,558	-	356	(3,345)
of which: impaired loans acquired or originated	(16)	-	(46,496)	5,150	11,808	(29,554)	-
Total	**(36,073)**	**(17,862)**	**(481,997)**	**100,217**	**208,949**	**(226,766)**	**(231,984)**

8.2 Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage	31/12/2018	31/12/2017
		Write-off	Other				
A. **Debt securities**	**-**	**-**	**-**	**3,970**	**-**	**3,970**	**-**
B. **Loans**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Customers	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-
of which: impaired financial assets purchased or originated	-	-	-	-	-	-	-
Variable-yield securities and mutual funds							(35,801)
Total	**-**	**-**	**-**	**3.970**	**-**	**3,970**	**(35,801)**

Key:
A = interest
B = other write-backs

Section 9 *Gains/losses on contractual changes not resulting in derecognition - line item 140*

Contractual changes not resulting in derecognition amounted to € 2.839 million.

Section 10 *Administrative expenses - line item 160*

10.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2018	31/12/2017
1) **Employees**	**(182,934)**	**(187,301)**
a) Wages and salaries	(115,137)	(112,749)
b) Social security contributions	(33,058)	(32,446)
c) Termination indemnities	–	–
d) Pension expenses	–	–
e) Provision for employee termination indemnities	(7,666)	(7,734)
f) Provision for pension and similar obligations:	(3,998)	(11,850)
- defined contribution	–	–
- defined benefits	(3,998)	(11,850)
g) Payments to external supplementary pension funds:	(2,913)	(2,830)
- defined contribution	(2,913)	(2,830)
- defined benefits	–	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(20,162)	(19,692)
2) **Other working personnel**	**(87)**	**(84)**
3) **Directors and Statutory Auditors**	**(1,740)**	**(1,686)**
4) **Retired personnel**	**–**	**–**
5) **Recovery of expenses for personnel on secondment to other firms**	**578**	**135**
6) **Reimbursement of expenses for personnel on secondment to the company**	**(261)**	**(443)**
Total	**(184,444)**	**(189,379)**

10.2 Average number of employees by category

	31/12/2018	31/12/2017
1) **Employees**	**2,728**	**2,678**
a) Managers	27	27
b) Officials	563	552
c) Other employees	2,138	2,099
2) **Other personnel**	**3**	**3**
Total	**2,731**	**2,681**

	31/12/2018	31/12/2017
- Actual number of employees	2,740	2,702
- Other personnel	3	2

10.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2018	31/12/2017
Service cost	2,471	2,406
Interest cost	1,708	1,967
Contributions from employees	(228)	(233)
Reductions and payments	47	7,710
Total charge to income statement (A)	**3,998**	**11,850**
Portion of yield from assets servicing the fund (B)	1,576	8,956
Total charge (A-B)	2,422	2,894

The costs have been recorded as personnel expenses.

Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables reported in Part B Section 10.5 of the notes to the financial statements. The cost for the Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations. An additional provision of € 1.576 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». A change of € 2.402 million corresponding to the actuarial gains has not been charged to the income statement, but instead it has been added to equity in accordance with IAS 19, as reported in the statement of comprehensive income.

10.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

10.5 Other administrative expenses: breakdown

Type of service/Amounts	**31/12/2018**	**31/12/2017**
Telephone, post and data transmission	(12,425)	(12,270)
Maintenance of property, equipment and investment property	(8,264)	(7,919)
Rent of buildings	(24,643)	(24,887)
Security	(5,350)	(6,058)
Transportation	(1,750)	(1,733)
Professional fees	(34,239)	(33,031)
Office materials	(1,793)	(1,888)
Electricity, heating and water	(4,511)	(4,586)
Advertising and entertainment	(3,135)	(2,871)
Legal	(13,985)	(14,652)
Insurance	(1,372)	(1,275)
Company searches and information	(7,600)	(6,687)
Indirect taxes and dues	(50,022)	(49,578)
Software and hardware rental and maintenance	(13,329)	(12,230)
Data entry by third parties	(1,711)	(1,796)
Cleaning	(5,349)	(5,283)
Membership fees	(1,739)	(1,651)
Services received from third parties	(6,405)	(4,858)
Outsourced activities	(19,955)	(19,155)
Deferred charges	(1,269)	(1,781)
Goods and services for employees	(1,187)	(1,077)
Other	(34,406)	(33,970)
Total	**(254,439)**	**(249,236)**

Other expenses include € 26.944 million comprising the ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

Section 11 *Net accruals to provisions for risks and charges - line item 170*

11.1 Net provisions for the credit risk on commitments to make loans on financial guarantees given: breakdown

This line item amounts to € 10.811 million made up of the net balance of allowances made during the year of € 12.634 million and the use or release of provisions set aside in previous years of € 1.823 million.

11.3 Net accruals to other provisions for risks and charges: breakdown

This line item amounts to € 1.846 million made up of the net balance of allowances made during the year to the provision for legal disputes of € 4.274 million and the use or release of provisions set aside in previous years of € 6.120 million.

Section 12 *Depreciation and net impairment losses on property, equipment and investment property - line item 180*

12.1. Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. **Property, equipment and investment property**				
A.1 Owned	(12,963)	–	–	(12,963)
- For business purposes	(12,963)	–	–	(12,963)
- For investment purposes	–	–	–	–
- Inventories	–	–	–	–
A.2 Acquired under finance leases	(1,019)	–	–	(1,019)
- For business purposes	(1,019)	–	–	(1,019)
- For investment purposes	–	–	–	–
Total	**(13,982)**	**–**	**–**	**(13,982)**

The finance lease charges paid during the year amounted to € 0.065 million, in line with the prior year.

Section 13 *Amortisation and net impairment losses on intangible assets - line item 190*

13.1. Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a+b-c)
A. **Intangible assets**				
A.1 Owned	(14,680)	–	–	(14,680)
- Internally generated	–	–	–	–
- Other	(14,680)	–	–	(14,680)
A.2 Acquired under finance leases	–	–	–	–
Total	**(14,680)**	**–**	**–**	**(14,680)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year; accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

Section 14 *Other operating income and expense - line item 200*

This caption amounts to € 56.160 million and comprises other operating income of €62.980 million, net of other operating expenses of € 6.820 million.

14.1 Other operating expenses: breakdown

	31/12/2018	31/12/2017
Out-of-period expense	(6,317)	(3,440)
Other	(503)	(323)
Total	**(6,820)**	**(3,763)**

14.2 Other operating income: breakdown

	31/12/2018	31/12/2017
Recovery of charges on deposits and overdrafts	372	348
Rental income from buildings	1,080	1,057
Recovery of taxes	43,834	42,899
Financial income of pension and similar obligations plan	1,576	8,956
Out-of-period income - other	1,916	3,095
Other	14,202	15,560
Total	**62,980**	**71,915**

The sub-item «other» includes € 5.040 million for the rapid enquiry fee, which has been allocated to this item in accordance with the Supervisory Authority's interpretation as it is merely a recovery of the costs incurred.

Section 15 *Net gains (losses) on equity investments - line item 220*

15.1 Net gains (losses) on equity investments: breakdown

Income item/amount	31/12/2018	31/12/2017
A. **Income**	**801**	**-**
1. Revaluations	-	-
2. Gains on disposal	801	-
3. Write-backs	-	-
4. Other income	-	-
B. **Charges**	**(398)**	**(622)**
1. Write-downs	-	(454)
2. Impairment adjustments	(398)	(168)
3. Losses on disposal	-	-
4. Other charges	-	-
Profit (loss)	**403**	**(622)**

This line item is positive for € 0.403 million, it was negative last year for € 0.622 million. This amount represents the difference between the collection of a price adjustment of € 0.801 million, pursuant to contracts signed in 2010 for the sale of the equity interests held in Arca Vita S.p.A. and Arca Assicurazioni S.p.A., and the write-down by € 0.398 million of Pirovano Stelvio S.p.A..

Section 18 *Net gains on sales of investments - line item 250*

18.1 Net gains on sales of investments: breakdown

Income item/amount	31/12/2018	31/12/2017
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**21**	**12**
- Gains on disposal	21	12
- Losses on disposal	–	–
Profit (loss)	**21**	**12**

Section 19 *Income taxes - line item 270*

19.1 Income taxes: breakdown

Income items/Amounts		31/12/2018	31/12/2017
1.	Current taxes (-)	(23,200)	(22,150)
2.	Change in prior period income taxes (+/-)	–	(6,497)
3.	Reduction in current taxes (+)	–	–
3.bis	Reduction in current taxes for tax credits under Law 214/2011 (+)	–	–
4.	Change in deferred tax assets (+/-)	(2,150)	(29,116)
5.	Change in deferred tax liabilities (+/-)	207	1,264
6.	Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(25,143)	(56,499)

The tax rate, i.e. the ratio of income taxes recognised to the profit on current operations before tax, is 23.12%.

19.2 Reconciliation between the theoretical and current tax burden

INCOME TAXES	Tax base	Tax
Theoretical tax burden	108,766	29,911
Increases	16,650	4,579
Decreases	(65,779)	(18,090)
Effective tax burden	**59,637**	**16,400**

IRAP (REGIONAL BUSINESS TAX)	Tax base	Tax
Theoretical tax burden	108,766	6,058
Increases	52,714	2,936
Variazioni in diminuzione	(39,398)	(2,194)
Effective tax burden	**122,082**	**6,800**
Total effective tax burden	**–**	**23,200**

Income taxes are calculated at 27.50% for IRES and 5.57% for IRAP.

The total tax charge for the year is reconciled with the profit for the year as indicated in the table below.

IRES (CORPORATE INCOME TAXES)

The principal disallowances relate to the non-deductible provisions recorded for charges, administrative expenses and depreciation.

The principal allowances relate to the non-taxable portion of dividends received, the deductible portion of IRAP, the use of taxed provisions, the effect of the ACE incentive, the portion of adjustments deductible in the year and those recognised in relation to financial assets on the FTA of IFRS 9.

IRAP (REGIONAL BUSINESS TAX)

The principal disallowances relate to the not-deductible portions of payroll costs, depreciation and other administrative expenses.

The principal allowance related to the portion of adjustments deductible in the year and those recognised in relation to financial assets on the FTA of IFRS 9, as well as the non-taxable portion of dividends.

Section 22 Earnings per share

22.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2018	31/12/2017
number of shares	453,385,777	453,385,777

This is the weighted average used as the denominator in the calculation of basic earnings per share.

22.2 Other information

IAS 33 requires that EPS «earnings per share» be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

Diluted earnings per share was calculated with reference to the number of shares issued for payment at the time of the capital increase.

	31/12/2018	31/12/2017
Basic EPS - €	0.184	0.261
Diluted EPS - €	0.184	0.261

PART D *Comprehensive income*

Statement of comprehensive income

Items		31/12/2018	31/12/2017
10.	**Profit for the year**	**83,623**	**118,400**
	Other items of comprehensive income that will not be reclassified to profit or loss	13,484	756
20.	**Variable-yield securities measured at fair value through other comprehensive income:**	**11,407**	**5,470**
	a) change in fair value	11,407	5,470
	b) transfer to other components of equity	-	-
30.	**Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness):**	**-**	**-**
	a) change in fair value	-	-
	b) transfer to other components of equity	-	-
40.	**Hedge of variable-yield measured at fair value through other comprehensive income:**	**-**	**-**
	a) change in fair value (hedged instrument)	-	-
	b) change in fair value (hedging instrument)	-	-
50.	**Property, equipment and investment property**	**-**	**-**
60.	**Intangible assets**	**-**	**-**
70.	**Defined-benefit plans**	**4,025**	**(5,978)**
80.	**Non-current assets and disposal groups held for sale**	**-**	**-**
90.	**Share of valuation reserves of equity investments valued at net equity**	**-**	**-**
100.	**Income taxes on other items of comprehensive income that will not be reclassified to profit or loss**	**(1,948)**	**1,264**
	Other items of comprehensive income that may be reclassified subsequently to profit or loss	(76,078)	530
110.	**Hedges of foreign investments:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
120.	**Exchange differences:**	**-**	**-**
	a) change in value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
130.	**Cash-flow hedges:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
140.	**Hedging instruments (non-designated elements):**	**-**	**-**
	a) change in value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
150.	**Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income:**	**(111,223)**	**792**
	a) changes in fair value	(85,426)	31,104
	b) transfer to income statement	(24,817)	(30,312)
	- adjustments for credit risk	(3,969)	-
	- gains/losses on disposals	(20,848)	(30,312)
	c) other changes	(980)	-
160.	**Non-current assets and disposal groups held for sale:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
170.	**Share of valuation reserves of equity investments valued at net equity:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	- adjustments for impairment	-	-
	- gains/losses on disposals	-	-
	c) other changes	-	-
180.	**Income taxes on other items of comprehensive income that may be reclassified subsequently to profit or loss**	**35,145**	**(262)**
190.	**Total other income items**	**(62,596)**	**1,286**
200.	**Comprehensive income (Item 10+190)**	**21,027**	**119,686**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Bank's website.

Introduction

The purpose of managing and controlling risks is to ensure the reliable and sustainable generation of value, safeguard the financial solidity and reputation of the Bank, and provide transparent disclosure about the risks accepted. In particular, this activity seeks to verify compliance with the limits placed on the acceptance of risk, to identify criteria and methodologies for the measurement/assessment of risk, to check the consistency of the work performed in each operational area with the risk objectives assigned, if any, and to monitor current and future capital adequacy.

The Board of Directors is responsible for establishing guidelines, the strategic direction and policies for the governance of business risks, in order to ensure that the principal risks to which the Bank is exposed are correctly identified and managed. Consistent with this, the Board establishes the propensity to accept risk and obtains information about the actual exposures recorded, checking that the risk profiles are monitored appropriately by the units made responsible for internal control. In addition, with support from senior management, the Board promotes the development and spread at all levels of a «risk culture», capable of recognising the importance of healthy and prudent business management and facilitating a consistent, integrated and complete understanding of the types of risk that are important for the Bank.

Based on their specific responsibilities, the managing director and the members of general management supervise implementation of the guidance, direction and instructions provided by the Board, translating them into a system of exposure limits, procedures and operations designed to ensure the moderate acceptance of risk; the practical application of significant risk policies is delegated to the central services, offices and branches, depending on how they are organised.

The Board of Statutory Auditors monitors the adequacy of the risk management processes and their consistency with regulatory requirements.

The measurement and control of risks are performed by separate functions that are organisationally independent of the units authorised to accept them. The Risk Control Department plays a primary role by constantly supervising operations via the Risk Control Office, which makes use of systems, instruments, procedures and methodologies for the identification, assessment and monitoring of risk. The department manager reports to senior management, in an objective and impartial manner, on the outcome of these control activities.

The high-level information describing the risks accepted, prepared by the above department, is organised so that the senior management - having regard for the duties and responsibilities of each person - can make an informed, complete and documented assessment of the various types of risk and the related management, control and mitigation mechanisms, as well as of the adequacy of the capital held to cover such risks. The changes in the risk profiles are also communicated to the operational areas, via operational reports designed to make personnel aware of the need to intensify efforts to prevent and attenuate risk.

Section 1 *Credit risk*

QUALITATIVE INFORMATION

1. General matters

In line with its mission as a cooperative, the Bank's lending policy aims to provide support to local economies in the areas that we serve, by granting financial resources to applicants that are pursuing admirable objectives and who meet suitable parameters of credit-worthiness.

The size and composition of the loan portfolio reflect the financial needs of the two specific customer segments: the entrepreneurial spirit of small and medium-sized business owners, mainly located in territory of the Bank, and households. The Bank prefers to lend to SMEs since they do not move in broader financial circles and, consequently, need a point of reference that can understand their requirements and meet them with skill, efficiency and speed, following the evolution of the business over time. However, the needs of bigger counterparties, such as large enterprises and public entities, are not overlooked, providing their credit rating following a rigorous preliminary investigation shows that they are solid and reliable.

In this context, the lending activity is based on principles of healthy and prudent management, fair remuneration of risk and professional, efficient operational conduct, with a view to establishing two-way communications with borrowers based on reciprocal trust and transparency; this in order to enhance the Bank's particular aptitude for building long-term customised relationships with local business owners.

In consideration of the Bank's strategic objectives and approach to operations, its lending strategy is based on a low propensity for risk and full awareness of the risks that are taken on; this involves:

- measurement of the current and prospective risk inherent in the loan portfolio, both as a whole and at various levels of disaggregation;
- diversifying the exposure, so as to reduce concentration;
- refusing to get involved in operations that could jeopardise the Bank's profitability and solidity.

These strategies and policies have not changed since last year.

2. Credit risk management policies

2.1 Organisational aspects

The Bank's approach to credit risk management is based on maximum involvement at all levels of the organisation to ensure timely processing of customers' applications, combined with an analytical assessment of the risk involved in lending money to them.

The various stages that make up the lending process include the planning of credit policies, the preliminary investigation, disbursement of the loan, periodic review, monitoring and management of impaired loans.

Implementing the strategic guidelines established by the Corporate Bodies during the planning process and in compliance with the risk limits set, the lending policy defines the size and composition of the loan book, in order to guarantee an adequate balance between the risk profile accepted and the return earned. The guidelines cover the products, segments, sectors and categories of counterparty that maximise forecast profitability while, at the same time, governing the quality of the portfolio and ensuring capital adequacy on a prospective basis. For planning purposes, the guidelines establish objectives for the operational offices, covering the quality of the portfolio, as well as its growth and profitability. These objectives must be achieved while respecting the capital adequacy requirements and risk limits.

The procedures and organisational structure set up for this purpose have been formalised, clearly specifying activities, roles and responsibilities.

In order to avoid potential conflicts of interest, we ensure that operating functions and control functions are kept separate.

The system of decision-making powers approved by the Board of Directors is based on the principle of «cascade delegation», which means assigning limited powers to the branches, giving preference to control by specialist central units.

The following is an explanation of the bodies and the main corporate functions that are involved in supervising the lending process, also specifying their principal duties.

- *Board of Directors*. The Board of Directors supervises and oversees the proper allocation of financial resources and, in particular:
  - establishes the strategic direction and lending policies;

- establishes criteria for the recognition, management and assessment of risks;
- approves the decision-making and signature powers attributable to the other corporate bodies and organisational units for the granting and revision of lines of credit;
- ensures that the structure of the control functions is defined in a way that is consistent with the Bank's strategies, that they have an appropriate level of decision-making autonomy and that they have adequate resources in terms of both quality and quantity;
- gains a general knowledge of rating systems, proposes their application during the various stages of the process and assesses how effective they are with the help of the internal control and internal audit functions.

– Managing Director. The Managing Director supervises implementation of the decisions taken by the Board of Directors with regard to the management of lending and the related risks. In addition, exercises the powers to make loans granted under the Bank's regulations.

– *General Management*. General Management implements the strategies and policies established by the Board of Directors and, in particular:
- prepares regulations, activities, procedures and organisational structures for the adoption and application of an efficient lending process, of an adequate rating system and of a solid system for the control of the related risks;
- verifies the adequacy and functional capacity of these various elements, also in light of the internal and external changes that are affecting the bank;
- takes the necessary action to eliminate any weaknesses and inefficiencies that are identified.

In addition, General Management adopts resolutions to the extent of the autonomy granted.

– *Branches*. The branches are assigned the fundamental task of handling the relationship with the customer who is borrowing or who would like to borrow money from the bank. They acquire the documentation, make an initial selection of the applications and directly approve those within the scope of their powers, and monitor the credit report on a day-to-day basis, checking for potentially anomalous situations.

– *Coordination functions*. They give to the branches fundamental support in handling more complex loan positions and/or those that are looking critical.

They examine requests for loans to be presented to the central functions and express an opinion, while approving directly those within the scope of their powers.

– *Loans Department*. The Credit Assessment office supports the work of the central committees by receiving applications from branches, checking their completeness and accuracy, and completing the assessment. The Medium-term and Special Loans Office assesses mortgages, leases, factoring arrangements, artisan and agricultural loans, loans under framework agreements and personal loans from a technical and legal point of view. Through the Risk Office, it finalises the guarantees and then activates the loan.

– *Corporate Finance Department*. The Corporate Finance Department analyses, structures and coordinates corporate finance operations and identifies the best types of financing for complex investment projects. It makes a preliminary evaluation of project financing transactions, directly structuring the intervention or proposing the Bank's participation in a lending syndicate.

– *Problem Loans Management Department*. It oversees the performance of credit quality and verifies the effectiveness of the actions taken to settle credit anomalies and recover the debt. It monitors in particular critical performing, non-performing and past due positions classified as unlikely-to-pay and implements, either directly or via the network, the appropriate actions to minimise the risks and prepare appropriate initiatives to protect the bank's credit. It also supports the network in managing positions subject to restructuring and bankruptcy proceedings, searching for negotiated solutions to business crises.

– *Legal and Claims Department.* The Legal and Claims Department works to safeguard the interests of the bank with regard to disputed assets and liabilities. In particular, with regard to non-performing loans, the department takes the legal action needed to recover the outstanding amounts and also takes out-of-court action together with the Problem Loans Management Department.

– *Risk Control Department.* The Risk Control Department defines, develops and maintains the models underlying the rating system through the Credit Models Development Office; it checks the reliability and effectiveness of the estimates produced by them and, where necessary, takes steps to update them. The department also analyses, using various analysis dimensions, the riskiness of the loan portfolio, produces the related information flows and makes them available to the competent bodies and operating functions. From an organisational point of view, a thorough review of the structure was carried out during the year, in order to make credit risk control and monitoring of the loan portfolio quality even more effective; in particular, the current structure involves the following organisational units:
  - *Integrated Risk Office*: it has control over the definition and implementation of the RAF, ICAAP, stress tests and the Group's Recovery Plan;
  - *Credit Risk Organisation Office*: with the constant aim to increase efficiency and adoption of best market practices, it organises and monitors the overall activities carried out by the offices responsible for credit risk monitoring and management, with particular attention to the evolution of the internal rating system;
  - *Credit Models Development Office*: it designs, develops and maintains models and metrics adopted for the measurement of credit risk for both regulatory and management purposes;
  - *Lending Policies Office*: it oversees the planning of lending policies in compliance with the RAF and monitors their timely application;
  - *Asset Quality Office*: it monitors the overall quality of the credit portfolio through aggregate analysis and, where necessary, looking more closely at individual balances.
  - *Large exposures office and rating desk*: it evaluates the more significant credit exposures in terms of risk, preparing the related analyses and performing verifications of the exceptions to the rating assessments expressed by the operating structures.

  This Department also includes the Validation Office, which is devoted to verifying the internal risk management systems and assessment of corporate activities used for both regulatory and management purposes.

– Internal Audit Department. The Internal Audit Department checks the proper functioning of controls and compliance with rules and procedures. In particular, this department checks that the criteria for the proper classification of loans are correctly applied.

2.2 Systems for managing, measuring and monitoring

Control over credit risk has the support of rating models that have been specifically developed by the Bank.

The Bank has models for the following segments: Private Customers (resident and non-resident consumer households), Small Economic Operators (family businesses, personal businesses and practicing professionals), Small Business (non-financial partnerships and companies with sales unknown or less than € 1.5 million and total credit lines at Group level of less than € 1 million), SMEs (non-financial partnerships and companies with sales between € 1.5 million and € 100 million, or sales unknown or less than € 1.5 million and total credit lines at Group level of € 1 million or more), Corporate non-profit institutions (non-profit entities and associations with sales of € 1.5 million or more or, if less or unknown, with total credit lines of € 1 million or more), Retail non-profit institutions, Large Enterprises (non-financial partnerships and companies with sales in excess of € 100 million), Public Enterprises and non-resident, non-financial companies.

These models are designed to create a counterparty rating and an associated probability of default (PD), representing the estimated likelihood that the borrower will become insolvent within one year. The rating depends solely on the characteristics of the counterparty and is not influenced by any guarantees that the Bank has acquired.

The rating assessments are produced by qualitative statistical models and are split into 14 categories for «performing» counterparties and one for those that are insolvent. They are then summarised in eight risk ratings: «Excellent», «Good», «Medium», «Uncertain», «Bad», «Very bad», «Insolvent» and «Not classified».

Together, at the end of December 2018, the sub-portfolios subject to these rating systems account for 79.74% of lending to customers (93.28% in terms of number of counterparties).

Ratings are used in the credit process all the way from policy planning through to performance control. For monitoring purposes, the rating is calculated monthly with reference to the entire population of interest, whereas it is determined on an ad hoc basis when considering new loans or reviewing existing loans.

Estimates of two other important risk factors complete the rating system described above: the rate of the Loss Given Default (LGD) and the estimated Exposure at Default (EAD). These estimates, which are specific for each counterparty, also derive from internal models, and they are heavily influenced by the presence and type of guarantees acquired by the Bank and by the technical form by which the loan is granted.

Having input on such risk factors, updated on a monthly basis, contributes towards a complete assessment of the risk profile, helping to improve the amount of information available to support the lending process.

The PD, LGD and EAD results also make it possible to determine the Expected Loss, which is an estimate of the potential loss associated with a particular loan exposure; and as an element of cost, it also provides useful input for determining prudent loan loss provisions.

The concept of insolvency used when estimating and calibrating includes: non-performing, unlikely to pay and past due loans, including those significantly overdrawn for more than 90 consecutive days. Together with the assessments made using internal models, the ratings granted by independent agencies are gathered automatically. These are used in determining the capital requirements for credit and counterparty risk, for which the Bank adopts the so-called «standardised approach»; this involves weighting the exposures on the basis of ratings, where available, assigned to each counterparty by a specialist firm (rating agencies such as Standard & Poor's, Moody's, Fitch Ratings, DBRS and Cerved Group).

With regard to the exposures to Italian and foreign banks, the ratings given by leading agencies are used wherever available. Otherwise, an internal rating, based on the application of a simplified model, is used.

More specifically, this model involves the examination of a series of quantitative and qualitative indicators and information, which produce values for the determination of a final score. This score is positioned on a scale of ten classes, the first of which represents a counterpart/issuer with minimal risk, while the ninth highlights maximum risk and the tenth represents a state of insolvency. These ten classes are then grouped into four macro classes for comparison with the ratings given by international agencies.

As regards counterparty risk, in addition to continuously monitoring the main banking groups with credit lines, we periodically carry out a specific analysis of each position that has been taken on. This is performed by taking various indicators into consideration, such as their rating, accounting information and market data.

Risk analyses are carried out periodically on the loan portfolio. These address various dimensions, including the trends in the distribution of counterparties by rating class and by economic and productive sector.

These assessments support the formulation of policy guidelines for lending, help adopt suitable operational measures and provide operational guidelines to the central and branch functions concerned.

With regard to credit risk and the extension of the way it is measured to the various operational areas, the Bank has established objectives for the control of expected loss (cost of credit risk) that branches have applied for some time in the preparation of their annual budgets. The spread and the margin applied on loans are adjusted by a correction factor to take account of the credit risk based on PD and LGD parameters deriving from internal models. The objective is to ensure closer correlation between the profitability performance assigned to each productive unit and its actual ability to accept and manage risk, thus indicating growth paths for lending that are as effective as possible in risk-return terms. The lending process provides for a series of checks aimed at mitigating risk during the various phases that make it up.

The preliminary investigation, which aims to establish whether applicants satisfy certain conditions for credit-worthiness, includes consideration of whether the characteristics of the loan are consistent with its purpose, a check on whether any guarantees being provided are suitable to cover the risk of non-repayment, and a review of the economic aspects of the loan. In this context, the opinion expressed by the internal rating system, if available, and the associated estimates of default are taken into due consideration as essential elements for an overall evaluation of the customer.

Exceptions to the internal rating system are applied to certain operational segments.

An override is proposed by the branch or, for certain segments (Large Enterprises, Public Enterprises and Corporate Non-Profit Institutions) by the Credit Assessment Office, and requires central approval from the Large Exposures office and rating desk.

The use of indicators of risk-adjusted value creation (EVA) meets the need to assess more selectively certain loan positions and to control more closely the quality of loans granted. Using a specific application already integrated within the electronic credit line system, it is possible to determine a measure of profitability that is adjusted for credit risk (expected loss based on the customer's rating) and for the opportunity cost of the regulatory capital absorbed. This is applied to the individual lending relationship, resulting in an estimate of the value added by current or potential exposures. By consolidating the controls applied to contain risk in the selection, management and monitoring phases, this tool makes it possible to identify poorly performing accounts more precisely and, therefore, take action to restore profitability. In order to orient the price of loans in a more efficient and fair manner, according to EVA logics, on the request for new finance or a review of relationships, the pricing procedure in use has also been revised and refined during the year.

The decision whether to grant a loan or not is taken by the competent decision-making bodies prior to disbursement, carefully assessing all of the information that emerged during the preliminary investigation, as well as any other element that might be available.

In order to ensure maximum control over credit risk, the mechanism for establishing decision-making powers for the bodies at the lower end of the hierarchical ladder now operates alongside the nominal value of the operation with another system of powers that also takes into account an objective assessment of the counterparty risk which is reflected in the internal rating.

Credit lines are then made operative and the funds made available to the borrower, but only after all matters foreseen in the approval have been dealt with, particular emphasis being put on the acquisition of guarantees and their verification and assessment in terms of being suitable to lower the credit risk.

After disbursement, loans of whatever amount are reviewed periodically to check whether all of the conditions established during the preliminary investigation and taken into consideration when granting the loan still exist. Particular attention is paid to reviewing the reasons that led to changes in ratings.

Lines of credit can also be reviewed automatically in the case of positions with low levels of risk, ascertained through a rigorous examination of suitable indicators that are established in advance, where the rating takes on a great deal of importance.

Outstanding loans and guarantees are constantly monitored to ensure that the borrower and any guarantors remain solvent and that the general and specific requisites still apply and that the guarantees are still valid, to ensure that they can be fully and effectively enforced in the event of the debtor's insolvency.

This monitoring, which is carried out in accordance with formal company procedures, is designed to spot any negative symptoms as early as possible and to take rapid and effective action to avoid any further deterioration. In this regard, the home branches of the loans concerned play an important role since, by maintaining direct customer relations, they are able to identify any signs of impairment immediately.

Operating units are supported in these activities by a series of reports produced internally or by external contributors; with regard to the Parent Company, particular importance is attached to the report on changes in the risk factors at counterparty level calculated by the rating system. Specific head office units are dedicated to analysing the different information available, in order to assess continuously the merit class of each exposure and identify those potentially subject to excessive risk. The depth of this analysis is linked to the needs expressed.

The bank also has a process of identification, resolution and monitoring of forborne exposures (i.e. credit exposures for which changes in contractual conditions or refinancing have been granted due to financial difficulties on the part of the debtor); forborne as an attribute is transversal to all loans, whatever their administrative status.

In addition, a range of management information is generated periodically in order to better monitoring, via meaningful analysis, the changes in portfolio risk.

With regard to the monitoring of loans that appear anomalous, all overdrawn situations are analysed carefully with a view to taking timely action in relation to problem positions.

The Problem Loans Management Department makes use of performance measurement and control methodologies that take into consideration internal and industry data, together with the opinion given by the rating system, if available, to build up the identification of potentially problematic counterparties and promotes actions to mitigate credit risk. These positions are appropriately analysed and, where there are clear signs of difficulty, they are classified as «impaired», depending on how serious the situation is.

The task of monitoring and managing anomalous loans is given to specific central offices, which make use of «corporate managers» located throughout the territory and who carry on their activity with a view to returning the position to «performing», if this is possible; otherwise, with a view to recovering the loan in the event of insolvency, operating in close collaboration with the home branches of the problem loans concerned.

Within the Risk Control Department, a separate unit supports the Loans Department by identifying «performing» customers that show initial anomalies and signs of difficulty, as well as those counterparties that are persistently overdrawn. In order to deal with deteriorating relationships promptly and effectively supervise the overall quality of the loans portfolio, the bank has adopted monitoring processes and support tools that promote actions leading to the regularisation of the relationships.

Checks are performed during the initial assessment, payout, review and monitoring stages with regard to the concentration of risk in relation to individual counterparties or groups of counterparties that are linked by legal or economic relationships.

In accordance with the above regulations, specific procedures are followed for loan applications deemed to be «of greater significance», based on the size of the exposure and the amount of the request for new lines of credit. In particular, these applications and the related investigation report prepared by the loan investigation office are sent to the Large exposures office and rating desk, which assesses the consistency of the operation, at both the individual and consolidated levels, with the system of risk objectives identified in the RAF (Risk Appetite Framework).

In addition to the normal analysis by the loan investigation office, large exposures are also examined by the Large exposures office and rating desk in order to provide additional support for the approval process.

2.3 Methods for measuring expected losses

The purpose of this section is to describe the methodological framework implemented by Banca Popolare di Sondrio, in accordance with the requirements of the new IFRS 9 that came into force on 1 January 2018, to calculate the *Expected Credit Loss* (ECL) of the loan portfolio.

The principal innovation contained in the new standard is to replace the concept of incurred credit losses with an expected loss approach. In order to comply as closely as possible with the new requirements when calculating writedowns, the Bank defined a specific methodological framework. Building on a suite of models already used in other business areas and processes, this activity involved developing various methodologies – statistical, econometric and, more generally, quantitative and data driven – for modelling the usual credit risk parameters – PD, LGD, EAD – and methodologies relevant to the calculation of impairment, such as stage allocation methodologies, as well as the micro-modelling of scenario dependency and the calculation of a multi-period ECL that takes account of the above key aspects.

These methodologies are considered optimal with regard to the rationale underlying the standard (including the avoidance of undue cost and effort), the current and prospective taxonomy and complexity of the portfolio, the materiality of the impact of specific modelling decisions and the following drivers of analysis considered important:

- Disclosure and consistency, with particular reference to the ease with which the approach can be explained to the various types of stakeholder, and consistency with the methodological framework currently used for stress testing.
- Conformity with current regulations, with particular reference to integration of the forward-looking element and the move from a «Through-the-Cycle» to a «Point-in-Time» approach.
- Ease of maintenance, particularly in relation to the frequency with which the model is recalibrated under the point-in-time approach.
- Representativeness of the composition of the portfolio, considering the level of specialisation with respect to the clusters within the portfolio and the essential duration of the portfolio.
- Adequacy with respect to the depth and frequency of the available data, specifically considering aspects of data availability and methodological requirements, as well as the stability of the estimates and the number of parameters to be estimated.

Scope of application

The above methodologies are used to calculate impairment write-downs for the loan portfolio of the Parent Company of the Banca Popolare di Sondrio Group (the Bank) in accordance with IFRS 9. More precisely, these methodologies are applied to the portfolios classified in accordance with the *Held To Collect* business model (portfolios measured at amortised cost if they pass the «Solely Payment of Principal and Interest» (SPPI) test and are reported in the «Due from customers» and «Loans and receivables with banks» line items) and the *Held To Collect and Sell* business model (portfolios measured at fair value through other comprehensive income (FVOCI), in order to determine the change in fair value that is attributable to credit risk).

In addition to what stated above, applicable to the «*on–balance sheet*» component, IFRS 9 also applies to the financial instruments associated with «*off–balance sheet*» categories, such as revocable margins, non-revocable margins and financial guarantees.

Credit risk parameters under IFRS 9

The process of modelling credit risk parameters started with the internal models developed for regulatory purposes. Based on these, the Bank defined a set of refined methodologies and adjustments to model in a specific and appropriate manner the point-in-time and forward-looking components, in order to ensure maximum consistency between the overall methodology adopted and the rationale underlying the standard.

The probability of default (PD) was modelled on adaptation of the default rates, applying a variable scale approach. As discussed earlier regarding internal consistency with other methodologies already developed and used in other business areas, the set of A-IRB models now at the validation stage became the starting point for the methodological framework used to model the probability of default (PD).

On this basis, the Bank defined a series of specific methodological approaches, essentially covering the aspects described below, in order to develop a precise model that embodies as closely as possible the rationale and requirements of the new standard:

- Transition matrices, used to model the PD dynamics needed to calculate the IFRS 9-compliant ECLs over essentially long-term time horizons;

- Econometric models, defined for various customer segments and sectors of business activity, that make it possible to differentiate the above forward-looking dynamics by examining different macroeconomic scenarios over a long time horizon;
- Convergence dynamics towards long-term equilibrium that make it possible to extend the above-mentioned forward-looking and scenario-dependent dynamics over longer time horizons than those covered by the econometric models;
- Methodologies for estimating the long-term PD by adopting a suitable methodological framework;
- Methodologies for defining appropriate PDs for segments not covered by ratings, including the corporate and retail segments for which no models are available, as well as the exposures to those types of counterparty (e.g. banks, public administrations) that do not fall within the scope of the A-IRB models. The approach in these cases uses the ECAI transition matrices and the internal default rates.

Again, as discussed earlier regarding internal consistency with other methodologies already developed and used in other business areas, the starting point for modelling the LGD under IFRS 9 was the set of A-IRB methodologies developed by the Bank that are now at the validation stage.

In order to develop a model for the LGD component under IFRS 9 that embodies as closely as possible the spirit and requirements of the new standard, the Bank sought to make methodological choices and/or adopt definitions that differed from those developed in the A-IRB context, as well as to develop IFRS 9-specific methodologies that model changes in the metric more precisely over long-term time horizons under different macroeconomic conditions.

More precisely, the LGD parameter used under IFRS 9 differs from those considered by the internal models in the following ways:

- Definition of LGD by state of impairment (LGS). Although the starting point for the definition of LGD by state of impairment (LGS) uses the same concept as that used in the A-IRB context, in order to maximise internal consistency among the models adopted, the Bank defined a different set of underlying methodologies for the calculation of that metric, in order to ensure greater consistency with the rationale underlying the new standard.
- Development of econometric models for LGD by state of impairment. The Bank has developed a specific methodological module that renders LGD by state of impairment (LGS) dependent on the macroeconomic scenario selected.
- Definition of the danger rate parameter. The Bank has defined an alternative version of the danger rate parameter, which is estimated over a shorter time horizon than that considered in the A-IRB context, achieving greater alignment with the point-in-time calibration logic touched on in the standard.
- Parameters for segments other than Corporate and Retail not covered by the A-IRB model. The Bank has defined specific methodologies for estimating the LGD for those portfolio segments that, while falling within the scope of the IFRS 9 simulation, are not currently covered by the internal LGD models.

The Exposure At Default (EAD) component is modelled using different methodologies, depending on the segment of the counterparties concerned; in particular, the EAD model developed by the Bank in the A-IRB context is used for counterparties in the Retail segment, while a standard CCF value is used for those in the Corporate segment, given the (temporary) absence of internal models, as well as for the other counterparties not covered by an internal model.

Stage allocation

The standard requires the classification of all financial instruments subject to impairment into three different stages, considering the level of impairment of the exposure at the analysis date with respect to an initial recognition date:

- Stage 1 positions: performing positions for which no significant increase in credit risk is found at the analysis date with respect to that at the date of initial recognition

- Stage 2 positions: performing positions for which a significant increase in credit risk is found with respect to that at the date of initial recognition;
- Stage 3 positions: positions in default.

The principal innovation relates to the need, for financial instruments classified in stage 2, to calculate the expected loss over their entire residual lives, based on the increase in default risk with respect to that found on initial recognition. The standard requires the change in credit risk to be assessed with reference to both qualitative and quantitative information.

For this purpose, the Bank has developed a series of methodologies for classifying the exposures to be analysed into the above stages that use both qualitative and quantitative information and approaches, as well as both absolute and relative staging criteria.

The following absolute criteria are considered for staging purposes:

- Low Credit Risk Exemption. Consistent with the rationale underlying the standard, which accepts the presumption that credit risk has not increased significantly since initial recognition if the risk level of the exposure is deemed to be «low», the Bank has identified the following types of transaction for which, given their nature, it is appropriate to make this election by classifying them automatically in stage 1: transactions with the Bank of Italy and central banks, repurchase agreements expiring within one month and sovereign securities whose issuers have an investment grade rating.
- Past due by 30 days. The standard makes explicit reference to the case in which a relationship is late in meeting its contractual obligations, as a possible indicator for classification in stage 2, given the deterioration of the relationship.
- State of forbearance. Forborne exposures comprise loans that have benefited from special concessions, marked by changes in the contractual conditions or refinancing arrangements, following a substantial change in economic condition that is considered somewhat compromised. The methodology defined by the Bank for determining stage allocation only considers that condition appropriate for classification in stage 2 in the case of performing exposures.

On the other hand, with regard to the use of relative staging criteria, the Bank has selected a metric based on the lifetime PD that, although requiring more effort to implement, allows the achievement of greater consistency with the rationale and requirements of the standard (in particular, the use of relative measurements for the assessment and adoption of a point-in-time logic). In particular, assessment of the change in creditworthiness of a generic position by comparing a suitable metric based on the lifetime PD - i.e. relating to the residual life of the relationship - determined at the reporting date, with the lifetime forward PD - i.e. relating to the same point in time - estimated with reference to the curve at the origination date of the position.

The above methodology therefore assumes the availability of a series of information and suitable methodologies for constructing lifetime cumulative PD curves, at both the reporting date and the origination date, for all counterparties included in the loan portfolio subject to the impairment calculations.

The lifetime PD curves to be used at the reporting date are calculated by applying non-homogeneous Markovian methodologies to transition matrices estimated using a frequency approach for different portfolio segments/clusters and subsequently rendered point in time and scenario dependent by applying econometric models based on a Merton-type methodological framework commonly found in the literature.

The lifetime PD curves at the origination date are, on the other hand, obtained using a simple Markovian methodology applied to transition matrices estimated over a long-term time horizon.

The lifetime PD curves at the reporting and origination dates for positions associated with counterparties for which no internal rating is available, or that belong to segments not covered by internal models, are constructed using transition matrices estimated by external rating agencies (ECAI) and appropriately processed for banking counterparties for which an ECAI rating is available, applying an homogeneous Markovian methodology to obtain lifetime curves, and/or using internal new default rates analysed by portfolio cluster and macroclasses of creditworthiness in all other situations. More precisely, the internal new default rates are used to reconstruct a simplified transition dynamic that, together with the econometric models and the long-term convergence mechanisms described earlier, is used to obtain lifetime cumulated PD curves.

At the same time as selecting the stage allocation approach to use and specifying an appropriate metric, the Bank also devised and applied a series of analytical methodologies in order to first identify appropriate levels of detail for segmenting the loan portfolio and, subsequently, to calibrate the corresponding threshold levels for assigning a given position to either Stage 1 or Stage 2.

In general terms, the definition of different levels of detail for segmenting the loan portfolio and the calibration of the corresponding threshold levels involved the use of purely statistical or, more generally, data-driven techniques for the analyses of impact and sensitivity (using certain metrics of greatest interest to analyse the impact of applying a given set of thresholds defined for a specific level of detail and/or a specific change in them) and for benchmarking purposes (calculation and comparison of a set of metrics of interest deriving from the application of a given set of thresholds defined for a specific level of detail with the same quantities that would be obtained using alternative staging methodologies).

Based on the information obtained following the initial analyses carried out using the above methodologies, the Bank decided to calculate the writedowns using different thresholds for the following levels of detail:

- for portfolios covered by an internal model, the cluster-level segmentation is used at a level of detail defined with reference to the «intersection» between type of customer and sector of economic activity. In order to consider appropriately the flattening dynamics of the lifetime PD curve and their effect on the values of the metric, the above criteria were used to identify the clusters in which that phenomenon is significant, for which the threshold levels were further differentiated with reference to the residual lives of the positions segmented into appropriate buckets.
- for portfolios not covered by an internal model, a distinction is made between banking counterparties, whose PD-based metric is estimated using lifetime PD curves generated by the ECAI transition matrices, applying the methodology described earlier, and other types of customer, whose PD-based metric is calculated with reference to the lifetime PD curves obtained via appropriate processing, in the manner described earlier, of the corresponding new default rates estimated internally, which are further segmented into appropriate macro-segments.

The threshold values for the various portfolio segments indicated above are, in the most general case, calibrated at the level of cluster and residual life of the position, taking as the threshold value that corresponding to the assigned percentile, taken from the metric, of the empirical observed distribution of the underlying estimation pool. This value is determined from the percentage of cluster positions analysed that, based on the observable historical dynamics, have transitioned to a lower creditworthiness macroclass; at this level it is possible to apply adjustments and corrections due to roundings, the application of prudential add-ons or consideration of the impact of the threshold values concerned on the final writedown calculations.

The recent adoption of the new standard and the resulting significant discontinuities make it necessary to carry out periodic holistic assessments, not only of the threshold levels of the PD-based metric used and the related segmentation defined, but also of the quality and stability of the methodological approach adopted.

In order to respond fully to these needs, the Bank has defined and formally approved a structured and thorough process for assessing the entire framework for the stage allocation (and impairment adjustment) of its loan portfolio. The above process will carry out two types of analysis (trend analysis and model monitoring analysis) with a predetermined frequency, thus satisfying structurally different needs that are nevertheless complementary.

Modelling of the scenario-dependent component

One of the key points of the new standard relates to the use of forecasts that contain forward-looking and, in particular, scenario-dependent elements.

In order to guarantee the maximum alignment with these requirements, the Bank has explicitly and specifically included that component in many aspects of the methodological framework; more precisely, modelling of the scenario-dependent component by the Bank involved the selection and definition of macroeconomic scenarios, their parameterisation in a suitable manner and the interpretation of their dynamics in order to identify scenario-dependent risk parameters and methods for calculating the ECL.

The Bank decided to adopt three different macro-scenarios that, as required by the standard, allow sufficiently detailed and precise forecasts to be made, having due regard for the size, structure and complexity of the Bank and its business:

- A baseline scenario, based on «central» trends in the macroeconomic variables with respect to the value observed when making the initial forecast that, generally, should therefore represent the most likely outcome considered;
- A moderately adverse scenario that, while undeniably representing an unfavourable but plausible development of the macroeconomic situation, should not normally result in conditions that are particularly stressed;
- A moderately favourable scenario that, conversely, should represent a positive but completely plausible development of the macroeconomic situation, based on the conditions observed at the time of the forecast.

The Bank has engaged an external supplier, with recognised expertise in the forecasting of scenarios and a consolidated reputation in Italy, to perform the related activities. This provider has already assisted the Bank for many years, supplying forecasts for macroeconomic, financial and banking variables, based on predictions or simulations of future events, that are used for strategic purposes and for the healthy and prudent management of the business.

Under standard market conditions, these macroeconomic forecasts are updated quarterly by the external supplier; however, they may be updated on an ad hoc basis if the provider identifies atypical elements and/or particular turbulence affecting the general macroeconomic situation.

The parameterisation of the above scenarios results in the supply, for each scenario considered, of hundreds of forecast variables of various types. These include quarterly forecasts covering strictly macroeconomic factors - such as Italian and EU GDP, the inflation rate, the unemployment rate, the level of Italian public debt - as well as strictly financial variables - mainly stock indices, money market and swap rates, the yields on government securities, the yield spreads on securities with different credit ratings, the prices of such commodities as gold and oil, the exchange rates between the Euro and other major currencies - over a three-year time horizon.

In order to be considered properly within the multi-period ECL, the dynamics of the macroeconomic scenarios described above must be translated appropriately into scenario-dependent credit risk parameters, specifically PD and LGS, using the econometric models also mentioned above. The statistical relations on which these are based are differentiated at the level, respectively, of portfolio cluster and type of guarantee, making use of meaningful variables that statistical tests and economic intuition have identified as significant, plausible and representative.

The dynamics generated initially cover a three-year time horizon that, in order to cover the residual contractual lives of all positions in the portfolio, is then extended on a lifetime basis by developing geometric convergence dynamics driven by suitably calibrated parameters, considering the nature and severity of the scenarios modelled.

Notably, given the intrinsic risk associated with these forecasts and the potential bias that would derive from the blind adoption of estimates provided by a single research institution, however reliable and authoritative, the Bank has established a managerial «Scenarios Committee» that meets to:

- examine the results of the analyses carried out internally, in order to confirm - applying economic, financial, statistical and/or data-driven logic - the plausibility, quality and consistency of the scenarios and related «weighting factors», having regard for the benchmarking exercises carried out with alternative, reputable and independent providers;

- arrange for the communication and critical discussion of the forecasts within the organisation, in order to determine how well the wealth of information received fits with the sentiment of participants regarding the macroeconomic situation and the specific business conditions faced by the Bank, as well as to consider whether or not to include these expert-based elements in the macroeconomic data used in the calculations.

Calculation of the multi-period, scenario-dependent ECL

The impairment for each position under a given scenario is calculated as the sum, discounted to present value at the measurement date, of the ECL (determined by multiplying together the scenario-dependent PD and LGD and the EAD) associated with each contractual cash flow generated by the instrument over a time horizon that depends on the staging (i.e. positions classified in stage 1 are written down over a maximum of one year, while those classified in stage 2 are written down considering the entire residual duration of the contract).

Subsequently, these estimates are aggregated appropriately to obtain the best estimate of a final value that gives due weight to the likelihood of the various macroeconomic scenarios considered. The aggregation mechanism used by the Bank in fact determines the weighted average of the various ECL, applying weighting factors linked to the probability of occurrence of each scenario.

The Bank basically uses a «hybrid» methodology to estimate these factors, balancing the results of a purely macroeconomic and/or data-driven approach with considerations of a more qualitative and expert-based nature.

This approach involves obtaining the estimated probability of occurrence of the scenarios presented by the provider, analysing their plausibility and using them as a starting point for formal discussion within the Bank (Scenarios Committee). This process, which also involves other people drawn from different business functions, considers the results of the internal analyses carried out, reviews them critically and determines, if deemed appropriate, any adjustments or corrections to be made on the basis of judgemental and expert-based input.

IFRS 9 methodology for other portfolios

The writedowns required in accordance with the logic indicated in the new IFRS 9 are also calculated in relation to the securities portfolio, although it is less material than the loans portfolio discussed above.

In this case, the scope of the calculation includes the securities classified under the new C&M model as Held to Collect (which corresponds to the IAS «held to maturity» classification) and as Held to Collect & Sell (which corresponds to the IAS «available for sale» classification). The ECL must be calculated on the exposures classified in one of the above categories that have passed the solely payment of principal and interest (SSPI) test. In particular, the scope of application under the new C&M model comprises the securities measured at: amortised cost and at FVOCI.

The calculation framework is developed using methodological logic consistent with that described above, with a number of differences (e.g. estimation of the risk parameters, econometric models) made necessary by the different type and risk profile of the positions included in the portfolio.

Lastly, with regard to subsidiaries, the models developed to calculate writedowns applied a logic that, while consistent with the methodological framework developed by the Parent Company to comply with the key aspects of the new standard (e.g. estimation of risk parameters over long-term time horizons considering different scenarios, with writedown time horizon dependent on the staging of the position), takes into accoun of their specific characteristics, such as the geographical and economic context in which they operate, the nature and level of diversification of their core businesses, and the complexity and scale of their control structures.

2.4 Credit risk mitigation techniques

The Bank obtains the guarantees considered usual for banking activities in order to reduce credit risk: these principally comprise mortgages on buildings, pledges on financial instruments and unsecured guarantees. Unsecured guarantees principally comprise limited, general guarantees given by individuals and companies whose creditworthiness is considered adequate following a specific assessment. Clearly it is fundamental with regard to unsecured guarantees to check the quality of the guarantor's assets. This analysis is not limited to the initial phase of the relationship, but is repeated over the life of the relationship. If the guarantor is found to be economically unsuitable, the Bank reviews the relationship in order to verify the continued reliability of the borrowing counterparty.

The presence of guarantees is taken into consideration when weighting the overall credit lines to be granted to a customer or to the legal or economic group to which it might belong.

The estimated value of the security offered by counterparties is «discounted» on a prudent basis, having regard for the nature of the instrument made available (mortgages on buildings, pledges of cash or other financial instruments).

With regard to mortgage guarantees, the bank adopts reliable principles and standards for the valuation of properties in order to obtain realistic and detailed estimates of the value of the assets as collateral. The Bank has also a procedure that is able to ensure efficient management and timely assessment of properties that are subject to real encumbrances, by taking a census of the assets and filing the expert appraisals in a specific IT application. Moreover, residential and commercial buildings are assessed at least once a year, partly with a view to complying with the supervisory instructions. Property must meet specific requirements in order to mitigate lending risk (value of the property independent of the creditworthiness of the counterparty, loan repayments independent of cash flows deriving from the asset, and residential property used directly or rented). These requirements are checked by the branches and the electronic credit application is processed for subsequent checks by the investigation office and the approval committees.

The value of security given in the form of financial instruments listed on regulated markets is automatically revised each day with reference to the quoted prices, in order to check that the cover remains within the agreed line of credit or, otherwise, to report the situation to the account managers on a timely basis.

The Bank is not party to settlement agreements regarding on- and off-balance sheet transactions.

Suitable arrangements are made when obtaining, assessing and verifying guarantees to ensure that they will prevail over third parties and can be enforced, both at the time and in the future.

At this time, there are no contractual restrictions threatening the legal validity of the guarantees received.

The central functions that perform the above checks are different to the functions that grant and review lending; the Internal Audit Department carries out periodic checks to ensure that these activities are performed properly and on a prudent basis.

3 Impaired loans

3.1 Strategies and operational policies

Credit risk management is carried out during all stages of lending by means of effective surveillance and monitoring, so that timely assessments can be made as soon as any anomalies arise.

Loans are classified as «impaired» (Non-Performing Exposures), if there are serious signs of tension and, depending on the nature and gravity of the anomaly, in compliance with the EU Implementation Regulation 2015/227 which approved the implementing Technical Standard (ITS), issued by the European Banking Authority (EBA), when they meet one of the following criteria:

- they are due from counterparties that are not deemed able to meet their loan obligations in full without the enforced collection of guarantees, regardless of whether or not any amounts are overdue, or the number of days that payments are past due;
- the debtor has large exposures (as defined with reference to the thresholds of significance established in the Supervisory regulations) that are past due by more than 90 days.

Depending on the nature and gravity of the anomaly, they are split into the following sub-categories:

- Non-performing loans, covering the entire exposure to borrowers that are insolvent or in an equivalent state, regardless of the guarantees given and/or any loss forecasts made;
- Unlikely to pay, all exposures to debtors that, in the opinion of the Bank, are unlikely to pay in full (principal and/or interest) their loan obligations without recourse to the enforced collection of guarantees; this assessment is made regardless of whether or not there are any past due amounts (or instalments);
- Past due and/or impaired overdrawn, cash exposure, other than bad or unlikely to pay loans, which have remained unpaid and/or overdrawn continuously for more than 90 days according to the current regulations.

The loans not allocated to the above categories are deemed to be performing exposures.

The management of «impaired» loans involves taking action, based on the gravity of the situation, to restore normality or, otherwise, to commence appropriate recovery procedures.

More precisely, in the event of positions that are:

- non-performing loans, suitable procedures are implemented to recover the loans; if circumstances permit, recovery plans are drawn up and/or settlements are proposed on an amicable basis in order to terminate the relationship;
- unlikely to pay, an assessment is made of the probability that the debtor will meet its contractual obligations in full, in order to re-establish the original conditions of reliability and profitability of the relationship, or, if this is impossible, steps are taken to transfer the position to the non-performing category. For unlikely to pay loans subject to restructuring agreements, checks are made continuously to ensure that the agreed conditions are met;
- past due and/or impaired overdrawn exposures are monitored and timely attempts are made to get the situation back to normal; if it is seen that the borrower really is in financial difficulty, the necessary steps are taken to transfer the loan to unlikely-to-pay loan or to non-performing loans, depending on the circumstances.

Adjustments are made in strict compliance with both the primary and secondary regulations and on a highly prudent basis. In particular, having regard for non-performing loans and unlikely-to-pay loans, the bank carries out an analysis of each position, which also takes into account the discounting effects of expected recovery.

Overall assessments are made solely with regard to smaller individual loans, being not more than € 10,000 for non-performing loans and € 15,000 for unlikely-to-pay loans. The objective is to adopt a prudent approach to the control of these impaired assets that, given their intrinsic characteristics (large number of not significant amounts), can be processed rapidly and at low cost on primarily an automated basis, thus ensuring the uniformity of the assessments made.

With reference to past due and/or impaired overdrawn exposures, the adjustment is determined with reference to the historical experience of losses on loans with that type of anomaly.

See section 2.2 above for information about the operating policies adopted with regard to impaired loans.

3.2 Write-off

The gross carrying amount of a financial asset is written off if the amount is confirmed to be unrecoverable or there are no realistic prospects of recovery.

The timely assessment of non-recoverability is based on certain criteria, such as the inability to enforce mortgage or personal guarantees, the unsuccessful completion of enforcement/court-supervised proceedings, the start of bankruptcy procedures, removal from the register of the business name of the debtor legal entity, or the untraceability or advanced age of the customer.

The procedure to identify the absence of any reasonable prospects of recovery is focused on the counterparties within the portfolios of non-performing loans and differs depending on the existence or otherwise of mortgage guarantees, the ageing of the position and the progress made with recovery actions.

At the reporting date, the contractual amount of written-off financial assets still subject to enforcement procedures totals 137 million, of which 70 million relates to the current year.

3.3 Impaired financial assets purchased or originated

The category of impaired financial assets purchased or originated (POCI) includes all Purchased or Originated financial instruments that, on initial recognition, are found to be Credit Impaired.

The accounting rules for POCI apply to the financial instruments classified in asset line item 30. Financial assets measured at fair value through other comprehensive income or 40. Financial assets measured at amortised cost, or to the financial instruments that have passed the SPPI test with reference to the business models whose objective is to hold financial assets representing the right to collect contractual cash flows (HTC - «*held to collect*») or to both hold and sell them (HTCS - «*held to collect and sell*»). The «POCI» attribute remains assigned for the entire duration of the relationship and the assets concerned are written down to reflect any losses expected over their residual lifetime.

There are two categories of product associated with POCI financial instruments arising from the granting of finance:

- standard products with instalment repayment plans: in this case, the DelFiWeb procedure recognises the creation of the new relationship that passes the SPPI test, but with an impaired counterparty and automatically assigns the «POCI» attribute for approval by the competent decision-making body;
- standard products managed with the current accounts and international accounts, and non-standard contracts originated by the corporate finance department: for these relationships, the Unit responsible for monitoring and managing anomalous credit manually assigns the «POCI» attribute for approval by the competent decision-making body.

Regardless of how it was assigned (manual or automatic), the «POCI» attribute must always be confirmed by the competent decision-making body and, once approved, remains valid for the entire duration of the relationship.

4. Financial assets subject to commercial renegotiation and exposures subject to forbearance

Financial assets subject to commercial renegotiation

This category includes those renegotiations that envisage changes for commercial reasons to the original contractual conditions governing credit exposures to counterparties that are not in financial difficulty. These changes therefore differ from forbearance and are made to align interest levels with current market conditions.

In addition, commercial renegotiations include changes to the economic conditions applied to newly-arranged credit relationships, being those established for not more than 6 months.

Commercial renegotiations are principally agreed in order to maintain the commercial relationship with the customer (retention of existing loans).

In a market context characterised by low rates, not least in view of the strategies adopted by competitors in the Italian banking systems, especially with regard to lending to businesses and households, the Bank has received many requests to review the economic conditions applied. These are considered with reference to the rating of the counterparty and its prospective profitability, with a view to maintaining and developing the relationship and, therefore, retaining the lending business.

Exposures subject to forbearance

The Bank treats as forbearance the concessions granted in relation to any exposure - loans, debt securities, revocable and irrevocable commitments to grant loans (excluding the exposures held for trading) – towards debtors that are, or are about to be, in difficulty with regard to their financial commitments (financial difficulties).

A concession is made when the amended contractual conditions are more favourable to the debtor than those applied previously. Consistent with the relevant current regulations, the Bank identifies a series of standardised concessions, distinguishing between short and medium/long-term measures, and periodically monitors their effectiveness in terms of bringing the exposures back into line.

For a relationship to be classified as forborne, the concession must be agreed in relation to a customer that is experiencing financial difficulties. This situation is confirmed objectively if the counterparty is classified as non performing, while it is assumed, subject to detailed analysis and assessment, if the counterparty rating of a performing customer reflects a high degree of risk, or the position concerned is past due or was past due for at least 30 days during the three-month period prior to amending the contract, or there is evidence via the Central Risks database of «corrected non-performing» status.

In order to guarantee the quality of credit exposures and monitor their trends effectively, the Bank applies «industrialised» internal processes designed to identify the most suitable concessions for debtors experiencing financial difficulties, as well as to manage the forborne classification of the related exposures.

When a concession is requested, the Operating Unit responsible for the loan determines the most suitable and sustainable measure for the customer, with support from dedicated tools that provide guidance.

As part of this process, the Unit must assess the nature of the financial difficulties (short or long term) and ensure that the expected duration of the concession is consistent with the nature of the related relationship.

Subsequently, the economic sustainability of the measure is analysed with respect to the financial situation of the customer; in particular, the adequacy of the assets of the customer is analysed on a current and prospective basis, considering the need for credibility and prudence.

On arrangement of the concession, dedicated IT procedures check if the conditions exist for classifying the relationship as forborne and, if they do, propose the assignment of this attribute to the competent Operating Unit. Any exceptions made to this classification must be supported by adequate reasons.

Following approval of the concession and the proposed forborne classification by the competent decision-making body, specific objectives and deadlines are added to the loan contract, with which the customer must comply when repaying the debt.

This supplementary conditions are determined using prudent criteria and checked as part of the more general monitoring of the position.

The gross exposure associated with forborne positions at 31 December 2018 totals € 1,407 million, as analysed in the following table:

Gross balances at 31/12/2018 €/000	Retail Secured	Retail Unsecured	Corporate Secured	Corporate Unsecured	Large Corporate	Total
Performing «forborne» - First year of probation period	87,628	34,552	159,986	66,837	1,817	350,821
Performing «forborne» - Second year of probation period	51,210	32,645	109,151	36,027	13,669	242,702
Non Performing Forborne	116,081	39,749	468,300	147,486	41,653	813,270
Total	**254,919**	**106,946**	**737,437**	**250,350**	**57,139**	**1,406,793**

Of this amount, about € 424 million relates to concessions granted during 2018: 61% performing and 39% non-performing relationships.

During the year, about 7% of the opening «forborne non performing» balance was subjected to additional measures, while 24% of the opening «forborne performing» balance became fully performing and no longer classified as forborne.

About 12% of the opening gross exposure to forborne performing positions was reclassified as impaired during 2018.

In the event of non-substantial changes to a position, IFRS 9 requires the resulting gain or loss to be determined. A change is deemed non-substantial when it does not result in closure of the pre-existing relationship and/or involve the addition of clauses that might cause the relationship to fail the SPPI test.

The profit or loss on non-substantial changes to forborne relationships is calculated as the difference between the present value of the new contractual cash flows following renegotiation or amendment, discounted using the original effective interest rate (rate before the renegotiation or amendment of the loan contract), and the present value of the original contractual cash flows, also discounted using the original effective interest rate. The forbearance measures granted during the year resulted in net amendment losses of about € 2.8 million being charged to the income statement. These losses reduced the carrying amount of the gross exposure and, therefore, the expected future losses.

All «forborne performing» positions are classified in stage 2 and the related adjustments are stated at an amount equal to the lifetime losses expected on the loan. The reduction in credit risk and the allocation of the relationship to stage 1 reflects loss of the forborne attribute.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired	Past due exposures, not impaired	Other performing exposures	**Total 31/12/2018**
1. Financial assets measured at amortised cost	759,774	951,732	58,896	282,876	27,355,948	29,409,226
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	4,318,748	4,318,748
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	17,506	450	10,382	218,634	246,972
5. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2018	**759,774**	**969,238**	**59,346**	**293,258**	**31,893,330**	**33,974,946**
Total 31/12/2017	**778,653**	**1,145,218**	**82,522**	**319,869**	**33,088,202**	**35,414,464**

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

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

Portfolio/quality	Impaired				Performing			Total
	Gross exposure	Total adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortised cost	4,015,581	2,245,179	1,770,402	138,374	27,729,770	90,946	27,638,824	29,409,227
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	4,321,395	2,647	4,318,748	4,318,748
3. Financial assets designated at fair value	–	–	–	–	–	–	–	-
4. Other financial assets mandatorily measured at fair value	26,414	8,459	17,956	–	–	–	229,016	246,972
5. Financial assets being sold	–	–	–	–	–	–	–	-
Total 31/12/2018	**4,041,995**	**2,253,638**	**1,788,358**	**138,374**	**32,051,165**	**93,593**	**32,186,588**	**33,974,947**
Total 31/12/2017	**4,109,124**	**2,102,731**	**2,006,393**	**107,843**	**33,518,215**	**110,144**	**33,408,071**	**35,414,464**

The gross exposure to financial assets carried at fair value corresponds to their carrying amount before total writedowns or changes in fair value.

Partial write-offs recorded over the years in relation to the above portfolios total € 138.374 million, reflecting the non-performing loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» presents the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the other financial assets.

Portfolio/quality	Assets obviously of poor quality		Other assets
	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	9	83	170,439
2. Hedging derivatives	–	–	–
Total 31/12/2018	**9**	**83**	**170,439**
Total 31/12/2017	**5**	**106**	**416,439**

A.1.3 Distribution of financial assets by past due bands (book values)

	First stage			Second stage			Third stage		
	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days
1. Financial assets measured at amortised cost	72,257	14	-	36,727	115,257	58,620	7,300	49,667	1,258,298
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	-
Total 31/12/2018	**72,257**	**14**	**-**	**36,727**	**115,257**	**58,620**	**7,300**	**49,667**	**1,258,298**

A.1.4 Financial assets, commitments to make loans and financial guarantees given: dynamics of total writedowns and provisions

	Total writedowns				
	Assets included in the first stage				
Reasons/stages of risk	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost
Opening balance 01/01/2018	**40,255**	**6,149**	**–**	**46,404**	**84,232**
Increases in financial assets purchased or originated	–	–	–	–	–
Cancellations other than by write-offs	–	–	–	–	–
Net adjustments for credit risk (+/-)	(24,728)	(3,571)	–	(28,298)	(5,481)
Contractual amendments without cancellation	–	–	–	–	(99)
Changes in estimation methodology	–	–	–	–	–
Write-offs	–	–	–	–	–
Other changes	26,251	–	–	26,251	(29,485)
Closing balance	**41,778**	**2,578**		**44,357**	**49,167**
Collections against financial assets already written off	–	–	–	–	–
Write-offs charged directly to the income statement	–	–	–	–	–

A.1.5 Financial assets, commitments to grant loans and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

	Gross exposure/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolios/stages of risk	From first to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	607,609	1,283,495	269,406	92,367	122,240	25,215
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Commitments to make loans and financial guarantees given	566,755	319,763	39,377	3,284	42,053	3,691
Total 31/12/2018	**1,174,364**	**1,603,258**	**308,783**	**95,651**	**164,293**	**28,906**

Total writedowns								Total provisions on commitments to grant loans and financial guarantees given			
Assets included in the second stage		Assets included in the third stage									
Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns	Of which: impaired financial assets purchased originated	first stage	second stage	third stage	**Total 31/12/2018**
468	**–**	**84,700**	**2,112,431**	**–**	**2,112,431**	**–**	**121,586**	**5,626**	**2,636**	**25,944**	**2,277,741**
–	–	–	10,941	–	10,941	–	10,941	–	–	–	10,941
–	–	–	–	–	–	–	–	–	–	–	–
(399)	–	(5,880)	249,214	–	249,214	–	29,554	(589)	(1,182)	12,582	225,847
–	–	(99)	(212)	–	(212)	–	–	–	–	–	(311)
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	(210,263)	–	(210,263)	–	–	–	–	–	(210,263)
–	–	(29,486)	148,753	–	148,753	–	(39,383)	–	–	–	145,518
69		**49,235**	**2,310,864**	**–**	**2,310,864**	**–**	**122,698**	**5,037**	**1,454**	**38,526**	**2,449,473**
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

A.1.6 Cash and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure Impaired	Gross exposure Performing	Total adjustments and provisions	Net exposure	Total partial write-offs*
A. **Cash exposure**					
a) Non-performing loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
c) Impaired past due exposures	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	–	32	–	32	–
- of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	–	2,701,646	402	2,701,244	–
- of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**–**	**2,701,678**	**402**	**2,701,276**	**–**
B. **Off-balance sheet credit exposures**					
a) Impaired	–	–	–	–	–
b) Performing	–	936,416	278	936,138	–
Total (B)	**–**	**936,416**	**278**	**936,138**	**–**
Total (A+B)	**–**	**3,638,094**	**680**	**3,637,414**	**–**

Cash exposures include loans and receivables with banks shown in item 40 a) as well as other financial assets represented by bank securities included in items 20 c) and 30 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).

A.1.7 Cash and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure Impaired	Gross exposure Performing	Total adjustments and provisions	Net exposure	Total partial write-offs*
A. **Cash exposure**					
a) Non-performing loans	2,447,319	–	1,687,545	759,774	137,260
- of which: exposures subject to forbearance	177,699	–	112,123	65,576	15,924
b) Unlikely-to-pay loans	1,520,975	–	551,737	969,237	1,114
- of which: exposures subject to forbearance	617,841	–	208,349	409,492	1,114
c) Impaired past due exposures	73,702	–	14,356	59,346	–
- of which: exposures subject to forbearance	17,731	–	912	16,819	–
d) Performing past due exposures	–	301,416	8,191	293,225	–
- of which: exposures subject to forbearance	–	57,484	3,181	54,303	–
e) Other performing exposures	–	29,274,438	82,353	29,192,085	–
- of which: exposures subject to forbearance	–	536,297	10,857	525,440	–
Total (A)	**4,041,996**	**29,575,854**	**2,344,182**	**31,273,667**	**138,374**
B, **Off-balance sheet credit exposures**					
a) Impaired	355,560	–	38,526	317,034	–
b) Performing	–	18,463,517	6,214	18,457,303	–
Total (B)	**355,560**	**18,463,517**	**44,740**	**18,774,337**	**–**
Total (A+B)	**4,397,556**	**48,039,372**	**2,388,922**	**50,048,004**	**138,374**

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

A.1.9 Cash exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
Gross exposure at 31/12/2017	**2,267,984**	**1,742,010**	**99,130**
FTA IFRS 9 Effect	**–**	**–**	**–**
A. **Opening gross exposure**	**2,267,984**	**1,742,010**	**99,130**
- of which: sold but not eliminated from the balance sheet	–	6,455	1,766
B. **Increases**	**535,472**	**469,971**	**70,821**
B.1 transfers from performing loans	75,930	309,328	66,034
B.2 transfers from impaired financial assets purchased or originated	–	28,948	38
B.3 transfers from other categories of impaired exposure	345,196	53,256	102
B.4 contractual amendments not resulting in derecognition	–	–	–
B.5 other increases	114,346	78,439	4,647
C. **Decreases**	**356,137**	**691,008**	**96,248**
C.1 transfers to performing loans	560	117,310	23,091
C.2 write-offs	210,263	–	–
C.3 collections	145,314	115,657	3,780
C.4 proceeds from disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposure	–	333,281	65,273
C.7 contractual amendments not resulting in derecognition	–	918	–
C.8 other decreases	–	123,842	4,104
D. **Closing gross exposure**	**2,447,319**	**1,520,977**	**73,703**
- of which: sold but not eliminated from the balance sheet	–	8,546	1,072

A.1.9bis Cash exposures to customers: dynamics of gross exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: impaired	Exposures subject to forbearance: performing
Gross exposure at 31/12/2017	**652,855**	**611,941**
FTA IFRS 9 Effect	**–**	**–**
A. **Opening gross exposure**	**652,855**	**611,941**
- of which: sold but not eliminated from the balance sheet	1,278	19,368
B. **Increases**	**315,068**	**305,026**
B.1 transfers from performing loans not subject to forbearance	47,468	173,901
B.2 transfers from performing loans subject to forbearance	76,731	–
B.3 transfers from loans subject to forbearance and impaired	–	51,826
B.4 other increases	190,869	79,299
C. **Decreases**	**154,651**	**323,182**
C.1 transfers to performing loans not subject to forbearance	–	128,920
C.2 transfers to performing loans subject to forbearance	51,826	–
C.3 transfers to loans subject to forbearance and impaired	–	76,731
C.4 write-offs	–	–
C.5 collections	50,883	48,882
C.6 proceeds from disposals	–	–
C.7 losses on disposal	–	–
C.8 other decreases	51,942	68,649
D. **Closing gross exposure**	**813,271**	**593,785**
- of which: sold but not eliminated from the balance sheet	2,663	23,760

A.1.11 Impaired cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans		Unlikely-to-pay loans		Past due exposures, impaired	
	Total	Of which: exposures subject to forbearance	**Total**	Of which: exposures subject to forbearance	**Total**	Of which: exposures subject to forbearance
Opening adjustments at 31/12/2017	**1,489,331**	**69,657**	**596,792**	**165,075**	**16,609**	**2,514**
FTA IFRS 9 Effect	**33,245**	**3,122**	**6,078**	**531**	**(5,320)**	**(1,110)**
A. **Total opening adjustments**	**1,522,576**	**72,779**	**602,870**	**165,606**	**11,289**	**1,404**
- of which: sold but not eliminated from the balance sheet	–	–	921	110	274	16
B. **Increases**	**458,663**	**50,259**	**229,444**	**112,295**	**13,930**	**1,034**
B.1 adjustments to impaired assets purchased or originated	–	–	10,937	–	4	–
B.2 other adjustments	67,399	2,119	96,330	39,199	126	2
B.3 losses on disposal	–	–	–	–	–	–
B.4 transfers from other categories of impaired exposures	135,310	16,967	5,904	1,215	23	–
B.5 contractual amendments not resulting in derecognition	–	–	–	–	–	–
B.6 other increases	255,954	31,173	116,273	71,881	13,776	1,032
C. **Decreases**	**293,693**	**10,914**	**280,575**	**69,552**	**10,862**	**1,526**
C.1 write-backs on valuation	33,866	4,001	12,420	3,248	37	16
C.2 write-backs due to collections	49,564	5,856	42,531	11,121	341	143
C.3 gains on disposal	–	–	–	–	–	–
C.4 write-offs	210,263	–	–	–	–	–
C.5 transfers to other categories of impaired exposures	–	–	133,878	16,870	7,359	97
C.6 contractual amendments not resulting in derecognition	–	–	212	212	–	–
C.7 other decreases	–	1,057	91,534	38,101	3,125	1,270
D. **Total closing adjustments**	**1,687,545**	**112,123**	**551,737**	**208,349**	**14,356**	**912**
- of which: sold but not eliminated from the balance sheet	–	–	1,127	268	107	–

A.2 Classification of exposures based on external and internal ratings

A.2.1 Distribution of financial assets, commitments to make loans and financial guarantees given: by external rating class (gross values)

Exposure	External rating classes						Unrated	Total 31/12/2018
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. **Financial assets measured at amortised cost**	**5,059,165**	**992,031**	**172,634**	**127,377**	**47,847**	**2,461**	**25,343,837**	**31,745,352**
– First stage	5,059,165	992,031	150,068	90,924	13,422	–	18,875,085	25,180,695
– Second stage	–	–	22,566	36,453	34,425	1	2,455,631	2,549,076
– Third stage	–	–	–	–	–	2,460	4,013,121	4,015,581
B. **Financial assets measured at fair value through other comprehensive income**	**3,690,242**	**154,749**	**364,460**	**108,047**	**1,901**	**–**	**1,996**	**4,321,395**
– First stage	3,690,242	154,749	356,781	108,047	1,901	–	1,996	4,313,716
– Second stage	–	–	7,679	–	–	–	–	7,679
– Third stage	–	–	–	–	–	–	–	-
Total (A+B)	**8,749,407**	**1,146,780**	**537,094**	**235,424**	**49,748**	**2,461**	**25,345,833**	**36,066,747**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	306,776	306,776
C. **Commitments to make loans and financial guarantees given**								
– First stage	15,322	52,114	10,932	69	–	–	17,147,223	17,225,660
– Second stage	6	–	38,712	24,727	10,172	1,835	2,098,822	2,174,274
– Third stage	–	–	–	–	–	–	355,560	355,560
Total (C)	**15,328**	**52,114**	**49,644**	**24,796**	**10,172**	**1,835**	**19,601,605**	**19,755,494**
Total (A+B+C)	**8,764,735**	**1,198,894**	**586,738**	**260,220**	**59,920**	**4,296**	**44,947,438**	**55,822,241**

The distribution of exposures other than those in variable-yield securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Bank's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	from AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard &Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB	from B+ to B-	from CCC+ down
FitchRatings	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	from CCC+ down

A.2.2 Distribution of financial assets, commitments to make loans and financial guarantees given: by internal rating class (gross values)

INDIVIDUALS

	Internal rating classes						
Exposure	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**12,579**	**26,351**	**78,802**	**297,299**	**646,885**	**533,251**	**496,729**
- First stage	11,271	23,405	73,358	280,003	625,533	510,109	459,055
- Second stage	1,308	2,946	5,444	17,296	21,352	23,142	37,674
- Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- First stage	–	–	–	–	–	–	–
- Second stage	–	–	–	–	–	–	–
- Third stage	–	–	–	–	–	–	–
Total (A+B)	**12,579**	**26,351**	**78,802**	**297,299**	**646,885**	**533,251**	**496,729**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**30,820**	**34,012**	**47,069**	**98,684**	**82,903**	**51,014**	**86,942**
1. First stage	30,530	31,474	44,414	88,585	77,516	45,370	77,281
2. Second stage	290	2,538	2,655	10,099	5,387	5,643	9,661
3. Third stage	–	–	–	–	–	–	–
Total (C)	**30,820**	**34,012**	**47,069**	**98,684**	**82,903**	**51,014**	**86,942**
Total (A+B+C)	**43,399**	**60,363**	**125,871**	**395,983**	**729,788**	**584,265**	**583,671**

SMEs

	Internal rating classes						
Exposure	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**80,496**	**275,291**	**675,707**	**750,956**	**885,680**	**939,420**	**762,730**
- First stage	77,823	267,195	660,567	726,198	857,804	920,864	688,316
- Second stage	2,673	8,096	15,140	24,758	27,876	18,556	70,265
- Third stage	–	–	–	–	–	–	4,149
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- First stage	–	–	–	–	–	–	–
- Second stage	–	–	–	–	–	–	–
- Third stage	–	–	–	–	–	–	–
Total (A+B)	**80,497**	**275,291**	**675,707**	**750,956**	**885,680**	**939,420**	**762,730**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**472,612**	**1,045,808**	**1,146,158**	**903,599**	**773,638**	**507,050**	**430,974**
1. First stage	465,117	1,022,932	1,126,629	867,814	734,304	491,032	406,246
2. Second stage	7,495	22,876	19,529	35,785	39,334	16,018	24,721
3. Third stage	–	–	–	–	–	–	7
Total (C)	**472,612**	**1,045,808**	**1,146,158**	**903,599**	**773,638**	**507,050**	**430,974**
Total (A+B+C)	**553,109**	**1,321,099**	**1,821,865**	**1,654,555**	**1,659,318**	**1,446,470**	**1,193,704**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Insolvent	Total (A+B+C)
313,443	**236,105**	**130,694**	**181,452**	**160,656**	**97,017**	**548,799**	**3,760,059**
251,666	165,852	64,149	40,696	21,053	8,883	–	2,535,033
61,777	70,253	66,545	140,756	139,603	88,134	–	676,228
–	–	–	–	–	–	548,799	548,799
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
313,443	**236,105**	**130,694**	**181,452**	**160,656**	**97,017**	**548,799**	**3,760,059**
–	–	–	–	–	–	–	–
42,973	**19,747**	**8,453**	**10,302**	**4,941**	**5,415**	**6,885**	**530,159**
39,031	16,863	5,568	7,095	2,039	2,844	–	468,610
3,943	2,884	2,885	3,207	2,902	2,571	–	54,665
–	–	–	–	–	–	6,885	6,885
42,973	**19,747**	**8,453**	**10,302**	**4,941**	**5,415**	**6,885**	**530,159**
356,416	**255,852**	**139,147**	**191,754**	**165,596**	**102,432**	**555,683**	**4,290,218**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Insolvent	Total (A+B+C)
422,743	**378,884**	**236,232**	**157,113**	**116,197**	**132,839**	**2,081,736**	**7,896,026**
307,234	283,810	145,276	78,785	47,319	63,965	13,369	5,138,526
112,311	95,075	87,214	70,707	64,933	67,003	18,123	682,733
3,197	–	3,741	7,620	3,945	1,870	2,050,244	2,074,767
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
422,743	**378,884**	**236,232**	**157,113**	**116,197**	**132,839**	**2,081,736**	**7,896,026**
–	–	–	–	–	–	–	–
189,587	**193,993**	**159,145**	**45,854**	**29,231**	**41,252**	**195,486**	**6,134,386**
148,713	173,461	138,074	27,403	18,625	38,122	32,466	5,690,938
40,695	20,532	21,067	17,345	10,395	3,130	4,532	283,453
180	–	5	1,105	210	–	158,488	159,995
189,587	**193,993**	**159,145**	**45,854**	**29,231**	**41,252**	**195,486**	**6,134,386**
612,330	**572,877**	**395,377**	**202,966**	**145,428**	**174,091**	**2,277,223**	**14,030,412**

SMALL BUSINESSES

Exposure	Internal rating classes Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**26,476**	**35,178**	**93,967**	**156,941**	**247,190**	**249,988**	**246,761**
- First stage	26,451	34,778	92,586	151,820	239,390	237,807	221,116
- Second stage	26	400	1,381	5,121	7,800	12,180	25,645
- Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- First stage	–	–	–	–	–	–	–
- Second stage	–	–	–	–	–	–	–
- Third stage	–	–	–	–	–	–	–
Total (A+B)	**26,476**	**35,178**	**93,967**	**156,941**	**247,190**	**249,988**	**246,761**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**152,580**	**122,729**	**138,060**	**118,712**	**130,645**	**99,660**	**74,034**
1. First stage	152,506	122,478	136,530	115,080	127,155	94,845	67,943
2. Second stage	73	252	1,530	3,632	3,490	4,809	6,091
3. Third stage	–	–	–	–	–	5	–
Total (C)	**152,580**	**122,729**	**138,060**	**118,712**	**130,645**	**99,660**	**74,034**
Total (A+B+C)	**179,056**	**157,907**	**232,027**	**275,653**	**377,836**	**349,648**	**320,796**

MICRO-ENTERPRISES

Exposure	Internal rating classes Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**29,541**	**58,800**	**241,701**	**309,715**	**85,028**	**207,849**	**183,581**
- First stage	27,262	52,044	226,284	286,081	79,097	182,361	154,538
- Second stage	2,280	6,756	15,418	23,633	5,931	25,488	29,043
- Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- First stage	–	–	–	–	–	–	–
- Second stage	–	–	–	–	–	–	–
- Third stage	–	–	–	–	–	–	–
Total (A+B)	**29,541**	**58,800**	**241,701**	**309,715**	**85,028**	**207,849**	**183,581**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**32,297**	**47,716**	**71,224**	**59,491**	**52,632**	**40,501**	**44,956**
1. First stage	29,952	43,945	66,894	50,946	52,136	38,529	41,530
2. Second stage	2,345	3,771	4,330	8,544	497	1,972	3,426
3. Third stage	–	–	–	–	–	–	–
Total (C)	**32,297**	**47,716**	**71,224**	**59,491**	**52,632**	**40,501**	**44,956**
Total (A+B+C)	**61,838**	**106,516**	**312,925**	**369,206**	**137,660**	**248,350**	**228,537**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Insolvent	Total (A+B+C)
177,133	**132,632**	**113,756**	**79,313**	**68,339**	**45,492**	**728,905**	**2,402,073**
124,226	90,123	72,493	47,021	38,202	24,499	–	1,400,512
52,908	42,509	41,263	32,292	30,137	20,993	–	272,656
–	–	–	–	–	–	728,905	728,905
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
177,133	**132,632**	**113,756**	**79,313**	**68,339**	**45,492**	**728,905**	**2,402,073**
–	–	–	–	–	–	–	–
51,364	**36,040**	**28,049**	**30,960**	**13,917**	**9,399**	**34,252**	**1,040,402**
40,098	25,364	20,206	26,420	10,262	7,390	740	947,018
11,266	10,676	7,843	4,540	3,655	2,001	227	60,086
–	–	–	–	–	9	33,285	33,299
51,364	**36,040**	**28,049**	**30,960**	**13,917**	**9,399**	**34,252**	**1,040,402**
228,497	**168,673**	**141,805**	**110,273**	**82,256**	**54,891**	**763,157**	**3,442,475**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Insolvent	Total (A+B+C)
195,014	**135,460**	**114,253**	**85,298**	**100,459**	**69,171**	**418,344**	**2,234,214**
116,810	82,491	50,960	19,981	13,909	11,655	13	1,303,485
78,203	52,970	63,293	65,317	86,550	57,516	–	512,398
–	–	–	–	–	–	418,331	418,331
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
195,014	**135,460**	**114,253**	**85,298**	**100,459**	**69,171**	**418,344**	**2,234,214**
–	–	–	–	–	–	–	–
36,951	**27,946**	**17,531**	**10,467**	**11,672**	**6,565**	**9,073**	**469,021**
28,687	21,667	10,297	3,789	5,171	2,924	1,098	397,567
8,264	6,278	7,234	6,677	6,501	3,641	182	63,662
–	–	–	–	–	–	7,792	7,792
36,951	**27,946**	**17,531**	**10,467**	**11,672**	**6,565**	**9,073**	**469,021**
231,965	**163,406**	**131,784**	**95,764**	**112,131**	**75,736**	**427,417**	**2,703,235**

LARGE ENTERPRISES; PUBLIC ENTERPRISES

	Internal rating classes						
Exposure	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**9,393**	**159,171**	**304,067**	**268,142**	**278,322**	**129,233**	**270,142**
- First stage	9,393	151,813	286,286	264,039	229,953	124,350	267,105
- Second stage	–	7,358	17,781	4,103	48,370	4,883	3,037
- Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**16,053**	**6,611**	**14,252**	**–**	**8,806**	**–**
- First stage	–	16,053	6,611	14,252	–	8,806	–
- Second stage	–	–	–	–	–	–	–
- Third stage	–	–	–	–	–	–	–
Total (A+B)	**9,393**	**175,224**	**310,678**	**282,394**	**278,322**	**138,039**	**270,142**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**226,365**	**843,252**	**1,200,903**	**1,359,359**	**663,665**	**303,086**	**912,150**
1. First stage	225,789	843,168	1,175,555	1,262,672	567,696	297,937	875,131
2. Second stage	576	84	25,348	96,687	95,969	5,149	37,018
3. Third stage	–	–	–	–	–	–	–
Total (C)	**226,365**	**843,252**	**1,200,903**	**1,359,359**	**663,665**	**303,086**	**912,150**
Total (A+B+C)	**235,758**	**1,018,476**	**1,511,581**	**1,641,753**	**941,987**	**441,124**	**1,182,291**

OTHER

	Internal rating classes						
Exposure	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Rating 7
A. **Financial assets measured at amortised cost**	**5,021**	**33,937**	**42,165**	**26,988**	**40,124**	**60,513**	**63,512**
- First stage	5,021	33,937	42,165	26,937	40,045	52,484	50,431
- Second stage	–	–	–	51	79	8,029	13,081
- Third stage	–	–	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- First stage	–	–	–	–	–	–	–
- Second stage	–	–	–	–	–	–	–
- Third stage	–	–	–	–	–	–	–
Total (A+B)	**5,021**	**33,937**	**42,165**	**26,988**	**40,124**	**60,513**	**63,512**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**953,884**	**2,138,710**	**2,787,990**	**2,615,555**	**1,785,557**	**1,060,582**	**1,730,079**
1. First stage	943,105	2,109,189	2,734,599	2,460,800	1,636,143	1,020,157	1,601,313
2. Second stage	10,779	29,521	53,391	154,755	149,414	40,419	128,758
3. Third stage	–	–	–	–	–	5	7
Total (C)	**953,884**	**2,138,710**	**2,787,990**	**2,615,555**	**1,785,557**	**1,060,582**	**1,730,079**
Total (A+B+C)	**958,905**	**2,172,647**	**2,830,155**	**2,642,543**	**1,825,680**	**1,121,095**	**1,793,591**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Insolvent	Total (A+B+C)
144,917	**106,075**	**17,877**	**–**	**1,556**	**–**	**147,067**	**1,835,960**
133,215	103,450	1,839	–	148	–	–	1,571,591
11,701	2,624	16,038	–	1,408	–	–	117,302
–	–	–	–	–	–	147,067	147,067
–	**–**	**–**	**–**	**–**	**–**	**–**	**45,722**
–	–	–	–	–	–	–	45,722
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
144,917	**106,075**	**17,877**	**–**	**1,556**	**–**	**147,067**	**1,881,682**
–	–	–	–	–	–	–	–
434,687	**142,302**	**87,480**	**–**	**6,047**	**3,100**	**173,956**	**6,356,352**
412,661	115,264	47,266	–	3,021	3,100	38,509	5,867,770
22,027	27,039	40,213	–	3,025	–	4,465	357,599
–	–	–	–	–	–	130,983	130,983
434,687	**142,302**	**87,480**	**–**	**6,047**	**3,100**	**173,956**	**6,356,352**
579,604	**248,377**	**105,357**	**–**	**7,603**	**3,100**	**321,023**	**8,238,034**

Rating 8	Rating 9	Rating 10	Rating 11	Rating 12	Rating 13	Without rating and insolvent	Total (A+B+C)
35,357	**105,512**	**34,164**	**648**	**3,915**	**666**	**13,164,268**	**13,616,790**
33,906	104,652	7,252	346	427	659	12,857,229	13,255,491
1,451	860	26,912	301	3,488	7	216,768	271,028
–	–	–	–	–	–	90,271	90,271
–	**–**	**–**	**–**	**–**	**–**	**4,275,672**	**4,275,672**
–	–	–	–	–	–	4,267,993	4,267,993
–	–	–	–	–	–	7,679	7,679
–	–	–	–	–	–	–	–
35,357	**105,512**	**34,164**	**648**	**3,915**	**666**	**17,439,941**	**17,892,462**
–	–	–	–	–	–	–	–
867,645	**438,734**	**307,529**	**97,659**	**108,380**	**65,746**	**4,748,932**	**19,706,981**
781,230	370,912	225,055	64,760	63,224	54,395	3,122,854	17,187,735
86,236	67,822	82,469	31,793	44,946	11,343	1,285,731	2,177,378
180	–	5	1,105	210	9	340,346	341,867
867,645	**438,734**	**307,529**	**97,659**	**108,380**	**65,746**	**4,748,932**	**19,706,981**
903,002	**544,247**	**341,694**	**98,306**	**112,295**	**66,413**	**22,188,872**	**37,599,444**

The table shows, in rising order of risk, the distribution by rating class of exposures in the Customers portfolio for which the internal rating models are operative.

As regards «Customers», the ratings are split into thirteen classes for performing counterparties and one for those that are insolvent. The first class identifies customers with the lowest risk, while the thirteenth class indicates the maximum risk; situations of insolvency go into another category B.4.

Note that the Bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

A.3 Distribution of guaranteed exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in columns «guarantees» refer to the actual value of the collateral (so-called «fair value»), which can be much higher than the amount guaranteed: this means that the real value of the guarantees may exceed that shown in the table.

A.3.1 Guaranteed cash and off-balance sheet exposures to banks

			Secured guarantees (1)			
	Gross exposure	Net exposure	Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**73,622**	**73,574**	**–**	**–**	**–**	**–**
1.1. fully guaranteed	47,432	47,410	–	–	–	–
- of which: impaired	–	–	–	–	–	–
1.2. partially guaranteed	26,190	26,164	–	–	–	–
- of which: impaired	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**21,793**	**21,793**	**–**	**–**	**1,968**	**–**
2.1. fully guaranteed	2,295	2,295	–	–	1,281	–
- of which: impaired	–	–	–	–	–	–
2.2. partially guaranteed	19,498	19,498	–	–	687	–
- of which: impaired	–	–	–	–	–	–

Personal guarantees (2)										
Credit derivatives										
Other derivatives					Guarantees given					
CLN	Central Counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**31**	**–**	**67,353**	**–**	**67,385**
–	–	–	–	–	31	–	47,378	–	47,410
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	19,975	–	19,975
–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**17,468**	**–**	**1,258**	**–**	**20,695**
–	–	–	–	–	–	–	1,013	–	2,295
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	17,468	–	245	–	18,400
–	–	–	–	–	–	–	–	–	–

A.3.2 Guaranteed cash and off-balance sheet exposures to customers

	Gross exposure	Net exposure	Secured guarantees (1) Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed cash exposures:**	**15,020,534**	**13,585,586**	**8,712,063**	**–**	**1,572,200**	**250,058**
1.1. fully guaranteed	14,058,558	12,732,861	8,701,582	–	1,458,746	197,567
– of which: impaired	2,771,959	1,501,854	1,298,154	–	8,252	7,405
1.2. partially guaranteed	961,976	852,725	10,481	–	113,454	52,491
– of which: impaired	181,410	76,154	9,738	–	9,951	1,161
2. **Guaranteed off-balance sheet exposures:**	**3,391,460**	**3,381,594**	**418,508**	**–**	**112,196**	**111,378**
2.1. fully guaranteed	2,778,603	2,770,128	416,331	–	74,867	82,897
– of which: impaired	110,960	104,563	24,736	–	1,164	1,427
2.2. partially guaranteed	612,857	611,466	2,177	–	37,329	28,481
– of which: impaired	29,379	28,450	–	–	489	9,433

A.4 Financial and non-financial assets obtained by enforcing guarantees received

	Credit exposure cancelled	Gross value	Total writedowns	Book value	of which obtained during the year
A. **Property, equipment and investment property**	**45,321**	**39,917**	**–**	**39,917**	**39,917**
A.1. For business purposes	45,321	39,917	–	39,917	39,917
A.2. For investment purposes	–	–	–	–	–
A.3. Inventories	–	–	–	–	–
B. **Variable-yield securities and fixed-yield securities**	**8,532**	**7,929**	**–**	**7,929**	**7,929**
C. **Other assets**	**54,270**	**46,279**	**–**	**46,279**	**46,279**
D. **Non-current assets and disposal groups held for sale**	**–**	**–**	**–**	**–**	**–**
D.1. Property, equipment and investment property	–	–	–	–	–
D.2. Other assets	–	–	–	–	–
Total 31/12/2018	**108,123**	**94,125**	**–**	**94,125**	**94,125**

B. Distribution and concentration of exposure

Preparation of this section has excluded in the exposures reported in tables A.1.6. and A.1.7., exposures to counterpart risk relating to loans of securities or goods, granted or received.

Personal guarantees (2)									
Credit derivatives									
Other derivatives					Guarantees given				
CLN	Central Counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**
–	**–**	**–**	**–**	**–**	**203,813**	**17,732**	**232,690**	**2,346,625**	**13,335,181**
–	–	–	–	–	105,961	15,719	211,749	1,999,460	12,690,784
–	–	–	–	–	6,509	–	15,768	148,001	1,484,089
–	–	–	–	–	97,852	2,013	20,941	347,165	644,397
–	–	–	–	–	2,642	–	5,396	37,874	66,762
–	**–**	**–**	**–**	**–**	**12,848**	**9,295**	**40,334**	**2,411,883**	**3,116,442**
–	–	–	–	–	3,829	4,478	38,094	2,094,145	2,714,641
–	–	–	–	–	172	–	347	74,475	102,321
–	–	–	–	–	9,019	4,817	2,240	317,738	401,801
–	–	–	–	–	395	–	20	13,184	23,521

B.1 Distribution by sector of the cash and off-balance sheet exposures to customers

Exposures/Counterparties	Public administrations Net exposure	Public administrations Total writedowns	Financial companies Net exposure	Financial companies Total writedowns
A. **Cash exposure**				
A.1 Non-performing loans	–	–	6,705	42,219
- of which exposures subject to forbearance	–	–	490	6,035
A.2 Unlikely-to-pay loans	–	–	8,754	13,714
- of which exposures subject to forbearance	–	–	2,395	4,490
A.3 Past due exposures, impaired	3	–	146	13
- of which exposures subject to forbearance	–	–	–	–
A.4 Not impaired exposures	9,763,349	3,465	5,014,596	8,626
- of which exposures subject to forbearance	24,984	16	748	6
Total (A)	**9,763,352**	**3,465**	**5,030,201**	**64,572**
B. **Off-balance sheet credit exposures**				
B.1 Impaired exposures	–	–	599	267
B.2 Not impaired exposures	755,197	7	2,269,565	1,228
Total (B)	**755,197**	**7**	**2,270,164**	**1,495**
Total (A+B) 31/12/2018	**10,518,549**	**3,472**	**7,300,365**	**66,067**
Total (A+B) 31/12/2017	**10,719,766**	**92**	**5,770,746**	**80,513**

The 2017 data is not fully comparable, given the different breakdown required by circular 262 and the different scope of the exposures identified.

B.2 Territorial distribution of cash and off-balance sheet exposures to customers

Exposures/Geographical areas	ITALY Net exposure	ITALY Total writedowns	OTHER EU COUNTRIES Net exposure	OTHER EU COUNTRIES Total writedowns
A. **Cash exposure**				
A.1 Non-performing loans	755,145	1,654,212	4,621	28,969
A.2 Unlikely-to-pay loans	965,942	551,249	3,296	488
A.3 Past due exposures, impaired	58,984	14,304	346	47
A.4 Not impaired exposures	27,479,453	89,475	1,935,046	954
Total (A)	**29,259,523**	**2,309,241**	**1,943,309**	**30,458**
B. **Off-balance sheet credit exposures**				
B.1 Impaired exposures	315,033	38,526	2,000	–
B.2 Not impaired exposures	17,956,325	5,712	469,307	483
Total (B)	**18,271,358**	**44,238**	**471,307**	**483**
Total (A+B) 31/12/2018	**47,530,881**	**2,353,479**	**2,414,616**	**30,941**
Total (A+B) 31/12/2017	**34,642,361**	**2,203,461**	**2,466,981**	**34,438**

As regards the geographical distribution of exposures to customers resident in Italy, the assets allocated to «Loans and receivables with customers» are mainly concentrated in the traditional areas served by the Bank, namely the North West (54%) and Centre (39%), followed by the North East (6.5%) and the South and Islands (0.5%).

The 2017 data is not fully comparable, given the different scope of the exposures identified.

	Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
	–	–	515,043	1,261,126	238,026	384,200
	–	–	44,011	85,942	21,074	20,146
	–	–	720,638	452,285	239,845	85,738
	–	–	327,989	184,300	79,108	19,559
	–	–	39,765	11,716	19,432	2,627
	–	–	14,214	549	2,605	364
	6,398	3	9,312,506	45,722	5,388,493	32,726
	–	–	341,718	8,996	212,293	5,020
	6,398	**3**	**10,587,952**	**1,770,849**	**5,885,796**	**505,291**
	44	10	303,065	36,796	13,326	1,453
	15,268	–	14,054,057	3,774	1,363,215	1,205
	15,312	**10**	**14,357,122**	**40,570**	**1,376,541**	**2,658**
	21,710	**13**	**24,945,075**	**1,811,421**	**7,262,337**	**507,949**
	14,677	**51**	**16,195,426**	**1,855,191**	**4,531,198**	**306,677**

	AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
	8	519	–	3,821	–	24
	–	–	–	–	–	–
	3	1	11	3	2	1
	16,691	35	22,141	69	31,981	8
	16,702	**555**	**22,152**	**3,893**	**31,983**	**33**
	–	–	–	–	–	–
	24,156	–	5,176	19	2,339	–
	24,156	**–**	**5,176**	**19**	**2,339**	**–**
	40,858	**555**	**27,328**	**3,912**	**34,322**	**33**
	110,116	**782**	**22,777**	**3,861**	**4,255**	**33**

B.3 Territorial distribution of cash and off-balance sheet exposures to banks

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **Cash exposure**				
A.1 Non-performing loans	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Past due exposures, impaired	–	–	–	–
A.4 Not impaired exposures	1,430,405	83	1,247,985	313
Total (A)	**1,430,405**	**83**	**1,247,985**	**313**
B. **Off-balance sheet credit exposures**				
B.1 Impaired exposures	–	–	–	–
B.2 Not impaired exposures	166,967	15	756,628	263
Total (B)	**166,967**	**15**	**756,628**	**263**
Total A+B 31/12/2018	**1,597,372**	**98**	**2,004,613**	**576**
Total A+B 31/12/2017	**2,054,443**	**–**	**1,925,807**	**–**

B.4 Significant risks

	31/12/2018	**31/12/2017**
Number of positions	13	13
Exposure	15,893,730	16,848,964
Risk position	2,832,915	3,149,301

The exposure limit of 10% of capital for supervisory purposes - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers.

On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

The above positions include the Republic of Italy (nominal exposure, 8,507 million; risk position, 17 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione e Garanzia - Clearing House (nominal exposure, 1,304 million; risk position, 0 million), principally in relation to lending repo transactions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
17,519	9	3,926	1	1,440	–
17,519	**9**	**3,926**	**1**	**1,440**	**–**
–	–	–	–	–	–
295	–	6,635	–	1,494	–
295	**–**	**6,635**	**–**	**1,494**	**–**
17,814	**9**	**10,561**	**1**	**2,934**	**–**
54,978	**–**	**14,672**	**–**	**3,982**	**–**

C. Securitisation transactions

QUANTITATIVE INFORMATION

C.2 Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	Cash exposure					
	Senior		Mezzanine		Junior	
Type of underlying asset/Exposure	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv Srl 15.05.2014/08.02.2042	–	–	–	–	–	–
Mortgage loans	35,516	–	–	–	–	–
Alba 6 Spv 27.06.2014/25.10.2045	–	–	–	–	–	–
Lease contracts	227,858	54	–	–	–	–

The note linked with the securitisation by Bnt Portfolio Spv S.r.l. is classified among the financial assets mandatorily measured at fair value through profit and loss. That fair value is indicated in the «Book value» column.

C.3 Special purpose vehicle for securitisation

Name	Registered offices	Consolidation	Loans
Alba 6 Spv Srl	Conegliano (TV)	NO	339,119
Bnt Portfolio Spv Srl	Conegliano (TV)	NO	205,854

C.4 Non-consolidated special purpose vehicle for securitisation

The SPV Alba 6 Spv S.r.l. and BNT Portfolio Spv S.r.l. have not been consolidated as there is not control as defined by IFRS 10.

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Assets		Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior
–	13,445	227,915	–	75,168
–	17,775	304,780	–	–

E. Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

E.1 Financial assets sold and recognised in full and associated financial liabilities: book value

	Financial assets sold and recognised in full				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which: impaired	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements
A. **Financial assets held for trading**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	–
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
4. Derivatives	–	–	–	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	–
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	–
2. Loans	–	–	–	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**101**	**–**	**101**	**–**	**(100)**	**–**	**(100)**
1. Fixed-yield securities	101	–	101	–	(100)	–	(100)
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
E. **Financial assets measured at amortised cost**	**115,448**	**–**	**115,448**	**–**	**(100,034)**	**–**	**(100,034)**
1. Fixed-yield securities	115,448	–	115,448	–	(100,034)	–	(100,034)
2. Loans	–	–	–	–	–	–	–
Total 31/12/2018	**115,549**	**–**	**115,549**	**–**	**(100,134)**	**–**	**(100,134)**
Total 31/12/2017	**484,611**	**–**	**484,611**	**–**	**(456,684)**	**–**	**(456,684)**

These are securities sold under repurchase agreements.

E.3 Disposals with recourse limited solely to the assets sold and not eliminated from the balance sheet: fair value

	Recognised in full	Recognised in part	**Total 31/12/2018**	**Total 31/12/2017**
A. **Financial assets held for trading**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
4. Derivatives	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Loans	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**101**	**–**	**101**	**355,482**
1. Fixed-yield securities	101	–	101	355,482
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
E. **Financial assets measured at amortised cost (fair value)**	**117,180**	**–**	**117,180**	**129,129**
1. Fixed-yield securities	117,180	–	117,180	129,129
2. Loans	–	–	–	–
Total financial assets	**117,281**	**–**	**117,281**	**484,611**
Total associated financial liabilities	**(100,134)**	**–**	**(100,134)**	**(456,684)**
Net value 31/12/2018	**17,147**	**–**	**17,147**	**–**
Net value 31/12/2017	**27,927**	**–**	**–**	**27,927**

E4. Covered bond operations

On 6 November 2013, the Board of Directors of the Parent Company authorised a covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond S.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015, under the same contract.

Two additional assignments were carried out in 2016. The first, on 1 February 2016, relating to a total portfolio of € 576 million of performing loans in connection with the issue of a second series of covered bonds totalling € 500 million on 4 April 2016. The second, on 1 November 2016, relating to a portfolio of performing loans totalling € 226 million.

A fifth assignment of performing loans for a total of € 307 million took place in 2017 under the same contract.

A sixth assignment of performing loans for a total of € 323 million took place on 1 October 2018 under the same contract.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as assignments without recourse pursuant to IFRS 9. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue includes 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 bonds issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, Popso Covered Bond S.r.l., acts as Guarantor:

Series and Class	Series 1
ISIN Code	IT0005039711
Issue date	05/08/2014
Maturity Date	05/08/2019
Extended maturity	05/08/2020
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	1.375%
Annual	Coupon
Applicable law	Italian

Series and Class	Series 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
Annual	Coupon
Applicable law	Italian

F. Models for the measurement of credit risk

The Bank does not use internal portfolio models to measure the exposure to credit risk.

Section 2 *Market risks*

2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

The securities classified among the «financial assets held for trading» are the principal source of interest rate risk and trading portfolio price risk. Compared with the previous year, the reduction in financial assets held for trading has continued, especially due to the reclassifications required on the FTA of IFRS 9 and the reshaping of the portfolios. At year end, the financial assets held for trading (other than those held by the pension and real estate funds) comprise Italian government securities, 55%; other bonds, 6%; and variable-yield securities, about 39%.

The objectives and strategies for trading activities involving the securities portfolio are designed to maximise its profitability by taking investment opportunities, while working to contain the level of risk. This means that the duration of the bond portfolio is short. The variable-yield securities largely comprise those issued by leading companies, with a large market.

The bank's role in trading activities essentially consists of arbitrage in securities to benefit from short-term trading opportunities, rather than of taking long-term risk positions.

This strategy is consistent with the general approach adopted by the bank, based on the prudent management of all risks.

The fixed-yield securities classified as «financial assets held for trading» are the principal source of interest rate risk.

As regards the transactions in derivative instruments (derivatives in the strictest sense), the offices occasionally arrange interest rate options and interest rate swaps in order to satisfy the hedging needs of customers; these are then matched with operations of opposite sign arranged with leading financial counterparties.

The main source of price risk consists of variable-yield securities and units in mutual funds classified as «financial assets held for trading»; as regards derivatives, there have been transactions in equity options listed on the IDEM market.

B. Management and measurement of interest rate risk and price risk

The internal processes for the measurement, control and management of trading portfolio interest rate risk use two separate monitoring systems that are based respectively on:

- an internal model for the daily calculation of Value at Risk (VaR), which is also used for the analysis of sensitivity to price risk.
- an analysis of sensitivity to interest rate based on the strategic Asset & Liability Management (ALM) methodologies detailed in section 2.2 below (interest rate risk and price risk of the bank book).

With reference to the model based on the calculation of VaR, the Bank adopts an overall system of limits on the exposure to risks from financial assets including, in particular, the various market risks (interest rate, exchange rate, price). This system has the following characteristics: as part of its governance functions, the Board of Directors quantifies the Maximum Acceptable Loss for the period, consistent with the investment policies defined and with financial operations expected over the next year; with reference to the Maximum Acceptable Loss determined by the Board, the Risks Committee establishes appropriate potential exposure limits in terms of the Value at Risk (VaR); the Financial Risk Office, within the Risk Control Department, measures risk on a daily basis, produces the related reports and monitors compliance with credit limits; the «Treasury» office, within the Finance department, and the «Exchange centre», within the International department, accept risk by operating in the markets in compliance with the identified limits.

The characteristics of the internal management and control of price risk in relation to the trading portfolio are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk.

In line with the Bank's risk map, the above limits do not apply to the securities servicing pensions and similar obligations of employees and real estate funds.

VaR is a probabilistic estimate of the maximum amount that can be lost with reference to a specific time horizon and a given probability level (consistent with the investor's level of risk aversion).

The model is parametric with variances and co-variances defined in accordance with JP Morgan's well-known riskmetrics methodology. According to this methodology, the total risk arises from the sensitivity of each position to changes in market factors and in the volatility of their yields, as well as their degree of correlation. At the reporting date, the following assets in terms of financial instruments exposed to interest rate risk included in the trading portfolios held for supervisory purposes are covered by the VaR model: as for interest rate risk, debt securities, lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes) and forward contracts on exchange rates, in addition to other financial derivatives (in a strict sense) traded by the Exchange Centre (options on exchange rates, forward contracts on goods, options on interest rates, interest rate swaps); for price risk: variable-yield securities. Apart from the instruments shown in table 2 below, the VaR model also covers mutual funds and forward contracts traded by the Exchange Centre. The price risk on foreign currency mutual funds also includes exchange risk.

Options and warrants are treated using the delta-gamma methodology, which is more able to reflect the risk profile of transactions where the relationship between the value of the position and the price of the underlying instrument (risk factor) is not linear.

The parameters for the calculation of VaR are as follows: holding period of one day, observation period of 252 days (for the estimation of volatility and the correlation of risk factors) and a confidence interval of 99%.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

The internal policies and procedures for back testing the results of the model against actual results involve comparison of the daily VaR with, on the one hand, the change in market value on the following day of the same positions for which the VaR was calculated (theoretical losses) and, on the other, the change in market value of the following day of the portfolio including the transactions carried out (actual losses). For back testing purposes, the VaR data and the theoretical and actual losses include, in addition to the price risk, the component of exchange rate risk originated by the positions denominated in foreign currencies.

As for the changes in risk exposure compared with the previous year, based on interest rate risk the overall VaR at year end has increased from 0.691 million to 1.106 million (0.091 million for the risk-free rate and 1.076 million for the credit spread) mainly because of fixed-yield securities (from 0.616 to 1.075 million); based on the price risk, the overall VaR at year end was substantially unchanged, having eased from 2.879 million to 2.783 million.

The internal model described is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The Standardised approach is used in this case.

With reference to the second methodology mentioned, based on the sensitivity analyses performed using an ALM procedure discussed later, and considering solely the fixed-yield securities in the trading portfolio for supervisory purposes, all repurchase agreements, forward exchange rate contracts, interest rate options and interest rate swaps, the effect of a change in interest rates of 200 basis points over a period of twelve months on future net interest income, being the difference between future interest income and future interest expense: at year end would be 24.917 million for a positive change and 0.131 million for a negative change. The effect of an instantaneous change in interest rates by +200 basis points on equity – being the difference between the present value of assets and liabilities - would be a reduction in value of 4.484 million, whereas a change in interest rates by -200 basis points would result in an increase in value of 0.138 million euro.

Note that the above data excludes repurchase agreements whose underlyings consist of fixed-yield securities held in the bank book.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**1,258,387**	**–**	**–**	**70,113**	**1,895**	**–**	**–**
1.1 Fixed-yield securities	–	53,958	–	–	70,113	1,895	–	–
- with early repayment option	–	–	–	–	–	1,895	–	–
- other	–	53,958	–	–	70,113	–	–	–
1.2 Other assets	–	1,204,429	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**4,644,163**	**551,708**	**828,190**	**988,711**	**368,764**	**263,896**	**–**
3.1 With underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	4,644,163	551,708	828,190	988,711	368,764	263,896	–
- Options	–	1,096	3,479	9,151	168,136	327,428	262,892	–
+ Long positions	–	548	1,742	4,579	84,068	163,714	131,446	–
+ Short positions	–	548	1,737	4,572	84,068	163,714	131,446	–
- Other derivatives	–	4,643,067	548,229	819,039	820,575	41,336	1,004	–
+ Long positions	–	2,324,893	273,953	409,603	410,288	20,668	502	–
+ Short positions	–	2,318,174	274,276	409,436	410,287	20,668	502	–

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**2,282,726**	**1,019,613**	**286,822**	**736,106**	**91,608**	**–**	**–**
3.1 With underlying security								
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	2,555,018	712,270	214,905	534,531	6,390	–	–
- Options	–	1,125	3,632	8,064	–	–	–	–
+ Long positions	–	563	1,816	4,035	–	–	–	–
+ Short positions	–	562	1,816	4,029	–	–	–	–
- Other derivatives	–	2,553,893	708,638	206,841	534,531	6,390	–	–
+ Long positions	–	1,273,591	354,505	103,360	267,266	3,195	–	–
+ Short positions	–	1,280,302	354,133	103,481	267,265	3,195	–	–

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	ITALY	UNITED STATES	UNITED KINGDOM	JAPAN	GERMANY	OTHER COUNTRIES	
A. **Variable-yield securities**							
- long positions	68,419	–	–	–	3,054	11,622	–
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between interest rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of the year

	(in thousands of euro)
1. **Cash assets**	**1,106**
1.1 Fixed-yield securities	1,075
1.2 Other assets	85
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**2**
3.1 With underlying security	–
- Options	–
+ Long positions	–
+ Short positions	–
- Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying security	2
- Options	–
+ Long positions	1
+ Short positions	1
- Other derivatives	2
+ Long positions	602
+ Short positions	602
Total interest rate risk	**1,106**
A. **Variable-yield securities**	**2,783**
- long positions	2,783
- short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**–**
- long positions	–
- short positions	–
C. **Other derivatives on variable-yield securities**	**–**
- long positions	–
- short positions	–
D. **Derivatives on stock indices**	**–**
- long positions	–
- short positions	
Total Price risk transactions tab.2	**2,783**
Mutual funds	**–**
Forward contracts on other instruments (goods)	**–**
- long positions	87
- short positions	87
Options on other instruments (goods)	**–**
- long positions	–
- short positions	–
Total Price risk	**2,783**
Total Interest rate risk and price risk	**3,376**

Interest-rate risk

Information on average, minimum and maximum VaR is provided below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	1,092
minimum	19
maximum	3,935

With regard to the distribution of VaR during the year, the average interest rate VaR for each month in 2018 is shown below.

January	28
February	34
March	33
April	52
May	884
June	2,964
July	1,880
August	1,436
September	1,275
October	1,818
November	1,424
December	1,138

With reference to fixed-yield securities forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 12 out of 255 observations, the number of days on which theoretical losses exceeded VaR was 12 out of 255 observations.

With regard to the fixed-yield securities held in the trading portfolio for supervisory purposes as well as lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates, interest rate swaps. The following information is taken from the ALM procedure, consistent with that provided in section 2.2 below in relation to the bank book.

Effects of a change in interest rates by +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

	Change in interest margin				
In thousands of euro	31/12/2018				31/12/2017
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	24,917	24,386	20,729	30,661	27,639
negative parallel shift	131	-221	-1,040	484	-602
flat rotary shift	46,484	45,494	38,660	57,210	51,498
steep rotary shift	244	-398	-1,905	901	-1,075
short-term positive shift	48,174	47,150	40,076	59,283	53,416
short-term negative shift	253	-421	-1,996	934	-1,143
long-term positive shift	1,686	1,652	1,411	2,069	1,887
long-term negative shift	10	-23	-90	33	-67
medium-term positive shift	3,372	3,304	2,822	4,138	3,795
medium-term negative shift	19	-45	-179	67	-133
worst-case scenario	10	-421	-1,996	33	-1,143

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

Equity is understood as being the difference between the present value assets and liabilities items.

	Change in equity value				
In thousands of euro	31/12/2018				31/12/2017
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	-4,484	-3,710	-6,949	-646	-12,540
negative parallel shift	138	408	38	1,199	3,841
flat rotary shift	-7,067	-5,825	-9,150	-1,317	-15,860
steep rotary shift	123	613	64	1,602	4,795
short-term positive shift	-7,800	-6,425	-11,165	-1,217	-19,795
short-term negative shift	122	614	60	1,620	4,828
long-term positive shift	-886	-739	-2,368	54	-4,700
long-term negative shift	153	207	-9	1,226	2,884
medium-term positive shift	-1,716	-1,413	-4,496	143	-8,986
medium-term negative shift	153	213	5	1,225	2,923
worst-case scenario	-7,800	-6,425	-11,165	-1,317	-19,795

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(in thousands of euro)
average	3,094
minimum	2,055
maximum	4,310

With regard to the distribution of price VaR during the year, the average VaR for each month in 2018 is presented below.

January	2,855
February	3,232
March	3,713
April	3,106
May	2,418
June	3,408
July	2,923
August	2,910
September	2,637
October	3,085
November	3,441
December	3,444

With reference to variable-yield securities and mutual funds forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 5 out of 255 observations, the number of days on which theoretical losses exceeded VaR was 5 out of 255 observations.

2.2 Interest rate risk and price risk - Bank book

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

As already described in section 2.1 above, the internal processes for the measurement, control and management of the bank book interest rate risk also uses two distinct monitoring systems:

– an internal model for the daily calculation of Value at Risk (VaR) also used for the analysis of sensitivity to price risk.
– an analysis of sensitivity to interest rate risk based on the strategic Asset & Liability Management (ALM) methodologies.

More specifically, the daily calculation of VaR is used to monitor the financial assets classified as «other financial assets mandatorily measured at fair value», the «financial assets measured at fair value through other comprehensive income» and the «financial assets measured at amortised cost», excluding the investments made by the pension and real estate funds; the internal process for the control and management of interest rate and price risk, as well as the related methodology, are much the same as those detailed in the qualitative information provided regarding the «Interest rate and price risk - portfolio for supervisory purposes».

The analysis of sensitivity using strategic ALM methodologies is used to monitor the interest rate risk deriving from fair value and the interest rate risk deriving from cash flows: the principal sources of interest rate risk deriving from fair value are funding transactions (especially demand deposits, but with appropriate modelling of the maturities) and fixed-rate lending (principally long-term loans and fixed-yield securities); the interest rate risk deriving from cash flows is also originated by other sight or indexed rate assets and liabilities.

The internal processes for the management and control of interest rate risk are based on two summary risk indicators and on the respective systems of thresholds defined in the Risk Appetite Framework. The exposure to interest rate risk on the banking book measured by the first indicator is monitored through the attribution of a value limit to the percentage ratio between the amount of capital needed to cover the risk obtained through

Sensitivity Analysis in Full Evaluation, at inertial conditions, with simulation of a parallel movement of the reference curves equal to +/- 200 basis points and the total of Tier 1 capital. The exposure to interest rate risk, on banking and trading portfolios, measured by the second indicator is monitored by attributing a value limit to the percentage ratio between the maximum potential reduction in net interest income over a time horizon of one year obtained through Repricing Analysis, under static conditions with constant volumes, simulating a parallel movement of the reference curves of +/- 200 basis points and the expected interest margin over the same period. Monitoring of these indicators is done monthly. The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

With regard to the principal assumptions and underlying parameters, the model used supports Sensitivity Analysis in Full Evaluation for analysing the sensitivity of equity and the Repricing Analysis for analysing the sensitivity of net interest income, at constant volumes, considering solely the transactions outstanding at the reference date. Specifically, the first methodology is used to determine the flows of principal and interest generated by the individual assets and liabilities held in the bank book. This calculation uses, where necessary, the coupon rate applied to each instruments or, if not predetermined, the market curve associated with the risk factor to which the rate in indexed.

Next, the present values of the assets and liabilities concerned are calculated by summing their cash flows as discounted using the yield curves.

Then these curves are subjected to a parallel shock of +/- 200 basis points, in order to simulate other scenarios involving, respectively, an increase and a decrease in market rates. The flows of interest and principal, as redetermined with reference to the modified curves, are discounted with reference to the new rate curves to obtain the «stressed discounted value» of each asset and liability. In the event that a downward or upward shift of the market curves produced negative interest rate values, they would be subject to a restriction that interest rates cannot be negative.

Then, for each operation, the change in present value is calculated as the difference between the «stressed present value» and the «non-stressed present value».

In this way, the model estimates the sensitivity of the bank book, in terms of change in the economic value of equity due to an increase or decrease in market rates, by summing for each operation in the bank book the change in present value obtained above.

In addition, euro loan and deposit current accounts and savings deposits, which are highly stable in volume terms and whose rates are not usually established by contract, are represented by behavioural models that take account of the persistence of their volume and their elasticity with respect to changes in market rates.

Another type of operations subject to its own modelling is mortgages and unsecured loans in euro granted by the Parent Company. In these operations, the borrower has an early extinction option with respect to the contractual maturity of the loan, which can be exercised at any time.

The adoption of a specific behavioural model makes it easier to track this situation, which is known as «Prepayment». This model is defined using a historical series of a suitable length in terms of time, containing prepayments and other variables that can be used to differentiate behaviours.

The above analyses are supplemented by the results of applying the repricing analysis methodology that, following parallel shocks to the market rate curves of +/- 200 basis points, measures the sensitivity of net interest income for the current year to the positioning of the flows of principal at the time when the funding and lending operations start to become sensitive to changes in market interest rates.

Ideally, the bank book, made up of both debit and credit items that generate the interest margin, is subdivided between transactions that are partly sensitive to changes in interest rates and those that are entirely sensitive. The second type, mostly comprising fixed-rate transactions, is neutral when it comes to determining the sensitivity of net interest income up to the natural expiry of the transaction, but is impacted at the time of renewal; the second, represented by variable-rate transactions, is conditioned by changes in rates at the time of revision of the coupon rate.

The difference between the net interest income generated by each transaction following the application of shocked market curves, and that generated under current market conditions, determines the marginal contribution to overall sensitivity.

Summing this differential for all the operations comprising the bank book determines the total sensitivity of net interest income to the risk of changes in market rates.

The fact, in the case of a downward shift in the curves, the interest rate values would be subject to the restriction that interest rates cannot be negative and the bank book may contain transactions with a cap or a floor on the coupon rate, leads to a situation of asymmetry in the results of the model, affecting both the interest rate risk from fair value and the interest rate risk from cash flow. In this case, for the sake of prudence, the risk exposure is taken to be the higher figure for sensitivity of the book obtained from the two rate change scenarios.

The source of price risk lies in the variable-yield securities and mutual funds not included in the trading portfolio for supervisory purposes, excluding treasury shares. It therefore includes the variable-yield securities classified as equity investments and the variable-yield securities and mutual funds classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», including the investments that service employees' pension and similar obligations. The price risk on foreign currency mutual funds also includes exchange risk.

The strategies for governing the bank book interest-rate risk include, as part of the stress testing of the principal economic, financial and equity variables, carrying out joint simulations to determine the impact of adverse shocks on:

- the economic value of equity;
- the performance of the total net interest income.

Consistent with the «Sensitivity Analysis in Full Evaluation» and «Repricing Analysis» methods explained above, stress tests are carried out monthly by performing simulations using a set of scenarios regarding rate trends aimed at identifying the trend in the interest rate risk profile under particularly adverse market conditions. The main objective of stress tests is to estimate the impact on risk exposure caused by sudden and unpredictable changes in the general level of interest rates caused by a change in one or more specific risk factors.

These simulations envisage ten market rate trend scenarios which include parallel shifts of the reference curves, rotary shifts and shifts on the short, medium and long term.

To assess the performance of exposure to interest rate risk in adverse conditions, the most penalising value in terms of sensitivity reached in the above scenarios is used for prudence sake. The stress analysis is carried out both in terms of the fair value interest rate risk profile, and in terms of cash flow interest rate risk.

QUANTITATIVE INFORMATION

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 years	Unspecified Duration
3. **Financial derivatives**	**501,642**	**232,085**	**36,317**	**37,529**	**154,126**	**9,059**	**4,626**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	501,642	232,085	36,317	37,529	154,126	9,059	4,626	–
Options	501,642	232,085	36,317	37,529	154,126	9,059	4,626	–
+ Long positions	249,972	128,197	16,544	19,098	60,195	9,059	4,626	–
+ Short positions	251,670	103,888	19,773	18,431	93,931	–	–	–
Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. **Other off-balance sheet transactions**	**512,227**	**78,445**	**16**	**74,990**	**91,514**	**1,094**	**6,193**	**–**
+ Long positions	129,500	78,445	16	74,990	91,514	1,094	6,193	–
+ Short positions	382,727	–	–	–	–	–	–	–

This table only shows financial derivatives as an interest rate risk sensitivity analysis based on internal models is provided for cash assets and liabilities.

2. Bank book - internal models and other methodologies for the analysis of sensitivity

Interest-rate risk

With reference to the assets and liabilities that generate the interest margin - except for the fixed-yield securities held in the trading portfolio for supervisory purposes and lending and funding repos (with underlying fixed-yield securities in the trading portfolio for supervisory purposes), forward contracts on exchange rates, options on interest rates and interest rate swaps, as the information on these is disclosed in the section on the trading portfolio for supervisory purposes - as defined in the paragraph in this section on qualitative information, the following are the figures taken from the ALM procedure.

Effects of a change in interest rates by +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

	Change in interest margin				
In thousands of euro	**31/12/2018**				**31/12/2017**
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	50,909	40,747	3,203	71,076	18,010
negative parallel shift	490	828	39	1,350	716
flat rotary shift	96,649	79,248	9,170	135,261	36,771
steep rotary shift	1,074	1,722	182	2,685	1,477
short-term positive shift	101,758	83,249	11,737	141,415	39,127
short-term negative shift	1,074	1,740	155	2,737	1,505
long-term positive shift	4,917	3,932	657	6,477	2,330
long-term negative shift	-106	-94	-148	-48	-77
medium-term positive shift	9,975	7,640	1,363	12,299	4,599
medium-term negative shift	-104	-74	-115	6	-52
worst-case scenario	-106	-94	-148	-48	-77

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

Equity is understood as being the difference between the present value of assets and liabilities items.

	Change in equity value				
In thousands of euro	**31/12/2018**				**31/12/2017**
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	-25,983	-31,180	-91,528	38,614	24,399
negative parallel shift	-85,390	-64,458	-89,393	-45,109	-75,135
flat rotary shift	-122,231	-105,666	-167,758	-20,700	-48,388
steep rotary shift	-88,359	-65,390	-88,359	-46,360	-85,583
short-term positive shift	-97,541	-99,870	-188,792	3,767	-21,848
short-term negative shift	-108,186	-90,182	-118,304	-70,772	-102,747
long-term positive shift	78,785	69,281	41,674	103,677	101,559
long-term negative shift	-87,048	-66,239	-91,411	-47,083	-76,096
medium-term positive shift	207,420	195,908	147,005	266,355	269,652
medium-term negative shift	-108,919	-90,184	-117,053	-70,958	-101,261
worst-case scenario	-122,231	-105,666	-188,792	-70,958	-102,747

With respect to fixed-yield securities classified as «other financial assets mandatorily measured at fair value», «financial assets measured at fair value through other comprehensive income» and «financial assets measured at amortised cost», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	73,262
minimum	17,392
maximum	234,220

With regard to the distribution of VaR during the year, the average VaR for each month in 2018 is presented below.

January	28,111
February	24,146
March	22,779
April	21,083
May	61,081
June	198,874
July	120,225
August	78,544
September	70,053
October	101,030
November	81,332
December	65,544

With reference to the fixed-yield securities included in the «other financial assets mandatorily measured at fair value», the «financial assets measured at fair value through other comprehensive income» and the «financial assets measured at amortised cost», the number of days in which actual losses exceeded the VaR was 7 out of 255 observations for Italian government securities and 3 out of 255 observations for the other fixed-yield securities.

The same number of overruns were observed with reference to theoretical losses.

Price risk

With reference to the closing date, we report above all the VaR figures of variable-yield securities (shares and mutual funds) classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», net of any investments servicing pensions and similar obligations of employees and real estate funds, as well as the figure for investments.

Value at Risk (VaR), end of the year

	(in thousands of euro)
Variable-yield securities	3,402
Mutual funds	1,357
Total AFS and CFV	**4,294**
Equity investments	**17,716**

The following information is provided about the average, minimum and maximum VaR regarding the variable-yield securities (shares and mutual funds) classified among the «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding any relevant investments by the pension and real estate funds.

Price Value at Risk (VaR)

	(in thousands of euro)
average	3,167
minimum	2,363
maximum	4,338

With regard to the distribution of VaR during the year, the average VaR for each month in 2017 is presented below.

January	2,643
February	2,968
March	3,138
April	2,713
May	2,869
June	3,662
July	3,313
August	3,108
September	2,701
October	3,481
November	3,323
December	4,124

Considering the scope referred to above, the actual and theoretical losses exceed the VaR 2 times out of 255 observations.

2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

The principal sources of exchange risk are: the investment in Banca Popolare di Sondrio (SUISSE) SA, denominated in Swiss francs, certain other equities, variable-yield securities and mutual funds denominated in foreign currencies, if any, and the net foreign currency position managed by the «Exchange Centre», deriving principally from intermediation in repos with private customers and on the interbank market, as well as the implications of the Bank's foreign exchange position deriving from trading in other financial products (difference between premiums on currency options, interest on foreign currency deposits etc.).

Excluding securities, the Bank's role in foreign currency transactions is largely commercial, with a view to meeting customers' needs.

The characteristics of the internal management and control of exchange risk are the same - in terms of organisational structure and the limitation of risk acceptance - as those described in relation to interest rate risk in section 2.1, to which reference is made.

The measurement and control of exchange risk essentially involves application of an internal model for the daily calculation of Value at Risk (VaR) with the characteristics described in section 2.1 above.

At the balance sheet date, the following financial instruments exposed to exchange rate risk are covered by the VaR model: all of the foreign currency assets and liabilities (excluding gold, the African Financial Community franc of the former French colonies of West Africa, the African Financial Community of Central Africa, the Kenyan shilling, the new Bulgarian lev, the Bahraini dinar, the Oman riyal and the Qatari riyal) shown in table 1 below, excluding mutual funds in foreign currency, whose exchange risk is included in price risk; moreover, the balances used by the internal model do not include accrued income and prepaid expenses, accrued expenses and deferred income, the interest portion of unpaid instalments, the differentials on adoption of the amortised cost principle and loan writedowns. In addition to those shown in table 1 above (options on exchange rates and forward contracts on commodities), the financial derivatives (in a strict sense) traded by the Exchange Centre also include interest rate swaps.

The forward contracts on exchange rates and variable-yield securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

The internal model based on VaR is not used to determine the capital requirements for market risk reported for supervisory purposes to the Bank of Italy. The standard methodology is used in this case.

B. Hedging of exchange risk

The Bank has not arranged any specific hedges of exchange risk.

The position of the «Exchange Centre» is updated on a real-time basis; this enables exchange traders to act in the interbank market to offset any mismatches that may arise due to the transactions described above. Any unmatched foreign currency positions are small and, in any case, fall within the limits established by the internal regulations of the «Exchange Centre».

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. **Financial assets**	**421,776**	**72,636**	**22,008**	**510,677**	**17,032**	**62,802**
A.1 Fixed-yield securities	–	–	–	–	–	–
A.2 Variable-yield securities	24,684	–	–	137,731	–	–
A.3 Loans to banks	201,372	72,109	18,436	7,909	17,032	62,702
A.4 Loans to customers	195,720	527	3,572	365,037		100
A.5 Other financial assets	–	–	–	–	–	–
B. **Other assets**	**6,098**	**1,902**	**560**	**4,554**	**197**	**2,104**
C. **Financial liabilities**	**394,007**	**73,727**	**23,216**	**380,736**	**17,243**	**61,259**
C.1 Due to banks	114,770	5,927	235	289,483	1,376	8,481
C.2 Due to customers	279,237	67,800	22,981	91,253	15,867	52,778
C.3 Fixed-yield securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**10,732**	**989**	**–**	**441**	**–**	**454**
E. **Financial derivatives**	**1,866,140**	**237,946**	**83,379**	**7,462**	**8,014**	**170,476**
- Options	12,400	–	420	–	–	–
+ long positions	6,204	–	210	–	–	–
+ short positions	6,196	–	210	–	–	–
- Other derivatives	1,853,740	237,946	82,959	7,462	8,014	170,476
+ long positions	925,620	118,922	41,483	3,128	3,989	83,926
+ short positions	928,120	119,024	41,476	4,334	4,025	86,550
Total assets	**1,359,698**	**193,460**	**64,261**	**518,359**	**21,218**	**148,832**
Total liabilities	**1,339,055**	**193,740**	**64,902**	**385,511**	**21,268**	**148,263**
Net balance (+/-)	**20,643**	**(280)**	**(641)**	**132,848**	**(50)**	**569**

2. Internal models and other methodologies for the analysis of sensitivity

With reference to the closing date, we report belove all the VaR figures split between the transactions explicitly foreseen in table 1 and the other transactions on which the calculation is carried out.

Value at Risk (VaR), end of the year

	(in thousands of euro)
Fixed-yield securities	0
Variable-yield securities	944
Net balance between other assets and liabilities	54
Financial derivatives	56
- Options	0
+ Long positions	56
+ Short positions	56
- Other derivatives	56
+ Long positions	9,013
+ Short positions	9,064
Total transactions table 1	**936**
- Interest Rate Swap	8
+ Long positions	5,699
+ Short positions	5,691
Total	**944**

Details of the principal currencies

US Dollars	38
Sterling	1
Japanese Yen	5
Swiss Francs	929
Canadian Dollars	0
Other currencies	1
Total	**944**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(in thousands of euro)
average	1,173
minimum	64
maximum	1,899

With regard to the distribution of VaR during the year, the average VaR for each month in 2018 is presented below.

January	1,483
February	1,647
March	1,488
April	1,247
May	1,065
June	1,101
July	828
August	953
September	1,161
October	1,211
November	984
December	929

Section 3 *Derivative instruments and related hedging policy*

3.1 Trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: notional values at period end

	Total 31/12/2018				Total 31/12/2017			
	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**	**–**	**–**	**3,226,858**	**–**	**–**	**–**	**3,334,839**	**–**
a) Options	–	–	24,346	–	–	–	24,366	–
b) Swap	–	–	3,202,512	–	–	–	3,310,473	–
c) Forward	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swap	–	–	–	–	–	–	–	–
c) Forward	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**2,208,494**	**–**	**–**	**–**	**2,065,361**	**–**
a) Options	–	–	25,625	–	–	–	65,004	–
b) Swap	–	–	–	–	–	–	–	–
c) Forward	–	–	2,182,869	–	–	–	2,000,357	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**9,368**	**–**	**–**	**–**	**17,095**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**5,444,720**	**–**	**–**	**–**	**5,417,295**	**–**

As foreseen in the Bank of Italy's Circular 262/05, the tables in this section do not include trades in securities, commodities or foreign currencies with settlement by a date in line with market practice for transactions of the same kind or within five working days of the transaction date.

A.2 Financial trading derivatives: gross positive and negative fair value - breakdown by product

	Total 31/12/2018				Total 31/12/2017			
	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. **Positive fair value**								
a) Options	–	–	469	–	–	–	1,280	–
b) Interest rate swap	–	–	30,272	–	–	–	36,524	–
c) Cross currency swap	–	–	–	–	–	–	–	–
d) Equity swap	–	–	–	–	–	–	–	–
e) Forward	–	–	13,390	–	–	–	14,131	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	261	–	–	–	916	–
Total	**–**	**–**	**44,392**	**–**	**–**	**–**	**52,851**	**–**
2. **Negative fair value**								
a) Options	–	–	432	–	–	–	1,201	–
b) Interest rate swap	–	–	28,613	–	–	–	35,321	–
c) Cross currency swap	–	–	–	–	–	–	–	–
d) Equity swap	–	–	–	–	–	–	–	–
e) Forward	–	–	13,234	–	–	–	13,662	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	253	–	–	–	896	–
Total	**–**	**–**	**42,532**	**–**	**–**	**–**	**51,080**	**–**

The fair value of forwards in the trading portfolio for supervisory purposes only includes transactions with underlying currency.

A.3 OTC Financial trading derivatives – notional values, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	3,001,244	2,845	222,769
– positive fair value	–	24,254	18	6,103
– negative fair value	–	28,613	–	87
2) **Variable-yield securities and stock indices**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	1,717,945	42,296	448,253
– positive fair value	–	10,901	362	2,494
– negative fair value	–	8,785	2,313	2,481
4) **Commodities**				
– notional value	–	4,684	–	4,684
– positive fair value	–	9	–	252
– negative fair value	–	246	–	7
5) **Other assets**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
2) **Variable-yield securities and stock indices**	**–**			
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**	**–**			
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
4) **Commodities**	**–**			
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
5) **Other assets**	**–**	**–**	**–**	**–**
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–

A.4 Residual life of OTC financial trading derivatives: notional values

Underlyings/residual life	Within 12 months	1 to 5 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	1,396,168	1,756,327	74,363	3,226,858
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
A.3 Financial derivatives on currency and gold	2,196,459	12,035	–	2,208,494
A.4 Financial derivatives on commodities	8,848	520	–	9,368
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2018	**3,601,475**	**1,768,882**	**74,363**	**5,444,720**
Total 31/12/2017	**2,393,012**	**1,984,030**	**1,040,253**	**5,417,295**

3.3 Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central Counterparties	Banks	Other financial companies	Other parties
A. **Financial derivatives**				
1) **Fixed-yield securities and interest rates**				
– notional value	–	3,001,244	2,845	222,769
– positive fair value	–	24,254	18	6,103
– negative fair value	–	28,613	–	87
2) **Variable-yield securities and stock indices**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
3) **Currency and gold**				
– notional value	–	1,717,945	42,296	448,253
– positive fair value	–	10,901	362	2,494
– negative fair value	–	8,785	2,313	2,481
4) **Commodities**				
– notional value	–	4,684	–	4,684
– positive fair value	–	9	–	252
– negative fair value	–	246	–	7
5) **Other**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
B. **Credit derivatives**				
1) **Purchase of protection**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–
2) **Sale of protection**				
– notional value	–	–	–	–
– positive fair value	–	–	–	–
– negative fair value	–	–	–	–

Section 4 *Liquidity risk*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Liquidity risk typically reveals itself in the form of an inability to meet payment commitments or an incapacity to finance assets with the necessary punctuality on a cost/effective basis. These negative circumstances can occur as the company finds it impossible:

- to raise funds or obtain them at a reasonable cost (funding liquidity risk);
- to sell or reduce its position without severely affecting the price, due to low efficiency or malfunctioning on the part of the market (market liquidity risk).

The Bank's overall strategy for managing liquidity risk, with its low propensity for risk, manifests itself firstly in the adoption of specific operating guidelines that make it possible to reduce the likelihood of such problems arising.

In particular, as regards the first of these sources of risk, the Bank is primarily committed to have a wide and stable retail funding base, which by definition is widely diversified; further significant sources of funding are represented by national and international entities and companies, from which the Bank has never had problems raising money at market conditions, given its high reputation. The Bank also makes use of loans granted by the European Central Bank (Targeted Longer-Term Refinancing Operations), amounting to Euro 4.6 billion at 31 December 2018.

The potential liquidity risk deriving from difficulties in unwinding positions is contained by the decision of the Bank to maintain a portfolio of high quality bonds: most of this portfolio consists of government securities and, to a lesser extent, of other corporate bonds that are highly liquid as they easily be sold on the market or used, when liquidity is needed, in repurchase agreements with banks or in refinancing operations held by the European Central Bank as most of them are eligible.

Another element that contributes positively to the reserve availability known as the «counterbalancing capacity» is represented by the loans granted to the European Central Bank, in addition to eligible fixed-yield securities, in the form of collateral, so-called ABACO loans (A.BA. CO stands for Attivi BAncari COllateralizzati or collateralised bank assets).

Control over liquidity risk is carried out by various units: the first level control is performed by the operating functions that provide for a timely check that they carry out their duties properly and report the results in summary form on a daily basis.

Then there is systematic monitoring of the expected liquidity position by the Risk Control Department using a variety of indicators and different analytical time horizons. Focusing on the principal indicators used for short-term analysis, the profile of liquidity mismatches is determined and highlighted in specific tables, covering the following twelve months, using operational treasury and similar data and the counterbalancing capacity. Similar information is made available to the Supervisory Authorities every week, focusing on the time horizon up to 3 months. In addition, contingency indicators are calculated every day in order to identify, on a timely basis, any internal or external tensions affecting operational liquidity. Operational liquidity is also subjected to specific stress tests every month, in order to verify the ability of the Group to survive, using expected cash flows and its counterbalancing capacity, unfavourable endogenous and exogenous events that increase in the liquidity requirement following the drawdown of committed lines of credit or downgrades of the Parent Company or the Italian State. The Group is in fact able to survive independently such serious adverse events beyond the target time horizon established by the Board of Directors.

The long-term liquidity position is also monitored monthly, with no time limits, by reference to a dedicated diary of due dates and set of metrics designed to check the structural equilibrium of the consolidated balance sheet and measure specific aspects, including the concentration of funding.

The short and long-term regulatory indicators, Liquidity Coverage Ratio and Net Stable Funding Ratio, are also quantified monthly and quarterly, respectively. Further risk measures relating to the concentration of funding and its cost are also monitored on a monthly basis, as is the composition of the counterbalancing capacity as required by supervisory regulations (the so-called Additional Liquidity Monitoring Metrics) and the indicators relating to the intraday liquidity risk provided for by the Basel Committee on Banking Supervision are quantified.

We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5, complies with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**5,200,538**	**1,695,123**	**165,398**	**2,117,349**	**834,064**	**1,124,889**	**3,328,074**	**12,276,179**	**6,745,958**	**487,851**
A.1 Government securities	–	–	729	1,680	12,372	6,359	1,599,822	6,060,053	2,156,000	–
A.2 Other fixed-yield securities	187	–	–	340	3,895	12,648	14,312	428,591	578,403	395
A.3 Mutual funds	381,317	–	–	–	–	–	–	–	–	–
A.4 Loans	4,819,034	1,695,123	164,669	2,115,329	817,797	1,105,882	1,713,940	5,787,535	4,011,555	487,456
– Banks	149,136	225,497	31,138	12,869	27,890	154,136	563,016	130,266	–	469,600
– Customers	4,669,898	1,469,626	133,531	2,102,460	789,907	951,746	1,150,924	5,657,269	4,011,555	17,856
B. **Cash liabilities**	**24,906,292**	**158,689**	**2,228**	**32,077**	**398,767**	**256,030**	**801,845**	**6,175,102**	**113,618**	**–**
B.1 Deposits and current accounts	24,776,281	158,639	2,146	6,706	323,302	172,130	98,904	3,245	–	–
– Banks	228,851	–	–	–	–	–	–	–	–	–
– Customers	24,547,430	158,639	2,146	6,706	323,302	172,130	98,904	3,245	–	–
B.2 Fixed-yield securities	81,212	44	82	25,271	65,240	81,630	590,101	1,509,933	81,922	–
B.3 Other liabilities	48,799	6	–	100	10,225	2,270	112,840	4,661,924	31,696	–
C. **Off-balance sheet transactions**	**6,162,994**	**208,787**	**181,775**	**3,151,773**	**955,178**	**1,035,478**	**1,891,375**	**301,766**	**536,513**	**–**
C.1 Financial derivatives with exchange of capital	–	199,139	145,512	1,014,168	548,997	136,485	75,868	11,681	–	–
– Long positions	–	100,631	72,762	507,073	276,802	68,084	38,021	5,841	–	–
– Short positions	–	98,508	72,750	507,095	272,195	68,401	37,847	5,840	–	–
C.2 Financial derivatives without exchange of capital	24,728	–	–	–	–	–	–	–	–	–
– Long positions	12,631	–	–	–	–	–	–	–	–	–
– Short positions	12,097	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Commitments to make loans	6,138,266	9,648	36,263	2,137,605	406,181	898,993	1,815,507	290,085	536,513	–
– Long positions	3,246	9,648	36,263	2,137,605	406,181	898,993	1,815,507	290,085	536,513	–
– Short positions	6,135,020	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Financial derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–

Line item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «sight» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Bank for financial statement purposes. Commitments to make loans include all of the commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

1. Distribution by residual duration of financial assets and liabilities

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**118,506**	**114,412**	**122,855**	**92,885**	**157,966**	**52,410**	**33,447**	**118,314**	**165,599**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-
A.3 Mutual funds	20,908	-	-	-	-	-	-	-	-	-
A.4 Loans	97,598	114,412	122,855	92,885	157,966	52,410	33,447	118,314	165,599	-
- Banks	65,075	106,181	106,183	56,946	42,388	719	2,551	-	-	-
- Customers	32,523	8,231	16,672	35,939	115,578	51,691	30,896	118,314	165,599	-
B. **Cash liabilities**	**595,037**	**94,487**	**216,575**	**6,804**	**11,225**	**17,463**	**8,583**	**114**	**-**	**-**
B.1 Current accounts and deposits	595,037	94,487	216,575	6,804	11,225	17,463	8,583	114	-	-
- Banks	107,647	93,605	215,162	525	2,414	-	940	-	-	-
- Customers	487,390	882	1,413	6,279	8,811	17,463	7,643	114	-	-
B.2 Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. **Off-balance sheet transactions**	**46,706**	**206,513**	**146,708**	**1,014,729**	**729,706**	**158,202**	**103,964**	**12,036**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	206,513	146,708	1,014,729	729,706	158,202	103,964	12,036	-	-
- Long positions	-	102,205	73,361	507,417	362,490	79,287	51,925	6,018	-	-
- Short positions	-	104,308	73,347	507,312	367,216	78,915	52,039	6,018	-	-
C.2 Financial derivatives without exchange of capital	34,860	-	-	-	-	-	-	-	-	-
- Long positions	18,004	-	-	-	-	-	-	-	-	-
- Short positions	16,856	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	4,796	-	-	-	-	-	-	-	-	-
- Long positions	2,398	-	-	-	-	-	-	-	-	-
- Short positions	2,398	-	-	-	-	-	-	-	-	-
C.4 Commitments to make loans	7,050	-	-	-	-	-	-	-	-	-
- Long positions	3,525	-	-	-	-	-	-	-	-	-
- Short positions	3,525	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 5 *Operational risks*

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes; the scope of operational risk includes legal risk and IT risk, but excludes strategic and reputational risks.

To ensure that the Bank has a system of risk management that as much as possible reflects the changing structure of the business, it has adopted a system of operational risk governance and management that is in continuous refinement, with a view to adopting the most suitable technical-organisational solutions to prevent and/or mitigate critical issues involved in its operations.

With reference to the governance of operational risks, the Risk Control function is responsible for defining methodologies and coordinating execution of the management and control processes, as well as for preparing dedicated information flows for the competent business functions and bodies, in order to ensure full knowledge of the actual and potential risks faced by the Bank and, therefore, their governability.

The qualitative and quantitative system adopted for managing operational risk is made up of the following components:

- a process of loss data collection (LDC), designed for the accurate detection of risk events that generate losses and the registration not only of monetary values, but also of qualitative information which, put briefly, specify when, how, where and why the event has occurred;
- a Risk Self Assessment process (RSA), aimed at investigating the perception of business experts regarding the potential risks in which the Bank could incur in corporate operations, as well as to gather indications on the subject of interventions, proposed or implemented, for the prevention and/or mitigation of risk situations;
- a process for measuring operational risk for regulatory purposes that is focused on adoption of the Traditional Standardised Approach (TSA), which envisages the application of different coefficients for each of the business lines making up the most recent three annual observations of the Significant Indicator, calculated in compliance with EU regulations;
- a process for measuring operational risk exposure through the implementation of an internal statistical model aimed at calculating quantitative risk metrics (Operational VaR - OpVaR).

Overall, these processes assist monitoring of the historical and prospective exposure to operational risk and related trends, as well as the identification, guidance and control of coordinated action to prevent, mitigate and, if necessary, transfer risk.

Since 30 June 2018, following recognition of compliance with current regulatory requirements, the Bank quantifies the capital requirement (separate and group) for operational risk using the Traditional Standardised Approach (TSA), transitioning from the Basic Indicator Approach (BIA) adopted previously.

Specific work during the year focused on extending the operational model to the new subsidiaries and analysing in depth the issues associated with the entry into force of EU legislation, such as that governing investment and payment services which impact business operations significantly.

The monitoring and control of risk is supported by a defined set of operational indicators, as well as by a structured process for the identification, guidance and monitoring of the principal actions needed to prevent and mitigate the issues identified.

Legal and conduct risks

Among the phenomena comprising operational risk, particular attention is paid to economic events relating to legal disputes and judicial proceedings in which the Bank is being sued, which may include cases in which financial services were not provided properly or fraud or negligence to the detriment of customers (conduct risk).

Given the special nature of these issues, the process of identifying, assessing and monitoring these risks is carried out in close and constant collaboration with the corporate departments responsible for handling legal issues and litigation.

The operational losses associated with legal and conduct risks mainly include the prudent accounting provisions and any related increases or reductions recorded with regard to proceedings initiated by the Bank, or in which it is summoned to court, that do not directly relate to credit collection activities. These provisions are in fact subject to periodic review following favourable rulings obtained by the Bank on the settlement of damages and/or based on indications deriving from the outcome of disputes involving other operators within the banking system.

The losses associated with legal and conduct risks also include the expenses incurred on the services of external lawyers and the payments made when court cases are lost.

IT risk

Specific attention is dedicated to managing the risks associated with the use of information and communications technology that might compromise the availability, completeness and accuracy, accessibility and security of technological infrastructures and data. Such use is monitored by the specialist, dedicated functions within the «SOSI and Security» department.

The approach adopted for the management of IT risk, in line with the general structure of operational risk management, provides, on the one hand, for the collection and classification of IT incidents, or events that have occurred as a result of errors or failures in technological systems (quantitative approach); and, on the other hand, for the assessment of threats inherent in the IT system in order to identify areas where risk could potentially occur and consequently quantify the gravity of the situation (qualitative approach).

In this regard, the Bank paid particular attention to monitoring and minimising the risks associated with so-called cyber security, or to violations or attempted breach of IT security, aimed in most cases at carrying out fraudulent payment instructions.

Specific measures are adopted for the processing and protection of personal data, in compliance with the related privacy regulations, as well as to tackle emergency situations and business interruptions via the definition of operational continuity plans and disaster recovery measures that ensure the timely restoration of systems and procedures.

QUANTITATIVE INFORMATION

The most significant impact in absolute terms is the losses recorded in connection with violations of regulatory provisions and/or the adoption of improper commercial and market practices, mainly in the form of prudent provisions set aside for legal and conduct-related disputes.

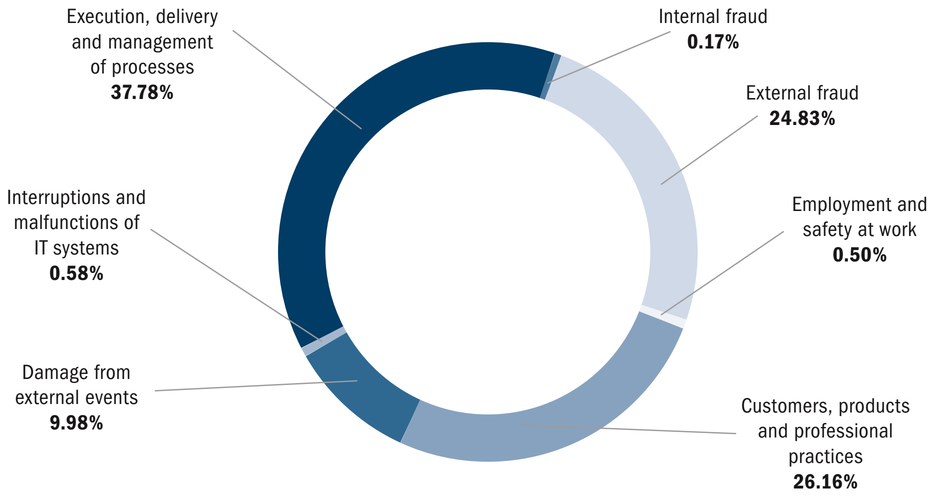
Total operational losses also include the effect of errors in the performance of daily activities, especially in the execution of transactions or in the context of relations with counterparties other than customers, as well as those deriving from exogenous events, such as counterfeiting / fraudulent collection of cheques and the theft / loss / cloning of payment cards, which are generally mitigated by dedicated insurance policies.

The following chart shows the operational losses recognised by the Parent Company over the past five years (2014 – 2018) as part of the Loss Data Collection process, using the regulatory classification for operational risk events (Event type):

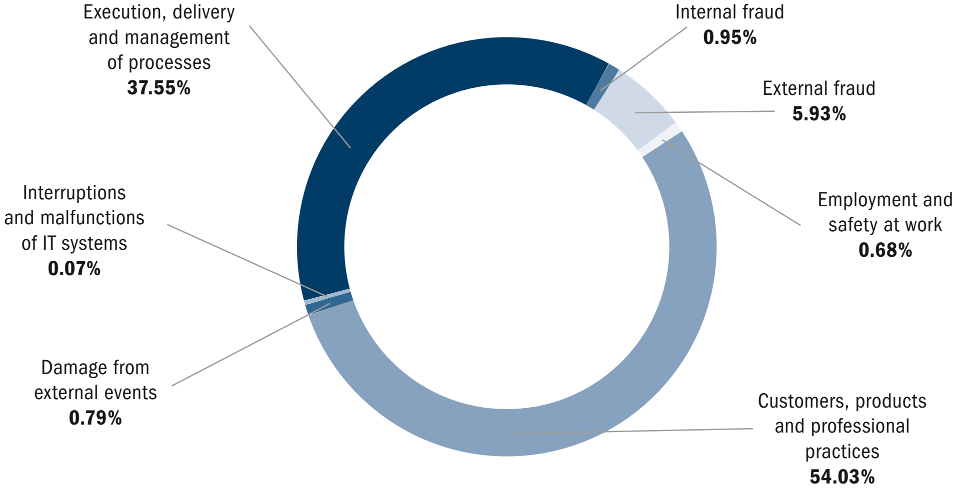
- Internal fraud – Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.
- External fraud – Events of fraud, embezzlement or circumvention of the law by external/third parties to obtain personal benefits that involve damage to the Bank.
- Employment and safety at work – Events attributable to acts that do not comply with the law or agreements on employment, health and safety at work.
- Customers, products and professional practices – Events due to non-compliance/negligence in the application of laws, codes, rules of conduct and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models.
- Damage from external events – Events involving damage or destruction of property due to accidents, natural disasters or other vandalism.
- Operational interruptions and system malfunctions – Events due to interruptions or malfunctions of the Bank's IT systems (hardware/software).
- Execution, delivery and management of processes – Events due to errors, shortages and unintentional delays in the execution of daily operations, in the management of processes and relationships with counterparties other than customers (e.g. commercial counterparties, suppliers of goods and services).

Banca Popolare di Sondrio – Sources of operational losses (accounting period: 01/01/2014 - 31/12/2018)

Number of operational loss events - breakdown by Event Type



Impact of the events of operational losses - Breakdown by Event Type



Section 6 *Sovereign risk*

Information on exposure to sovereign 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.

A this regard, the overall exposure of the bank at 31/12/2018 amounted to € 10,133 million and was structured as follows:

a) Italian Government securities: € 8,014 million;

b) Securities of other issuers: € 1,760 million;

c) Loans to government departments: € 56 million;

d) Loans to state-owned or local government-owned enterprises: € 269 million;

e) Loans to other public administrations and miscellaneous entities: € 34 million.

PART F *Information on equity*

Section 1 *Capital*

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for banks to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects their reputation.

The need for adequate capital was made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis.

The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery. Recent events that have affected the banking system are evidence of this. Supervisory Bodies are focusing more and more on the capital adequacy of banks.

The Bank has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

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

The crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit S.p.A. with a view to providing specialist tools in support of the real economy. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

The Extraordinary Meeting held on 28 April 2018 authorised the Board of Directors to increase capital for payment, with the exclusion of pre-emption rights, by a maximum of € 40 million in order to service the acquisition of the majority of the share capital of Cassa di Risparmio Cento S.p.a. on 30 October 2018. Banca Popolare di Sondrio, Fondazione Cassa di Risparmio di Cento and Holding CR Cento S.p.A. have signed the final contract for the acquisition of the majority of the share capital of Cassa di Risparmio di Cento.

The responsibilities that the bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

B. QUANTITATIVE INFORMATION

The component parts and size of the Bank's capital and equity are described in Part B, Liabilities, Section 12 of these notes to the financial statements.

B.1 Equity: breakdown

Items	31/12/2018	31/12/2017
1. **Share capital**	**1,360,157**	**1,360,157**
2. **Share premium reserve**	**79,005**	**79,005**
3. **Reserves**	**885,551**	**856,065**
– retained earnings	885,551	856,065
a) legal	320,525	269,482
b) statutory	512,200	476,410
c) treasury shares	30,000	35,000
d) other	22,826	75,173
– other	–	–
4. **Equity instruments**	**–**	**–**
5. **(Treasury shares)**	**(25,322)**	**(25,322)**
6. **Valuation reserves**	**(16,196)**	**38,643**
– Variable-yield securities measured at fair value through other comprehensive income	61,600	50,987
– 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	(40,204)	28,117
– Property, equipment and investment property	–	
– Intangible assets	–	
– Hedges of foreign investments	–	
– Cash-flow hedges	–	
– Hedging instruments (non-designated elements)		
– Exchange differences	–	
– Non-current assets and disposal groups held for sale	–	
– Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)		
– Actuarial profits (losses) related to defined-benefit pension plans	(37,592)	(40,461)
– Portions of valuation reserves related to subsidiaries carried at equity	–	
– Special revaluation regulations	–	
7. **Profit (loss) for the year**	**83,623**	**118,400**
Total	**2,366,820**	**2,426,949**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

	Total 31/12/2018		Total 31/12/2017	
Assets/Values	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	39,494	(79,698)	27,927	(1,552)
2. Variable-yield securities	97,593	(35,993)	50,987	-
3. Mutual funds	-	-	1,923	(181)
4. Loans	-	-	-	-
Total	**137,087**	**(115,691)**	**80,837**	**(1,733)**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
Opening balance at 31/12/2017	**26,375**	**50,987**	**1,742**	**-**
FTA IFRS 9 Effect	**9,500**	**-**	**(1,742)**	**-**
1. **Opening balance**	**35,875**	**50,987**	**-**	**-**
2. **Positive changes**	**1,988**	**46,606**	**-**	**-**
2.1 Increases in fair value	1,500	46,606	-	-
2.2 Adjustments for credit risk	468	-	-	-
2.3 Transfer to income statement of negative reserves from disposals	20	-	-	-
2.4 Transfer to other components of equity (variable-yield securities)	-	-	-	-
2.5 Other changes	-	-	-	-
3. **Negative changes**	**(78,067)**	**(35,993)**	**-**	**-**
3.1 Reductions in fair value	(58,676)	(35,993)	-	-
3.2 Write-backs for credit risk	(4,438)	-	-	-
3.3 Transfer to income statement from positive reserves: from disposals	(13,973)	-	-	-
3.4 Transfer to other components of equity (variable-yield securities)	-	-	-	-
3.5 Other changes	(980)	-	-	-
4. **Closing balance**	**(40,204)**	**61,600**	**-**	**-**

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans is negative by € 37.592 million.

This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 Capital and capital adequacy ratios

2.1 Own funds

A. QUALITATIVE INFORMATION

Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (Capital Requirement Regulation - CRR) and Directive 2013/36 EU (Capital Requirement Directive - CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

While the CRR Regulation is directly applicable in national law, the CRD IV Directive was implemented by Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to Own Funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the EU instructions.

Own funds

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds comprise:

- Tier 1 Capital;
- Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:

- Common Equity Tier 1 - CET1;
- Additional Tier 1 – AT1.

The Tier 1 capital (CET1) is made up of the following positive and negative components:

- Share capital;
- Share premium reserve;
- Retained earnings;
- Negative valuation reserves - OCI;
- Other reserves;
- Previous CET 1 instruments subject to transitional instructions (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

Additional Tier 1 capital (AT1) consists of the following positive and negative components:

- Equity instruments and related premiums;
- Previous AT1 instruments subject to transitional instructions (grandfathering);
- Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:

- Equity instruments, subordinated loans and related premiums;
- Previous T2 instruments subject to transitional instructions (grandfathering);
- Deductions.

The supervisory regulations envisaged a transition period, still in progress, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

Following the entry into force of the ECB Regulation, since October 2016 larger banks have to include in or deduct from CET 1, respectively, their unrealised gains and losses arising from exposures to EU central administration classified in the portfolio measured at FVOCI (formerly AFS). The transition period prior to supervisory recognition of profits and losses on securities allocated to the portfolio of «Financial assets measured at fair value through other comprehensive income» ended at the start of 2018, with the consequence that these amounts are now added to/deducted from CET1 capital.

Following the introduction of the new IFRS 9, the Bank decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, an additional amount in the calculation of their CET1 capital aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of the new standard. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 95% in 2018 to 25% in 2022, until it is completely eliminated in 2023. The expected impact on capital ratios calculated under the transitional (or «Phased in») rules is therefore more limited.

B. QUANTITATIVE INFORMATION

	31/12/2018	31/12/2017
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,331,149**	**2,367,576**
of which: CET1 instruments subject to transitional arrangements	–	–
B. **Prudential filters of CET1 (+/-)**	**–**	**–**
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,331,149**	**2,367,576**
D. **Elements to be deducted from CET1**	**26,230**	**14,396**
E. **Transitional instructions - Impact on CET1 (+/-)**	**30,522**	**364**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,335,441**	**2,353,544**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions**	**–**	**–**
of which: AT1 instruments subject to transitional instructions	–	–
H. **Elements to be deducted from AT1**	**–**	**–**
I. **Transitional instructions - Impact on AT1 (+/-)**	**–**	**–**
L. **Total Additional Tier 1 - AT1 (G - H +/- I)**	**–**	**–**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions**	**338,782**	**433,560**
of which: T2 instruments subject to transitional instructions	–	–
N. **Elements to be deducted from T2**	**14,715**	**21,365**
O. **Transitional instructions - Impact on T2 (+/-)**	**–**	**40,223**
P. **Total Tier 2 - T2 (M - N +/- O)**	**324,066**	**452,418**
Q. **Total Own funds (F + L + P)**	**2,659,508**	**2,805,962**

The composition of own funds takes account of the profit for the period, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

The Basel 3 regulations establish the following minimum ratios for banking groups:

- CET 1 ratio of 4.50%;
- Tier 1 ratio of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions are provided for:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; currently this is not being implemented in Italy but, following instructions from the Supervisory Bodies, it could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;
- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significant may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;
- Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which on a fully phased basis (January 2019) shall be as follows:

- CET 1 ratio of 7%;
- Tier 1 ratio of 8.5%;
- Total Capital Ratio of 10.5%.

Reduced coefficients applied in 2018, which was the final year of the transition phase. Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

With the «SREP Decision», the European Central Bank used its powers to impose compliance with the following minimum capital requirements to be maintained at a consolidated level in 2018:

- a minimum requirement of Common Equity Tier 1 ratio of 8.375%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.875%), and an additional Second Pillar requirement (2%);
- a minimum requirement of Total Capital Ratio of 11.875%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.875%) and an additional Second Pillar requirement (2%).

Indeed, on the basis of the evidence collected as part of the Supervisory Review and Evaluation Process (SREP), it is up to the ECB to set the capital ratios and/or cash ratios for each intermediary under its direct supervision, as well as an indication of further qualitative and quantitative considerations and recommendations: similar activities are also carried out by the Bank of Italy for the smaller banks that are under its direct supervision.

On 5 February the European Central Bank sent the bank the decision of the Supervisory Board with respect to the new minimum ratios to be applied with effect from 1 March, for the year 2019. The new minimum capital levels required of our Banking Group are:

– a minimum requirement of Common Equity Tier 1 ratio of 9.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (2.25%);
– a minimum requirement of Total Capital Ratio of 12.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (2.25%).

While the first two items of each index shown above are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

At 31 December 2018, the bank expressed the following coefficients on an individual basis:

– CET 1 Capital ratio 12.64%;
– Tier 1 Capital ratio 12.64%;
– Total Capital ratio 14.40%.

B. QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts 31/12/2018	Unweighted amounts 31/12/2017	Weighted amounts/requirements 31/12/2018	Weighted amounts/requirements 31/12/2017
A. **Assets at risk**				
A.1 Credit and counterparty risk		–		–
1. Standardised approach	38,291,489	39,148,522	16,652,455	17,203,407
2. Approach based on internal ratings				
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. Securitisations	263,375	350,784	234,064	311,964
B. **Capital adequacy requirements**				
B.1 Credit and counterparty risk			1,350,922	1,401,230
B.2 Loan adjustment risk			545	1,534
B.3 Regulation risks			–	–
B.4 Market risks			–	–
1. Standard methodology			18,827	55,923
2. Internal models			–	–
3. Concentration risk			–	–
B.5 Operational risk			–	–
1. Basic method			107,631	120,408
2. Standardised approach			–	–
3. Advanced method			–	–
B.7 Total precautionary requirements			1,477,925	1,579,095
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets			18,474,064	19,738,683
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			12.64%	11.92%
C.3 Tier 1 capital/ Risk-weighted assets (Total capital ratio)			12.64%	11.92%
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)			14.40%	14.22%

PART G Operations of business divisions

Section 1 Operations realised during the year

1.1 Business combination: acquisition of PrestiNuova S.p.A.

For details of the transaction, please refer to Part G of the Notes to the consolidated financial statements at 31 December 2018.

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in Office	Expiry of Office	Emoluments for the office held in Banca Poplare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	Chairman	01/01/2018-31/12/2018	31/12/2018	250	-	-	35
STOPPANI LINO	Deputy Chairman	01/01/2018-31/12/2018	31/12/2019	136	-	-	14
PEDRANZINI MARIO ALBERTO	Director	01/01/2018-31/12/2018	31/12/2019	150	-	-	129
BIGLIOLI PAOLO	Director	01/01/2018-31/12/2018	31/12/2019	46	-	-	-
CARRETTA ALESSANDRO	Director	01/01/2018-31/12/2018	31/12/2020	30	-	-	-
CORRADINI CECILIA	Director	01/01/2018-31/12/2018	31/12/2019	44	-	-	-
CREDARO LORETTA	Director	01/01/2018-31/12/2018	31/12/2020	50	-	-	-
DEPPERU DONATELLA	Director	01/01/2018-31/12/2018	31/12/2020	35	-	-	-
FALCK FEDERICO	Director	01/01/2018-31/12/2018	31/12/2018	48	-	-	-
FERRARI ATTILIO PIERO	Director	01/01/2018-31/12/2018	31/12/2020	48	-	-	-
FONTANA GIUSEPPE	Director	01/01/2017-31/12/2017	31/12/2017	14	-	-	-
GALBUSERA CRISTINA	Director	01/01/2018-31/12/2018	31/12/2018	50	-	-	-
PROPERSI ADRIANO	Director	01/01/2018-31/12/2018	31/12/2020	47	-	-	-
RAINOLDI ANNALISA	Director	01/01/2018-31/12/2018	31/12/2019	51	-	-	-
ROSSI SERENELLA	Director	01/01/2018-31/12/2018	31/12/2018	47	-	-	-
SOZZANI RENATO	Director	01/01/2017-31/12/2017	31/12/2017	25	-	-	3
TRIACCA DOMENICO	Director	01/01/2018-31/12/2018	31/12/2018	71	-	-	2
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	01/01/2018-31/12/2018	31/12/2020	94	-	-	8
DEPPERU DONATELLA	Serving Statutory Auditor	01/01/2017-31/12/2017	31/12/2017	25	-	-	6
VITALI MARIO	Serving Statutory Auditor	01/01/2017-31/12/2017	31/12/2017	24	-	-	8
VITALI LAURA	Serving Statutory Auditor	01/01/2018-31/12/2018	31/12/2020	48	-	-	-
ZOANI LUCA	Serving Statutory Auditor	01/01/2018-31/12/2018	31/12/2020	52	-	-	27
PEDRANZINI MARIO ALBERTO (*)	General Manager	01/01/2018-31/12/2018	-	-	90	80	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES	Deputy General Manager	01/01/2018-31/12/2018	-	-	54	187	923

(*) also Managing Director.

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 2.765 million have been paid. The column «Emoluments for the office held in Banca Popolare di Sondrio includes € 0.083 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting is called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

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

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

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

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

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

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

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	988	6.342	19	25	136	1.257
Statutory auditors	555	149	10	–	354	298
Management	–	842	–	5	406	-
Family members	2,878	11,894	63	51	900	9,541
Subsidiaries	2,832,919	73,189	2,519	277	1,873,929	13,842
Associated companies	626,019	367,971	972	336	143,501	1,233
Other related parties	101,692	28,644	729	37	101,939	26,984

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.A. and Banca della Nuova Terra S.p.A., while loans to associated companies relate for € 579 million to Alba Leasing S.p.A.; assets with other related parties include loans of € 80 million granted to the affiliate Release S.p.A..

APPENDICES:

The appendices listed below contain additional information with respect to the notes to the financial statements, of which they form an integral part:

– list of revalued assets still owned by the Bank (article 10, Law 72 of 19/3/1983);

– schedule of the Independent Auditors' fees for the year (as per art. 149 duodecies of the Issuers' Regulations);

– financial statements of the subsidiaries Banca Popolare di Sondrio (SUISSE) SA, Factorit S.p.A., Prestinuova S.p.A., Banca della Nuova Terra S.p.A., Sinergia Seconda S.p.A., Pirovano Stelvio S.p.A..

LIST OF REVALUED ASSETS STILL OWNED BY THE BANK

(art. 10 of Law 72 dated 19/3/1983)

(in euro)

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total at 31/12/2018	Accumulated depreciation as 31/12/2018	Net book value as of 31/12/2018
ABBIATEGRASSO - Via S. Maria - Ang P. Garibaldi	2,261,103	0	0	0	2,261,103	341,233	1,919,870
APRICA - Corso Roma, 140	450,765	0	356,355	146,929	954,049	652,143	301,906
BERBENNO DI VALTELLINA - Via Raneè, 542	17,490,511	0	0	99,417	17,589,928	6,728,235	10,861,693
BERGAMO - Via Broseta, 64/B	3,794,328	0	0	0	3,794,327	1,299,869	2,494,458
BERGAMO - Via G. D'alzano, 5	2,324,744	0	0	0	2,324,744	480,278	1,844,466
BERGAMO - Via Ghislandi Vittore, 4	1,288,525	0	0	0	1,288,525	173,951	1,114,574
BORMIO - Via Roma, 64	439,238	46,481	573,267	136,524	1,195,510	323,135	872,375
BORMIO - Via Roma angolo Via Don Peccedi	2,966,333	0	361,520	301,774	3,629,627	1,726,057	1,903,570
BRENO - Piazza Ronchi, 4	1,529,470	0	0	87,467	1,616,937	897,436	719,501
BRESCIA Ag,4 - Via Fratelli Ugoni, 2	1,031,619	0	0	0	1,031,619	15,474	1,016,145
CAMOGLI - Via Cuneo, 9	220,960	0	0	0	220,960	16,572	204,388
CHIAVENNA - Via Dolzino, 67	1,200,578	46,481	1,149,057	1,066,173	3,462,289	2,393,265	1,069,024
CHIESA VALMALENCO - Via Roma, 138	800,867	17,560	664,795	133,250	1,616,472	751,974	864,498
COLICO - Piazza Cavour, 11	177,749	0	0	96,488	274,237	274,237	0
DELEBIO - Piazza S. Carpoforo, 7/9	844,205	23,241	645,773	688,773	2,201,992	1,456,111	745,881
DERVIO - Via Don Invernizzi, 2	1,270,219	0	0	329,276	1,599,495	1,023,180	576,315
DOMASO - Via Statale Regina, 71	584,106	0	0	53,817	637,923	202,286	435,637
DONGO - Piazza V. Matteri, 14	3,273,702	0	0	415,551	3,689,253	1,471,585	2,217,668
EDOLO - Piazza Martiri della Libertà, 16	1,058,736	0	0	509,161	1,567,897	1,493,703	74,194
GENOA - Via XXV Aprile, 7	10,239,131	0	0	0	10,239,131	2,870,402	7,368,729
GERA LARIO - Via Statale Regina, 14	292,667	0	131,677	227,733	652,077	403,007	249,070
GRAVEDONA - Piazza Garibaldi, 10/12	309,900	0	0	0	309,900	60,431	249,469
GRAVEDONA - Via Tagliaferri, 5	3,400,645	0	0	223,957	3,624,604	1,171,466	2,453,138
GROSIO - Via Roma, 67	95,936	7,230	229,791	51,484	384,441	253,970	130,471
GROSOTTO - Via Statale, 73	452,237	12,911	147,146	42,099	654,393	338,018	316,375
ISOLACCIA VALDIDENTRO - Via Nazionale, 31	403,787	0	290,229	272,602	966,618	633,512	333,106
LECCO - Corso Martiri della Liberazione, 63/65	9,574,332	0	351,191	2,124,557	12,050,080	7,789,618	4,260,462
LECCO - Via Galandra, 28	168,623	0	0	41,959	210,582	170,571	40,011
LIVIGNO - Via S. Antoni, 135 - Via Prestefan	5,946,629	0	345,487	358,828	6,650,944	2,219,349	4,431,595
LODI - Via Garibaldi, 23/25 - angolo Via Marsala	3,577,883	0	0	0	3,577,883	284,856	3,293,027
MADESIMO - Via Carducci, 3	493,542	0	0	203,733	697,275	677,675	19,600
MANTUA - Corso Vittorio Emanuele, 26	6,349,903	0	0	0	6,349,903	601,602	5,748,301
MANTUA - Piazza Broletto, 7	1,265,944	0	0	0	1,265,944	56,967	1,208,977
MARCHIROLO - Via Cav. Emilio Busetti, 7/A	1,089,019	0	0	0	1,089,018	490,812	598,206
MAZZO VALTELLINA - Via S. Stefano, 18	641,635	16,010	163,550	48,833	870,027	291,733	578,294
MELEGNANO - Piazza Garibaldi, 1	3,257,871	0	0	0	3,257,871	417,963	2,839,908
MILAN - Piazza Borromeo, 1	38,217	0	0	213,722	251,939	205,217	46,722
MILAN - Via A. Messina, 22	150,000	0	0	0	150,000	38,250	111,750
MILAN - Via Compagnoni, 9	51,141	0	0	6,842	57,983	57,983	0
MILAN - Via Lippi, 25	53,970	0	0	1,635	55,605	55,605	0
MILAN - Via Morigi, 2/A	73,590	0	0	123,930	197,520	189,620	7,900
MILAN - Via Porpora, 104	5,318,962	0	0	165,381	5,484,342	1,999,189	3,485,153
MILAN - Via Procaccini	1,392,686	0	0	0	1,392,686	62,346	1,330,340
MILAN - Via S. Maria Fulcorina, 1	10,881,110	159,818	3,047,096	2,461,826	16,549,850	6,309,939	10,239,911
MILAN - Via S. Maria Fulcorina, 11	493,165	0	0	0	493,165	458,643	34,522
MILAN - Via Sangallo, 16	4,752	0	0	11,915	16,667	16,000	667
MILAN - Via Sforza, 48	3,197,671	0	0	0	3,197,671	306,840	2,890,831
MILAN - Via Solari, 15	422,156	0	0	0	422,156	202,635	219,521
MILAN - Viale Faenza	864,004	0	0	0	864,004	38,880	825,124

BUILDINGS	Investment	Revaluation Law 576 of 2/12/75	Revaluation Law 72 of 19/3/83	Revaluation Law 413 of 30/12/91	Total at 31/12/2018	Accumulated depreciation as 31/12/2018	Net book value as of 31/12/2018
MONTAGNA IN VALTELLINA - Via Stelvio, 30	472,050	0	328,458	398,008	1,198,516	731,095	467,421
MONZA - Via Cavallotti	6,209,376	0	0	0	6,209,376	165,715	6,043,661
MORBEGNO - Piazza Caduti della Libertà, 6	2,101,004	0	1,088,606	704,283	3,893,893	2,427,887	1,466,006
MORBEGNO - Via Nani, 13	54,709	0	0	17,739	72,448	72,448	0
MORBEGNO - Via Garibaldi, 81	435,688	25,823	0	56,050	517,561	446,564	70,997
MOZZO - Via G. D'annunzio, 4	26,424	0	0	14,259	40,683	34,174	6,509
NOVATE MEZZOLA - Via Roma, 13	1,079,528	0	251,282	89,219	1,420,028	382,780	1,037,248
PASSO DELLO STELVIO	630,416	0	0	296,176	926,592	899,390	27,202
PESCATE	1,336	0	0	0	1,336	60	1,276
PONTE VALTELLINA - Piazza della Vittoria, 1	811,041	12,911	258,098	86,540	1,168,591	299,036	869,555
REGOLEDO DI COSIO VALTELLINO - Via Roma, 7	134,617	0	0	78,405	213,022	170,048	42,974
REGOLEDO DI COSIO VALTELLINO - Piazza S. Martino, 14	132,135	0	0	0	132,135	9,910	122,225
ROME - Piazza Filippo il Macedone, 75	2,400,000	0	0	0	2,400,000	1,044,000	1,356,000
ROME - Via Della Farnesina, 154	928,169	0	0	0	928,169	292,373	635,796
ROME - Via Di Propaganda Fide, 27	155,625	0	350,503	88,926	595,054	595,054	0
ROME TRITONE	7,451,913	0	0	0	7,451,913	335,336	7,116,577
ROME Ag, 37 - Via Tagliamento	1,752,535	0	0	0	1,752,535	26,288	1,726,247
S. CASSIANO VALCHIAVENNA - Via Spluga, 108	397,672	0	0	103,093	500,765	350,139	150,626
S. PIETRO BERBENNO - Via Nazionale Ovest, 110	1,288,306	22,208	328,181	122,795	1,761,491	668,818	1,092,673
S. SIRO - Via Statale Regina	467,692	0	0	0	467,692	250,974	216,718
SEREGNO - Via Wagner, 137/A	123,950	0	0	13,282	137,232	127,626	9,606
SESTO CALENDE - Piazza Mazzini, 10	443,111	0	0	0	443,111	73,114	369,997
SONDALO - Via Zubiani, 2/4/6/8/10	21,757	25,823	312,456	158,005	518,041	404,479	113,562
SONDRIO - Corso V, Veneto, 7	858,944	0	0	1,190,813	2,049,756	916,183	1,133,573
SONDRIO - Largo Pedrini, 8	363,862	0	0	22,527	386,389	237,774	148,615
SONDRIO - Lungo Mallero Cadorna, 24	3,441,301	0	196,254	451,249	4,088,803	1,519,296	2,569,507
SONDRIO - Piazzale Tocalli - Via Delle Prese	348,608	0	0	0	348,608	298,060	50,548
SONDRIO - Piazza Garibaldi, 1	16,056,897	0	0	0	16,056,897	1,443,022	14,613,876
SONDRIO - Piazza Garibaldi, 16	1,563,597	351,191	7,810,125	3,142,651	12,867,565	8,032,675	4,834,890
SONDRIO - Via Bernina, 1	181,930	0	82,385	45,795	310,110	193,076	117,034
SONDRIO - Via Caimi, 29	357,915	0	0	46,342	404,257	404,257	-0
SONDRIO - Via Cesura, 4	388,303	0	0	64,149	452,452	169,589	282,863
SONDRIO - Via Lusardi, 53	247,506	0	0	0	247,506	200,480	47,026
SONDRIO - Via Tonale, 6	56,297	0	243,248	54,643	354,188	354,188	0
SONDRIO - Via Pio Rajna, 1	16,195	0	0	40,221	56,416	50,774	5,642
TALAMONA - Via Cusini, 29	223,475	0	313,640	203,691	740,806	586,576	154,230
TEGLIO - Piazza S. Eufemia, 2	40,150	13,944	546,700	148,165	748,959	506,172	242,787
TIRANO - Località Valchiosa	139,352	0	0	0	139,352	100,917	38,435
TIRANO - Piazza Cavour, 20	392,571	0	1,736,322	718,576	2,847,470	1,973,760	873,710
TURIN - Via XX Settembre, 37	6,473,624	0	0	0	6,473,623	1,262,184	5,211,439
TRESCORE BALNEARIO - Piazza Cavour, 6	1,292,789	0	0	0	1,292,789	213,310	1,079,479
TRESENDA DI TEGLIO - Via Nazionale, 57	192,524	0	193,671	67,596	453,791	441,841	11,950
TREVISO - Corso Del Popolo, 50	4,570,295	0	0	0	4,570,295	292,918	4,277,377
VALMADRERA - Via S. Rocco, 31/33	1,348,914	0	0	0	1,348,914	182,103	1,166,811
VERCELLI - Piazza Mazzucchelli, 12	1,773,241	0	0	0	1,773,241	239,388	1,533,853
VERONA	1,669,747	0	0	0	1,669,747	75,139	1,594,608
VILLA DI CHIAVENNA - Via Roma, 39	197,712	0	0	7,639	205,351	205,351	0
VILLA DI TIRANO - Traversa Foppa, 25	440,817	0	0	7,651	448,467	282,351	166,116
VOGHERA	1,335,453	0	0	0	1,335,453	20,032	1,315,421
GRAND TOTAL	**184,999,939**	**781,632**	**22,496,863**	**19,084,124**	**227,362,558**	**80,402,547**	**146,960,011**

SCHEDULE OF THE INDEPENDENT AUDITORS' FEES FOR THE YEAR (AS PER ART. 149 DUODECIES OF THE ISSUERS' REGULATIONS)

Amounts in euro	Banca Popolare di Sondrio		Group companies		Total		Grand total
Type of services	EY S.p.A.	Network EY	EY S.p.A.	EY Network	EY S.p.A.	EY Network	
Audit services	273,150	–	172,000	406,500	445,150	406,500	**851,650**
Certification services	127,000	–	–	–	127,000	–	**127,000**
Other services	140,000	171,000	–	–	140,000	171,000	**311,000**
Total	**540,150**	**171,000**	**172,000**	**406,500**	**712,150**	**577,500**	**1,289,650**

FINANCIAL STATEMENTS:

BANCA POPOLARE DI SONDRIO (SUISSE) SA
FACTORIT SPA
PRESTINUOVA SPA
BANCA DELLA NUOVA TERRA SPA
SINERGIA SECONDA SRL
PIROVANO STELVIO SPA

BANCA POPOLARE DI SONDRIO (SUISSE) SA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(in Swiss francs)

ASSETS	2018	2017
Liquid assets	684,933,325	687,288,547
Loans and receivables with banks	120,027,453	283,017,336
Loans and receivables with customers	448,297,339	436,103,479
Mortgage loans	3,752,427,668	3,472,727,021
Positive replacement value of derivative products	6,323,849	81,721,702
Financial assets	52,606,390	60,859,460
Accrued income and prepayments	7,027,692	6,978,292
Equity investments	1,190,728	1,190,728
Property, equipment and investment property	17,148,986	18,310,438
Other assets	23,233,955	31,064,333
Total assets	**5,113,217,385**	**5,079,261,336**
Total subordinated receivables	0	0

LIABILITIES	2018	2017
Due to banks	1,215,361,423	1,296,201,267
Customer deposits	3,001,172,064	2,951,841,457
Negative replacement value of derivative products	54,445,995	29,610,703
Treasury liabilities	22,052,000	56,772,000
Due to issuers of construction bonds and loans	415,400,000	354,500,000
Accrued liabilities and deferred income	18,617,411	18,111,139
Other liabilities	5,960,773	4,774,365
Reserves	3,766,777	6,161,481
Reserve for general banking risks	15,000,000	15,000,000
Share capital	180,000,000	180,000,000
Legal reserve from share capital	0	0
Legal reserve from profits	166,288,925	152,079,689
Optional retained earnings	0	0
Profit for the year	15,152,017	14,209,235
Total liabilities	**5,113,217,385**	**5,079,261,336**
Total subordinated commitments	0	0

OFF-BALANCE SHEET TRANSACTIONS	2018	2017
Contingent liabilities	224,356,331	187,602,390
Irrevocable commitments	19,888,906	21,930,900
Derivative products	2,706,474,031	2,959,827,062
- Gross positive replacement value	6,323,849	81,721,702
- Gross negative replacement value	54,445,995	29,610,703
Fiduciary transactions	49,371,725	51,823,148

INCOME STATEMENT

(in Swiss francs)

	2018	2017
Interest income:		
- Interest income and discounts	65,232,712	61,410,705
- Interest income and dividends from equity investments	705,827	625,019
- Interest and dividends from trading activity	0	-26
Interest expense	-14,893,510	-17,730,224
Gross interest income	**51,045,029**	**44,305,474**
Change in adjustments for loss risks and losses		
from interest-earning operations	-2,182,765	-1,105,440
Net interest income	**48,862,264**	**43,200,034**
Fee and commission income:		
- on trading in securities and investments	17,797,701	18,021,979
- on lending transactions	1,859,188	1,978,151
- on services	6,716,887	7,042,911
Fee and commission expense	-2,866,388	-2,860,155
Net fee and commission income and income from services	**23,507,388**	**24,182,886**
Profits from financial transactions and fair value option	**20,987,467**	**23,349,201**
Profit (loss) on disposal of financial assets	**1,096,308**	**-304,460**
Income from equity investments	11,374	11,374
Net proceeds from properties	147,554	174,156
Other ordinary income	507,315	76,685
Other ordinary charges	-1,055,303	-819,013
Other ordinary result	**707,248**	**-861,258**
Operating expenses		
Personnel costs	-47,628,431	-45,842,369
Other operating expenses	-21,644,967	-21,920,421
Operating expenses	**-69,273,398**	**-67,762,790**

	2018	2017
Adjustments to equity investments and depreciation of property, equipment and investment property and amortisation of intangible assets	-4,857,845	-6,522,858
Change in provisions and other adjustments and losses	38,028	2,944,876
Profit for the year	**19,971,152**	**18,530,091**
Extraordinary income	210,865	543,238
Extraordinary charges	0	-24,094
Change in reserve for general banking risks	0	0
Income taxes	-5,030,000	-4,840,000
Profit for the year	**15,152,017**	**14,209,235**
ALLOCATION OF PROFIT		
Profit for the year	15,152,017	14,209,235
Retained earnings	–	–
Earnings available for allocation	**15,152,017**	**14,209,235**
Proposal of the Board of Directors to allocate the 2018 profit of CHF 15,152,017 to the legal reserve from profits.		
Retained earnings	**–**	**–**

FACTORIT SPA

BALANCE SHEET AT 31 December 2018

(in euro)

IFRS 9	IAS 39	ASSET ITEMS		31-12-2018		31-12-2017
10.	10.	Cash and cash equivalents		1,457		1,557
30.		Financial assets measured at fair value through other comprehensive income		65,076		-
	40.	Available-for-sale financial assets		-		21,803
40.		Financial assets measured at amortised cost		2,345,326,438		-
		a) loans and receivables with banks	58,509,174		-	
		b) loans and receivables with financial companies	16,829,715		-	
		c) loans and receivables with customers	2,269,987,549		-	
	60.	Loans		-		2,390,951,101
80.	100.	Property, equipment and investment property		405,172		469,338
90.	110.	Intangible assets		210,798		101,919
100.	120.	Tax assets		29,669,026		33,283,383
		a) current	5,259,024		9,114,380	
		b) deferred	24,410,002		24,169,003	
120.	140.	Other assets		6,071,450		5,665,395
		TOTAL ASSETS		**2,381,749,417**		**2,430,494,496**

IFRS 9	IAS 39	EQUITY AND LIABILITY ITEMS		31-12-2018		31-12-2017
10.		Financial liabilities measured at amortised cost		2,114,653,287		–
		a) payables	2,114,653,287		–	
	10.	Payables		–		2,175,251,227
60.	70.	Tax liabilities		8,210,947		6,232,634
		a) current	6,171,717		4,193,219	
		b) deferred	2,039,230		2,039,415	
80.	90.	Other liabilities		16,750,314		13,984,466
90.	100.	Post-employment benefits		2,324,050		2,430,284
100.		Provisions for risks and charges		4,281,700		3,261,433
		a) commitments and guarantees given	1,185,397		–	
a)		b) pension and similar obligations	–		–	
b)		c) other provisions for risks and charges	3,096,303		3,261,433	
110.	120.	Share capital		85,000,002		85,000,002
140.	150.	Share premium reserve		11,030,364		11,030,364
150.	160.	Reserves		131,888,245		118,499,935
160.	170.	Valuation reserves		- 242,996		- 318,667
170.	180.	Profit (loss) for the year		7,853,504		15,122,818
		TOTAL LIABILITIES AND EQUITY		**2,381,749,417**		**2,430,494,496**

IFRS 9	IAS 39	INCOME STATEMENT		31-12-2018		31-12-2017
10.	10.	Interest and similar income		25,938,813		27,044,473
		of which: interest income calculated using the effective interest method		-		-
20.	20.	Interest and similar expense		-3,359,005		-3,539,245
30.		**NET INTEREST INCOME**		**22,579,808**		**23,505,228**
40.	30.	Fee and commission income		24,205,622		23,746,543
50.	40.	Fee and commission expense		-3,236,864		-3,065,641
60.		**NET FEE AND COMMISSION INCOME**		**20,968,758**		**20,680,902**
80.	60.	Net trading income		5,927		7,013
120.		**TOTAL INCOME**		**43,554,493**		**44,193,143**
130.	100.	Net adjustments for credit risk:		-10,096,367		520,412
		a) financial assets measured at amortised cost	-10,096,367		520,412	
		b) financial assets measured at fair value through other comprehensive income	-		-	
150.		**NET FINANCIAL INCOME**		**33,458,126**		**44,713,555**
160.	110.	Administrative expenses:		-21,449,688		-22,563,756
		a) personnel expenses	-13,937,270	-	13,825,845	
		b) other administrative expenses	-7,512,418		-8,737,911	
170.	150.	Net accruals to provisions for risks and charges		-1,628,586		-844,408
		a) commitments and guarantees given	-1,004,885		80,785	
		b) other net provisions	-623,701		-925,193	
180.	120.	Depreciation and net impairment losses on property, equipment and investment property		-188,703		-182,602
190.	130.	Amortisation and net impairment losses on intangible assets		-87,186		-42,602
200.	160.	Other operating income and expenses		1,720,914		1,336,778
210.		**OPERATING COSTS**		**-21,633,249**		**-22,416,965**
250.	180.	Net gains (losses) on sales of investments		4,801		4,827
260.		**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**11,829,678**		**22,421,792**
270.	190.	Income taxes		-3,976,174		-7,298,974
280.		**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**7,853,504**		**15,122,818**
300.		**PROFIT (LOSS) FOR THE PERIOD**		**7,853,504**		**15,122,818**

PRESTINUOVA SPA

BALANCE SHEET AT 31 December 2018

(in euro)

	ASSET ITEMS	31/12/2018	31/12/2017
10	Cash and cash equivalents	–	–
20	Financial assets measured at fair value through profit or loss	–	–
30	Financial assets measured at fair value through other comprehensive income	–	34,528
40	Financial assets measured at amortised cost	207,197,905	301,673,150
	a) loans and receivables with banks	867,721	7,804,932
	b) loans and receivables with financial companies	–	–
	c) loans and receivables with customers	206,330,184	293,868,218
50	Hedging derivatives	–	–
60	Adjustment of financial assets covered by macro hedges (+/-)	–	–
70	Equity investments	–	–
80	Property, equipment and investment property	9,891	28,722
90	Intangible assets	5,973	475
100	Tax assets	2,653,968	2,172,906
	a) current	1,466,489	968,094
	b) deferred	1,187,479	1,204,811
110	Non-current assets and disposal groups held for sale	–	–
120	Other assets	1,073,298	1,034,626
	Total assets	**210,941,035**	**304,944,407**

LIABILITY ITEMS		31/12/2018	31/12/2017
10	Financial liabilities measured at amortised cost	160,944,842	256,161,745
	a) payables	160,944,842	256,161,745
	b) debt securities in issue	-	-
20	Financial liabilities held for trading	-	-
30	Financial liabilities measured at fair value	-	-
40	Hedging derivatives	-	181,231
50	Adjustment of financial liabilities covered by macro hedges (+/-)	-	-
60	Tax liabilities	733	221
	a) current	-	-
	b) deferred	733	221
70	Liabilities associated with assets held for sale		
80	Other liabilities	8,584,842	10,537,270
90	Post-employment benefits	30,084	28,443
100	Provisions for risks and charges	287,332	318,253
	a) commitments and guarantees given	-	-
	b) pension and similar obligations	-	-
	c) other provisions	287,332	318,253
110	Capital	25,263,160	25,263,160
120	Treasury shares	-	-
130	Equity instruments	-	-
140	Share premium reserve	7,401,387	7,401,387
150	Reserves	5,173,349	2,607,038
160	Valuation reserves	(22,790)	(120,652)
170	Profit (loss) for the year (+/-)	3,278,097	2,566,311
	Total liabilities and equity	**210,941,035**	**304,944,407**

INCOME STATEMENT		31/12/2018	31/12/2017
10	Interest and similar income	14,309,084	19,080,628
	- Other	14,309,084	19,080,628
	- Positive differentials on derivative contracts	-	-
20	Interest and similar expense	(4,041,302)	(6,543,323)
	- Other	(4,041,302)	(6,543,323)
	- Negative differentials on derivative contracts	-	-
30	Net interest income	10,267,782	12,537,305
40	Fee and commission income	4,425	606,663
50	Fee and commission expense	(1,322,105)	(821,917)
60	Net fee and commission income	(1,317,680)	(215,254)
70	Dividends and similar income	-	-
80	Net trading income	(110,781)	(162,687)
120	Total income	8,839,321	12,159,365
130	Net impairment losses on:	(1,566,491)	57,337
	a) financial assets measured at amortised cost	(1,566,491)	57,337
	b) financial assets measured at fair value through other comprehensive income	-	-
140	Gains/losses on contractual amendments not resulting in derecognition	-	-
150	Net financial income	(1,566,491)	57,337
160	Administrative expenses:	(3,125,843)	(3,600,688)
	a) personnel expenses	(831,960)	(1,107,561)
	b) other administrative expenses	(2,293,884)	(2,493,127)
170	Net accruals to provisions for risks and charges	(247,864)	(156,164)
	a) commitments and guarantees given	-	-
	b) other net provisions	(247,864)	(156,164)
180	Depreciation and net impairment losses on property, equipment and investment property	(18,831)	(21,270)
190	Amortisation and net impairment losses on intangible assets	(1,272)	(4,000,610)
200	Other operating income and expenses	1,126,672	1,485,119
210	Operating costs	(2,267,139)	(6,293,613)
220	Net gains (losses) on equity investments	-	-
260	Pre-tax profit from continuing operations	5,005,691	5,923,089
270	Income taxes	(1,727,594)	(3,356,778)
280	Post-tax profit from continuing operations	3,278,097	2,566,311
300	**Profit (loss) for the period**	**3,278,097**	**2,566,311**

BANCA DELLA NUOVA TERRA SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(in euro)

ASSET ITEMS					
			31-12-2018		31-12-2017
10.	Cash and cash equivalents		109		504
40.	Financial assets measured at amortised cost		47,894,099		18,752,033
	a) loans and receivables with banks	15,669,489		18,752,033	
	b) loans and receivables with customers	32,224,610		–	
90.	Intangible assets		666,127		192,388
	of which:				
	- goodwill	–		–	
100.	Tax assets		14,318,529		9,076,558
	a) current	3,194,615		2,934,580	
	b) deferred	11,123,914		6,141,978	
120.	Other assets		596,880		238,272
	Total assets		**63,475,744**		**28,259,755**

	EQUITY AND LIABILITY ITEMS		31-12-2018		31-12-2017
10.	Financial liabilities measured at amortised cost		30,252,408		45,209
	a) due to banks	30,049,429		–	
	b) customer deposits	202,979		45,209	
60.	Tax liabilities		–		1,541
	a) current	–		–	
	b) deferred	–		1,541	
80.	Other liabilities		2,355,922		776,975
90.	Reserve for termination indemnities		3,691		–
100.	Provisions for risks and charges:		174,345		50,000
	a) commitments and guarantees given	39,948		–	
	c) other provisions for risks and charges	134,397		50,000	
140.	Reserves		- 3,929,291		- 1,987,692
160.	Share capital		31,315,321		31,315,321
180.	Profit (loss) for the period (+/-)		3,303,348		- 1,941,599
	Total liabilities and equity		**63,475,744**		**28,259,755**

INCOME STATEMENT			31-12-2018		31-12-2017
10.	Interest and similar income		663,317		17,754
	of which: interest income calculated using the effective interest method	–		–	
20.	Interest and similar expense		- 72,309		–
30.	**Net interest income**		**591,008**		**17,754**
40.	Fee and commission income		33,261		13,303
50.	Fee and commission expense		- 36,370		- 4,797
60.	**Net fee and commission income**		**- 3,109**		**8,506**
120.	**Total income**		**587,899**		**26,260**
130.	Net adjustments for credit risk:		- 143,386		1,961
	a) financial assets measured at amortised cost	- 143,386		1,961	
150.	**Net financial income**		**444,513**		**28,221**
160.	Administrative expenses:		- 2,378,113		- 2,129,679
	a) personnel expenses	- 784,231		- 529,754	
	b) other administrative expenses	-1,593,882		-1,599,925	
170.	Net accruals to provisions for risks and charges		- 124,345		130,000
	a) commitments and guarantees given	- 39,948		–	
	b) other net provisions	- 84,397		130,000	
190.	Amortisation and net impairment losses on intangible assets		- 118,804		-
200.	Other operating income/expense		2,788		27,329
210.	**Operating costs**		**-2,618,474**		**-1,972,350**
260.	**Pre-tax profit from continuing operations**		**-2,173,961**		**-1,944,129**
270.	Income taxes		5,477,309		2,530
270.	**Post-tax profit from continuing operations**		**3,303,348**		**-1,941,599**
290.	**Profit (loss) for the period**		**3,303,348**		**-1,941,599**

SINERGIA SECONDA SRL

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(in euro)

ASSETS	31/12/2018	31/12/2017
A) **AMOUNTS RECEIVABLE FROM SHAREHOLDERS**	**0**	**0**
Of which already called €		
B) **NON-CURRENT ASSETS**		
I - Intangible assets	0	0
II - Property, equipment and investment property		
1) Land and buildings		
1 - owned	60,363,823	61,411,633
2) Equipment and machinery		
1 - owned	40,514	59,023
Total property, equipment and investment property	***60,404,338***	***61,470,656***
III - Financial assets		
1) equity investments in		
a) subsidiary companies	32,242,857	10,548,857
Total financial assets	***32,242,857***	***10,548,857***
TOTAL NON-CURRENT ASSETS	**92,647,194**	**72,019,513**
C) **CURRENT ASSETS**		
I - Inventories	0	0
II - Receivables		
1) loans and receivables with customers		
a) due within 12 months	18,633	12,943
2) due from subsidiary companies		
a) due within 12 months	328	328
5 bis) due from tax authorities		
a) due within 12 months	508,098	15,781
5 quarter) due from others		
a) due within 12 months	25,862	6,586
Total receivables	***552,920***	***35,638***
III - Financial assets not held as non-current assets	0	0
IV - Cash and banks		
3) cash and cash equivalents on hand	0	400
Total cash and banks	***0***	***400***
TOTAL CURRENT ASSETS	**552,920**	**36,038**
D) **ACCRUED INCOME AND PREPAYMENTS**		
TOTAL ACCRUED INCOME AND PREPAYMENTS	**1,149**	**2,069**
TOTAL ASSETS	**93,201,264**	**72,057,620**

LIABILITIES AND EQUITY	31/12/2018	31/12/2017
A) **EQUITY**		
I - Share capital	60,000,000	60,000,000
II - Share premium reserve	0	0
III - Valuation reserves	0	0
IV - Legal reserve	2,134,636	2,110,933
V - Statutory reserves	0	0
VI - Other Reserves		
d) rounding differences on conversion to euro	0	0
VII - Reserve for cash flow hedges	0	0
VI - Reserve for treasury shares	0	0
VIII - Retained earnings	5,470,323	5,019,962
IX - Net profit for the year	704,100	474,064
X - Negative reserve for treasury shares in portfolio	0	0
TOTAL EQUITY	**68,309,058**	**67,604,959**
B) **PROVISIONS FOR RISKS AND CHARGES**		
TOTAL PROVISIONS FOR RISKS AND CHARGES	**0**	**0**
C) **POST-EMPLOYMENT BENEFITS**	**0**	**0**
D) **PAYABLES**		
6) advance payments		
a) due within 12 months	0	0
7) due to suppliers		
a) due within 12 months	138,257	101,053
9) due to subsidiary companies		
a) due within 12 months	576,166	65,666
11) due to parent companies		
a) due within 12 months	24,082,475	4,238,179
12) taxes payable		
a) due within 12 months	67,483	20,199
14) other payables		
a) due within 12 months	3,691	941
TOTAL PAYABLES	**24,868,073**	**4,426,038**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
1) accrued expenses and deferred income	24,133	26,623
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**24,133**	**26,623**
TOTAL LIABILITIES AND EQUITY	**93,201,264**	**72,057,620**

INCOME STATEMENT	31/12/2018	31/12/2017
A) **PRODUCTION VALUE**		
1) revenues from sales and services		
d) residential rents	35,357	34,410
e) office rents	3,582,010	3,562,291
f) residential property expense reimbursements	372	386
g) office expense reimbursements	18,063	17,730
5) other revenues and income		
c) other revenues	4,574	10,464
TOTAL PRODUCTION VALUE	**3,640,375**	**3,625,281**
B) **PRODUCTION COSTS**		
7) for services		
c) residential property management expenses	1,435	4,103
d) office management expenses	329,229	628,533
10) depreciation, amortisation and writedowns		
b) depreciation of property, equipment and investment property	1,703,963	1,703,932
14) sundry operating costs		
a) other operating costs and charges	96,639	111,157
b) non-deductible charges	299,031	298,452
TOTAL PRODUCTION COSTS	**2,430,298**	**2,746,177**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	**1,210,077**	**879,104**
C) **FINANCIAL INCOME AND CHARGES**		
17) interest and other financial charges		
c) from parent companies	131,267	76,320
d) from others	0	0
TOTAL FINANCIAL INCOME AND CHARGES	**-131,267**	**-76,320**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	**0**	**0**
PRE-TAX PROFIT (LOSS)	**1,078,810**	**802,784**
22) current income taxes and change in deferred tax assets and liabilities		
a) IRES (corporate income taxes)	315,808	282,977
b) IRAP (Regional business tax)	58,903	45,743
c) Deferred taxes	0	0
23) **PROFIT FOR THE YEAR**	**704,099**	**474,064**

PIROVANO STELVIO SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

(in euro)

ASSETS	31/12/2018	31/12/2017
B) **NON-CURRENT ASSETS**		
I Intangible assets		
3) Industrial patent rights and intellectual property rights	7,243	9,199
6) Assets in process of formation and advances	744	0
Total intangible assets	***7,987***	***9,199***
II Property, equipment and investment property		
1) Land and buildings	2,554,225	2,624,880
2) Equipment and machinery	80,904	87,157
3) Industrial and commercial equipment	25,499	18,526
4) Other assets	2,226	3,275
5) Assets under construction and advances	7,000	0
Total property, equipment and investment property	***2,669,854***	***2,733,838***
III Financial assets		
1) Equity investments		
b) associated companies	437,432	397,759
d-bis) other companies	1,992	1,992
Total 1) equity investments	*439,424*	*399,751*
Total financial assets	***439,424***	***399,751***
TOTAL NON-CURRENT ASSETS (B)	**3,117,265**	**3,142,788**
C) **CURRENT ASSETS**		
I Inventories		
4) Finished products and merchandise	32,023	21,025
Total inventories	***32,023***	***21,025***
II Receivables		
1) Loans and receivables with customers		
a) due within 12 months	17,656	13,209
Total 1) loans and receivables with customers	*17,656*	*13,209*
4) Due from parent companies		
a) due within 12 months	139,466	149,815
Total 4) due from parent companies	*139,466*	*149,815*
5-bis) Due from tax authorities		
a) due within 12 months	18,521	8,422
Total 5-bis) due from tax authorities	*18,521*	*8,422*
5-quarter) Due from others		
a) due within 12 months	750	1,475
Total 5-quarter) due from others	*750*	*1,475*
Total receivables	***176,393***	***172,921***
IV Cash and banks		
1) Bank and post office deposits	311	707
3) Cash and cash equivalents on hand	14	190
Total cash and banks	***325***	***897***
TOTAL CURRENT ASSETS (C)	**208,741**	**194,843**
D) **ACCRUED INCOME AND PREPAYMENTS**		
TOTAL ACCRUED INCOME AND PREPAYMENTS (D)	**5,865**	**7,482**
TOTAL ASSETS	**3,331,871**	**3,345,113**

LIABILITIES AND EQUITY	31/12/2018	31/12/2017
A) **EQUITY**		
I Share capital	2,064,000	2,064,000
III Valuation reserves	192,104	192,104
IV Legal reserve	5,959	5,959
VI Other reserves, clearly indicated:		
Payments to cover losses	232,397	232,397
Miscellaneous other reserves	1	(1)
Total other reserves	***232,398***	***232,396***
IX - Profit (loss) for the year	(397,938)	(454,473)
TOTAL EQUITY	**2,096,523**	**2,039,986**
C) **POST-EMPLOYMENT BENEFITS**		
TOTAL POST-EMPLOYMENT BENEFITS	**193,454**	**181,589**
D) **PAYABLES**		
6) Advance payments		
a) due within 12 months	9,209	(0)
Total 6) Advance payments	***9,209***	***(0)***
7) Due to suppliers:		
a) due within 12 months	63,690	57,705
Total 7) Due to suppliers	***63,690***	***57,705***
10) Due to associated companies:		
a) due within 12 months	7,906	8,500
Total 10) Due to associated companies	***7,906***	***8,500***
11) Due to parent companies:		
a) due within 12 months	898,127	994,148
Total 11) Due to parent companies	***898,127***	***994,148***
12) Taxes payable:		
a) due within 12 months	9,064	8,842
Total 12) Taxes payable	***9,064***	***8,842***
13) Due to social security institutions:		
a) due within 12 months	9,442	9,802
Total 13) Due to social security institutions	***9,442***	***9,802***
14) Other payables:		
a) due within 12 months	34,556	26,721
Total 14) Other payables	***34,556***	***26,721***
TOTAL PAYABLES	**1,031,994**	**1,105,718**
E) **ACCRUED EXPENSES AND DEFERRED INCOME**		
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**9,900**	**17,820**
TOTAL LIABILITIES AND EQUITY	**3,331,871**	**3,345,113**

INCOME STATEMENT	31/12/2018	31/12/2017
A) **PRODUCTION VALUE**		
1) Revenues from sales and services	1,237,031	1,090,810
5) Other revenues and income:		
Other	31,942	36,618
Total 5) Other revenues and income	***31,942***	***36,618***
TOTAL PRODUCTION VALUE	**1,268,973**	**1,127,428**
B) **PRODUCTION COSTS**		
6) Raw materials, consumables and goods	(314,407)	(263,784)
7) For services	(653,687)	(612,313)
8) Leases and rentals	(46,254)	(2,206)
9) Personnel costs:		
a) wages and salaries	(505,064)	(520,893)
b) social security contributions	(161,908)	(167,513)
c) post-employment benefits	(29,371)	(32,034)
e) other costs	(83)	(508)
Total 9) Personnel costs	***(696,426)***	***(720,948)***
10) Depreciation, amortisation and writedowns:		
a) amortisation of intangible assets	(7,563)	(5,693)
b) depreciation of property, equipment and investment property	(102,156)	(102,934)
Total 10) Depreciation, amortisation and writedowns	***(109,719)***	***(108,627)***
11) Change in raw materials, consumables and goods	10,998	(566)
14) Sundry operating costs	(59,777)	(67,274)
TOTAL PRODUCTION COSTS	**(1,869,272)**	**(1,775,718)**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)	**(600,299)**	**(648,290)**
C) **FINANCIAL INCOME AND CHARGES**		
15) Income from equity investments:		
In associated companies	30,395	24,316
Total 15) Income from equity investments	***30,395***	***24,316***
17) Interest and other financial charges:		
Parent companies	(6,315)	(6,789)
Other	(858)	(811)
Total 17) Interest and other financial charges	***(7,173)***	***(7,600)***
TOTAL FINANCIAL INCOME AND CHARGES (15+16-17+-17-BIS)	**23,222**	**16,716**
D) **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**		
18) Revaluations:		
a) of equity investments	39,673	27,286
Total 18) Revaluations	***39,673***	***27,286***
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS (18-19)	**39,673**	**27,286**
PRE-TAX PROFIT (LOSS) (A-B+-C+-D)	**(537,404)**	**(604,288)**
20) Current income taxes and change in deferred tax assets and liabilities:		
Income (charges) from membership of tax consolidation/tax transparency	139,466	149,815
Total 20) Current income taxes and change in deferred tax assets and liabilities	***139,466***	***149,815***
21) PROFIT (LOSS) FOR THE YEAR	**(397,938)**	**(454,473)**

Attestation pursuant to art. 154-bis of Decree 58/98 on the separate financial statements.

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Manager responsible for preparing the company's accounting documents of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Legislative Decree 58 of 24 February 1998, confirm:

– the adequacy in relation to the characteristics of the company and
– the effective application

of the administrative and accounting procedures for the formation of the separate financial statements during the course of the period between 1 January 2018 and 31 December 2018.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the «Internal Control - Integrated Framework (CoSO)», issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the separate financial statements at 31 December 2018:
– have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
– agree with the balances on the books of account and the accounting entries;
– are able to provide a true and fair view of the issuer's assets and liabilities, results and financial position.

The report on operations contains a reliable analysis of the trend and results of operations, together with a description of the main risks and uncertainties to which the Bank is exposed.

Sondrio, 21 March 2019

The Managing Director

Mario Alberto Pedranzini

The Manager responsible for preparing the company's accounting documents

Maurizio Bertoletti

Banca Popolare di Sondrio S.C.p.A.

Financial statements at December 31, 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Banca Popolare di Sondrio S.C.p.A. (the "Company" or the "Bank"), which comprise the balance sheet at December 31, 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and the notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at December 31, 2018, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.
We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Impacts related to the first-time application of the International Financial Reporting Standard 9 "Financial instruments"	
On January 1, 2018 the International Financial Reporting Standard 9, endorsed by European Commission on November 22, 2016 with Regulation n. 2016/2067 (the "Standard" or "IFRS 9") became effective, replacing the standard IAS 39 in relation to the classification and measurement of the financial instruments. As required by IAS 8 "Accounting policies, changes in accounting estimates and errors" and in accordance with the first-time application approach envisaged by IFRS 9, the Bank accounted for in the opening balances the cumulative effects derived from the transition to the new Standard, for an amount of Euro 49 million. Moreover, the Bank exercised the option foreseen by the Standard to not restate the comparative data. The IFRS 9 first time application constituted a relevant aspect for the audit both because the impacts on financial figures have been significant for the financial statements as a whole and for the significant implementation related to processes, procedures, controls, methodologies and IT systems made by the Bank. The disclosure on the effects of the first-time application is provided by the directors within Part A – Accounting policies – Other aspects included in the notes to the financial statements.	In relation to these matters, our audit procedures included, among other: • understanding and analysis of the main accounting and implementing choices made by the Bank in relation to the classification, valuation and impairment of the financial instruments, also through the analysis of the new accounting and operational policies; • understanding and analysis, also with the support of our specialists in risk management, valuations of financial instruments, disposal of non-performing loans and IT systems, of the processes and controls implemented in relation to the IFRS 9 first time application and the execution of compliance procedures on key controls, including those relating to IT; • understanding of the modalities of determination by the Bank of the first-time application impacts, including those related to tax effects, and performing substantive procedures aimed at verifying their consistency with the requirements of the Standard. Finally, we have analysed the adequacy of the disclosure provided in the notes to the financial statements.

Key Audit Matter	Audit Response
Classification and evaluation of loans to customers Loans to customers measured at amortised cost, the amount of which is shown in Item 40 b) of the balance sheet of the annual financial statements, represent, at December 31, 2018, 73%of total assets. The process of classifying loans to customers in the various risk categories and measuring them is relevant for the audit because the value of loans is significant for the financial statements as a whole and because the value of the related impairment losses is determined by the directors through the use of estimates that have a high degree of subjectivity. Among these, the following are particularly relevant: the identification of objective evidence of impairment of the loans, the recoverable amount of the collateral acquired, the determination of expected cash flows and their timing of collection, the costs expected to be incurred for the collection of the loans, the probability of disposal and related cash flows, for those loans for which there is a disposal plan. Furthermore, as regards to statistical evaluations, those particularly relevant are: the definition of homogeneous loan categories in terms of credit risk, the determination of the probability of default ("PD") and the related estimated loss (Loss Given Default - "LGD"), based on historical data observation for each risk class and on forward looking information, including macroeconomic factors, and the determination of significant risk increase parameters for the classification among the various reference stage. Information on the evolution of the quality, classification and measurement of loans to customers is provided within Part A – Accounting policies, Part B – Information on the Balance Sheet, Part C – Information on the Income Statement, Part E – Information or risks and related hedging policies to the notes of financial statements.	In relation to these aspects, our audit procedures included, among other: • understanding of the policies, processes and controls implemented by the Bank in relation to the classification and measurement of loans to customers and performing compliance procedures on the key controls, including those relating to IT; • performing substantive procedures, on a sample basis, aimed at verifying the correct classification and measurement of credit positions; • understanding, also with the support of our risk management and information systems specialists, of the methodology used in relation to statistical evaluations and the reasonableness of the assumptions adopted also to consider the forward looking information in the parameter of PD, LGD and Exposure at Default ("EAD") as well as the performing of test of controls and substantive procedures, aimed at the verification of the accurate determination of the PD, LGD and EAD parameters, relevant for the purpose of determining the impairment losses; • performing procedures for the comparative analysis of the portfolio of loans to customers and the related coverage levels, and analysis of the most significant deviations, also considering the effects from IFRS 9 first time application and the comparison with sectoral data. Finally, we have analysed the adequacy of the disclosure provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board of statutory auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca Popolare di Sondrio S.C.p.A., in the general meeting held on April 29, 2017, appointed us to perform the audit of the financial statements of each year from the year ending December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the Board of statutory auditors ("Collegio Sindacale") in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Banca Popolare di Sondrio S.C.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the financial statements of Banca Popolare di Sondrio S.C.p.A as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Banca Popolare di Sondrio S.C.p.A as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, April 4, 2019

EY S.p.A.
Signed by: Davide Lisi, Partner

This report has been translated into the English language solely for the convenience of international readers.

Banca Popolare di Sondrio

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

REPORT ON OPERATIONS

Shareholders,

As Parent Company of the Banca Popolare di Sondrio Banking Group, registration no. 5696.0, we are obliged to present consolidated financial statements.

COMPOSITION OF THE BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

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

Group companies:

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

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

Factorit S.p.A. - Milan.

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

Sinergia Seconda S.r.l. – Milan.

The Parent Company holds all the capital of Sinergia Seconda S.r.l., Euro 60,000,000.

Banca della Nuova Terra S.p.A. - Sondrio.

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

PrestiNuova S.p.A. – Rome.

The Parent Company holds all the capital of PrestiNuova S.p.A., Euro 25,263,160.

Popso Covered Bond S.r.l. - Conegliano

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

Equity investments are consolidated as follows:

FULLY CONSOLIDATED EQUITY INVESTMENTS:

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

* equity investments not included in the Banking Group
** held by Sinergia Seconda S.r.l.

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

Denominazione	Head office	Share capital (in thousands)	% held
Alba Leasing S.p.A.	Milan	357,953	19.264
Arca Vita S.p.A.	Verona	208,279	14.837
Arca Holding S.p.A.	Milan	50,000	21.137
Unione Fiduciaria S.p.A.	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Rent2Go S.r.l.	Bolzano	3,300	33.333
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Rajna Immobiliare S.r.l.	Sondrio	20	50.000

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

GENERAL ECONOMIC CONTEXT

The report on operations accompanying the Parent Company's financial statements contains information on the international, Swiss and Italian economic situation during the year 2018.

TERRITORIAL EXPANSION

During the year, our Group dedicated considerable effort and resources to rationalise and strengthen the branch network in our area, a priority tool to support commercial action in favour of the communities that we serve. Banca Popolare di Sondrio opened a new branch in Alassio, in the province of Savona, whereas it closed a branch in Sondrio, for a total of 343 branches.

For its part, Banca Popolare di Sondrio (SUISSE) SA proceeded to merge the Samaden branch in the Grisons Canton with the Saint Moritz branch and to launch the Verbier representative office in the Canton of Valais.

At the end of 2018, the Group had a total of 362 branches.

GROUP PERFORMANCE

Results in brief and alternative performance indicators

In order to facilitate the understanding of the Group's economic and financial information, a number of ratios are shown below, taking into account the requirements of the document «Guidelines on alternative performance indicators», published by the European Securities and Markets Authority (ESMA) in June 2016.

RESULTS IN BRIEF

(in millions of euro)

Balance sheet	**31/12/2018**	**01/01/2018***	**Change %**
Loans to customers	25,845	25,696	0.58
Loans and receivables with customers measured at amortised cost	25,604	25,570	0.13
Loans and receivables with customers measured at fair value through profit or loss	241	126	91.06
Loans and receivables with banks	1,321	1,920	-31.20
Financial assets that do not constitute loans	11,065	11,889	-6.93
Equity investments	221	218	1.53
Total assets	41,128	41,586	-1.10
Direct funding from customers	31,063	31,634	-1.81
Indirect funding from customers	30,182	30,119	0.21
Direct funding from insurance premiums	1,410	1,336	5.59
Customer assets under administration	62,655	63,089	-0.69
Other direct and indirect funding	10,524	10,164	3.54
Equity	2,651	2,634	0.65
Income statement	**31/12/2018**	**31/12/2017***	**Change %**
Net interest income	508	490	3.72
Total income	866	962	-9.98
Profit from continuing operations	143	234	-38.97
Profit for the year	111	159	-30.40
Capital ratios (%)			
CET1 Capital ratio	12.03%	11.60%	
Total Capital ratio	13.61%	13.66%	
Free capital	1,228	1,287	
Other information on the banking group			
Number of employees	3,254	3,196	
Number of branches	362	363	

* The comparative figures are shown as follows: balance sheet figures are at 1 January 2018 are shown after applying IFRS 9; income statement figures at 31 December 2017 have been calculated in accordance with IAS 39.

These economic and financial indicators are based on accounting figures and are used in internal management and performance management systems, in line with the most common metrics used in the banking sector in order to ensure that published figures are comparable.

ALTERNATIVE PERFORMANCE INDICATORS

(in millions of euro)	2018	2017
Key ratios		
Equity/Direct funding from customers	8.53%	8.47%
Equity/Loans and receivables with customers	10.26%	10.40%
Equity/Financial assets	23.96%	22.52%
Equity/Total assets	6.45%	6.44%
Profitability indicators		
Cost/Income ratio	58.06%	50.00%
Net interest income/Total income	58.66%	50.94%
Administrative expenses/Total income	60.24%	54.30%
Net interest income/Total assets	1.24%	1.18%
Net financial income/Total assets	1.52%	1.65%
Net profit for the year of the Parent Company/Total assets	0.27%	0.38%
Asset quality indicators		
Texas ratio	70.71%	77.99%
Net non-performing loans/Equity	28.69%	29.10%
Net non-performing loans/Loans and receivables with customers	2.94%	3.03%
Loans and receivables with customers/Direct funding from customers	83.20%	81.42%
Cost of credit	0.93%	0.90%

Cost/Income ratio: the ratio between operating costs and total income.
Texas ratio: the ratio between impaired loans and the difference between equity and intangible assets, as the denominator.
«Cost of credit: the ratio between net write-downs/write-backs for impairment losses on loans in the income statement and total loans and receivables with customers».

FUNDING

In 2018, the European Central Bank maintained again, albeit with some adjustments, an expansionary monetary policy, characterised by high liquidity and with rates still at minimum levels. In this context, our Group has actively operated to meet the expectations of its customers.

Direct funding from customers amounted to 31,063 million, -1.81%.

Indirect funding from customers amounted to 30,182 million, +0.21%.

Insurance premium income came to 1,410 million, +5.59%.

Total funding from customers therefore amounted to 62,655 million (-0.69%).

Amounts due to banks total 6,166 million, -0.63%. As in prior years, this total includes the refinancing operations arranged with the European Central Bank, which amounted to 4,600 million at the end of the year.

Indirect funding from banks rose from 3,960 million to 4,358 million, +10.07%.

Total deposits from customers and banks therefore came to 73,179 million (-0.10%).

The table «Direct funding from customers» shows the various components in more detail with respect to the Notes.

Considering the individual components, current accounts in euro and foreign currency rose to 27,248 million, +1.70%, and make up 87.73% of all direct funding. Bonds have declined by 13.74%, to 2,350 million. Time deposit accounts have fallen to 807 million, -28.12%. Repo transactions that in the previous year totalled 357 million were virtually eliminated; savings deposits were stable at 528 million, -0.64%. Certificates of deposit stood at 1.6 million, on the levels of the comparative period, and remain entirely marginal. Bank drafts amounted to 128 million, +19.73%.

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	31/12/2018	%	01/01/2018	%	Change %
Savings deposits	527,859	1.70	531,271	1.68	-0.64
Certificates of deposit	1,594	0.01	2,101	0.01	-24.11
Bonds	2,349,650	7.56	2,723,980	8.61	-13.74
Repo transactions	100	0.00	356,725	1.13	-99.97
Bank drafts and similar	128,439	0.40	107,277	0.34	19.73
Current accounts	24,944,658	80.31	24,451,274	77.29	2.02
Time deposit accounts	806,856	2.60	1,122,442	3.55	-28.12
Current accounts in foreign currency	2,303,356	7.42	2,339,214	7.39	-1.53
Total	**31,062,511**	**100.00**	**31,634,284**	**100.00**	**-1.81**

TOTAL FUNDING

(in thousands of euro)	31/12/2018	%	01/01/2018	%	Change %
Total direct funding from customers	31,062,511	42.44	31,634,284	43.18	-1.81
Total indirect funding from customers	30,182,455	41.24	30,119,036	41.12	0.21
Total direct funding from insurance premiums	1,410,180	1.93	1,335,569	1.82	5.59
Total	**62,655,147**	**85.61**	**63,088,889**	**86.12**	**-0.69**
Due to banks	6,165,836	8.43	6,204,835	8.47	-0.63
Indirect funding from banks	4,358,442	5.96	3,959,663	5.41	10.07
Grand total	**73,179,424**	**100.00**	**73,253,387**	**100.00**	**-0.10**

LOANS TO CUSTOMERS

During 2018 there was a gradual slowdown in the economic recovery that had characterised the previous year. Rising uncertainty inevitably

LOANS TO CUSTOMERS

(in thousands of euro)	31/12/2018	%	01/01/2018	%	Change %
Current accounts	4,252,855	16.46	4,358,568	16.96	-2.43%
Foreign currency loans	855,104	3.31	894,508	3.98	-4.41%
Advances	469,429	1.82	449,264	1.75	4.49%
Advances subject to collection	230,584	0.89	210,606	0.82	9.49%
Discounted portfolio	5,801	0.02	17,376	0.07	-66.61%
Artisan loans	58,858	0.23	47,743	0.19	23.28%
Agricultural loans	20,764	0.08	23,746	0.09	-12.56%
Personal loans	494,795	1.91	239,096	0.93	–
Other unsecured loans	5,155,908	19.95	5,364,321	20.89	-3.89%
Mortgage loans	9,915,925	38.37	9,508,459	37.00	4.29%
Net non-performing loans	760,412	2.94	746,407	2.90	1.88%
Repo transactions	1,204,429	4.66	1,221,596	4.75	-1.41%
Factoring	2,156,486	8.34	2,276,836	8.86	-5.29%
Fixed-yield securities	263,374	1.02	337,534	1.31	-21.97%
Total	**25,844,724**	**100.00**	**25,696,061**	**100.00**	**0.58%**

weighed on companies' propensity to invest. In the banking sector, however, the improvement in credit quality continued.

For our Group, lending amounted to 25,845 million, up 0.58% on the previous year, adjusted by the FTA of IFRS 9. The trend during the year was rather subdued, especially in the latter part. The ratio of loans to deposits is 83.20% compared with 81.42% last year (81.23% on the figures adjusted for FTA of IFRS 9).

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

Mortgage loans performed well, coming in at 9,916 million, +4.29%; they are the main component of loans to customers with 38.37%.

Other unsecured loans decreased: -3.89% to 5,156 million, equal to 19.95% of loans to customers. Overall, this line item includes loans assigned but not derecognised of 1,659 million in relation to the issue of covered bonds and securitisations. These loans have not been derecognised because the chosen structure does not meet the requirements of IAS 39. Current accounts decreased by 2.43%, from 4,359 to 4,253 million. Advances have gone up to 469 million, +4.49%, and advances subject to collection, to 231 million, +9.49%. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, passed from 1,222 to 1,204 million, -1.41 %. Personal loans rose sharply, +106.94%, from 239 million to 495 following the entry of PrestiNuova S.p.A. into the scope of consolidation and the upturn of operations by BNT S.p.A.. Factoring transactions decreased by 5.29% to 2,156

LOANS TO CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31/12/2018	01/01/2018	(+/-)	% change
Impaired loans	Gross exposure	4,171,707	4,224,890	-53,183	-1.26%
	Adjustments	2,320,944	2,188,132	132,812	6.07%
	Net exposure	**1,850,763**	**2,036,758**	**-185,995**	**-9.13%**
– Non-performing loans	Gross exposure	2,481,444	2,301,388	180,056	7.82%
	Adjustments	1,721,031	1,554,981	166,050	10.68%
	Net exposure	**760,413**	**746,407**	**14,006**	**1.88%**
– Unlikely to pay loans	Gross exposure	1,585,177	1,768,596	-183,419	-10.37%
	Adjustments	579,483	613,228	-33,745	-5.50%
	Net exposure	**1,005,694**	**1,155,368**	**-149,674**	**-12.95%**
– Past due and/or impaired overdrawn exposures	Gross exposure	105,086	154,906	-49,820	-32.16%
	Adjustments	20,430	19,923	507	2.55%
	Net exposure	**84,656**	**134,983**	**-50,327**	**-37.28%**
Performing loans	Gross exposure	24,111,603	23,787,359	324,244	1.36%
	Adjustments	117,644	128,056	-10,412	-8.13%
	Net exposure	**23,993,959**	**23,659,303**	**334,656**	**1.41%**
Total loans and receivables with customers	Gross exposure	28,283,312	28,012,249	271,063	0.97%
	Adjustments	2,438,588	2,316,188	122,400	5.28%
	Net exposure	**25,844,724**	**25,696,061**	**148,663**	**0.58%**

million. Debt securities amounted to 264 million at the end of 2018 and were also down by -21.97%; they derive from the securitisation of loans to customers made by Banca della Nuova Terra S.p.A. and Alba Leasing S.p.A.. Foreign currency loans declined to 855 million, -4.41%.

Total impaired loans fell by 9.13% to 1,851 million and are equal to 7.16% (formerly 7.93%) of loans to customers. The dynamic benefited from the general economic cycle, and reflects the highly prudential Group policies on classification and provisions.

Writedowns of impaired loans totalled 2,321 million, +6.07%, representing 55.63% of the gross amount, compared with 51.79% at the end of 2017 and 46.17% at the end of 2016. The table gives an overview of impaired and performing loans.

Net non-performing loans amount to 760 million, +1.88%, corresponding to 2.94% of total loans and receivables with customers, compared with 2.90% at 31 December 2017. These are very low values. This also reflects the substantial adjustments made in application of the extremely prudent criteria recommended in the past by the Supervisory Authorities, especially with regard to those positions that are secured against property, but also taking into account the assessments made by the inspectors during their credit file review at Banca Popolare di Sondrio, as detailed in the directors' report accompanying the Parent Company's financial statements. The adjustments to cover estimated losses on non-performing loans have risen to 1,721 million, +10.68%, representing 69.36% of the gross amount compared with 67.57% last year. It is one of the highest coverage percentages at national level. Considering the amounts written off in prior years against non-performing loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 78.02%.

Unlikely-to-pay loans relate to exposures, excluding non-performing loans, to wich the debtor is deemed unlikely to settle in full, without recourse by the bank to the collection of guarantees or similar forms of protection. These have decreased to 1,006 million, -12.95%, corresponding to 3.89% of total loans and receivables with customers, compared with 4.50% in the previous year. The related adjustments, which ensure a coverage ratio of 36.56%, amounted to 579 million, -5.50% on the comparative period, when they amounted to 613 million. The decrease in unlikely-to-pay loans and the related provisions is due to the transfer to non-performing loans of the positions at greatest risk and to the reduction of incoming flows with respect to those outgoing.

Past due and/or impaired overdrawn exposures, other than non-performing or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 85 million, -37.28%, and represent 0.33% of total loans and receivables with customers compared with 0.53% in the previous year. The related adjustments amounted to 20 million, +2.55%.

In addition to the adjustments made to impaired loans, provisions against performing loans totalled 118 million, giving coverage of 0.49% compared with 0.54%. This reduction in coverage mainly correlates with the improvement in asset quality and the measures adopted to pursue this objective in both lending and credit management.

Adjustments totalled 2,439 million overall, +5.28%.

TREASURY AND TRADING OPERATIONS

The performance of the financial markets is discussed in the report on operations presented by the Parent Company.

At 31 December 2018, the net interbank position showed a negative amount of 4,845 million, compared with a negative amount of 4,284 million at the end of 2017. Cash and liquid assets amounted at 1,577 million, compared with 699 million. At the end of the year, the Parent Company arranged two Targeted Longer-Term Refinancing Operations (TLTRO) with the ECB for a total of 4,600 million at the end of 2017. The first one, for 1,100 million, taken out on 23 June 2016 and due to expire on 24 June 2020, with an early redemption option from 27 June 2018, is a zero-interest transaction (except for a reduction in the case of an increase in «eligible» loans compared with the benchmark assigned to us). The second one was stipulated in March 2017, for 3,500 million, as the Parent Company decided to take part in the last operation aimed at refinancing the T-LTRO II programme by the ECB with maturity on 24 March 2021, with the target of stimulating the real economy, guaranteeing further liquidity to the banking system. Excluding these T-LTRO II operations, the net balance of loans and receivables with banks less amounts due to banks would have been negative for 245 million.

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

The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are considerably higher than the established minimums. The Group has a substantial portfolio of refinanceable assets that, net of the haircuts applied, total 11,923 million, compared with 12,564 million, of which 6,827 available and 5,096 committed.

The reclassifications in the composition of the financial portfolios carried out on FTA of IFRS 9, starting from 1 January 2018, are explained in detail in the Parent Company's report on operations.

The decisions taken have not led to any significant reclassifications in the composition of the portfolio of financial instruments based on their accounting categories. In the comments that follow and in the tables, the comparison is made with the IAS 39 figures at 31 December 2017, adjusted for the FTA of IFRS 9.

At 31 December 2018 the portfolios of financial assets consisting of securities amounted to a total of 11,065 million, a decrease of 6.93% compared with the hefty increase that characterised the comparative period and that was mainly due to purchases of government securities (Italy, Spain and France) carried out throughout the year, especially in the second and fourth quarters of the year, also thanks to the abundant liquidity deriving from the access by the Parent Company to the TLTRO II refinancing facility of the ECB. The following table summarises the various amounts involved and the percentage changes.

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

(in thousands of euro)	31/12/2018	01/01/2018	Change %
Financial assets held for trading	251,044	372,590	-32.62
of which, derivatives	31,668	97,983	-67.68
Other financial assets mandatorily measured at fair value	366,287	390,209	-6.13
Financial assets measured at fair value through other comprehensive income	4,423,618	6,886,971	-35.77
Financial assets measured at amortised cost	6,024,006	4,239,671	42.09
Total	**11,064,955**	**11,889,441**	**-6.93**

As in the past, the portfolio mostly comprises domestic government securities, despite the sales especially of securities near to maturity. At the same time, similar new securities with a limited duration were purchased. The year was marked by a good volume of buying and selling, which mostly involved the HTCS and Trading portfolios. In this regard, the continuation of expansionary monetary policy has held the yields on Italian public debt securities at their historical lows: zero or even negative rates for short dates. The duration of the portfolio is now slightly more than three-and-a-half years, compared with about four in the prior year.

Financial assets held for trading

The size of the trading portfolio throughout 2018 remained much lower than in the prior year, with transactions limited almost entirely to shares. This portfolio totals 251 million, down 32.62% from 372 million of the previous year.

(in thousands of euro)	31/12/2018	01/01/2018	Change %
Floating-rate Italian government securities	59,089	–	–
Fixed-rate Italian government securities	54,008	–	–
Foreign government securities designated in foreign currencies	–	83,232	-100.00
Bank bonds	11,109	–	–
Bonds of other issuers	1,925	–	–
Variable-yield securities	83,095	151,870	-45.29
Mutual funds	10,150	39,505	-74.31
Net book value of derivative contracts	31,668	97,983	-67.68
Total	**251,044**	**372,590**	**-32.62**

The composition of the trading portfolio is simple and transparent. Sales of financial assets have continued, with shares falling to 83 million from 152 million in the prior year (-45.29%), which represents 33.10% of the portfolio compared with 40.76%. All foreign government securities have been sold or redeemed, while further purchases of Italian government securities have been made. The profit from trading has fallen considerably and the volatility of the financial markets has caused a deterioration in the net balance of unrealized gains and losses.

Overall net trading income totalled 19.826 million compared with 60.429 million in 2017, due to the weakness of the financial markets during, in particular, the second half of the year. A result that would have been even worse if it had not been able to count on a certain resilience in foreign exchange and currency gains, which stood at 43.365 million, albeit down on the comparative period.

Analysing in detail the net results from security transactions, the overall loss of 26.459 million arose as follows: with regard to fixed-yield securities as a whole, net trading profits totalled 0.827 million, while unrealised gains and losses amounted to 0.047 million and 6.775 million respectively. Then we have to add profits of 3.871 million and net losses of 24.429 million on variable-yield securities and mutual funds. In 2017, a positive result of 5.053 million was recorded in relation to the securities component of the portfolio: profits of 18.910 million; gains of 2.677 million; losses of 16.534 million. The result of the activity in foreign exchange and currencies is slightly down to 43.365 from 45.066 million, while derivatives decreased from 17.361 million to 3 million. The strengthening of the US dollar against the euro reduced the level of exchange losses from 7.051 million in the prior year to just 80,000 euro.

Other financial assets mandatorily measured at fair value

The other financial assets mandatorily measured at fair value have decreased by 6.13% to 366 million from 390 million. The portfolio almost entirely onsists of various types of funds and sicavs. The decrease was essentially due to the disposal of bond holdings.

(in thousands of euro)	31/12/2018	01/01/2018	Change %
Bank bonds	8,988	10,963	-18.02
Other bonds	33,943	54,100	-37.26
Variable-yield securities	2	820	-99.76
Mutual funds in euro	301,084	301,042	0.01
Mutual funds in foreign currency (USD)	22,270	23,284	-4.35
Total	**366,287**	**390,209**	**-6.13**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS) totals 4,424 million, -35.77%. This total began to decrease from the second quarter, due to the sale of Italian government securities and, to a lesser extent, the Spanish government securities held Bond holdings were increased by subscribing for high-rated issues (especially covered and supranational (EIB) bonds). Among these, Italian government securities have decreased by 36.03% to 3,491 million; they represent the principal component, accompanied by fixed-income Spanish and French government securities, with a view to diversification. In accordance with established operational practices, this portfolio contains part of the invested liquidity in order to contain, if only partially, the impact on the income statement of the volatility always found in the financial markets. The bond component was essentially stable (+1.79%), while variable-yield securities increased by 4.50%.

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

(in thousands of euro)	31/12/2018	01/01/2018	Change %
Floating-rate Italian government securities	592,896	788,044	-24.76
Fixed-rate Italian government securities	2,898,339	4,669,642	-37.93
Foreign government securities	273,356	784,532	-65.16
Bank bonds	483,996	465,939	3.88
Other bonds	70,160	78,458	-10.58
Variable-yield securities	104,871	100,356	4.50
Total	**4,423,618**	**6,886,971**	**-35.77**

Financial assets measured at amortised cost

The securities measured at amortised cost comprise part of the financial assets measured at amortised cost (HTCS) and total 6,024 million, compared with 4,240 million, +42.09%. The market increase derives from the reallocation of the various portfolios. In particular, the increase during the first part of the year related to Italian and foreign government securities, while later increases were due to the purchase of high-rated bonds. These are government securities with a duration of about 4 years.

(in thousands of euro)	31/12/2018	01/01/2018	Change %
LOANS AND RECEIVABLES WITH BANKS	**75,059**	**6,829**	**-**
Italian bank bonds	15,744	6,829	130.55
Foreign bank bonds	59,315	-	-
LOANS AND RECEIVABLES WITH CUSTOMERS	**5,948,947**	**4,232,842**	**40.54**
Floating-rate Italian government securities	809,779	400,624	102.13
Fixed-rate Italian government securities	3,599,927	2,804,936	28.34
Foreign government securities	1,418,467	980,398	44.68
Other bonds	120,774	46,884	157.60
Total	**6,024,006**	**4,239,671**	**42.09**

Asset management

After an extremely positive 2017, the asset management industry experienced a year to forget in 2018. Performance was adversely influenced by the circumstances involving Italy's public finances and the volatility of the financial markets, which helped to encourage a more prudent allocation of savings.

Our Group also suffered from the general climate. Funding activities performed well overall, but there was a marginal decline in volume. Assets under management in various forms totalled 5,403 million at the end of 2018, down by 0.64% since 31 December 2017, of which 3,740 million, +7.14%, relates to mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; the Group's asset management schemes came to 1,663 million, -6.39%.

BPS stock

BPS stock is listed on the Screen-Traded Market (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed 2018 with a negative performance of 13.53%, marking a reference price at 28 December of 2.632 euro, compared with 3.044 euro at the end of 2017. Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent Company holds 3,650,000 treasury shares with a carrying amount of 25.322 million, which is unchanged since the end of 2017, as no purchases or sales were made. There are also 19,953 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies.

EQUITY INVESTMENTS

Equity investments amount to 221 million. The increase of 3 million essentially reflects the measurement at equity of these investments, except for the least significant.

The reader is referred to the report accompanying the Parent Company's 2018 financial statements and to Part A, section 3 and Part B, section 10 of the explanatory notes for the related comments.

Related-party transactions

Related party transactions, as identified in accordance with IAS 24 and with the «Regulation on related party transactions», issued by Consob with resolution 17221 and subsequent amendments, form part of the Group's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred.

In compliance with the disclosure requirements of article 5 of the above-mentioned Consob Regulation, between 1 January and 31 December 2018, the competent bodies of the Parent Company approved the following transactions of greater significance with related parties (the other companies of the Group did not carry out any transactions of greater significance during 2018):

- Release S.p.A, associated company; renewal of lines of credit totalling € 139,000,000 available until revoked; resolution of 23/3/2018;
- Factorit S.p.A, subsidiary; grant of revolving facility for guarantees in favour of residents of € 300,000,000, returnable on demand; renewal of lines of credit totalling € 2,870,100,000 available until revoked; resolutions of 23/3/2018;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; renewal of lines of credit totalling € 2,170,916,197 available until revoked; resolution of 23/3/2018;
- Alba Leasing S.p.A, associated company; renewal of lines of credit totalling € 448,480,702 available until revoked; resolution of 4/10/2018;
- Factorit S.p.A, subsidiary; renewal of lines of credit totalling € 3,020,140,000 available until revoked; resolution of 12/11/2018;
- Alba Leasing S.p.A, associated company; granting of a commercial guarantee to be given to residents of € 640,500 repayable on demand; resolution of 18/12/2018.

In addition, as part of the programme for the issue of covered bonds authorised by the Parent Company's Board of Directors in 2014 and updated in 2017, on 29 September 2018, with effect from 1 October 2018, the Parent Company assigned to Popso Covered Bond S.r.l. a portfolio of performing mortgages amounting to € 323 million.

During 2018, no transactions of greater or lesser significance were carried out with related parties, which could have had an significant impact on the Group's balance sheet or results. Additionally, there have not been any developments and/or modifications of the transactions carried out with related parties during 2017 - in any case none of an atypical, unusual or non-market nature - with a significant effect on the Group's balance sheet or results for 2018.

In relation to Consob communication DEM/6064293 of 28 July 2006, note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Group's economic results and cash flows. In Part H of the notes to the financial statements, the section entitled «Related party transactions» includes a table that summarises these figures.

During 2018 and the current year, there have not been any positions or transactions deriving from atypical or unusual operations. According to Consob Circulars DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are any that may raise doubts concerning the accuracy of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the subject of the transaction, the methods in which the transfer price is set or the time at which the transaction is carried out.

GOODWILL

Intangible assets include goodwill for 12.632 million, of which 7.847 million relating to the acquisition of Factorit S.p.A in 2010 and 4.785 million related to the acquisition of PrestiNuova S.p.A as fully detailed in the explanatory notes, part B assets, section 10 - intangible assets and part G, business combinations, to which reference should be made.

TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

(in thousands of euro)

	Associated companies of the parent company		Associated companies of subsidiaries	
	2018	2017	2018	2017
ASSETS				
Loans and receivables with banks	–	–	–	–
Loans and receivables with customers	626,019	603,061	377	366
Other financial assets	–	–	–	–
LIABILITIES AND EQUITY				
Due to banks	–	–	–	–
Due to customers	367,383	338,202	973	1,209
Other financial liabilities	–	–	–	–
GUARANTEES AND COMMITMENTS				
Guarantees given	49,894	48,463	89	89
Commitments	1,663	2,876	111	–

HUMAN RESOURCES

The Group has 3,257 employees at the end of 2018, an increase of 58 people from 3,199 at the end of the previous year.

The personnel departments have been heavily involved in selecting, training and managing staff, in order to ensure that the necessary professional resources are available for the Group's operational development and growth, having regard for the changes taking place in the reference markets.

A breakdown of personnel by individual category is contained in the notes.

CAPITAL AND RESERVES

Consolidated equity at 31 December 2018, inclusive of valuation reserves and the profit for the period, amounts to 2,650.822 million, an increase of 17.020 million, +0.65 on 2017, adjusted on FTA of IFRS 9 for 45,118 million amounting to 2,633.802 million.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares, amounts to 1,360.157 million, which amount has remained unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million.

The line item reserves rose by 136 million to 1,160.683 million, +13.28 % on the figure at 31 December 2017, adjusted for the negative change of 52.876 million recorded on FTA of IFRS 9, essentially due to the allocation of a significant portion of the 2017 profit for the year. In this regard, note that the Parent Company's Shareholders' Meeting of 28 April 2018 approved the result for 2017 and the proposed distribution of a dividend of 0.07 euro for each of the 453,385,777 shares outstanding at 31 December 2017.

The valuation reserves, representing the net unrealised gains and losses recorded on available-for-sale financial assets and the net actuarial gains and losses on the defined benefit plans for employees, have a negative balance of 34.452 million compared with a balance of 28.478 million at the end of 2017, adjusted on FTA of IFRS 9 to 36.236 million. It was negatively impacted by the trend in government bond prices, especially in the last part of the year, due to the re-emergence of a political risk linked to the Italy-European Union dispute concerning the budget manoeuvre, which was only resolved towards the end of the year.

The value of the shares held in the Parent Company has gone from 25.370 million to 25.375 million, so it has been substantially stable.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force as implemented by Regulation (EU) no. 575/2013 (CRR) and by EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new minimum thresholds for capital ratios that, from January 2019, are 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital

Ratio; these ratios were lower in 2018 because of the transition phase. In the context of its powers, the ECB has the authority, using the information gathered during the prudential review and assessment process, to set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the Parent Company was informed in a communication dated 28 November 2017 of the Supervisory Board decision regarding the new minimum coefficients applicable from 1 January 2018.

The minimum capital levels required of our Banking Group are:

– a minimum Common Equity Tier 1 ratio of 8.375% (formerly 7.25%), calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.875%, formerly 1.25%) and an additional Second Pillar requirement (2%, formerly 1.50%);
– a minimum Total Capital ratio of 11.875% (formerly 10.75%), being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (1.875%, formerly 1.25%) and an additional Pillar 2 requirement (2%, formerly 1.50%).

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

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the Group's capital, was added to the two ratios in 2017. This parameter is confidential, by contrast with the two minimum requirements, and - based on guidelines issued by the ECB - is not deemed relevant for the determination of distributable dividends. On 5 February 2019, following the annual Supervisory Review and Evaluation Process (SREP) carried out in 2018, the ECB notified the bank of the new prudential minimum requirements applicable at consolidated level from 1 March 2019. The new minimum Common Equity Tier 1 ratio (CET 1 Ratio) is 9.25%, with a minimum Tier 1 ratio of 10.75% and a minimum Total Capital ratio of 12.75%.

Consolidated own funds for supervisory purposes, including allocation of profit for the period, amount to 2,980.860 million at 31 December 2018.

The figures for these coefficients at 31/12/2018 and the minimum requirements are given below.

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	12.03%	8.375%
Tier 1 Capital Ratio	12.07%	8.375%*
Total Capital Ratio	**13.61%**	**11.875%**

* minimum requirements.

The leverage ratio is 5.77%, applying the Phased In transitional criteria in force for 2017, and 5.74% based on the Fully Phased criteria. These figures rank among the best when compared with those of the main Italian and European banking groups.

In accordance with the provisions of the ESMA document no. 725/2012, which originated from the observation that the market value of various listed companies was lower than their book value, the Parent Company carried out an impairment test on the entire structure. The results of this test showed that the Group was worth 3,876 million, 1,225 million more than its consolidated equity, which amounted to 2,651 million. Further details are provided in Part F «Information on equity» of the notes.

The following ratios of capital (and reserves, including profit for the period) to the principal balance sheet aggregates are shown with comparative figures at 31 December 2017 (IAS 39):

– *capital/direct funding from customers*
  8.53% v. 8.47%;

– *capital/loans and receivables with customers*
  10.26% v. 10.40%;

– *capital/financial assets*
  23.96% v. 22.52%;

– *capital/total assets*
  6.44% v. 6.45%;

– *net non-performing loans/capital*
  28.69% v. 29.10%.

RECONCILIATION BETWEEN THE PARENT COMPANY'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(in thousands of euro)

	Equity	of which: Profit for the year
Equity of the Parent Company as of 31.12.2018	2,366,820	83,623
Consolidation adjustments	(18,971)	(18,971)
Difference with respect to the carrying amounts of equity investments in:		
– companies consolidated on a line-by-line basis	254,368	27,090
– companies valued using the equity method	48,605	19,062
Balance as of 31.12.2018----- as reported in the consolidated financial statements	**2,650,822**	**110,804**

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group has been assessed by the rating agencies Fitch Ratings and Dagong Europe Credit Rating. For further information, see the directors' report accompanying the 2018 financial statements of the Parent Company.

INCOME STATEMENT

2018 closed with a net profit of 110.804 million, down by 30.40% from 159.210 million in the previous year.

This outcome was principally due to the marked contraction in the results from securities, which were affected by the volatility of financial markets, which in the comparative year had instead had a very positive trend, so that it was possible to obtain substantial trading profits. The resulting loss of earnings outweighed the positive performance of net interest income, commissions and dividends received.

With respect to the comments provided on the various income statement components and the changes therein that have been impacted by the entry into force of IFRS 9 and IFRS 15 on 1 January 2018, it should be borne in mind that the amounts for the period ended 31 December 2017 have not been rendered comparable.

Net interest income increased by 3.72%, coming in at 508.135 million. This was achieved, despite a reduction in the margin from customers, due to the increase in interest earned on the securities portfolio. The reduction in the overall interest rate spread was less marked than in the prior year.

The prolonged period of expansionary monetary policy has had an adverse effect on the growth of net interest income; this has also been affected by the limited ability to adjust lending and funding rates, given the ever more intensive price competition faced by the bank.

Interest income fell by 1.13% to 624.515 million, whereas interest expense came to 116.380 million, down by 17.88%. The size of the latter reduction was sufficient to have a positive effect on the net margin.

Net fee and commission income totalled 315.661 million, +3.47%, principally due to the rise in commissions from the placement of financial products including, in particular, asset management and insurance products, but also those earned on current accounts, currency transactions, collections and payments. Commissions from the acceptance of orders declined.

Dividends received of 29.097 million were 425.88% higher due, in the principally, to the extraordinary dividend of 20.883 million declared by Nexi S.p.A., as part of work to restructure the Group.

The result of financial activities, relating to the securities portfolio and currency and derivative transactions, was a positive contribution of 13.360 million compared with a positive contribution of 161.319 million in the prior year. The portfolio of assets held for trading generated a net profit of 19.826 million, compared with 60.429 million of the previous year. There was a sharp decrease in profits from trading in securities, from 18.910 million to 4.698 million, while foreign exchange gains fell from 45.066 million to 43.365 million, -3.77%. The reduction in the result of financial activities was also affected by the increase in net unrealised losses, from 13.857 million to 31.157 million, and a reduction in the results from derivatives to 3 million from 17.361 million of the last year. By contrast, the reduction in exchange losses from 7.051 million to 80,000 euro made a positive contribution. The result from hedging activities resulted in a net loss of 95,000 euro.

The gain on sale or repurchase came to 5.486 million compared with 95.244 million in the previous year. Based on the new classification required by IFRS 9, this line item comprises: results from financial assets measured at amortised cost, 2.122 million; financial assets measured at fair value through other comprehensive income, 3.381 million; financial liabilities, -0.017 million. The net loss on other financial assets measured at fair value through profit or loss amounted to 11.857 million compared to a gain of 5.761 million.

Income from banking activities amounted to 866.253 million, -9.94%, due to the adverse performance of security activities. Within this aggregate, the weighting of net interest income rose to 58.66% from 50.93%.

The adjustments/write-backs for credit risk on the exposures to customers, banks and securities totalled 237.313 million, compared with 267.533 million, -11.30%, in the prior year.

In more detail, adjustments to financial assets measured at amortised cost rose by 4.12%, compared with a contraction in the prior year of 7.35%. This sub-item totalled 241.283 million and, ignoring modest net provisions and write-backs on securities and banks, related almost entirely to loans to customers. The amounts concerned are considerable, due to the intense and prolonged recession that, especially for the banking system, has resulted inevitably in a trail of impaired loans. The reductions during the first and second quarters in the adjustments made to the amounts due from customers were interrupted in the third quarter, primarily due to the crises faced by the leading companies operating in the construction sector. Although there was a slight increase in loan writedowns, it is worth noting that there was a slowdown in the trend of impaired loans.

Sub-item relating to financial assets valued at fair value through other comprehensive income made a positive contribution of 3.970 million. In the prior year, the adjustments to available for sale financial assets totalled 35.801 million, mainly due to the writedown of the quotas held in the Atlante Fund.

Line item 140, which is used for the recognition of gains/losses on contractual amendments not resulting in derecognition, arising from modifications to contractual cash flows, reported a loss for the period just ended of 2.839 million.

The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has gone up from 0.90% to 0.93%. Financial income has therefore decreased to 626.101 million, -9.83%.

Despite the efforts made to improve the efficiency of our banking structuring, operating costs rose to 502.975 million, +3.13%, due in large measure to the new regulations governing the provisions for credit risk on the guarantees and commitments given. The ratio of operating costs to income from banking activities, otherwise known as the cost-income ratio, has risen to 58.06%, from 50.70% in the prior year, while the ratio of operating costs to total assets rose to 1.22% from 1.17%. 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 520.282 million, +1.35%; of these, personnel costs rose from 236.214 a 238.966 million, +1.17%, with other administrative expenses increased from 277.130 to 281.316 million, +1.51%. Once again, other significant expenses included the use of the interbank networks, consultancy, IT costs and contributions to the National Resolution Fund and to FITD. These last contributions totalled 26.949 million compared with 26.899 million in the prior year.

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	31/12/2018	31/12/2017	(+/-)	% change
Net interest income	508,135	489,922	18,213	3.72
Dividends	29,097	5,533	23,564	–
Net fee and commission income	315,661	305,080	10,581	3.47
Result of financial activities	13,360	161,319	-147,959	-91.72
Total income	**866,253**	**961,854**	**-95,601**	**-9.94**
Net adjustments to loans and financial assets	-237,313	-267,533	30,220	-11.30
Gains/losses on contractual amendments not resulting in derecognition	-2,839	–	–	–
Net financial income	**626,101**	**694,321**	**-68,220**	**-9.83**
Personnel expenses	-238,966	-236,214	-2,752	1.17
Other administrative expenses	-281,316	-277,130	-4,186	1.51
Other operating income/expense	63,263	63,320	-57	-0.09
Net accruals to provisions for risks and charges	-10,967	-1,452	-9,515	–
Adjustments to property. equipment and investment property and intangible assets	-34,989	-36,214	1,225	-3.38
Operating costs	**-502,975**	**-487,690**	**-15,285**	**3.13**
Operating profit (loss)	**123,126**	**206,631**	**-83,505**	**-40.41**
Net gains (losses) on equity investments and other investments	19,561	27,049	-7,488	-27.68
Profit (loss) before tax	**142,687**	**233,680**	**-90,993**	**-38.94**
Income taxes	-28,725	-68,496	39,771	-58.06
Profit (loss)	**113,962**	**165,184**	**-51,222**	**-31.01**
Profit (loss) attributable to non-controlling interests	-3,158	-5,974	2,816	-47.14
Profit (loss) attributable to the Parent Company	**110,804**	**159,210**	**-48,406**	**-30.40**

Notes: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.
Personnel expenses and other operating income have been reclassified, excluding the contra-entry represented by the proceeds from the post-employment benefits fund of € 1.576 million.

«Net provisions for risks and charges» amounted to 10.967 million, compared with 1.452 million, of which 11.926 million in credit risk provisions regarding guarantees and commitments given, while 0.959 million was released from other provisions.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 34.989 million, -3.38%.

Other income, stated after the above mentioned reclassification and net of other operating expenses, amounted to 63.263 million, -0.09%.

The aggregate profits/losses on equity and other investments shows a positive balance of 19.561 million, compared with 27.049 million.

Profit before income taxes therefore totalled 142.687 million, -38.94%. After deducting income taxes of 28.725 million, -58.06% on the previous year, and the non-controlling interest of 3.158 million, the profit for the year comes to 110.804 million, -30.40%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 20.13% compared with 29.31% in the previous year.

SUBSEQUENT EVENTS AND BUSINESS PROSPECTS

The reader is referred to the report accompanying the Parent Company's financial statements for information on events that took place after 31 December 2018 at Group level.

There is nothing worth noting with regard to Banca Popolare di Sondrio (SUISSE) SA, Factorit S.p.A., Banca della Nuova Terra S.p.A., PrestiNuova S.p.A. and Sinergia Seconda S.r.l.

The economy is expected to slow down gradually, both internationally and, above all, in Italy, so the road to growth will not be without its obstacles.

With regard to our Group, the guidance provided by the monetary authorities regarding this possible deterioration in the economic climate means that we cannot expect the net interest income to improve significantly, although it is reasonable to believe that commission income will grow. Despite this general economic context, we believe that the improvement in credit quality can continue, with positive effects on the amount of adjustments being charged to the income statement. The result of securities trading will continue to be affected by the performance of the financial markets, but it is difficult to make any kind of forecast about them in light of the numerous elements of uncertainty. Any increase in operating costs is expected to be limited.

Taken together, the above factors should enable Group's profitability levels to be maintained.

Sondrio, 22 March 2019

THE BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

PRESENTATION OF COMPARATIVE AMOUNTS

In the financial statements set out below, the comparative balance sheet and income statement amounts at 31/12/2017 have simply been restated using the financial statement format required by the fifth update to Bank of Italy Circular 262/2005 without any changes in amounts determined via the application of accounting standards prevailing at the time.

Accordingly, balance sheet and income statement amounts at 31 December 2017, which do not reflect the impact of applying IFRS 9, are not comparable with the amounts presented in the financial statements as of 31 December 2018.

CONSOLIDATED BALANCE SHEET
(in thousands of euro)

IFRS 9	IAS 39			31-12-2018		31-12-2017
10.	10.	CASH AND CASH EQUIVALENTS		**1,577,163**		**699,379**
20.		FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		**858,069**		**-**
20 *a)*	20.	FINANCIAL ASSETS HELD FOR TRADING		**251,044**		**372,590**
20 *c)*		OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE		**607,025**		**-**
	20.	FINANCIAL ASSETS HELD FOR TRADING		**-**		**62,463**
	30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE		**-**		**281,140**
	40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**-**		**40,600**
	50.	HELD-TO-MATURITY INVESTMENTS		**-**		**6,005**
	70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**-**		**132,532**
30.		FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**4,423,618**		**-**
	20.	FINANCIAL ASSETS HELD FOR TRADING		**-**		**256,358**
	40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**-**		**6,630,613**
40.		FINANCIAL ASSETS MEASURED AT AMORTISED COST		**32,873,554**		**-**
40 *a)*	60.	LOANS AND RECEIVABLES WITH BANKS		**1,320,621**		**1,920,320**
	50.	HELD-TO-MATURITY INVESTMENTS		**-**		**6,856**
40 *b)*	70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**31,552,933**		**25,623,303**
	40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**-**		**116,824**
	50.	HELD-TO-MATURITY INVESTMENTS		**-**		**4,119,711**
70.	100.	EQUITY INVESTMENTS		**220,957**		**217,634**
90.	120.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**328,161**		**327,490**
100.	130.	INTANGIBLE ASSETS		**33,259**		**23,720**
		of which:				
		- goodwill	12,632		7,847	
110.	140.	TAX ASSETS		**465,040**		**435,064**
		a) Current	31,834		49,618	
		b) Deferred	433,206		385,446	
130.	160.	OTHER ASSETS		348,364		352,052
		TOTAL ASSETS		**41,128,185**		**41,624,654**

THE CHAIRMAN
Francesco Venosta

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

IFRS 9	IAS 39	EQUITY AND LIABILITY ITEMS		31-12-2018		31-12-2017
10.		FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		**37,228,347**		**-**
10 *a)*	10.	DUE TO BANKS		**6,165,836**		**6,204,835**
10 *b)*	20.	CUSTOMER DEPOSITS		**28,630,307**		**28,800,925**
10 *c)*	30.	SECURITIES ISSUED		**2,432,204**		**2,833,359**
20.	40.	FINANCIAL LIABILITIES HELD FOR TRADING		**57,211**		**31,259**
40.	60.	HEDGING DERIVATIVES		**16,826**		**22,468**
60.	80.	TAX LIABILITIES		**29,767**		**38,855**
		a) Current	4,252		2,705	
		b) Deferred	25,515		36,150	
80.	100.	OTHER LIABILITIES		**760,091**		**643,520**
90.	110.	POST-EMPLOYMENT BENEFITS		**43,222**		**45,491**
100.		PROVISIONS FOR RISKS AND CHARGES		**248,850**		**-**
100 *a)*		Commitments and guarantees given	46,163		-	
	100.	OTHER LIABILITIES		**-**		**30,152**
	120.	PROVISIONS FOR RISKS AND CHARGES		**-**		**204,277**
100 *b)*	120 *a)*	Pension and similar obligations	160,734		160,799	
100 *c)*	120 *b)*	Other provisions for risks and charges	41,953		43,478	
120.	140.	VALUATION RESERVES		**(34,452)**		**28,478**
150.	170.	RESERVES		**1,160,683**		**1,077,440**
160.	180.	SHARE PREMIUM RESERVE		**79,005**		**79,005**
170.	190.	SHARE CAPITAL		**1,360,157**		**1,360,157**
180.	200.	TREASURY SHARES (-)		**(25,375)**		**(25,370)**
190.	210.	NON-CONTROLLING INTEREST (+/-)		**93,049**		**90,593**
200.	220.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**110,804**		**159,210**
		TOTAL LIABILITIES AND EQUITY		**41,128,185**		**41,624,654**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

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

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

IFRS 9	IAS 39			31-12-2018		31-12-2017
10.	10.	INTEREST AND SIMILAR INCOME		624,515		631,639
		of which: Interest income calculated using the effective interest method		618,122		627,004
20.	20.	INTEREST AND SIMILAR EXPENSE		(116,380)		(141,717)
30.	30.	**NET INTEREST INCOME**		**508,135**		**489,922**
40.	40.	FEE AND COMMISSION INCOME		336,146		324,053
50.	50.	FEE AND COMMISSION EXPENSE		(20,485)		(18,973)
60.	60.	**NET FEE AND COMMISSION INCOME**		**315,661**		**305,080**
70.	70.	DIVIDENDS AND SIMILAR INCOME		29,097		5,533
80.	80.	NET TRADING INCOME		19,826		60,429
90.	90.	NET HEDGING GAINS (LOSSES)		(95)		(115)
100.	100.	GAINS/LOSSES FROM SALE OR REPURCHASE OF:		5,486		95,244
100 *a)*		Financial assets measured at amortised cost	2,122		-	
100 *b)*		Financial assets measured at fair value through other comprehensive income	3,381		-	
	100 *b)*	Available-for-sale financial assets	-		94,795	
100 *c)*		Financial liabilities	(17)		-	
	100 *d)*	Financial liabilities	-		449	
110.	110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		(11,857)		5,761
		a) Financial assets and liabilities designated at fair value	-		5,761	
		b) Other financial assets mandatorily measured at fair value	(11,857)		-	
120.	120.	**TOTAL INCOME**		**866,253**		**961,854**
130.	130.	NET ADJUSTMENTS FOR CREDIT RISK RELATING TO:		(237,313)		(267,533)
		a) Financial assets measured at amortised cost	(241,283)		(231,732)	
		b) Financial assets measured at fair value through profit or loss with an impact on comprehensive income	3,970		(35,801)	
140.		GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(2,839)		-
150.	140.	**NET FINANCIAL INCOME**		**626,101**		**694,321**
180.	170.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**		**626,101**		**694,321**
190.	180.	ADMINISTRATIVE EXPENSES:		(521,858)		(522,300)
		a) Personnel expenses	(240,542)		(245,170)	
		b) Other administrative expenses	(281,316)		(277,130)	
200.	190.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(10,967)		(1,452)
		a) Commitments for guarantees given	(11,926)		(6,796)	
		b) Other net provisions	959		5,344	
210.	200.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(17,715)		(18,945)
220.	210.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(17,274)		(17,269)
230.	220.	OTHER OPERATING INCOME/EXPENSE		64,839		72,276
240.	230.	**OPERATING COSTS**		**(502,975)**		**(487,690)**
250.	240.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		19,903		26,517
260.	250.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS		(368)		515
280.	270.	NET GAINS ON SALE OF INVESTMENTS		26		17
290.	280.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**142,687**		**233,680**
300.	290.	INCOME TAXES		(28,725)		(68,496)
310.	300.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**113,962**		**165,184**
330.	320.	**PROFIT (LOSS) FOR THE PERIOD**		**113,962**		**165,184**
340.	330.	PROFIT (LOSS) FOR THE PERIOD OF NON-CONTROLLING INTEREST		(3,158)		(5,974)
350.	**340.**	**PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY**		**110,804**		**159,210**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

IFRS 9	IAS 39		2018	2017
10.	10.	**Profit (loss) for the period**	**113,962**	**165,184**
		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	10,645	–
	100.	Available-for-sale financial assets	–	5,090
70.	40.	Defined-benefit plans	(949)	(3,654)
90.	60.	Share of valuation reserves of equity investments valued at net equity	(50)	(1)
		Other income items net of income taxes that may be reclassified subsequently to profit or loss		
140.	100.	Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	(76,078)	530
160.	120.	Share of valuation reserves of equity investments valued alt net equity	(4,225)	(520)
170.	130.	**Total other income items net of income taxes**	**(70,657)**	**1,445**
180.	140.	**Comprehensive income (Item 10+170)**	**43,305**	**166,629**
190.	150.	**Consolidated comprehensive income attributable to non-controlling interest**	**(3,188)**	**(5,941)**
200.	160.	**Consolidated comprehensive income attributable to the Parent Company**	**40,117**	**160,688**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2017	Change in opening balances	Opening balance at 1.1.2018	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	10
c) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	1,119,099	(51,266)	1,067,833	131,253	–	8,489	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**28,315**	**7,757**	**36,072**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,370)**	**–**	**(25,370)**	**–**	**–**	**–**	**–**
Profit for the year	**165,184**	**–**	**165,184**	**(131,253)**	**(33,931)**	**–**	**–**
Equity attributable to the group	**2,678,920**	**(45,119)**	**2,633,801**	**–**	**(31,581)**	**8,489**	**–**
Equity attributable to non-controlling interest	**90,593**	**1,610**	**92,203**	**–**	**(2,350)**	**–**	**10**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2016	Change in opening balances	Opening balance at 1.1.2017	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	–
c) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	1,073,800	–	1,073,800	72,791	–	(27,492)	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**26,870**	**–**	**26,870**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,349)**	**–**	**(25,349)**	**–**	**–**	**–**	**–**
Profit for the year	**99,875**	**–**	**99,875**	**(72,791)**	**(27,084)**	**–**	**–**
Equity attributable to the group	**2,572,829**	**–**	**2,572,829**	**–**	**(27,084)**	**(27,492)**	**–**
Equity attributable to non-controlling interest	**84,652**	**–**	**84,652**	**–**	**–**	**–**	**–**

Changes during the year								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held	Comprehensive income	**Equity attributable to the group 31.12.2018**	**Equity pertaining to minority interests 31.12.2018**
–	–	–	–	–	–	–	**1,360,157**	**33,589**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	**1,157,454**	**50,121**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**(70,657)**	**(34,452)**	**(134)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(5)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,375)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**113,962**	**110,804**	**3,158**
(5)	**–**	**–**	**–**	**–**	**–**	**40,117**	**2,650,822**	**–**
–	**–**	**–**	**–**	**–**	**–**	**3,188**	**–**	**93,049**

Changes during the year								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held	Comprehensive income	**Equity attributable to the group 31.12.2017**	**Equity pertaining to minority interests 31.12.2017**
–	–	–	–	–	–	–	**1,360,157**	**33,579**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	**1,074,211**	**44,888**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**1,445**	**28,478**	**(163)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(21)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,370)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**165,184**	**159,210**	**5,974**
(21)	**–**	**–**	**–**	**–**	**–**	**160,688**	**2,678,920**	**–**
–	**–**	**–**	**–**	**–**	**–**	**5,941**	**–**	**90,593**

CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

	31/12/2018	31/12/2017
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**559,911**	**538,558**
- profit for the year (+/-)	110,804	159,210
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through other comprehensive income (-/+)	27,142	(1,565)
- net hedging gains (losses) (-/+)	96	116
- net impairment losses (+/-)	–	293,278
- net adjustments for credit risk (+/-)	263,220	–
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	35,357	36,213
- provisions for risks and charges and other costs/revenues (+/-)	33,781	20,025
- unpaid taxes, duties and tax credits (+)	28,725	68,495
- net impairment losses on assets held for sale, net of tax effect (+/-)	–	–
- other adjustments (+/-)	60,786	(37,214)
2. **Cash generated/absorbed by financing activities**	**1,009,350**	**(1,161,739)**
- financial assets held for trading	53,373	341,803
- financial assets measured at fair value	–	(189,936)
- available-for-sale financial assets	–	(172,624)
- loans and receivables with banks: sight	–	(44,882)
- loans and receivables with banks: other receivables	–	(121,084)
- loans and receivables with customers	–	(996,191)
- financial assets mandatorily measured at fair value through profit and loss	(97,475)	–
- financial assets measured at fair value through other comprehensive income	2,462,482	–
- financial assets measured at amortised cost	(1,363,754)	–
- other assets	(45,276)	21,175
3. **Cash generated/absorbed by financial liabilities**	**(639,760)**	**4,657,284**
- due to banks: sight	–	228,158
- due to banks: other payables	–	3,599,972
- customer deposits	–	1,328,731
- securities issued	–	(382,436)
- financial liabilities measured at amortised cost	(768,738)	-
- financial liabilities held for trading	10,818	(60,736)
- financial liabilities measured at fair value	–	–
- other liabilities	118,160	(56,405)
Net cash generated/absorbed by operating activities	**929,501**	**4,034,103**

	31/12/2018	31/12/2017
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**10,103**	**57,659**
- sales of equity investments	–	–
- dividends collected from equity investments	9,892	8,670
- sales and reimbursements of held-to-maturity investments	–	46,686
- sales of property, equipment and investment property	211	2,303
- sales of intangible assets	–	–
- sales of subsidiaries and business divisions	–	–
2. **Cash absorbed by**	**(46,804)**	**(4,097,493)**
- purchases of equity investments	(1,800)	–
- purchases of held-to-maturity investments	–	(4,051,181)
- purchases of property, equipment and investment property	(18,313)	(28,826)
- purchases of intangible assets	(26,691)	(17,486)
- purchases of subsidiaries and business divisions	–	–
Net cash generated/absorbed by investing activities	**(36,701)**	**(4,039,834)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury shares	(5)	(21)
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(37,811)	(26,984)
- sale/purchase of controlling interests in third parties	–	0
Net cash generated/absorbed by financing activities	**(37,816)**	**(27,005)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**854,984**	**(32,736)**

Key:

(+) generated (-) absorbed

RECONCILIATION

Line items	31/12/2018	31/12/2017
Reconciliation		
Cash and cash equivalents at beginning of year	699,379	789,612
Total net cash generated/absorbed in the year	854,984	(32,736)
Cash and cash equivalents: effect of change in exchange rates	22,800	(57,497)
Cash and cash equivalents at the end fo the year	1,577,163	699,379

NOTES TO THE FINANCIAL STATEMENTS

PART A *Accounting policies*

A.1 General information

Section 1 *Declaration of compliance with International Financial Reporting Standards*

Banca Popolare di Sondrio declares that these consolidated financial statements have been prepared in accordance with all the international accounting standards (IAS/IFRS) adopted by the International Accounting Standards Board, and the related interpretations of the International Financial Reporting Interpretations Committee, in force at 31 December 2018 and endorsed by the European Commission pursuant to EU Regulation 1606/2002.

The adoption of these international accounting standards has taken advantage of the provisions of art. 4 para 1 and 2 of Legislative Decree 38 dated 28 February 2005 «Making the elections envisaged by art. 5 of the EC Regulation 1606/2002 concerning international accounting standards».

The format of the consolidated financial statements complies with the Bank of Italy's Instructions 262 dated 22 December 2005, issued within the powers defined by Legislative Decree 38/2005 and subsequent updates.

The consolidated financial statements at 31 December 2018 were approved by the Board of Directors on 22 March 2019.

Section 2 *Basis of preparation*

The consolidated financial statements have been prepared in accordance with the following general criteria described in IAS 1:

1) Going concern. The financial statements have been prepared on a going concern basis: assets, liabilities and «off-balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and the Board of Statutory Auditors evaluate the company's prospects with particular attention. This assumption has been resolutely pursued and that there is no need for detailed analyses to support this assumption in addition to the information that is already available in the financial statements and the report on operations. Considering the structure of deposits based essentially on customer current accounts, repurchase agreements and, to a lesser extent, bond issues and loans mainly for retail customers and SMEs which the Group monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the difficulties encountered by sovereign debt securities in the recent past, management is of the opinion that there are no critical areas that could negatively influence the Group's capital solidity and profitability, which are key assumptions for adopting the going-concern basis.
2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information.
   If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the

related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent updates.

4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation. Explanatory and descriptive information is included when this helps to provide a better understanding of the consolidated financial statements.

As allowed on first-time adoption (FTA) of IFRS 9 and IFRS 15, the effects of which were recognised by adjusting opening equity at 1 January 2018, the Group has chosen not to restate the comparative figures. Accordingly, the prior year balance sheet and income statement are not fully comparable with the new accounting categories and related measurement criteria introduced by the new standards as, with specific reference to financial instruments, they were prepared in conformity with IAS 39 (i.e. the accounting standards in force at 31 December 2017, which were used to prepare the financial statements at that date and to which reference is made).

The financial statements are prepared in accordance with Italian regulations to the extent that they are compatible with IFRS. Accordingly, these financial statements reflect the requirements of Decree 136/2015, the Italian Civil Code (c.c.) and the Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

All of the figures reported in the consolidated financial statements and explanatory notes are shown in thousands of euro.

Section 3 *Scope of consolidation and methodology*

The consolidated financial statements present the economic and financial position at 31.12.2018 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 S.r.l., Banca della Nuova Terra S.p.A., Popso Covered Bond S.r.l., Prestinuova S.p.a. and the entities that are controlled by the Group pursuant to IFRS 10.

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

Name	Location	Type of relationship (1)	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 180,000	100	100
Factorit S.p.a.	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	1	60,000	100	100
Banca della Nuova Terra S.p.A.	Sondrio	1	31,315	100	100
Prestinuova S.p.A.	Rome	1	25,263	100	100
Pirovano Stelvio S.p.a. **	Sondrio	1	2,064	100	100
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milan	1	75	100	100
Immobiliare San Paolo S.r.l. **	Tirano	1	10*	100	100
Immobiliare Borgo Palazzo S.r.l.**	Tirano	1	10*	100	100
Popso Covered Bond S.r.l.	Conegliano V.	1	10	60	60

(1) 1 = majority of voting rights at ordinary shareholders' meeting.
4= other form of control

* held by Sinergia Seconda S.r.l.

** equity investments not included in the Banking Group

In addition, Fondo Immobiliare Centro delle Alpi Real Estate, which is 100% held by the Parent Company, and Adriano SPV S.r.l., which carried out a securitisation of loans transferred by PrestiNuova S.p.A., have been consolidated. 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 book value of the investments is eliminated against the related equity and all of the assets and liabilities, guarantees, commitments and other memorandum accounts are included, as are the revenues and costs of the subsidiaries. All of the assets and liabilities, equity, revenues, costs and intercompany financial flows relating to transactions between group entities are completely eliminated on consolidation, except for income and charges of insignificant amount. The financial statements of these group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the group.

Companies in which the Bank does not have an investment, but for which it has received pledged voting shares are not consolidated, because the pledge is designed to protect the loans granted and not to influence the company's operating policies to obtain economic benefits. The significant evaluations and assumptions adopted to establish the existence of control are also given in paragraph 5 «Equity Investments» in the «Part relating to the main line items in the financial statements» of these explanatory notes. 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.

In the first half of 2018, an equity interest was acquired in a company named Rent2Go S.r.l., which operates under joint control arrangements. 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 venture shown below is valued at equity:

Name	Location	Type of relationship (1)	Share capital (in thousands)	% held %	% of votes
Rajna Immobiliare S.r.l.	Sondrio	7	20	50	50
Rent2Go S.r.l.	Bolzano	7	3,300	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 for which 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:

Name	Location	Share capital (in thousands)	% held
Alba Leasing S.p.A.	Milan	357,953	19.264
Arca Vita S.p.A.	Verona	208,279	14.837
Arca Holding S.p.A.	Milan	50,000	21.137
Unione Fiduciaria S.p.A.	Milan	5,940	24.000
Polis Fondi Srgpa	Milan	5,200	19.600
Bormio Golf S.p.A..	Bormio	317	25.237
Lago di Como Gal S.c.r.l.	Canzo	22	28.953
Sofipo S.A.	Lugano	(CHF) 2,000*	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27.000
Sifas S.p.A.	Bolzano	1,209**	21.614

* held by Banca Popolare di Sondrio (Suisse) SA
** held by Pirovano Stelvio S.p.A.

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 amounts 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 to reserves in consolidated equity.

Section 4 Subsequent events

No events have taken place between the reference date for these consolidated financial statements and the date of their approval by the Board of Directors on 22/03/2019 that would require the adjustment of such approved information, and nothing of significance has occurred that would require the provision of additional information.

Section 5 *Other aspects*

The accounting policies adopted for the year are essentially consistent with those applied in 2017, except for the adoption from 1 January 2018 of IFRS 9 (Financial instruments) and IFRS 15 (Revenue from contracts with customers).

The consolidated financial statements, accompanied by the directors' report on operations, consist of the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes to the financial statements.

Preparing consolidated financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, the use of valuation models for identifying the fair value of instruments that are not listed on active markets, equity investments and goodwill and for estimating the recoverability of deferred tax assets. These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements.

The Parent Company and other Group companies defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the consolidated financial statements at 31 December 2018, as required by prevailing accounting standards and relevant regulation.

These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale.

The analyses performed confirm the carrying amounts of the items mentioned at 31 December 2018. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context, characterized by a reduced growth and high levels of uncertainty about the prospects, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment which could, as in the previous year, experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 31 December 2018.

Standards already in force whose application became mandatory from 2018 or subsequent years:

- Commission Regulation (EU) 2017/1987 of 31 October 2017, which adopts Clarifications of IFRS 15 «Revenues from contracts with customers». The amendments aim to clarify certain requirements and provide a further transitional facilitation for companies applying the standard.
  Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2018.

- Commission Regulation (EU) 2017/1988 of 3 November 2017 adopting the amendments to IFRS 4 «Joint application of IFRS 9 Financial instruments and IFRS 4 Insurance contracts». The amendments to IFRS 4 aim to remedy the temporary accounting consequences of the mismatch between the date of entry into force of IFRS 9 and the effective date of the new accounting standard on insurance contracts that replaces IFRS 4 (IFRS 17).
  The financial conglomerates referred to in the definition in Article 2, no. 14 of Directive 2002/87/EC can decide that none of its entities operating in the insurance sector within

the meaning of Article 2, no. 8, letter b) of the same directive need to apply IFRS 9 to the consolidated financial statements for the financial years commencing before 1 January 2021, if all of the following conditions are met:

a) after 29 November 2017, between the insurance sector and the other sectors of the financial conglomerate, no financial instruments other than financial instruments measured at fair value are transferred, for which the changes in fair value are recognised through profit or loss for the year from both the sectors involved in the transfers;

b) the financial conglomerate indicates in the consolidated financial statements the group insurance entities applying IAS 39;

c) the additional information required by IFRS 7 is provided separately for the insurance sector that applies IAS 39 and for the rest of the group that applies IFRS 9.
Companies have to apply the Amendments to IFRS 4 from the date of commencement of their first financial year beginning on or after 1 January 2018.

However, subject to the above conditions, financial conglomerates can choose to apply the Amendments to IFRS 4 from the start date of their first financial year beginning on or after 1 January 2018.

- Regulation (EU) no. 1905/2016 dated 22 December 2016 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 15. This applies from 1 January 2018.
- Regulation (EU) 2067/2016 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 9. This applies from 1 January 2018.
- Regulation (EU) 2018/182 dated 7 February 2018 which amends Commission Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IAS 28, IFRS 1 and IFRS 12. This applies from 1 January 2018.
- Regulation (EU) 2018/289 dated 26 February 2018 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 2 Share-based payments. This applies from 1 January 2018.
- Regulation (EU) 2018/400 dated 14 March 2018 which amends Commission Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IAS 40. This applies from 1 January 2018.
- Regulation (EU) 2018/519 of 28 March 2018 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRIC Interpretation 22. This applies from 1 January 2018.

Standards whose application will become mandatory subsequent to 31 December 2018:

- Commission Regulation (EU) 2017/1986 of 31 October 2017, which adopts IFRS 16 Leases, designed to improve the accounting treatment and reporting of lease contracts.

  Companies have to apply the standard, at the latest, from the start date of their first financial year beginning on or after 1 January 2019.
- Commission Regulation (EU) 2018/498 dated 22 March 2018 which amends Commission Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRS 9. This applies from 1 January 2019.

- Regulation (EU) 2018/1595 of 23 October 2018 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to IFRIC Interpretation 23. This applies from 1 January 2019.
- Regulation (EU) 2019/237 dated 11 February 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures. This applies from 1 January 2019.
- Regulation (EU) 2019/402 dated 14 March 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Amendments to IAS 19: Plan Amendment, Curtailment or Settlement. This applies from 1 January 2019.
- Regulation (EU) 2019/412 dated 15 March 2019 which amends Regulation (EC) 1126/2008 adopting certain international accounting standards pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council with regard to the Annual Improvements to IFRS Standards 2015-2017 Cycle. This applies from 1 January 2019.
- Amendments and new accounting standards not yet endorsed:
- Amendments to References to the Conceptual Framework in IFRS Standards. This applies from 1 January 2020.
- Amendment to IFRS 3 Business Combinations. This applies from 1 January 2020.
- Amendments to IAS 1 and IAS 8: Definition of Material. This applies from 1 January 2020.
- IFRS 17 Insurance Contracts. This applies from 1 January 2021, although the IASB has recommended the deferral of application until 1 January 2022.

Banca Popolare di Sondrio Group's transition to IFRS 9

With reference to the entry into force of IFRS 9 Financial Instruments, the Group has applied the new requirements as from 1 January 2018, having restated the prior year figures and having recognised the effect of the transition in equity. As regards changes introduced concerning accounting, the Group has opted for continuing to apply IAS 39.

Classification and Measurement

The new standard introduces a model under which 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.

Following the decisions taken, the Company did not make any significant reclassifications of financial instruments according to their accounting category. Management strategy for portfolios was used to determine the applicable business model as envisaged by the new standard.

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 deemed to be eligible only if frequent but not significant or significant but not frequent or if due to an increase in credit risk. Frequency is measured based on the number of sales made in the period, while significance is measured based on the total amount of sales compared to the portfolio at the beginning of the period. The criteria used to determine these requisites have been included by the Group in specific internal regulations.

Banca Popolare di Sondrio Group holds the following within an HTC business model:

- Almost the entire portfolio of loans to customers and banks, given that the Group mainly undertakes traditional banking activities and holds a loan portfolio that originates from finance granted to households, individuals and businesses;
- Fixed-yield securities that may be subjected to this business model's management logic.

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets.

The Group has decided not to use the HTC&S business model for loans, but for securities (most of the securities held as financial assets available for sale have been included here).

Others (FVTPL)

This business model is adopted when the Group takes decisions based on the fair value of financial assets and it manages them in order to realise the latter or when the objective of the business model does not fall within that of the previous two (HTC and HTC&S).

Banca Popolare di Sondrio Group holds the following within an «Others» business model:

- Financial instruments held within a trading business model
- Financial instruments held within a fair value business model (that mostly include funds and SICAVs).

The Group does not require ex-post monitoring for credit and loans to verify the consistency of the loan portfolio with the HTC business model within which they are held, while it is required for securities to verify the consistency of securities portfolio management with the HTC and HTC&S business models.

Solely Payment 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.

Reconciliations and explanatory notes

Restatement of financial position at 31 December 2017 (as per IAS 39) using new line items (as per IFRS 9) required by the 5th update to Bank of Italy Circular 262/05.

The following table provides a reconciliation of the asset, liability and equity components published in the consolidated financial statements for the year ended 31 December 2017 to the line items introduced by the 5th update to Bank of Italy Circular 262/05 and presents the results of the first-time adoption of IFRS 9 regarding the classification of financial instruments. The asset, liability and equity balance sheet components remain those determined in accordance with IAS 39, but they have been restated using the new line items in line with the business model established by Banca Popolare di Sondrio Group in accordance with the new accounting standard IFRS 9 (in fact, account was taken of the results of the SPPI test, which is an integral part of the classification phase).

Financial instruments previously classified as «Financial assets held for trading» have been reclassified as follows:

- Euro 372.6 million has been allocated, given the continuity in management strategy thereof, to the line item «Financial assets measured at fair value through profit or loss a) financial assets held for trading»;
- Euro 62.5 million relating to fixed-yield securities, variable-yield securities and mutual funds that are no longer held for trading has been allocated to the line item «Financial assets measured at fair value through profit or loss c) other financial assets mandatorily measured at fair value»;
- Euro 256.4 million of government securities and bonds that have passed the SPPI test has been allocated to the line item «Financial assets measured at fair value through other comprehensive income» that are held within an HTC&S business model.

«Financial assets measured at fair value», which comprise Euro 281.1 million of mutual funds, have been entirely reclassified to the line item «Financial assets mandatorily measured at fair value through profit or loss» since they consist of securities for which the contractual cash flows did not pass the SPPI test and that are held within a fair value business model.

Financial assets previously classified as «Financial assets available for sale» have been reallocated as follows:

- Euro 40.6 million to the line item «Financial assets measured at fair value through profit or loss c) other financial assets mandatorily measured at fair value» since they are held within other business models;

- Euro 6,630.6 million of securities to the line item «Financial assets measured at fair value through other comprehensive income» since they consist of fixed-yield securities held within a Held to Collect & Sell business model and of variable-yield securities for which the Group has decided to elect for the FVOCI option;
- Euro 116.8 million of securities to «Financial assets measured at amortised cost b) loans and receivables with customers» due to a decision to hold them within a Held to Collect business model.

Financial assets previously held to maturity have mostly been reallocated to the line item «Financial assets measured at amortised cost» (Euro 4,126.6 million), while a small part has been allocated to the line item «Financial assets measured at fair value through profit or loss c) other financial assets mandatorily measured at fair value» since they did not pass the SPPI test.

Loans and receivables with banks and customers have also been mostly reclassified to «Financial assets measured at amortised cost», except for 132.5 million of loans and receivables with customers that did not pass the SPPI test and that have thus been classified to the line item «Financial assets measured at fair value through profit or loss c) other financial assets mandatorily measured at fair value».

Circular 262/2005 5th update - ASSETS

Asset items	31.12.2017 IAS 39	10. Cash and cash equivalents	20. Financial assets measured at fair value through profit or loss: a) financial assets held for trading	20. Financial assets measured at fair value through profit or loss: c) other financial assets mandatorily measured at fair value	30. Financial assets measured at fair value through other comprehensive income
10. **Cash and cash equivalents**	**699,379**	**699,379**	**-**	**-**	**-**
20. **Financial assets held for trading**	**691,411**	**-**	**372,590**	**62,463**	**256,358**
30. **Financial assets measured at fair value through profit or loss**	**281,139**	**-**	**-**	**281,139**	**-**
40. **Available-for-sale financial assets**	**6,788,037**	**-**	**-**	**40,600**	**6,630,613**
50. **Held-to-maturity investments**	**4,132,572**	**-**	**-**	**6,005**	**-**
60. **Loans and receivables with banks**	**1,920,320**	**-**	**-**	**-**	**-**
70. **Loans and receivables with customers**	**25,755,836**	**-**	**-**	**132,533**	**-**
100. **Equity investments**	**217,634**	**-**	**-**	**-**	**-**
120. **Property, equipment and investment property**	**327,490**	**-**	**-**	**-**	**-**
130. **Intangible assets**	**23,720**	**-**	**-**	**-**	**-**
140. **Tax assets**	**435,064**	**-**	**-**	**-**	**-**
a) current	49,618	-	-	-	-
b) deferred	385,446	-	-	-	-
160. **Other assets**	**352,052**	**-**	**-**	**-**	**-**
Total assets	**41,624,654**	**699,379**	**372,590**	**522,740**	**6,886,971**

Circular 262/2005 5th update - LIABILITIES AND EQUITY

Equity and liability items	31.12.2017 IAS 39	10. Financial liabilities measured at amortised cost: a) due to banks	10. Financial liabilities measured at amortised cost: b) customer deposits	10. Financial liabilities measured at amortised cost: c) debt securities in issue	20. Financial liabilities held for trading	40. Hedging derivatives	60. Tax liabilities: a) current	60. Tax liabilities: b) deferred	80. Other liabilities
10. **Due to banks**	**6,204,835**	**6,204,835**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
20. **Customer deposits**	**28,800,925**	**-**	**28,800,925**	**-**	**-**	**-**	**-**	**-**	**-**
30. **Securities issued**	**2,833,359**	**-**	**-**	**2,833,359**	**-**	**-**	**-**	**-**	**-**
40. **Financial liabilities held for trading**	**31,259**	**-**	**-**	**-**	**31,259**	**-**	**-**	**-**	**-**
60. **Hedging derivatives**	**22,468**	**-**	**-**	**-**	**-**	**22,468**	**-**	**-**	**-**
80. **Tax liabilities**	**38,855**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) current	2,705	-	-	-	-	-	2,705	-	-
b) deferred	36,150	-	-	-	-	-	-	36,150	-
100. **Other liabilities**	**673,672**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**643,520**
110. **Post-employment benefits**	**45,491**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
120. **Provisions for risks and charges**	**204,277**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) pension and similar obligations	160,799	-	-	-	-	-	-	-	-
b) other provisions	43,478	-	-	-	-	-	-	-	-
140. **Valuation reserves**	**28,478**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
170. **Reserves**	**1,077,440**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
180. **Share premium reserve**	**79,005**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
190. **Share capital**	**1,360,157**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
200. **Treasury shares (-)**	**(25,370)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
210. **Non-controlling interests (+/-)**	**90,593**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
220. **Profit (loss) for the period**	**159,210**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities and equity	**41,624,654**	**6,204,835**	**28,800,925**	**2,833,359**	**31,259**	**22,468**	**2,705**	**36,150**	**643,520**

IFRS 9							
40. Financial assets measured at amortised cost					110. Tax assets		
a) loans and receivables with banks	b) loans and receivables with customers	70. Equity investments	90. Property equipment and investment property	100. Intangible assets	a) current	b) deferred	130. Other assets
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	116,824	-	-	-	-	-	-
6,856	4,119,711	-	-	-	-	-	-
1,920,320	-	-	-	-	-	-	-
-	25,623,303	-	-	-	-	-	-
-	-	217,634	-	-	-	-	-
-	-	-	327,490	-	-	-	-
-	-	-	-	23,720	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	49,618	-	-
-	-	-	-	-	-	385,446	-
-	-	-	-	-	-	-	352,052
1,927,176	**29,859,838**	**217,634**	**327,490**	**23,720**	**49,618**	**385,446**	**352,052**

IFRS 9										
	100. Provisions for risks and charges									
90. Post-employment benefits	a) commitments and guarantees given	b) pension and similar obligations	c) other provisions for risks and charges	120. Valuation reserves	150. Reserves	160. Share premium reserve	170. Share capital	180. Treasury shares (-)	190. Non-controlling interests (+/-)	200. Profit (loss) for the period
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	30,152	-	-	-	-	-	-	-	-	-
45,491	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	160,799	-	-	-	-	-	-	-	-
-	-	-	43,478	-	-	-	-	-	-	-
-	-	-	-	28,478	-	-	-	-	-	-
-	-	-	-	-	1,077,440	-	-	-	-	-
-	-	-	-	-	-	79,005	-	-	-	-
-	-	-	-	-	-	-	1,360,157	-	-	-
-	-	-	-	-	-	-	-	(25,370)	-	-
-	-	-	-	-	-	-	-	-	90,593	-
-	-	-	-	-	-	-	-	-	-	159,210
45,491	**30,152**	**160,799**	**43,478**	**28,478**	**1,077,440**	**79,005**	**1,360,157**	**(25,370)**	**90,593**	**159,210**

The liability line item «Provisions for risks and charges a) commitments and guarantees given» includes the reclassification made in connection with expected losses on financial guarantees and commitments to disburse funds of Euro 30.2 million previously allocated to other liabilities.

Reconciliation of financial position at 31 December 2017 (as per IAS 39) to the new financial position at 1 January 2018 (as per IFRS 9).

The table summarises, for each asset, liability and equity component of the balance sheet format laid down by the 5th update to Bank of Italy Circular 262/05, the impact of the adoption of IFRS 9, in terms of «measurement» and «impairment» as well as the related tax impact.

In particular:

- The «Measurement» column shows the change in carrying amount of each balance sheet component due to a change in measurement criteria;
- The «Impairment» column shows the change in carrying amount of each balance sheet component due to the adoption of the new impairment model introduced by IFRS 9. Please refer below to the «Analysis of the principal captions contained in the consolidated interim report», paragraph «3. Financial assets measured at amortised cost - accounting policies» for an explanation of the main aspects of this new model;
- The «Tax impact» column shows the tax effect of the first-time adoption of IFRS 9.

The "1.1.2018" column shows, for each balance sheet component, the new carrying amounts of assets, liabilities and equity, determined following the transition to the new standard, resulting from the sum of the amounts shown in the other columns.

In compliance with IAS 8 «Accounting policies, changes in accounting estimates and errors», the impact of the first-time application of a new accounting standard is recognised in equity.

In particular, the line item «Valuation reserves» includes 7.758 million relating to the positive impact, net of the tax effect, arising from the measurement at fair value through other comprehensive income of fixed-yield securities previously classified in the line item «Financial assets held for trading», and from the replenishment of the amortised cost of securities previously classified in the line item «Assets available for sale» and that had been reclassified upon FTA as assets measured at amortised cost, by means of the derecognition of the previous «AFS» reserve. The FTA component pertaining to this line item also comprises the reversal of pre-existing reserves pertaining to securities reclassified at fair value through profit or loss.

Lastly, it also includes the impact of the reconstruction of the reserve pertaining to fixed-yield securities for which IFRS 9 requires the change in fair value component arising from a change in the issuer's credit risk to be recognised in profit or loss and no longer in an equity reserve.

The line item «Reserves» includes the impact of all matters arising from the initial application of IFRS 9, totalling a negative amount of 52.876 million, mainly attributable to adjustments to customer loans.

Asset items	31/12/2017	Impact of IFRS 9 and IFRS 15 Measurement	Impairment	Tax impact	01/01/2018
10. **Cash and cash equivalents**	**699,379**	**-**	**-**	**-**	**699,379**
20. **Financial assets measured at fair value through profit or loss**	**895,330**	**(6,275)**	**-**	**-**	**889,055**
a) Financial assets held for trading	372,590	-	-	-	372,590
c) Other financial assets mandatorily measured at fair value	522,740	(6,275)	-	-	516,465
30. **Financial assets measured at fair value through other comprehensive income**	**6,886,971**	**-**	**-**	**-**	**6,886,971**
40. **Financial assets measured at amortised cost**	**31,787,014**	**(119)**	**(57,184)**	**-**	**31,729,711**
a) Loans and receivables with banks	1,927,176	-	(112)	-	1,927,064
b) Loans and receivables with customers	29,859,838	(119)	(57,072)	-	29,802,647
70. **Equity investments**	**217,634**	**-**	**-**	**-**	**217,634**
90. **Property, equipment and investment property**	**327,490**	**-**	**-**	**-**	**327,490**
100. **Intangible assets**	**23,720**	**-**	**-**	**-**	**23,720**
110. **Tax assets**	**435,064**	**-**	**-**	**25,399**	**460,463**
a) current	49,618	-	-	-	49,618
b) deferred	385,446	-	-	25,399	410,845
120. **Non-current assets and disposal groups held for sale**	**-**	**-**	**-**	**-**	**-**
130. **Other assets**	**352,052**	**-**	**-**	**-**	**352,052**
Total assets	**41,624,654**	**(6,394)**	**(57,184)**	**25,399**	**41,586,475**

Equity and liability items	31/12/2017	Impact of IFRS 9 and IFRS 15 Measurement	Impairment	Tax impact	01/01/2018
10. **Financial liabilities measured at amortised cost**	**37,839,119**	**-**	**-**	**-**	**37,839,119**
a) Due to banks	6,204,835	-	-	-	6,204,835
b) Customer deposits	28,800,925	-	-	-	28,800,925
c) Debt securities in issue	2,833,359	-	-	-	2,833,359
20. **Financial liabilities held for trading**	**31,259**	**-**	**-**	**-**	**31,259**
40. **Hedging derivatives**	**22,468**	**-**	**-**	**-**	**22,468**
60. **Tax liabilities**	**38,855**	**-**	**-**	**1,256**	**40,111**
a) current	2,705	-	-	2,095	4,800
b) deferred	36,150	-	-	(839)	35,311
80. **Other liabilities**	**643,520**	**323**	**-**	**-**	**643,843**
90. **Post-employment benefits**	**45,491**	**-**	**-**	**-**	**45,491**
100. **Provisions for risks and charges**	**234,429**	**-**	**3,751**	**-**	**238,180**
a) commitments and guarantees given	30,152	-	3,941	-	34,093
b) pension and similar obligations	160,799	-	(190)	-	160,609
c) other provisions for risks and charges	43,478	-	-	-	43,478
120. **Valuation reserves**	**28,478**	**240**	**6,618**	**900**	**36,236**
150. **Reserves**	**1,077,440**	**(8,566)**	**(67,553)**	**23,243**	**1,024,564**
160. **Share premium reserve**	**79,005**	**-**	**-**	**-**	**79,005**
170. **Share capital**	**1,360,157**	**-**	**-**	**-**	**1,360,157**
180. **Treasury shares (-)**	**(25,370)**	**-**	**-**	**-**	**(25,370)**
190. **Non-controlling interests (+/-)**	**90,593**	**1,609**	**-**	**-**	**92,202**
200. **Profit (loss) for the period (+/-)**	**159,210**	**-**	**-**	**-**	**159,210**
Total liabilities and equity	**41,624,654**	**(6,394)**	**(57,184)**	**25,399**	**41,586,475**

Details of the impacts shown in the table are as follows:

- - Euro 6.275 million arising from the fair value measurement of loans and securities that failed the SPPI test and that, in total, are lower than the previous measurement at amortised cost;
- -Euro 0.112 million relating to the impairment of Held to Collect, due from banks;
- -Euro 0.119 million determined by the reversal of the OCI reserve for CCTs that have been reclassified from «Financial assets available for sale» to loans and receivables with customers and thus in «Financial assets measured at amortised cost»;
- -Euro 57.072 million relating to the impairment of Held to Collect loans and receivables with customers;
- +Euro 0.323 million relating to other liabilities arising from the recognition of a refund liability due to the effect of the application of IFRS 15 and attributable to the repayment of amounts already collected linked to variable revenues;
- +Euro 3.941 million relating to the impairment of off-balance sheet items;
- -Euro 0.190 million relating to an adjustment to the pension fund due to the impairment of securities owned thereby;
- +Euro 6.618 million relating to the impairment of fixed-yield securities classified as «Financial assets measured at fair value through other comprehensive income»;
- The above changes arising from the FTA have given rise to the recognition of or adjustments for deferred tax, which is mostly attributable to increased provisioning for credit risk pertaining to financial assets: +24.143 million, arising from an increase in tax assets of 25.399 million, net of an increase in tax liabilities of 1.256 million.

Reconciliation of provisions for loans, securities and off-balance sheet items at 31/12/2017 (IAS 39) and at 01/01/2018 (IFRS 9)

The introduction of IFRS 9 has led to an increase in writedowns of loans compared to IAS 39, with particular reference to stage 2 loans, due to the fact that the recognition has to be made of lifetime expected credit losses. The increase in writedowns related to the impaired portfolio is almost entirely attributable to the introduction of a sale assumption for a sub-portfolio of non-performing loans.

The table below sets out a reconciliation of loan provisions.

					20. Financial assets measured at fair value	40. Assets measured at amortised cost - banks			
					Nominal exposure	Stage 1			
IAS 39 category		Nominal exposure	Accumulated adjustments	Net exposure	c) other financial assets mandatorily measured at fair value	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure
60. **Loans and receivables with banks**	Unimpaired	1,920,320	-	1,920,320	-	1,913,909	60	1,913,849	6,411
	Impaired	-	-	-	-	-	-	-	-
70. **Loans and receivables with customers**	Unimpaired	23,442,059	107,765	23,334,294	75,507	-	-	-	-
	Impaired	4,224,880	2,154,122	2,070,758	11,923	-	-	-	-

Stage 2		40. Assets measured at amortised cost - customers								
		Stage 1			Stage 2			Stage 3		
Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure
25	6,386	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	19,499,758	42,517	19,457,241	3,874,233	85,211	3,789,022	-	-	-
-	-	-	-	-	-	-	-	4,188,657	2,163,822	2,024,835

With the introduction of IFRS 9, there is a requirement to apply to securities the same impairment model used for loans; this has resulted in an increase in provisions, since under IAS 39 these instruments were written down only upon the recognition of any impairment losses that arose.

The table below sets out a reconciliation of provisions pertaining to securities.

					20. Financial assets measured at fair value		30. Financial assets measured at fair value through other comprehensive income								
					Nominal exposure		Stage 1			Stage 2			Stage 3		
IAS 39		Nominal exposure	Accumulated adjustments	Net exposure	a) financial assets held for trading	c) other financial assets mandatorily measured at fair value	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure
20. **Financial assets held for trading**	Unimpaired	691,411	-	691,411	372,590	62,463	228,313	314	227,999	28,705	346	28,358	-	-	-
	Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30. **Financial assets measured at fair value through profit or loss**	Unimpaired	281,140	-	281,140	-	281,140	-	-	-	-	-	-	-	-	-
	Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40. **Available-for-sale financial assets**	Unimpaired	6,788,037	-	6,788,037	-	40,599	6,633,702	5,835	6,627,867	2,868	122	2,746	-	-	-
	Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50. **Held-to-maturity investments**	Unimpaired	4,132,572	-	4,132,572	-	6,005	-	-	-	-	-	-	-	-	-
	Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
70. **Loans and receivables with customers**	Unimpaired	368,208	17,424	350,784	-	38,827	-	-	-	-	-	-	-	-	-
	Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand total Securities					**372,590**	**516,465**			**6,855,866**			**31,104**			**-**
						889,056									**6,886,971**

IFRS 9

40. Assets measured at amortised cost - banks									40. Assets measured at amortised cost - customers								
Stage 1			Stage 2			Stage 3			Stage 1			Stage 2			Stage 3		
Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	116,705	378	116,327	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6,856	27	6,829	-	-	-	-	-	-	4,113,456	3,150	4,110,306	6,254	47	6,208	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	299,034	327	298,707	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		1,920,678			**6,386**			**-**			**23,982,582**			**3,795,230**			**2,024,835**
								1,927,064									**29,802,646**

With the introduction of the new IFRS 9, the scope of off-balance sheet exposures has been changed. Since 1 January 2018, revocable commitments are included in these items, thus broadening the scope compared to that under IAS 39.

Following the introduction of IFRS 9, there has been an increase in adjustments, especially to unimpaired exposures. As regards adjustments to impaired positions, there has not been a significant increase in provisions.

The following table sets out a comparison between IFRS 9 and IAS 39 impairment figures detailed by stage and nature of the amount (gross exposure, adjustment and net exposure).

IAS 39		Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure
Commitments	Unimpaired	1,350,874	–	1,350,874	13,422,389
	Impaired	11,666	40	11,626	–
Guarantees given	Unimpaired	3,550,288	4,966	3,545,322	2,926,007
	Impaired	72,343	25,146	47,197	–
Grand total		**4,985,170**	**30,152**	**4,955,019**	**16,348,396**

Reconciliation of equity at 31/12/2017 (IAS 39) to equity at 01/01/2018 (IFRS 9)

This table summarises the impact of the first-time application of IFRS 9 on consolidated equity, which comes to a total negative amount of Euro 43.509 million, net of the tax effect.

Consolidated equity at 1 January 2018 (as per IFRS 9) amounts to Euro 2,726 million, which is lower than equity at 31 December 2017 (as per IAS 39) of Euro 2,770 million.

The table below sets out a summary of the impact of FTA on each financial statement component affected, gross of the tax effect that is presented separately.

Impact of transition to IFRS 9 and IFRS 15

Group's equity at 31/12/2017 as per IAS 39	2,769,513
– attributable to the Group	2,678,920
– attributable to non-controlling interests	90,593

	Gross impact
20. **Financial assets measured at fair value through profit or loss**	
Fair value measurement of financial instruments carried at amortised cost under IAS 39	(6,275)
40. **Financial assets measured at amortised cost**	
Measurement at amortised cost of financial instruments carried at fair value under IAS 39	(119)
Impairment of financial assets measured at amortised cost	(57,184)
80. **Other liabilities**	
Potential liabilities linked to revenue from contracts as per IFRS 15	(323)
100. **Provisions for risks and charges**	
Impairment of guarantees and commitments	(3,751)
Impact on equity	**(67,652)**
Total tax effect of FTA	24,143
Net impact on equity	**(43,509)**
Equity at 01/01/2018 as per IFRS 9	**2,726,004**
– attributable to the Group	2,633,802
– attributable to non-controlling interests	92,202

IFSR 9							
Stage 1		Stage 2			Stage 3		
Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure	Nominal exposure	Accumulated adjustments	Net exposure
4,552	13,417,837	574,535	2,212	572,322	–	–	–
–	–	–	–	–	189,251	98	189,153
907	2,925,100	624,282	438	623,844	–	–	–
–	–	–	–	–	72,343	25,886	46,456
5,459	**16,342,937**	**1,198,817**	**2,650**	**1,196,167**	**261,594**	**25,984**	**235,610**

IFRS 15, published on 28 May 2014, introduces a new model for the recognition of revenues deriving from contracts with customers, and replaces the current standards on the subject, being IAS 18, IAS 11 and the related interpretations. Entities are required to recognise revenues based on the remuneration expected from the products or services provided, which is calculated in five steps: identification of the contract, identification of the individual obligations arising under the contract, determination of the price of the transaction, allocation of the price to each of the individual obligations and recognition of the revenue when control over the product or service is transferred to the customer.

The impact arising from the FTA of the new standard is not significant in terms of the effect on equity as it mainly relates to the recognition of liabilities (approximately Euro 0.3 million) attributable to the repayment of amounts already collected linked to variable revenues.

IFRS 16: Leases

The new IFRS 16, issued by the IASB (International Accounting Standards Board) and endorsed by the European Commission in Regulation 1986/2017, replaces IAS 17 Leases from 1 January 2019.

IFRS 16 Leases replaces IAS 17 and related interpretations, changing the definition of a lease and eliminating, for the lessee, the difference between finance and operating leases by introducing a single accounting model that recognises a leasing asset (Right of use) and the related leasing liability. For the lessor, IFRS 16 essentially represents the continuation of IAS 17.

The purpose of the new international accounting standard is to «ensure that lessees and lessors disclose appropriate information in a manner that fairly represents the underlying transactions. The disclosures provide the users of financial statements with the information needed to evaluate the effect of the leases on the financial position, economic results and cash flows of the entity».

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

The contract is, or contains, a lease if, in exchange for consideration, it grants the right to control the use of a specified asset for a period of time. In order to establish if the contract is, or contains, a lease, the entity must determine whether, over the entire period of use, the customer will enjoy the right to substantially obtain all the economic benefits deriving from use of the asset and the right to decide how it will be used.

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

Again on initial recognition, the cost of the asset, being the right of use obtained, comprises the initial amount of the leasing liability, the lease payments made on or prior to the start, net of any leasing incentives received, the initial direct costs incurred by the lessee and the estimated cost of removing or restoring the underlying asset. Subsequently, the asset is measured at historical cost an depreciated over the life of the contract concerned.

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

On FTA, the lessee has two options for applying the standard.

The lessee can apply the new standard to its lease contracts:

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

In view of the important innovations introduced by IFRS 16, the Group deemed it necessary to activate a specific project for the conversion of the current infrastructures, applications and internal regulations to the new accounting requirements. These activities were commenced in spring 2018, when a gap analysis was carried out to identify the possible impact deriving from the application of the new accounting standard. This assessment involved an analysis of the accounting aspects, investigation of the contracts and identification of the areas affected by the accounting standard.

The subsequent design and implementation phases were carried out during the second half of the year: the Group configured the target operational model and updated the documentary framework in order to define and formalise suitably the new processes and responsibilities, and map the applications software and other changes made.

The Administration & Financial Accounting area coordinated these project activities, with assistance from both Information Systems and Logistics and Operational Support.

The Group decided not to apply the grandfathering option, which would have involved redetermining which leases were subject to the new standard; instead, the Group chose to recognise the effects of first-time adoption using the «amended retrospective» approach, without therefore recognising them retrospectively in accordance with IAS 8; lastly, lease contracts whose underlying assets are intangible are not subject to IFRS 16.

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

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

Implementation of the new requirement has increased the amount of risk-weighted assets, but the effect of first-time adoption on Group equity was not significant. Overall, based on the simulations carried out, the reduction in Common Equity Tier 1 capital (CET1), was about 11 basis points.

The financial statements are audited by EY S.p.A. in accordance with the shareholders' resolution of 29 April 2017 which appointed them as auditors for the nine year period from 2017 to 2025.

A.2 Part relating to the main line items in the financial statements

1. Financial assets 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 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 active and 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 active and official markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer. If data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity; cost, in the event that this is the best approximation of fair value).

As regards loans and receivables (due from banks and customers), the models used differ based on the nature and the characteristics of the instruments being measured. Currently, three main base models are applied:

- Discounted Cash Flow Model (DCF).
- Reverse mortgage model.
- ABS model.

The above models are used to measure performing exposures. In the event of non performing loans or loans repayable on demand, the fair value equates to the gross balance adjusted for impairment.

Recognition of components affecting the income statement

Income statement components generated by changes in fair value of financial assets measured at fair value through profit or loss are recognised in the income statement in the period they arise under «Net trading income» and «Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss» split between the sub-items: «financial assets and liabilities designated at fair value» and «other financial assets mandatorily measured at fair value».

Interest income and dividends are reported in the income statement under «Interest and similar income» and «Dividends and similar income» respectively.

Derecognition

Financial assets measured at fair value through profit or loss are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the substantially transfer of all the related risks and benefits, or when no control is retained over them even though all the related risks and benefits are neither transferred nor substantially 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 show that equities represent the majority in this portfolio. Since the most recent information available for the fair value measurement of these equity investments is insufficient, measurement at cost is deemed to be a more appropriate estimate of fair value. At each reporting date, fixed-yield securities classified as «fair value through other comprehensive income» are subjected to impairment testing using a framework similar to that established for financial instruments measured at amortised cost (see Chapter 3). 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 changes in fair value[1], net of the related deferred tax effect, are recognised in an equity reserve named «Valuation reserves», composed of the sub-items «Valuation reserves: Variable-yield 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, accumulated gains or losses pertaining thereto are recognised in an equity reserve (line item 150).

Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» in equity.

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the substantial transfer of all the related risks and benefits, or when no control is retained over them even though all the related risks and benefits are neither transferred nor substantially retained.

1. For fixed-yield securities, impairment due to expected losses is charged to the income statement as «net adjustments for credit risk»

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. For an explanation of the business models for financial instruments, please refer to the «Other aspects» section above that provides disclosures about the adoption of IFRS 9. 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 substantially transferring 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.

In order to measure the impairment adjustments required for expected losses, financial assets measured at amortised cost are classified in one of the following stages:

- Stage 1: performing positions for which there has been no significant increase in credit risk since the date of initial recognition
- Stage 2: performing positions for which there has been a significant increase in credit risk since the date of initial recognition
- Stage 3: positions classified in one of the credit-impaired categories (overdrawn for more than 90 days, unlikely-to-pay, non-performing)

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts».

At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, 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, is made use 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. 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 - Exposure and Default).

As regards credit-impaired positions, measurement may be performed on an overall or detailed basis. More specifically:

- Non-performing loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.
- Exposures classified as unlikely-to-pay loans are exposures, other than non-performing, for which the bank deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.
- Impaired past due and/or overdrawn exposures are exposures, other than those classified as non-performing or unlikely-to-pay, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 days and which exceed a set materiality threshold. Impaired past due and/or overdrawn exposures may be determined with reference to the position of the individual debtor or, alternatively, solely for exposures to retail customers, with reference to a single transaction.

Impairment of individual assets measured at amortised cost is the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

- value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan;
- expected timing of recoveries, considering the progress made by recovery procedures;
- internal rate of return.

Non-performing loans are assessed on either a detailed or an overall basis. The specific analysis of non-performing financial assets measured at amortised cost takes the following parameters into account:

- recoveries forecast by the account managers;
- expected timing of recoveries based on historical-statistical data;
- original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

Overall assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

- recoveries forecast by the offices concerned;
- expected timing of recoveries based on historical-statistical data;
- original discounting rates represented by the actual contractual rates in force at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of non-performing loans for which no specific estimate has been made of the loss attributable to each individual relationship.

These financial assets are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Past due and/or impaired overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters established by regulations in force from time to time.

For the positions in question, it is not possible to quantify expected losses on a detailed basis at the level of individual position. The measurement of the level of impairment thereof – and, thus, of the impairment adjustments to be applied on an overall basis – is performed by taking account of the possibility of return to performing of the positions or of a further deterioration of default and, accordingly, of the amount of the estimated expected loss arising from the established recovery process. Measurement is also performed based on the availability of appropriate information of a macroeconomic and prospective nature that is deemed significant for the estimation of the adjustments.

Recognition of components affecting the income statement

Interest income on financial assets measured at amortised cost is classified in the line item «interest and similar income».

Reductions or recoveries of partial or entire amounts previously written down are booked to the income statement as net adjustments for credit risk.

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the line item «interest and similar income».

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

Derecognition

Financial assets are derecognised when the contractual rights over the cash flows deriving from them expire or are extinguished, or when they are sold with the substantial transfer of all the related risks and benefits, or when no control is retained over them even though all the related risks and benefits are neither transferred nor substantially retained.

IFRS 9 thus 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 substantia transfer of all the related risks and benefits, or when no control is retained over them even though all the related risks and benefits are neither transferred nor substantially 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 loan, taking into account the creditworthiness of the borrower. The impairment model envisaged for this category of financial assets is the same as that for financial assets measured at amortised cost (see paragraph 3 above).

Recognition of components affecting the income statement

The commissions accrued are shown in the income statement under «fee and commission income». Impairment losses, and subsequent reversals, are booked to the income statement under «net provisions for risks and charges» with a contra-entry to «Provisions for risks and charges - a) Commitments and guarantees given».

4. Hedging transactions

Classification and recognition

Financial and credit derivatives held for hedging purposes with a positive or negative fair value are recognised in the corresponding balance sheet line item. The IASB is still developing new macro hedging requirements to complete the hedge accounting requirements already included in IFRS 9, which will replace the rules set out in IAS 39 and, accordingly, until the completion and publication of the new standard, the Bank has decided to continue to apply the hedge accounting requirements set out in IAS 39, as this option is allowed under IFRS 9.

The portfolio of hedging derivatives comprises the derivative instruments used by the Bank to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading portfolio. Hedging instruments are recorded using the «contract date» method.

A transaction can be recorded as a «hedge» if it satisfies the following conditions: a) the hedging relationship must be formally documented; b) the hedge must be effective at its inception and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end.

Measurement and recognition of components affecting the income statement

Fair value hedges are measured and recorded on the following basis:

- hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The measurement techniques used are those normally adopted by the market. The resulting gains and losses are recorded in the «Net hedging gains (losses)» caption of the income statement;
- hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement to match the change in the carrying value of the hedged item.

With regard to interest-earning financial instruments, if the hedge ceases to satisfy the recognition criteria, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to the income statement over the residual life of the original hedge; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

Cash flow hedges are measured and recorded on the following basis:

- derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place;
- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

If the hedging instrument expires or is sold, cancelled or exercised without replacement (as part of the hedging strategy), or if it ceases to be designated as a hedging instrument, or if the hedge no longer satisfies hedge accounting criteria, any gains or losses previously recognised as components of other comprehensive income remain classified separately within equity until the expected transaction takes place or the commitment made in relation to foreign currency is called upon.

Derecognition

Risk hedges cease to generate accounting effects when they expire, when they are closed out or terminated early, or when they cease to satisfy the recognition criteria.

5. Equity investments

The portfolio of equity investments comprises holdings in subsidiaries, associates and joint ventures, other than those classified as «financial assets measured at fair value through other comprehensive income» pursuant to IAS 28 and IFRS 11.

Recognition

Reference should be made to Section 3 Scope and methods of consolidation.

Accounting policies

Reference should be made to Section 3 Scope and methods of consolidation.

Measurement and recognition of components affecting the income statement

Reference should be made to Section 3 Scope and methods of consolidation.

Derecognition

Reference should be made to Section 3 Scope and methods of consolidation.

6. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery.

As required by IAS 17, assets held under finance leases are also classified in this caption. In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation.

Recognition

Property, equipment and investment property are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

Accounting policies

Following initial recognition, property, equipment and investment property are stated at cost net of accumulated depreciation and any permanent impairment of value, except for property held for investment purpose, which are valued at fair value. Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life. Property, equipment and investment property are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying value with respect to their recoverable value is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent writebacks do not exceed the impairment losses recorded previously.

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and writebacks are recorded in the «depreciation and net impairment losses on property, equipment and investment property» caption of the income statement.

With regard to buildings held for investment purposes, the net result of their measurement at fair value is recorded separately in the income statement.

Derecognition

Property, equipment and investment property are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

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 subsequently incurred 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 asset's recoverable amount is estimated: the impairment loss, being the difference between the carrying value and the recoverable amount, is charged to the income statement.

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is lower. This recoverable value is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and writebacks are recorded in the «amortisation and net impairment losses on intangible assets» caption of the income statement.

It is not permitted to book any subsequent recoveries in value.

Derecognition

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

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. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes.

If there are deductible or taxable temporary differences at the reporting date between the value of assets and liabilities for tax purposes and the related carrying amounts, the corresponding deferred tax assets and liabilities are recognised using the liability method.

Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions:

- they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future.

Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions:

- the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes;
- in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them.

No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply. Deferred tax assets are only recognised when their recovery in future years is reasonably certain.

Deferred tax assets determined on the basis of deductible temporary differences are recorded in the financial statements to the extent that their recovery is probable; this probability is assessed by carrying out a probability test, based on the Group's ability to continue generating positive taxable income or, as a result of the Tax Consolidation option, based on that generated by the tax group member companies. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal.

Deferred tax assets and liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to comprehensive income or equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This caption comprises the following provisions:

- The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to disburse loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.
- Sub-item «Pensions and similar obligations» only includes the supplementary defined benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other «external» supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed. These include:

· Parent Company's pension plan. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Bank is responsible for any unfunded liabilities.
· Actuarial liabilities pertaining to BPS (Suisse) SA arising from supplementary pension costs for the employees thereof. For further details, see the specific accounting method explained below.

– The sub-item «Other provisions for risks and charges» includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
· the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
· it is likely that settlement of the obligation will involve the use of economic resources;
· a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

11. Financial liabilities measured at amortised cost

Classification

This line item includes amounts due to banks and due to customers, regardless of their technical form (deposits, current accounts, loans, securities), other than those recognised in line items 20 «Financial liabilities held for trading» and 30 «Financial liabilities designated at fair value». It also includes operating payables linked to the financial services and activities defined in the Consolidated Banking Act and the Consolidated Finance Act, variation margins with clearing houses arising from derivative transactions and other operating payables associated with the provision of financial services. Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the Group's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions.

Recognition

The above financial liabilities are recognised in the financial statements at the settlement date. 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 criteria applying to such transactions.

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest and similar expense». 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».

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 designated at fair value

The financial statements do not include any financial liabilities at fair value.

14. Currency transactions

They include all assets and liabilities denominated in currencies other than Euro.

Recognition

Assets and liabilities denominated in currencies other than the Euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise. Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

15. Termination indemnities

Termination indemnities are treated as a defined benefit plan or a defined benefit obligation. Accordingly, pursuant to IAS 19, the amount of this obligation is determined using the projected unit credit method by extrapolating, using actuarial assumptions, the amount to be paid upon termination of the employment relationship and then discounting to present value the amount already earned. 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 each year by an independent actuary.

As a result of the reform of supplementary pensions by Legislative 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, it has no longer to be taken into account 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 2016 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

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 significance threshold determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank’s long-term business objectives. The cost of transactions settled using equity instruments is represented by their fair value at the grant date, as determined using an appropriate method of measurement.

This cost and the corresponding increase in equity is recognised as a payroll cost over the period in which the conditions for achieving the objectives and/or providing the service are satisfied. The transaction costs already accumulated at each reporting date prior to the vesting date are projected forward to the vesting date, together with the best estimate of the number of equity instruments that will actually vest. The cost or income recognised in the income statement represents the change in accumulated cost between the start and the end of the year.

The service or performance conditions are ignored when the fair value of the plan is determined at the grant date. However, the probability that these conditions will be satisfied is considered when estimating the number of equity instruments that will actually vest. Market conditions are reflected in the fair value determined at the grant date. All other plan conditions that do not involve a service obligation are not considered to be vesting conditions. Non-vesting conditions are reflected in the fair value of the plan and result in immediate recognition of the cost of the plan, unless service or performance conditions must also be satisfied.

Revenues from contracts with customers

In compliance with IFRS 15, revenue arises from the transfer of goods or services to the customer and is recognised at an amount that reflects the consideration that the Group deems it is entitled to in exchange for the above goods or services using a five-step model (identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue when the entity satisfies a performance obligation).

Revenue from contracts with customers is recognised in profit or loss when it is probable that an entity will receive the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. The consideration is allocated to individual performance obligations in the contract and is recognised in profit or loss based on the timing of the satisfaction of performance obligations. More specifically, revenue is recognised in profit or loss either at a point in time or over time as and when the entity satisfies its performance obligations. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both. Contractual consideration may vary as a result of price concessions, discounts, rebates, incentives or other similar items and may be contingent on the occurrence or non-occurrence of a future event. In the presence of variable consideration, a revenue is recognised in profit or loss if it is possible to reliably estimate the revenue and only if it is highly probable that the entire consideration, or a significant part thereof, will not be subsequently reversed from profit or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements. The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to.

The principal areas affected by IFRS 15 relate to the revenues from contracts with customers recognised as «Fee and commission income», with particular reference to the distribution of third-party products and services related to current account transactions. The amount of commission recognised on the placement of products is adjusted to take account of any revenues variable that might have to be returned in the future. The revenues earned on current accounts are recognised after allocation to the individual products or services comprising the stand-alone package.

Income from dividends

Dividends are recognised when the right to collect them arises.

Treasury shares

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

Covered bonds

On 6 November 2013, the Board of Directors of the Parent Company authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond S.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015.

On 1 February 2016, a portfolio of performing loans totalling € 576 million was assigned without recourse to POPSO Covered Bond S.r.l., the vehicle company, in relation to the second series of covered bonds amounting to € 500 million issued on 4 April 2016.

On 31 October 2016, a fourth sale without recourse of a € 226 million portfolio of performing loans was carried out. On 1 October 2017, a fifth sale of a € 308 million portfolio of performing loans was carried out. Lastly, on 1 October 2018, a further portfolio of € 323 million performing loans was assigned without recourse.

Given that the Parent Company maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet.

Interbank Deposit Protection Fund - Voluntary Scheme

In December 2015, the Parent Company joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. The Fund intervened in support of Banca Carige in 2018, resulting in a payment by the Bank of 5.257 million matched by the recognition of a financial asset represented by securities measured at fair value through profit and loss. This financial asset has been written down in full in the 2018 financial statements.

Information pursuant to art. 1, paras. 125-129 of Law 124 dated 4 August 2017 «Annual law for the market and competition - Measures on the transparency of public payments»

The above-mentioned law requires firms to publish information in the explanatory notes to their statutory and consolidated financial statements about the «grants, contributions, paid assignments and, in general, economic benefits of any kind» received from the public administration and from the parties referred to in art. 2-bis of Decree 33/2013, from companies directly or indirectly controlled by law or on a de facto basis by the public administration or by companies with public investment. This obligation does not apply if the grants, contributions and paid assignments total less than Euro 10,000 in the period considered. Failure to comply with this disclosure requirement results in a requirement to return the amounts to the parties that paid them.

Despite the clarification provided by the Council of State, in opinion 1449 dated 1 June 2018, numerous questions remain about the application of this regulation and, in particular, about the objective scope of its application. The matter has also been addressed by trade associations (Assonime) and the Italian Accounting Profession. It is considered, having regard for the criteria underlying the law and the guidance given, that the disclosure requirement does not extend to the consideration paid for services provided in the ordinary course of business or to the assistance provided to all firms (such as tax relief measures), as those benefits are not addressed to a specific business. The Group considers that the transactions with public administrations, public companies, the subsidiaries of public companies and pension funds are carried out in the ordinary course of its banking activities and, therefore, are not covered by the disclosure requirements introduced by Law 124 dated 4 August 2017. The contributions received by the Group are detailed in the National Register of State Aid, which can be consulted by the public on the related website, totalled Euro 202 thousand and were paid by the FBA (banking and insurance fund) as «Assistance with the training of personnel».

Classification criteria and measurement of financial assets and liabilities included in the comparative data presented at 31 December 2017

The financial assets and liabilities included in the comparative data have been classified and measured in accordance with IAS 39. The related accounting policies are described in the consolidated financial statements at 31 December 2017.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

A.3.1 Reclassified financial assets : change in business model, carrying amount and interest income

There were no transfers during the year due to changes in business model. At 31/12/2018, the securities portfolio no longer includes any securities reclassified in 2008 following the amendment to IAS 39 endorsed by Regulation (EU) 1004 dated 15/10/2008, as that standard has been replaced by IFRS 9.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

IFRS 13 Fair Value Measurement came into force on 1 January 2013. This standard collects in one document the rules governing the determination of fair value that were previously contained in several accounting standards. IFRS 13 essentially does not change the concept of fair value, but provides new application guidelines and envisages additional disclosures.

The information about fair value required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an asset or that would be paid for the transfer of a liability in a orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer.

Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument. With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the Credit Value Adjustment (CVA) and represents the potential loss associated with the counterparty credit risk, while the Debit Value Adjustment (DVA) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Level 2 inputs exclude the listed prices used in Level 1 and include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market.

This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Level 3 inputs consist of unobservable inputs for the asset or liability concerned and are used to determine fair value to the extent that significant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The inputs not observable in the marketplace derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

A.4.2 Processes and sensitivity of the measurements

The Group uses various methodologies to determine the fair value of assets and liabilities.

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 largely comprise securities carried at cost (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.

The Level 3 instruments whose fair value is determined by processing unobservable quantitative inputs largely relate, therefore, to those financial instruments that did not pass the SPPI test envisage in IFRS 9 for classification as financial assets. The fair value of the majority of these financial instruments is determined using a DCF model or, for demand products, stated at the gross exposure net of any impairment due to credit risk. The economic results do not fluctuate significantly on changes in the unobservable risk parameters.

In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.05% under the adverse scenario and higher by 0.04% 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 by +/-10%. In both cases, the changes in fair value were very limited (fair value lower by 0.13% on a 10% increase in the LGD and greater by 0.12% on a 10% decrease). 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 0.35% following an increase in the rate curves and, conversely, increased by 1.28% 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 the 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 those found with the other two sensitivity analyses, but nevertheless remain low.

A.4.3 Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Group.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs. An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used.

A.4.4 Other information

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

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A4.5.1 Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

	31/12/2018		
Assets/liabilities carried at fair value	Level 1	Level 2	Level 3
1. **Financial assets measured at fair value through profit or loss of which**	**536,775**	**31,668**	**289,627**
a) Financial assets held for trading	219,376	31,668	–
b) Financial assets designated at fair value	–	–	–
c) Other financial assets mandatorily measured at fair value	317,399	–	289,627
2. **Financial assets measured at fair value through other comprehensive income**	**4,306,378**	**–**	**117,238**
3. **Hedging derivatives**	**–**	**–**	**–**
4. **Property, equipment and investment property**	**–**	**–**	**63,077**
5. **Intangible assets**	**–**	**–**	**–**
Total	**4,843,153**	**31,668**	**469,942**
1. **Financial liabilities held for trading**	**–**	**57,211**	**–**
2. **Financial liabilities designated at fair value**	**–**	**–**	**–**
3. **Hedging derivatives**	**–**	**16,826**	**–**
Total	**–**	**74,037**	**–**

	31/12/2017		
Assets/liabilities carried at fair value on a recurring basis	Level 1	Level 2	Level 3
1. Financial assets held for trading	569,323	97,983	24,105
2. Financial assets at fair value through profit or loss	281,139	–	–
3. Available-for-sale financial assets	6,632,139	–	155,898
4. Hedging derivatives	–	–	–
5. Property, equipment and investment property	–	–	63,445
6. Intangible assets	–	–	–
Total	**7,482,601**	**97,983**	**243,448**
1. Financial liabilities held for trading	–	31,259	–
2. Financial liabilities measured at fair value	–	–	–
3. Hedging derivatives	–	22,468	–
Total	**–**	**53,727**	**–**

Following the adoption of IFRS 9, the portfolios have been reclassified into new categories with respect to those reported at 31 December 2017. See the information provided in «Section 4 Other aspects» of A.1 General information, for details of the transition to the new accounting standard and the related reclassification of financial instruments from the previous to the new line items.

There were no transfers between fair value levels during the year.

The impact of the CVA and DVA on the determination of the fair value of derivative products is not significant, not least because most of the exposures are covered by credit support annexes (CSA).

Annual changes in assets measured 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
Opening balance at 31/12/2017	**24,105**	**24,105**	**–**	**–**	**155,898**	**–**	**63,445**	**–**
Adjustments on FTA of IFRS 9	**172,862**	**(24,105)**	**–**	**196,967**	**(41,303)**	**–**		**–**
1. **Opening balance**	**196,967**	**–**	**–**	**196,967**	**114,595**	**–**	**63,445**	**–**
2. **Increases**	**164,508**	**1,602**	**–**	**162,906**	**50,988**	**–**	**474**	**–**
2.1. Purchases	153,571	1,601	–	151,970	878	–	–	–
2.2. Income booked to:	9,482	1	–	9,481	49,914	–	474	–
2.2.1. Income statement	9,482	1	–	9,481	18	–	474	–
- of which realized gains	5,012	–	–	5,012	–	–	474	–
2.2.2. Equity	–	–	–	–	49,896	–	–	–
2.3. Transfers from other levels	–	–	–	–	–	–	–	–
2.4. Other increases	1,455	–	–	1,455	196	–	–	–
3. **Decreases**	**71,848**	**1,602**	**–**	**70,246**	**48,345**	**–**	**842**	**–**
3.1. Sales	1,602	1,602	–	–	26	–	–	–
3.2. Reimbursements	44,662	–	–	44,662	256	–	–	–
3.3. Losses booked to:	14,680	–	–	14,680	39,397	–	842	–
3.3.1. Income statement	14,680	–	–	14,680	–	–	842	–
- of which losses	14,680	–	–	14,680	–	–	842	–
3.3.2. Equity	–	–	–	–	39,397	–	–	–
3.4. Transfers from other levels	–	–	–	–	–	–	–	–
3.5. Other decreases	10,904	–	–	10,904	8,666	–	–	–
4. **Closing balance**	**289,627**	**–**	**–**	**289,627**	**117,238**	**–**	**63,077**	**–**

The increase during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (loans in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This line item also includes the units in mutual funds not held for trading that were previously classified as «financial assets carried at fair value» and «financial assets available for sale».

A.4.5.3 Annual changes in liabilities carried at fair value on a recurring basis (Level 3)

There are no financial liabilities carried at a level 3 fair value.

A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2018			
	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	32,873,554	5,832,354	–	28,220,875
2. Investment property	–	–	–	–
3. Non-current assets and disposal groups held for sale	–	–	–	–
Total	**32,873,554**	**5,832,354**	**–**	**28,220,875**
1. Financial liabilities measured at amortised cost	37,228,347	2,156,641	268,788	34,796,143
2. Liabilities associated with assets held for sale	–	–	–	–
Total	**37,228,347**	**2,156,641**	**268,788**	**34,796,143**

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2017			
	Book value	Level 1	Level 2	Level 3
1. Held-to-maturity investments	4,132,572	4,107,793	–	12,769
2. Loans and receivables with banks	1,920,320	–	–	1,920,320
3. Loans to customers	25,755,836	–	–	26,356,324
4. Investment property	–	–	–	–
5. HFS non-current assets and disposal groups	–	–	–	–
Total	**31,808,728**	**4,107,793**	**–**	**28,289,413**
1. Due to banks	6,204,835	–	–	6,204,835
2. Due to customers	28,800,925	–	–	28,800,925
3. Securities issued	2,833,359	2,509,595	351,488	–
4. Liabilities associated with assets held for sale	–	–	–	–
Total	**37,839,119**	**2,509,595**	**351,488**	**35,005,760**

A.5 INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IFRS 9 para. B5.1.2A derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally to be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

PART B Information on the consolidated balance sheet

Assets

Section 1 Cash and cash equivalents - line item 10

1.1 Cash and cash equivalents: analysis

	31/12/2018	31/12/2017
a) Cash	144,540	122,852
b) Sight deposits with central banks	1,432,623	576,527
Total	**1,577,163**	**699,379**

Section 2 Financial assets measured at fair value through profit or loss - line item 20

2.1 Financial assets held for trading: breakdown by sector

	31/12/2018			31/12/2017		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	126,131	–	–	83,232	–	–
1.1 Structured securities	1,925	–	–	–	–	–
1.2 Other fixed-yield securities	124,206	–	–	83,232	–	–
2. Variable-yield securities	83,095	–	–	151,870	–	–
3. Mutual funds	10,150	–	–	39,505	–	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total (A)	**219,376**	**–**	**–**	**274,607**	**–**	**–**
B. **Derivatives**						
1. Financial derivatives	–	31,668	–	–	97,983	–
1.1 for trading	–	31,668	–	–	97,983	–
1.2 connected with the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total (B)	**–**	**31,668**	**–**	**–**	**97,983**	**–**
Total (A+B)	**219,376**	**31,668**	**–**	**274,607**	**97,983**	**–**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparties

Items/Amounts	31/12/2018	31/12/2017
A. **Cash assets**		
1. Fixed-yield securities	126,131	83,232
a) Governments and central banks	–	–
b) Public administrations	113,097	83,232
c) Banks	11,109	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	1,925	–
2. Variable-yield securities	83,095	151,870
a) Banks	26,202	29,124
b) Other financial companies	4,084	12,754
of which: insurance companies	1,854	10,368
c) Non-financial companies	52,809	109,992
d) Other issuers	–	–
3. Mutual funds	10,150	39,505
4. Loans	–	–
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total (A)	**219,376**	**274,607**
B. **Derivatives**		
a) Central Counterparties	–	–
b) Other	31,668	97,983
Total (B)	**31,668**	**97,983**
Total (A+B)	**251,044**	**372,590**

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

	31/12/2018			31/12/2017		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**36,697**	**–**	**41,750**	**34,636**	**–**	**83,220**
1.1 Structured securities	–	–	41,750	–	–	83,213
1.2 Other fixed-yield securities	36,697	–	–	34,636	–	7
2. **Variable-yield securities**	**–**	**–**	**1**	**–**	**–**	**820**
3. **Mutual funds**	**280,702**	**–**	**42,653**	**284,862**	**–**	**39,463**
4. **Loans**	**–**	**–**	**205,222**	**–**	**–**	**79,739**
4.1 Repo transactions	–	–	–	–	–	-
4.2 Other	–	–	205,222	–	–	79,739
Total	**317,399**	**–**	**289,626**	**319,498**	**–**	**203,242**

Loans classified under this item are financial instruments that have not passed the SPPI test. The fixed-yield securities classified under this item are instruments that are part of a business model of financial instruments managed at fair value and not held for trading.

Mutual funds are made up of equity funds and sicavs for € 30.725 million, bond funds for € 237.084 million, real estate funds for € 6.912 million, balanced funds for € 35.523 million and flexible funds for € 13.111 million. These instruments have been valued at the price communicated by the fund managers, which represents the fund's net asset value (NAV), adjusted for any subscriptions and redemptions that have taken place between the date of the NAV received and the reporting date.

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2018	31/12/2017
1. **Variable-yield securities**	**2**	**820**
of which: banks	2	–
of which: other financial companies	–	–
of which: non-financial companies	–	820
2. **Fixed-yield securities**	**78,447**	**117,856**
a) Central banks	1,747	1,661
b) Public administrations	25,962	22,020
c) Banks	8,988	10,963
d) Other financial companies	35,516	76,891
of which: insurance companies	–	–
e) Non-financial companies	6,234	6,322
3. **Mutual funds**	**323,355**	**324,325**
4. **Loans**	**205,221**	**79,740**
a) Central banks	–	–
b) Public administrations	126	155
c) Banks	–	–
d) Other financial companies	14,355	–
of which: insurance companies	–	–
e) Non-financial companies	111,898	17,202
f) Households	78,842	62,383
Total	**607,025**	**522,740**

Section 3 *Financial assets measured at fair value through other comprehensive income - line item 30*

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

	31/12/2018			31/12/2017		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**4,305,473**	**–**	**13,274**	**6,772,376**	**–**	**14,239**
1.1 Structured securities	266,311	–	11,979	480,612	–	12,655
1.2 Other fixed-yield securities	4,039,162	–	1,295	6,291,764	–	1,584
2. **Variable-yield securities**	**907**	**–**	**103,964**	**–**	**–**	**100,356**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**4,306,380**	**–**	**117,238**	**6,772,376**	**–**	**114,595**

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 unobservable inputs and 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.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	31/12/2018	31/12/2017
1. **Fixed-yield securities**	**4,318,747**	**6,786,615**
a) Central banks	–	–
b) Public administrations	3,764,591	6,242,218
c) Banks	483,996	465,939
d) Other financial companies	24,469	28,312
of which: insurance companies	–	–
e) Non-financial companies	45,691	50,146
2. **Variable-yield securities**	**104,871**	**100,356**
a) Banks	10,029	52,472
b) Other issuers:	94,842	47,884
- other financial companies	87,194	41,330
of which: insurance companies	–	–
- non-financial companies	7,648	6,552
- other	–	2
3. **Loans**	**–**	**–**
a) Central banks	–	–
b) Public administrations	–	–
c) Banks	–	–
d) Other financial companies	–	–
of which: insurance companies	–	–
e) Non-financial companies	–	–
f) Households	–	–
Total	**4,423,618**	**6,886,971**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total adjustments

	Gross value				Total adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stadio	Partial total write-off
Fixed-yield securities	4,313,716	–	7,679	–	2,578	69	–	–
Loans	–	–	–		–	–	–	–
Total 31/12/2018	**4,313,716**	**–**	**7,679**	–	**2,578**	**69**	**–**	**–**
of which: acquired or originated impaired financial assets	–	–	–	–	–	–	–	–

Section 4 *Financial assets measured at amortised cost - line item 40*

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

	Total 31/12/2018						Total 31/12/2017					
	Book value			Fair value			Book value			Fair value		
Type of transaction/Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
A. **Deposits with central banks**	**472,698**	**-**	**-**	**-**	**-**	**472,698**	**1,110,969**	**-**	**-**	**-**	**-**	**1,110,969**
1. Fixed-term deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	469,600	-	-	-	-	-	1,107,575	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	3,098	-	-	-	-	-	3,394	-	-	-	-	-
B. **Loans and receivables with banks**	**847,923**	**-**	**-**	**75,407**	**-**	**772,865**	**816,207**	**-**	**-**	**7,191**	**-**	**809,351**
1. Loans	772,870	-	-	-	-	772,865	809,351	-	-	-	-	809,351
1.1. Current accounts and sight deposits	259,107	-	-	-	-	-	270,303	-	-	-	-	-
1.2. Fixed-term deposits	426,804	-	-	-	-	-	484,696	-	-	-	-	-
1.3. Other loans:	86,959	-	-	-	-	-	54,352	-	-	-	-	-
- Repo transactions	-	-	-	-	-	-	-	-	-	-	-	-
- Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
- Other	86,959	-	-	-	-	-	54,352	-	-	-	-	-
2. Fixed-yield securities	75,053	-	-	75,407	-	-	6,856	-	-	7,191	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other fixed-yield securities	75,053	-	-	75,407	-	-	6,856	-	-	7,191	-	-
Total	**1,320,621**	**-**	**-**	**75,407**	**-**	**1,245,563**	**1,927,176**	**-**	**-**	**7,191**	**-**	**1,920,320**

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.

To ensure a straight comparison, the figures in the 2017 financial statements have been restated by indicating in the column «first and second stage» the exposures that were classified according to IAS 39 as «Performing» and in the «third stage» column the exposures that were classified according to IAS 39 as «Impaired».

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

	Total 31/12/2018						Total 31/12/2017				
	Book value			Fair value			Book value		Fair value		
Type of transaction/Amounts	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	First and second stage	Third stage	Level 1	Level 2	Level 3
1. **Loans**	**23,542,925**	**1,833,204**	**184,078**	**-**	**-**	**26,735,780**	**23,266,466**	**2,058,846**	**-**	**-**	**25,916,593**
1.1. Current accounts	3,737,618	741,013	72,857	-	-	-	3,921,460	875,082	-	-	-
1.2. Repo transactions	1,204,429	-	-	-	-	-	1,221,602	-	-	-	-
1.3. Mortgage loans	12,806,748	916,772	95,848	-	-	-	12,099,757	1,029,663	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	483,641	13,103	873	-	-	-	231,397	11,286	-	-	-
1.5. Financial leases	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	2,136,650	20,475	-	-	-	-	2,260,979	10,443	-	-	-
1.7. Other loans	3,173,839	141,841	14,500	-	-	-	3,531,271	132,372	-	-	-
2. **Fixed-yield securities**	**6,176,805**	**-**	**-**	**5,756,947**	**-**	**239,532**	**4,534,526**	**-**	**4,218,226**	**-**	**305,471**
2.1. Structured securities	1,313,239	-	-	1,021,503	-	239,532	1,116,819	-	813,916	-	304,768
2.2. Other fixed-yield securities	4,863,566	-	-	4,735,444	-	-	3,417,707	-	3,404,310	-	703
Total	**29,719,730**	**1,833,204**	**184,078**	**5,756,947**	**-**	**26,975,312**	**27,800,992**	**2,056,846**	**4,218,226**	**-**	**26,222,064**

Receivables are object of a partial specific hedge.

Mortgage loans include 1.545 million of residential mortgages and 0.114 million of loans against assignment of a fifth of salary, which were involved in securitisations and covered bond transactions carried out by the Parent Company and by Prestinuova S.p.A.

The securities issued under the covered bond programme and the current securitisation 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 book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

To ensure a straight comparison, the figures in the 2017 financial statements have been restated by indicating in the column «first and second stage» the exposures that were classified according to IAS 39 as «Performing» and in the «third stage» column the exposures that were classified according to IAS 39 as «Impaired».

4.4 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans and receivables with customers

Type of transaction/Amounts	31/12/2018 First and second stage	31/12/2018 Third stage	31/12/2018 Of which: impaired assets purchased or originated	31/12/2017 First and second stage	31/12/2017 Third stage
1. **Fixed-yield securities**	**6,176,805**	**–**	**–**	**4,534,526**	**–**
a) Public administration	5,908,263	–	–	4,189,520	–
b) Other financial companies	240,707	–	–	318,082	–
of which: insurance companies	6,266	–	–	6,281	–
c) Non-financial companies	27,835	–	–	26,924	–
2. **Loans to:**	**23,542,925**	**1,833,204**	**184,078**	**23,266,464**	**2,058,847**
a) Public administration	95,722	267	–	225,184	261
b) Other financial companies	2,865,285	15,808	1,135	3,013,666	21,916
of which: insurance companies	208	–	–	5,018	–
c) Non-financial companies	12,083,204	1,285,461	120,404	12,102,636	1,445,447
d) Households	8,498,714	531,668	62,539	7,924,978	591,223
Total	**29,719,730**	**1,833,204**	**184,078**	**27,800,990**	**2,058,847**

4.5 Financial assets measured at amortised cost: gross value and total adjustments

	Gross value				Total adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Partial total write-off
Fixed-yield securities	6,255,333	–	–	–	3,469	–	–	–
Loans	22,089,460	–	2,795,500	4,145,061	45,724	50,747	2,311,858	193,888
Total 31/12/2018	**28,344,793**	**–**	**2,795,500**	**4,145,061**	**49,193**	**50,747**	**2,311,858**	**193,888**
of which: impaired financial assets purchased or originated	–	–	8,396	298,399	–	121	122,596	121

The breakdown of financial assets measured at amortised cost into stages was not envisaged under the previous accounting policies applied at 31 December 2017. See the information provided in «Section 4 Other aspects» of A.1 General information about the first-time adoption of IFRS 9 and the breakdown of financial assets into stages at 1 January 2018, considering both their gross value and the related impairment adjustments.

At 31 December 2018, gross exposures and adjustments to financial assets measured at amortised cost do not show significant changes at the individual stage level compared with the beginning of the period.

Section 7 *Equity investments - line item 70*

7.1 Equity investments: disclosure

Name	Registered offices	Operational office	Type of relationship	Parent company	% holding	% of votes
A. **Investments in companies under joint control**						
RAJNA IMMOBILIARE SRL	Sondrio	Sondrio	7	Banca Popolare di Sondrio SCPA	50.000	50.000
RENT2GO	Bolzano	Bolzano	7	Banca Popolare di Sondrio SCPA	33.333	33.333
B. **Associated companies**						
ALBA LEASING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.264	19.264
ARCA VITA SPA	Verona	Verona	8	Banca Popolare di Sondrio SCPA	14.837	14.837
ARCA HOLDING SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	21.137	21.137
UNIONE FIDUCIARIA SPA	Milan	Milan	8	Banca Popolare di Sondrio SCPA	24.000	24.000
POLIS FONDI SGR	Milan	Milan	8	Banca Popolare di Sondrio SCPA	19.600	19.600
SOFIPO SA	Lugano	Lugano	8	Banca Popolare di Sondrio (SUISSE) SA	30.000	30.000
BORMIO GOLF SPA	Bormio	Bormio	8	Banca Popolare di Sondrio SCPA	25.237	25.237
LAGO DI COMO GAL SCRL	Canzo	Canzo	8	Banca Popolare di Sondrio SCPA	28.953	28.953
ACQUEDOTTO DELLO STELVIO SRL	Bormio	Bormio	8	Pirovano Stelvio spa	27.000	27.000
SIFAS SPA	Bormio	Bormio	8	Pirovano Stelvio spa	21.614	21.614

7 = joint control
8 = associated company

7.2 Relevant equity investments: book value, fair value and dividends received

Name	Book value	Fair value	Dividends received
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S.r.l.	379	–	50
2. RENT2GO	1,569	–	–
B. **Associated companies**			
1. ALBA LEASING S.p.A.	77,279	–	–
2. ARCA VITA S.p.A.	65,824	–	6,747
3. ARCA HOLDING S.p.A.	64,672	–	2,642
4. UNIONE FIDUCIARIA S.p.A.	9,012	–	363
5. POLIS FONDI SGR PA	1.678	–	90
6. SOFIPO SA	–	–	–
Total	**220,413**	**–**	**–**

The fair value is not shown for companies that are not listed on active markets.

7.3 Relevant equity investments: disclosure

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues
A. **Investments in companies under joint control**						
1. RAJNA IMMOBILIARE S.r.l.	118		649	–	10	112
2. RENT2GO S.r.l.	3,347		8,638	2,799	4,917	238
B. **Associated companies**						
1. ALBA LEASING S.p.A.	7	4,829,780	195,436	4,406,390	217,583	95,181
2. ARCA VITA S.p.A.	131,796	9,243,591	293,916	1,344,468	12,596	1,207,139
3. ARCA HOLDING S.p.A.	4	222,705	182,128	69,897	28,972	330,367
4. UNIONE FIDUCIARIA S.p.A.	13,235	20,698	59,338	19,971	34,823	39,143
5. POLIS FONDI SGR PA	2	6,936	4,024	3	2,401	5,657

The above figures are taken from the most recent financial investments available.

The accounting information presented in the financial statements of associated companies is reconciled below with the carrying amounts of the related equity investments, as required by IFRS 12.

Name	Equity value	Share of equity value	Book value
A. **Investments in companies under joint control**			
1. RAJNA IMMOBILIARE S.r.l.	756	379	379
2. RENT2GO	4,777	1,569	1,569
B. **Associated companies**			
1. ALBA LEASING S.p.A.	401,250	77,297	77,297
2. ARCA VITA S.p.A.	443,635	65,824	65,824
3. ARCA HOLDING S.p.A.	305,969	64,672	64,672
4. UNIONE FIDUCIARIA S.p.A.	37,546	9,012	9,012
5. POLIS FONDI SGR PA	8,558	1,678	1,678
6. SOFIPO SA	–	–	–

7.4 Insignificant equity investments: accounting information

Name	Book value of equity investments	Total assets	Total liabilities
Associated companies	544	3,699	2,172

The above figures are taken from the most recent financial investments available.

Net interest income	Net adjustments to property, equipment and investment property and intangible assets	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Profit (loss) after tax on non-current assets held for sale	Profit (loss) for the year (1)	Other income items net of income taxes (2)	Comprehensive income (3) = (1)+(2)
–	(37)	46	34	–	34	–	34
(8)	(161)	(730)	(542)		(542)		(542)
64,583	(1,554)	13,759	9,398	453	9,851	30	9,881
225,996	–	87,927	61,835	–	61,835	(27,903)	33,932
40	(2,291)	55,088	37,727	–	37,727	7	37,734
(155)	(3,677)	4,232	2,726	–	2,726	–	2,726
–	(137)	883	535	–	535	28	563

Total revenues	Post-tax profit from continuing operations	Profit (loss) after tax on non-current assets held for sale	Profit (loss) for the year	Other income items net of income taxes	Comprehensive income
1,478	79	–	79	–	79

7.5 Equity investments: changes during the year

	31/12/2018	31/12/2017
A. **Opening balance**	**217,634**	**208,575**
B. **Additions**	**8,365**	**15,228**
B.1 Purchases	1,800	–
B.2 Write-backs	–	–
B.3 Revaluations	40	27
B.4 Other changes	6,525	15,201
C. **Decreases**	**5,042**	**6,169**
C.1 Disposals	–	–
C.2 Adjustments	–	168
C.3 Other changes	5,042	6,001
D. **Closing balance**	**220,957**	**217,634**
E. **Total revaluations**	**–**	**–**
F. **Total adjustments**	**(447)**	**(447)**

This item passes from € 217.634 million to € 220.957 million.

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

Purchases refer to the interest in Rent2Go S.r.l.

7.6 Considerations and significant assumptions to determine the existence of joint control or significant influence

The existence of joint control or significant influence is determined as described in Part A – Accounting policies

7.7 - 7.8 Commitments relating to investments in companies under joint control and associated companies

There are no joint and several commitments that might give rise to contingencies.

Guarantees and commitments given comprise a commitment in favour of Alba Leasing S.p.A. granted when this company started up as part of the reorganisation of Banca Italease S.p.A. against which the Parent Company has made a specific risk provision.

Section 9 *Property, equipment and investment property - line item 90*

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

Assets/Values	31/12/2018	31/12/2017
1. **Owned assets**	**240,303**	**238,244**
a) land	62,875	61,036
b) buildings	159,398	157,028
c) furniture	5,230	5,510
d) IT equipment	2,174	2,595
e) other	10,626	12,075
2. **Assets purchased under finance leases**	**24,781**	**25,801**
a) land	6,803	6,803
b) buildings	17,978	18,998
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
Total	**265,084**	**264,045**
of which: obtained by enforcing guarantees received	–	–

9.4 Investment property: analysis of assets carried at fair value

	31/12/2018			31/12/2017		
Assets/Values	L1	L2	L3	L1	L2	L3
1. **Owned assets**	**–**	**–**	**63,077**	**–**	**–**	**63,445**
a) land	–	–	–	–	–	–
b) buildings	–	–	63,077	–	–	63,445
2. **Assets purchased under finance leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**63,077**	**–**	**–**	**63,445**
of which: obtained by enforcing guarantees received	–	–	–	–	–	–

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

9.6 Property, equipment and investment property used for business purposes: changes during the year

Assets/Values	Land	Buildings	Furniture	IT equipment	Other	**Total 31/12/2018**
A. **Opening gross amount**	**67,921**	**293,460**	**35,747**	**32,178**	**87,077**	**516,383**
A.1 Total net reductions in value	(82)	(117,434)	(30,237)	(29,583)	(75,002)	(252,338)
A.2 Opening net amount	67,839	176,026	5,510	2,595	12,075	264,045
B. **Additions:**	**1,839**	**9,611**	**1,186**	**704**	**5,600**	**18,940**
B.1 Purchases	1,745	5,293	1,164	650	5,541	14,393
- Of which: business combinations	–	–	–	–	–	–
B.2 Capitalised improvement expenditure	–	3,882	1	–	36	3,919
B.3 Write-backs	–	–	–	–	–	–
B.4 Fair value increases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive exchange rate adjustments	94	371	20	54	23	562
B.6 Transfers from investment property	–	–	–	–	–	–
B.7 Other changes	–	65	1	–	–	66
C. **Decreases:**	**–**	**8,261**	**1,466**	**1,125**	**7,049**	**17,901**
C.1 Disposals	–	190	–	–	–	190
- Of which: business combinations	–	–	–	–	–	–
C.2 Depreciation	–	8,071	1,467	1,125	7,052	17,715
C.3 Impairment charges booked to	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Fair value decreases booked to:	–	–	–	–	–	–
a) equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange rate adjustments	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) investment property	–	–	–	–	–	–
b) non-current assets and disposal groups held for sale	–	–	–	–	–	–
C.7 Other changes	–	–	(1)	–	(3)	(4)
D. **Closing net balance**	**69,678**	**177,376**	**5,230**	**2,174**	**10,626**	**265,084**
D.1 Total net reductions in value	(82)	(125,558)	(31,863)	(29,781)	(82,072)	(269,356)
D.2 Closing gross amount	69,760	302,934	37,093	31,955	92,698	534,440
E. **Valuation at cost**	**69,678**	**177,376**	**5,230**	**2,174**	**10,626**	**265,084**

9.7 Investment property: changes during the year

	Total 31/12/2018	
	Land	Buildings
A. **Opening balance**	**–**	**63,445**
B. **Additions**	**–**	**–**
B.1 Purchases	–	–
- of which: business combinations	–	–
B.2 Capitalised improvement expenditure	–	–
B.3 Positive changes in fair value	–	–
B.4 Write-backs	–	–
B.5 Exchange gains	–	–
B.6 Transfer of buildings for business purposes	–	–
B.7 Other changes	–	–
C. **Decreases**	**–**	**368**
C.1 Disposals	–	–
- of which: business combinations	–	–
C.2 Depreciation	–	–
C.3 Negative changes in fair value	–	368
C.4 Impairment writedowns	–	–
C.5 Exchange losses	–	–
C.6 Transfer to:	–	–
a) assets used in business	–	–
b) non-current assets and disposal groups held for sale	–	–
C.7 Other changes	–	–
D. **Closing balance**	**–**	**63,077**
E. **Valuation at fair value**	**–**	**63,077**

9.9 Commitments for the purchase of property, equipment and investment property

Contractual commitments for the purchase of property, equipment and investment property amount to € 2.956 million.

Section 10 *Intangible assets - line item 100*

10.1 Intangible assets: breakdown by type

Assets/Values	31/12/2018 Finite life	31/12/2018 Indefinite life	31/12/2017 Finite life	31/12/2017 Indefinite life
A.1 **Goodwill**		**12,632**		**7,847**
A.1.1 attributable to the banking group		12,632		7,847
A.1.2 attributable to minority interests		–		–
A.2 **Other intangible assets**	**20,627**	**–**	**15,873**	**–**
A.2.1 Carried at cost:	20,627	–	15,873	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	20,627	–	15,873	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**20,627**	**12,632**	**15,873**	**7,847**

Intangible assets comprise € 20.627 million for the cost of purchasing software 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 the CGU concerned.

It is particularly important to identify as accurately as possible the fair value of the assets and liabilities so that only the residual portion of the purchase cost that cannot be allocated to specific assets or liabilities gets booked as goodwill; for this reason, the standard makes it possible to book goodwill on a provisional basis by the end of the year in which the combination takes place. A definitive value then has to be booked within 12 months of the acquisition date. Goodwill concerns:

- Factorit S.p.a., acquired in 2010. The Parent Company booked a provisional figure of € 7.847 million, which was the difference between the price paid and the book value of the equity at the acquisition date, with the possibility of establishing a more accurate fair value for the assets and liabilities within 12 months of the acquisition date.

From a careful review, there were no differences in fair value attributable to assets and liabilities which involved corrections of the values attributed at the time of the acquisition, which meant that there was no need to adjust the value of goodwill booked on a provisional basis.

No impairment of goodwill has been recorded as the tests carried out in accordance with IAS 36, which requires annual impairment testing of goodwill to identify any impairment, did not reveal any loss in value. In this case we have used the Dividend Discount Model (DDM), which assumes that the economic value of a financial intermediary is equal to the sum of the present value of the future cash flows generated in the chosen time horizon of the plan and distributable to shareholders while maintaining an adequate level of capitalisation to ensure future growth and perpetual capitalisation of a dividend considered after the explicit planning period. We assumed a rate of the dividend growth after the explicit planning period of 2% per year and a cost of capital used to discount future dividends of 9.65%. The value in use was approximately € 198 million with an excess of the carrying amount of € 95 million.

– 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.

10.2 Intangible assets: change in the year

		Other intangible assets generated internally		Other intangible: assets: other		
	Goodwill	Fin	Ind	Fin	Ind	**Total 31/12/2018**
A. **Opening balance**	**7,847**	**–**	**–**	**176,093**	**–**	**183,940**
A.1 Total net reductions in value	–	–	–	(160,220)	–	(160,220)
A.2 Opening net amount	7,847	–	–	15,873	–	23,720
B. **Additions**	**4,785**	**–**	**–**	**22,028**	**–**	**26,813**
B.1 Purchases	4,785	–	–	21,905	–	26,690
B.2 Increases in internally generated intangible assets	–	–	–	–	–	–
B.3 Write-backs	–	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
B.5 Exchange gains	–	–	–	123	–	123
B.6 Other changes	–	–	–	–	–	–
C. **Decreases**	**–**	**–**	**–**	**17,274**	**–**	**17,274**
C.1 Disposals	–	–	–	–	–	–
C.2 Adjustments	–	–	–	17,274	–	17,274
- Amortisation	–	–	–	17,274	–	17,274
- Write-downs	–	–	–	–	–	–
+ equity	–	–	–	–	–	–
+ income statement	–	–	–	–	–	–
C.3 Negative changes in fair value:	–	–	–	–	–	–
- booked to equity	–	–	–	–	–	–
- booked to income statement	–	–	–	–	–	–
C.4 Transfers to non-current assets held for sale and discontinued operations	–	–	–	–	–	–
C.5 Exchange losses	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. **Closing net balance**	**12,632**	**–**	**–**	**20,627**	**–**	**33,259**
D.1 Total net reductions in value	–	–	–	(177,494)	–	(174,494)
E. **Closing gross amount**	**12,632**	**–**	**–**	**198,121**	**–**	**210,753**
F. **Valuation at cost**	**12,632**	**–**	**–**	**20,627**	**–**	**33,259**

Key:
FIN: finite life
IND: indefinite life

Section 11 *Tax assets and liabilities - asset line item 110 and liability line item 60*

11.1 Deferred tax assets: breakdown

	31/12/2018	31/12/2017
- Loan writedowns	356,098	336,373
- Provisions for risks and charges	28,542	24,625
- Deferred charges	214	70
- Securities and equity investments	23,913	856
- Administrative expenses, amortisation and depreciation	19,094	23,522
- Tax losses	5,345	–
Total	**433,206**	**385,446**

12.2 Deferred tax liabilities: breakdown

	31/12/2018	31/12/2017
- Owned buildings	9,257	9,490
- Revaluation of securities and gains	6,158	18,666
- Loans	10,100	7,994
Total	**25,515**	**36,150**

11.3 Change in deferred tax assets (with contra-entry to income statement)

	31/12/2018	31/12/2017
1. **Opening balance**	**365,404**	**395,551**
FTA IFRS 9 Effect	**25,488**	**–**
Opening balance at 01/01/2018	**390,892**	**–**
2. **Increases**	**16,051**	**12,956**
2.1 Deferred tax assets arising during the year	9,497	6,398
a) relating to prior years	126	–
b) due to changes in accounting policies	–	–
c) write-backs	–	–
d) other	9,371	6,398
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	6,554	6,558
3. **Decreases**	**13,724**	**43,103**
3.1 Deferred tax assets eliminated during the year	13,317	41,422
a) reversals	12,098	41,422
b) written down as no longer recoverable	–	–
c) change in accounting policies	–	–
d) other	1,219	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	407	1,681
a) transformation into tax credits as per Law 214/2011	407	416
b) other	–	1,265
4. **Closing balance**	**393,219**	**365,404**

11.4 Changes in deferred tax assets as per Law 214/2011 (with contra-entry to the income statement)

	31/12/2018	31/12/2017
1. **Opening balance**	**336,368**	**360,592**
FTA IFRS 9 Effect	**–**	**–**
Opening balance at 01/01/2018	**–**	**–**
2. **Increases**	**–**	**6,558**
3. **Decreases**	**408**	**30,782**
3.1 Reversals	1	30,366
3.2 Transformation into tax credits	407	416
a) resulting from operating losses	407	416
b) arising from tax losses	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**335,960**	**336,368**

11.5 Change in deferred tax liabilities (with contra-entry to income statement)

	31/12/2018	31/12/2017
1. **Opening balance**	**15,557**	**20,652**
FTA IFRS 9 Effect	**151**	**–**
Opening balance at 01/01/2018	**15,708**	**–**
2. **Increases**	**4,443**	**117**
2.1 Deferred tax liabilities arising during the year	4,249	115
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	4,249	115
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	194	2
3. **Decreases**	**2,714**	**5,212**
3.1 Deferred tax liabilities eliminated during the year	2,712	4,307
a) reversals	1,449	1,036
b) due to changes in accounting policies	–	–
c) other	1,263	3,271
3.2 Reduction in tax rates	–	–
3.3 Other decreases	2	905
4. **Closing balance**	**17,437**	**15,557**

11.6 Change in deferred tax assets (with contra-entry to equity)

	31/12/2018	31/12/2017
1. **Opening balance**	**20,042**	**21,143**
FTA IFRS 9 Effect	**(89)**	**–**
Opening balance at 01/01/2018	**19,953**	**–**
2. **Increases**	**22,767**	**2,685**
2.1 Deferred tax liabilities arising during the year	21,938	2,685
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	21,938	2,685
2.2 New taxes or increases in tax rates	612	–
2.3 Other increases	217	–
3. **Decreases**	**2,733**	**3,786**
3.1 Deferred tax liabilities eliminated during the year	2,733	3,786
a) reversals	1,714	3,786
b) written down as no longer recoverable	–	–
c) due to changes in accounting policies	–	–
d) other	1,019	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**39,987**	**20,042**

This amount relates to losses on securities measured at fair value through other comprehensive income and to actuarial losses recognised in the measurement of long-term employee benefits, i.e. pension fund and termination indemnities booked to equity as provided by IAS 19 Revised.

11.7 Change in deferred tax liabilities (with contra-entry to equity)

	31/12/2018	31/12/2017
1. **Opening balance**	**20,593**	**22,020**
FTA IFRS 9 Effect	**(989)**	**–**
Opening balance at 01/01/2018	**19,604**	**–**
2. **Increases**	**4,167**	**7,892**
2.1 Deferred tax liabilities arising during the year	4,167	7,892
a) relating to prior years	–	–
b) due to changes in accounting policies	–	–
c) other	4,167	7,892
2.2 New taxes or increases in tax rates	–	–
2.3 Other increases	–	–
3. **Decreases**	**15,693**	**9,319**
3.1 Deferred tax liabilities eliminated during the year	15,693	9,319
a) reversals	15,693	9,319
b) due to changes in accounting policies	–	–
c) other	–	–
3.2 Reduction in tax rates	–	–
3.3 Other decreases	–	–
4. **Closing balance**	**8,078**	**20,593**

This amount relates to the tax on the unrealised gains recognised in equity on financial assets measured at fair value through other comprehensive income.

Section 13 *Other assets - line item 130*

13.1 Other assets: breakdown

	31/12/2018	31/12/2017
Advances paid to tax authorities	51,954	52,399
Withholdings on interest due to customers	152	134
Tax credits and related interest	8,291	16,254
Current account cheques drawn on third parties	26,368	25,796
Current account cheques drawn on Group banks	1,005	13,352
Transactions in customers' securities	1,637	2,330
Inventories	33,110	15,393
Costs pertaining to the subsequent year	2,647	3,682
Advances to suppliers	1,377	1,161
Advances to customers awaiting collections	14,101	21,529
Miscellaneous debits in transit	57,429	54,714
Liquid assets serving pension and similar obligations	3,972	13,162
Accrued income not allocated	43,597	38,851
Prepayments not allocated	21,565	24,371
Differences on elimination	1,836	1,080
Residual items	79,323	67,844
Total	**348,364**	**352,052**

Liabilities and equity

Section 1 Financial liabilities measured at amortised cost - line item 10

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

Type of transaction / Members of the Group	31/12/2018 Book value	31/12/2018 Fair Value Level 1	31/12/2018 Fair Value Level 2	31/12/2018 Fair Value Level 3	31/12/2017 Book Level	31/12/2017 Fair Value Level 1	31/12/2017 Fair Value Level 2	31/12/2017 Fair Value Level 3
1. **Due to central banks**	**4,613,420**	**-**	**-**	**-**	**4,631,240**	**-**	**-**	**-**
2. **Due to banks**	**1,552,416**	**-**	**-**	**-**	**1,573,595**	**-**	**-**	**-**
2.1 Current accounts and sight deposits	412,348	-	-	-	533,523	-	-	-
2.2 Fixed-term deposits	701,075	-	-	-	495,910	-	-	-
2.3 Loans	436,211	-	-	-	541,137	-	-	-
2.3.1 Repurchase agreements	100,034	-	-	-	99,959	-	-	-
2.3.2 Other	336,177	-	-	-	441,178	-	-	-
2.4 Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
2.5 Other payables	2,782	-	-	-	3,025	-	-	-
Total	**6,165,836**	**-**	**-**	**6,165,836**	**6,204,835**	**-**	**-**	**6,204,835**

These payables are not specifically hedged.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO II): one of € 1.100 million, obtained in June 2016, repayable in June 2020 and a second obtained in March 2018 of € 3.500 million, repayable on 24 March 2021. These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

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

Type of transaction / Members of the Group	31/12/2018 Book value	31/12/2018 Fair Value Level 1	31/12/2018 Fair Value Level 2	31/12/2018 Fair Value Level 3	31/12/2017 Book value	31/12/2017 Fair Value Level 1	31/12/2017 Fair Value Level 2	31/12/2017 Fair Value Level 3
1. **Current accounts and sight deposits**	**27,482,070**	**-**	**-**	**-**	**26,965,149**	**-**	**-**	**-**
2. **Fixed-term deposits**	**1,046,988**	**-**	**-**	**-**	**1,429,251**	**-**	**-**	**-**
3. **Loans**	**7,085**	**-**	**-**	**-**	**367,838**	**-**	**-**	**-**
3.1 Repurchase agreements	100	-	-	-	356,725	-	-	-
3.2 Other	6,985	-	-	-	11,113	-	-	-
4. **Payables for commitments to repurchase own equity instruments**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. **Other payables**	**94,164**	**-**	**-**	**-**	**38,687**	**-**	**-**	**-**
Total	**28,630,307**	**-**	**-**	**28,630,307**	**28,800,925**	**-**	**-**	**28,800,925**

These payables are not specifically hedged.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

Type of transaction/Amounts	31/12/2018				31/12/2017			
	Book value	*Fair Value*			Book value	*Fair Value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. **Securities**								
1. bonds	2,349,650	2,156,641	186,234	–	2,723,981	2,509,595	242,110	–
1.1 structured	137,239	–	137,239	–	163,930	–	163,930	–
1.2 other	2,212,411	2,156,641	48,995	–	2,560,051	2,509,595	78,180	–
2. other securities	82,554	–	82,554	–	109,378	–	109,378	–
2.1 structured	–	–	–	–	–	–	–	–
2.2 other	–	–	–	–	109,378	–	109,378	–
Total	**2,432,204**	**2,156,641**	**268,788**	**–**	**2,833,359**	**2,509,595**	**351,488**	**–**

The fair value of the «other securities» is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

The level 1 securities relate to covered bonds and almost exclusively subordinated bonds listed on the HI-MTF market (Multilateral Trading system).

1.4 Detail of subordinated payables/securities

Subordinated securities amount to € 524.876 million and are made up of the loans indicated below:

- bond loan of € 11.173 million from 8/8/2014 and maturity on 8/8/2021 with a forecast annual repayment of 20% from 8/8/2017. The interest rate commenced at 2% and will gradually rise to 4%; the c current oupon at year end is 3%.
- bond loan of € 16.860 million from 30/9/2014 and maturity on 30/9/2021 with a forecast annual repayment of 20% from 30/9/2017. The interest rate commenced at 2% and will gradually rise to 4%; the current coupon at year end is 3%.
- bond loan of € 18.002 million from 29/12/2014 and maturity on 29/12/2021 with a forecast annual repayment of 20% from 29/12/2017. The interest rate commenced at 2.25% and will gradually rise to 4%; the current coupon at year end is 3%.
- bond loan € 203.389 million from 30/03/2015 and maturity on 30/03/2022 with repayment in full on maturity. It bears a fixed interest rate of 2.50%.
- a bond of € 275.452 million from 23/10/2015 and maturity on 23/10/2022 with repayment in full on maturity. It bears a fixed interest rate of 3.00%.

1.6 Payables for finance leases

	31/12/2018	31/12/2017
– payables for finance leases	261	326
Total	**261**	**326**

Variable-rate payables for finance leases amount to € 0.261, compared with € 0.326 million in the previous year, down 19.94%, and relate to buildings used as bank branches.

Total outstanding lease commitments, including interest, amount to 0.264 million. These payables fall due as follows:

within 12 months	67	68
1 to 5 years	194	262
over 5 years	–	–

Section 2 *Financial liabilities held for trading - line item 20*

2.1 Financial liabilities held for trading: breakdown by sector

Type of transaction/Amounts	31/12/2018					31/12/2017				
		Fair Value					Fair Value			
	NV	Level 1	Level 2	Level 3	FV*	NV	Level 1	Level 2	Level 3	FV*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Other	–	–	–	–	–	–	–	–	–	–
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivatives**										
1. Financial derivatives	–	–	57,211	–	–	–	–	31,259	–	–
1.1 For trading	–	–	57,211	–	–	–	–	31,259	–	–
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	**–**	**–**	**57,211**	**–**	**–**	**–**	**–**	**31,259**	**–**	**–**
Total (A+B)	**–**	**–**	**57,211**	**–**	**–**	**–**	**–**	**31,259**	**–**	**–**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date
NV = Nominal or notional value

Section 4 *Hedging derivatives - line item 40*

4.1 Hedging derivatives: breakdown by type of hedge and by level

Underlying	Nominal value 31/12/2018	Fair Value 31/12/2018 Level 1	Level 2	Level 3	Nominal value 31/12/2017	Fair Value 31/12/2017 Level 1	Level 2	Level 3
A. **Financial derivatives**	**412,814**	**–**	**16,826**	**–**	**560,747**	**–**	**22,468**	**–**
1) Fair value	412,814	–	16,826	–	560,747	–	22,468	–
2) Financial flows	–	–	–	–	–	–	–	–
3) Foreign investments	–	–	–	–	–	–	–	–
B. **Credit derivatives**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1) Fair value	–	–	–	–	–	–	–	–
2) Financial flows	–	–	–	–	–	–	–	–
Total	**412,814**	**–**	**16,826**	**–**	**560,747**	**–**	**22,468**	**–**

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

Transaction/ Type of hedge	Fair Value Micro Fixed-yield securities and interest rates	Variable-yield securities and stock indices	Currency and gold	Loans and receivables	Commodities	Other	Macro	Financial flows Micro	Macro	Investments
1. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–	–
2. Financial assets measured at amortised cost	16,826	–	–	–	–	–	–	–	–	–
3. Portfolio	–	–	–	–	–	–	–	–	–	–
4. Other transactions	–	–	–	–	–	–	–	–	–	–
Total assets	**16,826**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial liabilities	–	–	–	–	–	–	–	–	–	–
2. Portfolio	–	–	–	–	–	–	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Expected transactions	–	–	–	–	–	–	–	–	–	–
2. Portfolio of financial assets and liabilities	–	–	–	–	–	–	–	–	–	–

Section 6 *Tax Liabilities - line item 60*

The line item amounts to € 29.767 million and relates for € €25.515 million to deferred taxes and for € 4.252 million to current taxes.

As regards the composition and amount of deferred taxes, please read Assets Section 11 of these notes.

The Parent Company's tax years up to 2013 have been closed.

Decree Law 59/2016, converted by Law no. 119 of 30/06/2016, introduced the possibility of transforming D.T.A. (Deferred Tax Assets) into tax credits by paying a fee, subject to certain conditions. In 2016, the Parent Company applied to retain this right if necessary in the future; no fee has been paid as the conditions for payment did not apply.

Art. 1, para. 24, of the 2017 Budget Law (Law 232/2016) added the concept of VAT groups to Italian legislation and determined that, from 1 January 2018, individual taxpayers established in Italy may elect to be taxed together as one entity for VAT purposes. The Parent Company has not yet made this election, which is not under consideration at this time.

Section 8 *Other liabilities - Line item 80*

8.1 Other liabilities: breakdown

	31/12/2018	31/12/2017
Amounts at the disposal of third parties	341,039	350,698
Taxes to be paid on behalf of third parties	49,449	48,642
Taxes to be paid	2,313	1,633
Employee salaries and contributions	14,447	18,578
Suppliers	13,693	15,970
Transit accounts for sundry entities	17,376	16,651
Invoices to be received	14,823	15,579
Credits in transit for financial transactions	7,014	4,799
Value date differentials on portfolio transactions	162,854	18,927
Directors' and statutory auditors' emoluments	1,236	1,167
Loans disbursed to customers to be finalised	6,847	5,396
Miscellaneous credit items being settled	28,924	45,239
Accrued expenses not allocated	13,865	12,671
Deferred income not allocated	14,891	15,399
Differences on elimination	4,280	13,398
Residual items	67,040	58,773
Total	**760,091**	**643,520**

The increase of 18.11% mainly relates to the «value date differentials on portfolio transactions» involving the notes and documents received/sent for crediting with recourse or following collection, which are only recognised in the balance sheet upon settlement.

The value date differences between the related assets/liabilities give rise to the above differentials.

Section 9 *Post-employment benefits - line item 90*

9.1 Termination indemnities: change in the year

	31/12/2018	31/12/2017
A. **Opening balance**	**45,491**	**44,805**
B. **Additions**	**7,758**	**10,273**
B.1 Provisions for the year	7,711	7,792
B.2 Other changes	47	2,481
C. **Decreases**	**10,027**	**9,587**
C.1 Payments made	1,630	2,389
C.2 Other changes	8,397	7,198
D. **Closing balance**	**43,222**	**45,491**
Total	**43,222**	**45,491**

Section 10 *Provisions for risks and charges - line item 100*

10.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2018	31/12/2017
1. **Provisions for credit risk related to commitments and financial guarantees given**	**46,163**	**30,152**
2. **Provisions on other commitments and other guarantees given**	**–**	**–**
3. **Pension and similar obligations**	**160,734**	**160,799**
4. **Other provisions for risks and charges**	**41,953**	**43,478**
4.1 legal disputes	22,503	23,975
4.2 personnel expenses	16,706	16,627
4.3 other	2,744	2,876
Total	**248,850**	**234,429**

At year end, the Group is not exposed to any other risks that might result in future charges, other than those covered by the provisions referred to above. It is reasonable to conclude that there are no contingent liabilities. The figures for the company's pension funds include, in addition to the Parent Company's fund, the accounting of the «Swiss BVG pension» according to IAS 19, which entailed recognition of a liability.

10.2 Provisions for risks and charges: change in the year

	Provisions on other commitments and other guarantees given	Pension and similar obligations	Other provisions for risks and charges	**Total**
A. **Opening balance**	**30,152**	**160,799**	**43,478**	**234,429**
FTA IFRS 9 Effect	**3,941**	**(189)**	**–**	**3,752**
Opening balance at 01/01/2018	**34,093**	**160,610**	**43,478**	**238,181**
B. **Additions**	**13,979**	**6,185**	**20,704**	**40,868**
B.1 Provisions	13,971	2,275	20,239	36,485
B.2 Changes due to the passage of time	–	–	–	–
B.3 Changes due to variations in the discount rate	–	–	–	–
B.4 Other changes	8	3,910	465	4,383
C. **Decreases**	**1,909**	**6,061**	**22,229**	**30,199**
C.1 Utilisations during the year	1,909	3,649	18,654	24,212
C.2 Changes due to variations in the discount rate	–	2,402	–	2,402
C.3 Other changes	–	10	3,575	3,585
D. **Closing balance**	**46,163**	**160,734**	**41,953**	**248,850**

10.3 Provisions for credit risk related to commitments and financial guarantees given

Items/technical forms	Provisions for credit risk related to commitments and financial guarantees given First stage	Second stage	Third stage	**Total**
Commitments to make loans	4,804	1,359	1,088	7,251
Financial guarantees given	281	109	38,522	38,912
Total	**5,085**	**1,468**	**39,610**	**46,163**

10.5 Defined-benefit pension plans

10.5.1. Characteristics of the plans and related risks

The pension fund of 160.734 million consists of the pension fund for the Parent Company's personnel of 139.029 million and the actuarial liabilities linked to the supplementary pension plan for employees of BPS Suisse SA of 21.705 million.

The Parent Company's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Bank and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The amount of the pension fund for the Parent Company's personnel is adjusted to take into account the closed group of members formed on 28/4/1993. This closed group comprises 373 employees and 273 pensioners.

Since 28/04/1993, employees have been given the chance to join another supplementary pension scheme as laid down by law and by contract. BPS Suisse SA is a member of the BVG collective foundation of Rentenanstalt, which guarantees a professional pension to its employees through Swiss Life.

The adequacy of the fund with respect to the present value of the obligation at the reference date was verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments made reference to dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

10.5.2 Changes in net (assets) liabilities and redemption rights

	31/12/2018	**31/12/2017**
Balance at 31/12/2017	**160,799**	**–**
FTA IFRS 9 Effect	(190)	–
Balance at 1 January	**160,609**	**151,046**
Service cost	6,048	2,406
Interest cost	2,370	1,967
Actuarial gains/losses	671	5,449
Payments	(3,947)	(3,512)
Other provisions	(5,017)	3,443
At 31 December	**160,734**	**160,799**

10.5.3 Information on the fair value of plan assets

Details of the assets of the Parent Company's pension plan are summarised in the following table:

	31/12/2018	31/12/2017
Fixed-yield securities	97,829	87,451
Variable-yield securities	4,481	3,852
Mutual funds invested in shares	15,455	13,502
Mutual funds invested in property	17,292	23,330
Other assets	3,972	13,524
Total	**139,029**	**141,659**

The size of the fund has gone down by € 2.630 million, - 1.86%.

Payments of benefits amount to € 3.650 million compared with € 3.512 million. The contributions paid by the employees totalled € 0.228 million (€ 0.233 million in the prior year).

10.5.4 Defined-benefit pension plans – Description of the principal actuarial assumptions

The assumptions adopted in the actuarial calculation are provided separately for the Parent Company and BPS Suisse SA:

Banca Popolare di Sondrio Scpa

	31/12/2018	31/12/2017
discount rate	1.58%	1.28%
expected increase in salaries	0.50%	0.50%
underlying rate of pension increases	0.825%*	0.825%*
annual rate of inflation	1.50%	1.50%

* average equalisation rate.

See the Bank's financial statements for an explanation of how the discount rate was chosen.

Banca Popolare di Sondrio (Suisse) SA

	31/12/2018	31/12/2017
discount rate	0.70%	0.65%
expected increase in salaries	0.85%	0.85%
underlying rate of pension increases	–	–
annual rate of inflation	0.85%	0.85%

The discount rate has been chosen according to Swiss high standing corporate bonds with a duration between 15 and 20 years.

As required by the relevant IAS/IFRS, a sensitivity analysis has been carried out to determine the effect of changes in the principal actuarial assumptions used for the calculations. For this purpose, the base used for the valuation was also used as the base scenario and the two most significant assumptions were increased and decreased, obtaining the results shown below separately for Banca Popolare di Sondrio Scpa and Banca Popolare di Sondrio (Suisse) SA:

Sensitivity

Banca Popolare di Sondrio Scpa

+0.25% change in the discount rate, liability of € 125.562 million
-0.25% change in the discount rate, liability of € 136.582 million
+0.25% increase in the inflation rate, liability of € 132.937 million
-0.25% decrease in the inflation rate, liability of € 128.898 million

Banca Popolare di Sondrio (Suisse) SA

+0.50% change in the discount rate, liability of € 15.972 million
-0.50% change in the discount rate, liability of € 28.155 million
+0.50 change salary increase rate, liability of € 22.114 million
+0.50 change salary increase rate, liability of € 21.193 million

10.6 Provisions for risks and charges - other provisions

Items/Amounts	**31/12/2018**	**31/12/2017**
Legal disputes	22,503	23,975
Personnel expenses	16,706	16,627
Other provisions	2,744	2,876
Total	**41,953**	**43,478**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The Group makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 31/12/2018 as the discount rate.

This decrease of € 1.472 million arises from the difference between the provision of the year and the release of provisions set aside in prior years.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. It increases by € 0.079 million, + 0.48%.

Other provisions include the provision for charitable donations consisting of an allocation of profits authorised by the shareholders which is used to make approved payments. The increase of € 0.100 million reflects the allocation of 2017 profit, while the reduction by the same amount was a consequence of payments made during the year.

Section 13 *Group equity - Items 120, 130, 140, 150, 160, 170 and 180*

13.1 «Share capital» and «Treasury shares»: breakdown

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling € 1,360.157 million, unchanged on last year. Shares in circulation have dividend and voting rights from 1 January 2018.

At the period-end, the Bank held treasury shares with a carrying value of € 25.375 million.

13.2 Share capital - Number of shares of the Parent Bank: change during the year

	Ordinary	Other
A. **Shares in existence at the start of the year**	**453,385,777**	**–**
- fully paid	453,385,777	–
- not fully paid	–	–
A.1 Treasury shares (-)	3,665,429	–
A.2 Shares in circulation opening balance	449,720,348	–
B. **Additions**	**–**	**–**
B.1 New issues	–	–
- for payment	–	–
- business combinations	–	–
- conversion of bonds	–	–
- exercise of warrants	–	–
- other	–	–
- free of charge	–	–
- to employees	–	–
- to directors	–	–
- other	–	–
B.2 Sales of treasury shares	–	–
B.3 Other changes	–	–
C. **Decreases**	**4.524**	**–**
C.1 Cancellation	–	–
C.2 Purchases of treasury shares	4.524	–
C.3 Business disposals	–	–
C.4 Other changes	–	–
D. **Shares in circulation: closing balance**	**449,715,824**	**–**
D.1 Treasury shares (+)	3,669,953	–
D.2 Shares in existence at the end of the year	453,385,777	–
- fully paid	453,385,777	–
- not fully paid	–	–

13.3 Share capital: other information

It amounts to € 79.005 million, unchanged on last year.

13.4 Revenue reserves: other information

Revenue reserves contribute to the capital adequacy of the Group, considering both current and future operations. They amount to € 1,157.454 million and increase by € 83.243 million, + 7.75%. Reserve for the purchase of treasury shares, also required by art. 60 of the Articles of Association, which is available to the directors under art. 21 of the Articles for the purchase or sale of treasury shares on market terms, as part of normal trading to support the liquidity of the shares. This reserve amounts to € 30 million (of which € 25.375 million already used) following a reduction of € 5 million during the year.

There are also € 3.229 million of reserves from capital contributions.

Therefore line item 150 «Reserves» amounts to € 1,160.683 million, + 7.73%.

Section 14 *Non-controlling interests - Line item 190*

14.1 Detail of line item 210 «Minority interests»

This line item amounts to € 93.049 million and refers to the subsidiaries Factorit S.p.A., Popso Covered Bond S.r.l. and Adriano SPV S.r.l. It consists of share capital for € 33.589 million, share premium reserve for € 4.358 million, reserves for € 52.078 million, valuation reserves for € - 0.134 million and profits for € 3.158 million.

14.2 Equity instruments: breakdown and change in the year

There were no issues of financial instruments that contribute to the formation of capital issued by group companies not subject to total control.

Other information

1. Commitments and financial guarantees given (excluding those designated at fair value)

	Nominal value on commitments and financial guarantees given			
	First stage	Second stage	Third stage	**Total 31/12/2018**
Commitments to make loans	**14,320,977**	**1,766,718**	**257,063**	**16,344,758**
a) Central banks	–	–	–	–
b) Public administrations	57,935	659,535	–	717,470
c) Banks	15,266	160,094	–	175,360
d) Other financial companies	945,461	11,040	1,437	957,938
e) Non-financial companies	12,143,159	814,251	229,812	13,187,222
f) Households	1,159,156	121,798	25,814	1,306,768
Financial guarantees given	**2,888,385**	**414,317**	**128,032**	**3,430,734**
a) Central banks	–	–	–	–
b) Public administrations	491	40,801	–	41,292
c) Banks	43,270	57,538	–	100,808
d) Other financial companies	225,543	5,719	3,144	234,406
e) Non-financial companies	2,413,497	277,800	120,921	2,812,218
f) Households	205,584	32,459	3,967	242,010

Following the introduction of IFRS 9, the scope of the guarantees and commitments covered by the new impairment model required by that standard has broadened and, as a consequence, the data reported at 31 December 2017 is not comparable. See the «Other aspects» section of «A.1 General information» for details of the exposures concerned at 31 December 2017, in comparison with those identified on the date of transition to the new accounting standardabile.

The aggregate determined under the previous accounting and reporting rules is presented below, for information purposes only.

Operations	Amount 31/12/2017
1) **Financial guarantees:**	**429,476**
a) Banks	13,746
b) Customers	415,730
2) **Commercial guarantees:**	**3,127,698**
a) Banks	92,571
b) Customers	3,035,127
3) **Irrevocable commitments to make loans**	**1,343,733**
a) Banks	16,659
i) certain to be called on	2,247
ii) not certain to be called on	14,412
b) Customers	1,327,074
i) certain to be called on	381,292
ii) not certain to be called on	945,782
4) **Commitments underlying credit derivatives: protection sold**	**–**
5) **Assets lodged to guarantee the commitments of third parties**	**35,345**
6) **Other commitments**	**18,767**
Total	**4,955,019**

3. Assets lodged to guarantee the bank’s liabilities and commitments

Portfolio	Amount 31/12/2018
1. Financial assets measured at fair value through profit or loss	14,785
2. Financial assets measured at fair value through other comprehensive income	1,438,072
3. Financial assets measured at amortised cost	6,129,608
4. Property, equipment and investment property	–
of which: property, equipment and investment property held as inventory	–

Portfolio	Amount 31/12/2017
1. Financial assets held for trading	146,397
2. Financial assets at fair value through profit or loss	–
3. Available-for-sale financial assets	1,926,550
4. Held-to-maturity investments	2,418,148
5. Loans and receivables with banks	–
6. Loans and receivables with customers	3,378,825
7. Property, equipment and investment property	–

The assets measured at fair value through other comprehensive income and those measured at amortised include securities assigned to customers under repurchase agreements, assigned to guarantee loans from central banks (TLTRO) and to guarantee the operations of the Swiss subsidiary.

The assets measured at amortised cost also include loans that guarantee the funding provided by the Central Bank (ABACO loans) and residential mortgages guaranteeing the covered bonds issued by the Bank.

6. Management and intermediation for third parties

Type of service	31/12/2018
1. **Execution of orders on behalf of customers**	**894,160**
a) Purchases	551,104
1. settled	550,861
2. not settled	243
b) Sales	343,056
1. settled	343,033
2. not settled	23
2. **Individual portfolio management**	**1,609,701**
a) individual	1,609,701
b) collective	–
3. **Custody and administration of securities**	**50,082,569**
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,936,109
1. securities issued by consolidated companies	–
2. other securities	1,936,109
b) third-party securities on deposit (excluding portfolio management): other	17,290,862
1. securities issued by consolidated companies	2,032,317
2. other securities	15,258,545
c) Third-party securities on deposit with third parties	19,509,689
d) own securities on deposit with third parties	11,345,909
4. **Other transactions**	**–**

7. Financial assets subject to netting in the balance sheet, or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at (f = c-d-e) 31/12/2018**	**Net amount at (f = c-d-e) 31/12/2017**
1. Derivatives	19,606	–	19,606	15,080	2,959	1,566	7,930
2. Repurchase agreements	–	–	–	–	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2018	**19,606**	**–**	**19,606**	**15,080**	**2,959**	**1,566**	**–**
Total 31/12/2017	**69,561**	**–**	**69,561**	**13,384**	**48,247**	**–**	**7,930**

IFRS 7 requires specific disclosures about the financial instruments that are netted or nettable in the balance sheet pursuant to IAS 32, given the application of framework netting agreements or similar arrangements.

There are no netting agreements whereby balances must be netted in the balance sheet pursuant to IAS 32.

With regard to potentially nettable instruments, the following tables indicate those derivative financial instruments governed by «ISDA Master Agreements». In particular, Credit Support Annex (CSA) agreements have been signed with certain counterparts, under which the parties agree to give and accept assets in guarantee (in the Bank's case, amounts of cash denominated in euro), which are redetermined periodically depending on changes in the fair value of the underlying derivatives.

The derivatives subject to agreements of this type and reported herein are measured at fair value.

Repurchase agreements indicated are subject to netting agreements governed by Global Master Repurchase Agreements (GMRA). The gross amounts (a) shown in the table relating to repurchase agreements are recorded in item 10 a) «Financial liabilities measured at amortised cost»; the related financial instruments (d) are represented by the value of the securities involved in the transactions.

8. Financial liabilities subject to netting in the balance sheet or subject to framework netting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities netted in the balance sheet (b)	Net financial assets reported in the balance sheet (c=a-b)	Correlated amounts not netted in the balance sheet: Financial instruments (d)	Correlated amounts not netted in the balance sheet: Cash deposits received in guarantee (e)	**Net amount at (f = c-d-e) 31/12/2018**	**Net amount at (f = c-d-e) 31/12/2017**
1. Derivatives	65,319	–	65,319	14,205	48,935	2,179	982
2. Repurchase agreements	100,034	–	100,034	100,034	–	–	–
3. Securities lending	–	–	–	–	–	–	–
4. Other	–	–	–	–	–	–	–
Total 31/12/2018	**165,353**	**–**	**165,353**	**114,239**	**48,935**	**2,179**	**–**
Total 31/12/2017	**144,499**	**–**	**144,499**	**113,343**	**30,174**	**–**	**982**

PART C Information on the consolidated income statement

Section 1 Interest - line items 10 and 20

1.1 Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2018**
1. **Financial assets measured at fair value through profit or loss**	**2,095**	**4,299**	**-**	**6,394**
1.1 Financial assets held for trading	490	-	-	490
1.2 Financial assets designated at fair value	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	1,605	4,299	-	5,904
2. **Financial assets measured at fair value through other comprehensive income**	**24,592**	**-**	**-**	**24,592**
3. **Financial assets measured at amortised cost**	**39,568**	**529,516**	**-**	**569,084**
3.1 Loans and receivables with banks	24	13,308	-	13,332
3.2 Loans and receivables with customers	39,544	516,208	-	555,752
4. **Hedging derivatives**	**-**	**-**	**-**	**-**
5. **Other assets**	**-**	**-**	**21**	**21**
6. **Financial liabilities**	**-**	**-**	**-**	**24,425**
Total	**66,255**	**533,815**	**21**	**624,515**
of which: interest and similar income on impaired financial assets	-	60,249	-	60,249

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 31/12/2017**
1. Financial assets held for trading	4,635	-	-	4,635
2. Financial assets at fair value through profit or loss	-	-	-	-
3. Available-for-sale financial assets	31,360	-	-	31,360
4. Held-to-maturity investments	1,771	-	-	1,771
5. Loans and receivables with banks	-	7,108	-	7,108
6. Loans and receivables with customers	1,575	562,271	-	563,846
7. Hedging derivatives	-	-	-	-
8. Other assets	-	-	22,919	22,919
Total	**39,341**	**569,379**	**22,919**	**631,639**

Following the change in accounting policy, it was not possible to allocate 2017 interest income to the new line items with precision and, accordingly, the related prior year data is not directly comparable with that for the current year in terms of the breakdown of the balance sheet items that generated it.

1.2 Interest and similar income: other information

1.2.1 Interest and similar income on foreign currency assets

Items	**31/12/2018**	**31/12/2017**
Interest and similar income on foreign currency assets	86,959	83,162

1.3 Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other liabilities	**Total 31/12/2018**	**Total 31/12/2017**
1. **Financial liabilities measured at amortised cost**	**(43,175)**	**(50,362)**	**–**	**(93,537)**	**(120,105)**
1.1 Due to central banks	(164)	–	–	(164)	(89)
1.2 Due to banks	(10,988)	–	–	(10,988)	(6,281)
1.3 Due to customers	(32,023)	–	–	(32,023)	(53,727)
1.4 Securities issued	–	(50,362)	–	(50,362)	(60,008)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**(19)**	**(19)**	**–**
5. **Hedging derivatives**	**–**	**–**	**(8,648)**	**(8,648)**	**(12,381)**
6. **Financial assets**	**–**	**–**	**–**	**(14,174)**	**(9,231)**
Total	**(43,175)**	**(50,362)**	**(8,667)**	**(116,380)**	**(141,717)**

1.4 Interest and similar expense: other information

1.4.1 Interest and similar expense on foreign currency liabilities

Items	**31/12/2018**	**31/12/2017**
Interest and similar expense on foreign currency liabilities	(26,093)	(24,141)

1.4.2 Interest expense on finance lease transactions

Items	**31/12/2018**	**31/12/2017**
Interest expense on finance lease transactions	(1)	(2)

1.5 Differentials on hedging transactions

Items	**31/12/2018**	**31/12/2017**
A. Positive differentials on hedging transactions	81	–
B. Negative differentials on hedging transactions	(8,729)	(12,381)
C. Balance (A-B)	(8,648)	(12,381)

Section 2 *Commissions - line items 40 and 50*

2.1 Fee and commission income: breakdown

Type of service/Amounts	31/12/2018	31/12/2017
a) **guarantees given**	**26,991**	**28,099**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**100,982**	**99,467**
1. trading in financial instruments	3,305	8,698
2. trading in foreign currencies	10,989	9,933
3. portfolio management	10,359	10,491
3.1 individual	10,359	10,491
3.2 collective	–	–
4. custody and administration of securities	7,891	7,885
5. custodian bank	3,351	3,001
6. placement of securities	34,762	31,467
7. order receipt and transmission	9,460	10,035
8. consultancy	15	92
8.1 investments	15	–
8.2 corporate finance	–	92
9. distribution of third-party services	20,850	17,865
9.1 portfolio management	–	–
9.1.1 individual	–	–
9.1.2 collective	–	–
9.2 insurance products	17,786	14,331
9.3 other products	3,064	3,534
d) **collection and payment services**	**76,343**	**72,339**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**22,380**	**22,335**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**35,848**	**34,133**
j) **other services**	**73,603**	**67,680**
Total	**336,146**	**324,053**

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

2.2 Fee and commission expense: breakdown

Services/Amounts	31/12/2018	31/12/2017
a) **guarantees given**	**(659)**	**(423)**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**(4,076)**	**(3,943)**
1. trading in financial instruments	(1,682)	(1,770)
2. trading in foreign currencies	–	–
3. portfolio management	–	–
3.1 own	–	–
3.2 delegated to third parties	–	–
4. custody and administration of securities	(2,257)	(2,173)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	(137)	–
d) **collection and payment services**	**(11,035)**	**(9,781)**
e) **other services**	**(4,715)**	**(4,826)**
Total	**(20,485)**	**(18,973)**

Section 3 Dividends and similar income - line item 70

3.1 Dividends and similar income: breakdown

	31/12/2018		31/12/2017	
Items/Income	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	2,128	100	1,415	247
B. Financial assets mandatorily measured at fair value	–	4,787	–	–
C. Financial assets measured at fair value through other comprehensive income	22,039	13	3,529	342
D. Equity investments	30	–	–	–
Total	**24,197**	**4,900**	**4,944**	**589**

Section 4 *Net trading income - line item 80*

4.1 Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Net result [(A+B)-(C+D)]
1. **Financial assets held for trading**	**18,332**	**36,323**	**(31,650)**	**(6,099)**	**16,906**
1.1 Fixed-yield securities	47	916	(6,775)	(89)	(5,901)
1.2 Variable-yield securities	–	9,270	(24,429)	(5,616)	(20,775)
1.3 Mutual funds	–	611	–	(394)	217
1.4 Loans	–	–	–	–	–
1.5 Other	18,285	25,526	(446)	–	43,365
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
Financial assets and liabilitis: exchange differences	**–**	**–**	**–**	**–**	**(80)**
3. **Derivatives**	**4,605**	**32,882**	**(4,205)**	**(30,234)**	**3,000**
3.1 Financial derivatives:	4,605	32,882	(4,205)	(30,234)	3,000
- On debt securities and interest rates	3,961	12,312	(3,547)	(12,150)	576
- On equities and equity indices	–	17,416	–	(14,999)	2,417
- On currency and gold	–	–	–	–	(48)
- Other	644	3,154	(658)	(3,085)	55
3.2 Credit derivatives	–	–	–	–	–
of which: natural hedges linked to the fair value option	–	–	–	–	–
Total	**22,937**	**69,205**	**(35,855)**	**(36,333)**	**19,826**

The net trading income passes from € 60.429 million to € 19.826 million.

The income from trading in «other financial assets» is mainly made up of exchange gains.

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

In addition to discounting the negative effects of higher volatility on financial markets during 2018, this trend was also affected by the fact that there were no longer the significant gains realised last year on the disposal of securities.

Section 5 *Net hedging gains (losses) - line item 90*

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31/12/2018	31/12/2017
A. **Income from:**		
A.1 Fair value hedging derivatives	5,817	12,421
A.2 Hedged financial assets (fair value)	–	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4 Cash-flow hedges	–	–
A.5 Assets and liabilities in foreign currency	–	–
Total income from hedging activities (A)	**5,817**	**12,421**
B. **Charges from:**		
B.1 Fair value hedging derivatives	–	–
B.2 Hedged financial assets (fair value)	(5,912)	(12,536)
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Cash-flow hedges	–	–
B.5 Assets and liabilities in foreign currency	–	–
Total charges from hedging activities (B)	**(5,912)**	**(12,536)**
C. **Net hedging gains (losses) (A – B)**	**(95)**	**(115)**
of which: hedging result on net positions	–	–

Income include € 5,817 million for the valuation at fair value of hedging derivatives, versus a negative valuation of the loans being hedged of € 5.912 million at fair value. The net result of measuring the hedging structure at fair value is a negative balance of € 0.095 million.

Section 6 *Gains (losses) from sales or repurchases - line item 100*

6.1 Gains (losses) from sales or repurchases - breakdown

	31/12/2018			31/12/2017		
Items/income items	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
A. **Financial assets**						
1. Financial assets measured at amortised cost	2,240	(118)	2,122	–	–	–
1.1 Loans and receivables with banks	–	–	–	–	–	–
1.2 Loans and receivables with customers	2,240	(118)	2,122	–	–	–
2. Financial assets measured at fair value through other comprehensive income	10,704	(7,322)	3,382	100,059	(5,264)	94,795
2.1 Fixed-yield securities	10,704	(7,322)	3,382	82,698	(4,179)	78,519
2.2 Loans	–	–	–	–	–	–
Variable-yield securities and mutual funds	**–**	**–**	**–**	**17,361**	**(1,085)**	**16,276**
Total assets (A)	**12,944**	**(7,440)**	**5,504**	**100,059**	**(5,264)**	**94,795**
B. **Financial liabilities measured at amortised cost**	**–**	**–**	**–**	**–**	**–**	**–**
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Securities issued	166	(183)	(18)	782	(333)	449
Total liabilities (B)	**166**	**(183)**	**(18)**	**782**	**(333)**	**449**

Section 7 *Net gains/losses on financial assets and liabilities measured at fair value through profit and loss - line item 110*

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit of loss: breakdown of other financial assets mandatorily measured at fair value (IFRS 7, para. 20 letter a), i)

Transactions/Income items	Gains (A)	Gains on disposal (B)	Losses (C)	Losses on disposal (D)	Profit [(A+B)-(C+D)]
1. **Financial assets**	**8,301**	**2,707**	**(23,555)**	**(469)**	**(13,015)**
1.1 Fixed-yield securities	469	2,425	(6,253)	(345)	(3,703)
1.2 Variable-yield securities	–	–	(2)	(7)	(9)
1.3 Mutual funds	4,674	282	(10,509)	(117)	(5,670)
1.4 Loans	3,158	–	(6,791)	–	(3,633)
2. **Financial assets: exchange differences**	**–**	**–**	**–**	**–**	**1,158**
Total	**8,301**	**2,707**	**(23,555)**	**(469)**	**(11,857)**

Section 8 *Net adjustments for credit risk - line item 130*

8.1 Net adjustments for credit risk related to financial assets measured at amortised cost: breakdown – Line item 130

Transactions/ Income items	Adjustments (1)			Write-backs (2)			
	First and second stage	Third stage Write-off	Third stage Other	First and second stage	Third stage	**Total 31/12/2018**	**Total 31/12/2017**
A. **Loans and receivables with banks**	**(224)**	**–**	**–**	**152**	**–**	**(72)**	**–**
- Loans	(216)	–	–	152	–	(64)	–
- Fixed-yield securities	(8)	–	–	–	–	(8)	–
of which: impaired loans acquired or originated	–	–	–	–	–	–	–
B. **Loans and receivables with customers**	**(40,848)**	**(19,084)**	**(501,453)**	**104,785**	**215,389**	**(241,211)**	**(231,732)**
- Loans	(39,646)	(19,084)	(501,453)	103,227	215,389	(241,567)	(228,387)
- Fixed-yield securities	(1,202)	–	–	1,558	–	356	(3,345)
of which: impaired loans acquired or originated	(16)	–	(46,496)	5,150	11,808	(29,554)	–
Total	**(41,072)**	**(19,084)**	**(501,453)**	**104,937**	**215,389**	**(241,283)**	**(231,732)**

8.2 Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/ Income items	Adjustments (1)			Write-backs (2)			
	First and second stage	Third stage Write-off	Third stage Other	First and second stage	Third stage	**Total 31/12/2018**	**Total 31/12/2017**
A. **Debt securities**	**–**	**–**	**–**	**3,970**	**–**	**3,970**	**–**
B. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Customers	–	–	–	–	–	–	–
- Banks	–	–	–	–	–	–	–
of which: impaired loans acquired or originated	–	–	–	–	–	–	–
Variable-yield securities and mutual funds	–	–	–				(35,801)
Total	**–**	**–**	**–**	**3,970**	**–**	**3,970**	**(35,801)**

Adjustments concern the measurement of credit risk on debt securities classified as financial assets measured at fair value through other comprehensive income.

Any impairment adjustments to variable-yield securities are recorded directly in equity. The 2017 figure is therefore not comparable as it concerned listed and unlisted variable-yield securities, as well as certain mutual funds, which had been subjected to impairment testing given that their equity value was lower than the original cost.

The most significant adjustments concerned the shares of the Atlante Fund for € 26.022 million, the investment in Release S.p.A. for € 5.502 million and the amount due from the IDPF - Voluntary scheme for the intervention in favour of Cassa di Risparmio di Cesena for € 3.089 million.

Section 9 *Gains/losses on contractual changes not resulting in derecognition - line item 140*

9.1 Gains (losses) on contractual changes: breakdown

Contractual changes not resulting in derecognition amounted to € 2.839 million.

Section 12 *Administrative expenses - line item 190*

12.1 Personnel expenses: breakdown

Type of expense/Amounts	31/12/2018	31/12/2017
1) **Employees**	**(237,669)**	**(242,300)**
a) Wages and salaries	(157,004)	(155,392)
b) Social security contributions	(38,971)	(38,336)
c) Termination indemnities	(21)	(20)
d) Pension expenses	(4,903)	(4,621)
e) Provision for employee termination indemnities	(7,718)	(7,740)
f) Provision for pension and similar obligations:	(3,998)	(11,850)
- defined contribution	-	-
- defined benefits	(3,998)	(11,850)
g) Payments to external supplementary pension funds:	(3,736)	(3,636)
- defined contribution	(3,736)	(3,636)
- defined benefits	-	-
h) Costs deriving from payment agreements based on own capital instruments	-	-
i) Other personnel benefits	(21,318)	(20,705)
2) **Other working personnel**	**(256)**	**(411)**
3) **Directors and Statutory Auditors**	**(2,617)**	**(2,459)**
4) **Retired personnel**	**-**	**-**
Total	**(240,542)**	**(245,170)**

12.2 Average number of employees by category

	31/12/2018	31/12/2017
1) **Employees**	**3,208**	**3,171**
a) Managers	38	39
b) Officials	783	770
c) Other employees	2,387	2,362
2) **Other personnel**	**5**	**7**

	31/12/2018	31/12/2017
- Actual number of employees	3,257	3,199
- Other personnel	4	3

12.3 Defined-benefit pension plans: costs and revenues

Income items/Amounts	31/12/2018	31/12/2017
Service cost	2,471	2,406
Interest cost	1,708	1,967
Contributions from employees	(228)	(233)
Reductions and payments	47	7,710
Total charge to income statement (A)	**3,998**	**11,850**
Portion of yield from assets servicing the fund (B)	1,576	8,956
Total charge (A-B)	2,422	2,894

The costs have been recorded as personnel expenses.
Information regarding the outstanding obligations and related changes during the year, the assets servicing the fund and principal actuarial assumptions made is provided in the tables

reported in Part B Section 10.5 of the notes to the financial statements. The cost for the Bank consists of the contributions that it has to pay into the fund in accordance with the Fund Regulations.

An additional provision of € 1.576 million has been recorded, representing the return on the assets servicing the fund, which is recognised as «other operating income». A change of € 2.402 million corresponding to the actuarial gains has not been charged to the income statement, but instead it has been added to equity in accordance with IAS 19, as reported in the statement of comprehensive income.

12.4 Other employee benefits

This caption essentially comprises the cost of expenses and salaries of personnel allocated to the specific fund, meal vouchers, scholarships, insurance costs, the reimbursement of expenses, training costs and other benefits.

12.5 Other administrative expenses: breakdown

Type of service/Amounts	**31/12/2018**	**31/12/2017**
Telephone, post and data transmission	(14,729)	(14,728)
Maintenance of property, equipment and investment property	(9,837)	(9,849)
Rent of buildings	(26,255)	(26,859)
Security	(5,799)	(6,530)
Transportation	(3,587)	(3,732)
Professional fees	(35,939)	(34,952)
Office materials	(2,488)	(2,600)
Electricity, heating and water	(4,970)	(5,058)
Advertising and entertainment	(4,385)	(3,953)
Legal	(15,016)	(16,773)
Insurance	(1,830)	(1,765)
Company searches and information	(7,602)	(6,687)
Indirect taxes and dues	(53,822)	(53,167)
Software and hardware rental and maintenance	(18,409)	(17,094)
Data entry by third parties	(1,952)	(2,077)
Cleaning	(5,803)	(5,873)
Membership fees	(2,005)	(1,870)
Services received from third parties	(7,689)	(4,992)
Outsourced activities	(21,320)	(20,634)
Deferred charges	(1,409)	(1,855)
Goods and services for employees	(1,707)	(1,077)
Other	(34,763)	(35,005)
Total	**(281,316)**	**(277,130)**

Other expenses include € 26.949 million comprising the ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

Section 13 *Net accruals to provisions for risks and charges - line item 200*

13.1 Net provisions for the credit risk on commitments to make loans on financial guarantees given: breakdown

This line item amounts to € 11.926 million made up of the net balance of allowances made during the year of € 13.972 million and the use or release of provisions set aside in previous years of € 2.046 million.

13.3 Net accruals to other provisions for risks and charges: breakdown

This line item amounts to € 0.959 million made up of the net balance of allowances made during the year to the provision for legal disputes of € 5.161 million and the use or release of provisions set aside in previous years of € 6.120 million.

Section 14 *Depreciation and net impairment losses on property, equipment and investment property - line item 210*

14.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

Asset/Income item	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	**Net result (a+b-c)**
A. **Property, equipment and investment property**				
A.1 Owned	(16,696)	–	–	(16,696)
- For business purposes	(16,696)	–	–	(16,696)
- For investment purposes	–	–	–	–
- Inventories	–	–	–	–
A.2 Acquired under finance leases	(1,019)	–	–	(1,019)
- For business purposes	(1,019)	–	–	(1,019)
- For investment purposes	–	–	–	–
Total	**(17,715)**	**–**	**–**	**(17,715)**

Section 15 *Amortisation and net impairment losses on intangible assets - line item 220*

15.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset/Income item	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	**Net result (a+b-c)**
A. **Intangible assets**				
A.1 Owned	(17,274)	–	–	(17,274)
- Internally generated	–	–	–	–
- Other	(17,274)	–	–	(17,274)
A.2 Acquired under finance leases	–	–	–	–
Total	**(17,274)**	**–**	**–**	**(17,274)**

The adjustments relate to intangible assets with a finite life consisting of rights to use computer software. There were no significant impairment losses relating to intangible assets during the year, accordingly no further information is provided pursuant to para. 130.a) c) d) f) g) and para. 131 of IAS 36.

Section 16 *Other operating income and expense - line item 230*

16.1 Other operating expenses: breakdown

	31/12/2018	31/12/2017
Out-of-period expense	(6,398)	(3,492)
Other	(1,075)	-
Consolidation differences	(1,637)	(3,071)
Total	**(9,110)**	**(6,563)**

16.2 Other operating income: breakdown

	31/12/2018	31/12/2017
Recovery of charges on deposits and overdrafts	372	348
Recovery of expenses	444	456
Rental income from buildings	5,788	5,765
Recovery of taxes	43,995	43,136
Financial income of pension and similar obligations plan	598	8,956
Out-of-period income - other	2,663	3,528
Other	17,829	16,334
Consolidation differences	2,260	316
Total	**73,949**	**78,839**

Section 17 *Net gains (losses) on equity investments - line item 250*

17.1 Net gains (losses) on equity investments: breakdown

Income item/Segments	31/12/2018	31/12/2017
1) **Joint-ventures**		
A. **Income**	**17**	**19**
1. Revaluations	17	19
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. **Charges**	**(231)**	**-**
1. Write-downs	(231)	-
2. Impairment adjustments	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Profit (loss)	**(214)**	**19**
2) **Associated companies**		
A. **Income**	**20,117**	**26,855**
1. Revaluations	19,316	23,174
2. Gains on disposal	801	-
3. Write-backs	-	-
4. Other income	-	3,681
B. **Charges**	**-**	**(357)**
1. Write-downs	-	(50)
2. Impairment adjustments	-	(168)
3. Losses on disposal	-	-
4. Other charges	-	(139)
Profit (loss)	**20,117**	**26,498**
Total	**19,903**	**26,517**

The sub-item other income in 2017 consists of the badwill that arose following the acquisition of 100% of Banca della Nuova Terra S.p.A. and Servizi Internazionali e Strutture Integrate 2000 S.r.l.

Section 18 *Net result of fair value measurement of property, equipment and investment property and intangible assets - line item 260*

18.1 Net result of fair value measurement (or at revalued amount) of property, equipment and investment property and intangible assets: breakdown

Asset/Income item	Revaluations (a)	Writedowns (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Net result (a+b+c)
A. **Property, equipment and investment property**	**–**	**–**	**–**	**–**	**–**
A.1 Owned:	–	–	–	–	–
- for business purposes	–	–	–	–	–
- for investment purposes	474	(842)	–	–	(368)
- inventories	–	–	–	–	–
A.2 Purchased under finance leases	–	–	–	–	–
- for business purposes	–	–	–	–	–
- for investment purposes	–	–	–	–	–
B. **Intangible assets**	**–**	**–**	**–**	**–**	**–**
B.1 Owned	–	–	–	–	–
B.1.1 Internally generated	–	–	–	–	–
B.1.2 other	–	–	–	–	–
B.2 Purchased under finance leases	–	–	–	–	–
Total	**474**	**(842)**	**–**	**–**	**(368)**

Section 20 *Net gains on sales of investments - line item 280*

20.1 Net gains on sales of investments: breakdown

Income items/Segments	31/12/2018	31/12/2017
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**26**	**17**
- Gains on disposal	31	–
- Losses on disposal	(5)	17
Profit (loss)	**26**	**17**

Section 21 *Income taxes - line item 300*

21.1 Income taxes: breakdown

Income items/Segments	31/12/2018	31/12/2017
1. Current taxes (-)	(34,791)	(30,774)
2. Change in prior period income taxes (+/-)	(83)	(6,529)
3. Reduction in current taxes (+)	2.170	–
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	407	–
4. Change in deferred tax assets (+/-)	379	(36,288)
5. Change in deferred tax liabilities (+/-)	3,193	5,095
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(28,725)	(68,496)

This line item comes in at € 28.725 million, down by 58.06%. The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 20.13% compared with 29.31%.

21.2 Reconciliation between the theoretical and current tax burden

Income taxes are calculated on the basis of the specific tax legislation in the country where each company is resident.

The total tax charge for the year can be reconciled as follows:

INCOME TAXES	Tax base	Tax
Theoretical tax burden	142,687	(37,572)
Tax credit	–	–
Increases	38,748	(10,766)
Decreases	(80,086)	21,435
Effective tax burden	**101,349**	**(26,903)**

IRAP (REGIONAL BUSINESS TAX)	Tax base	Tax
Theoretical tax burden	124,034	(6,607)
Tax credit	–	–
Increases	83,456	(4,949)
Decreases	(65,851)	3,668
Effective tax burden	**141,639**	**(7,888)**
Total effective tax burden	**–**	**(34,791)**

Income taxes are calculated in accordance with the respective national rates. For entities resident in Italy, the IRES rate is 24% with a surcharge for credit institutions of 3.50%.

The ordinary IRAP rate is 3.90% which rises to 4.65% for credit institutions with a further increase, on a regional basis, of a maximum of 0.92%.

IRES and other income taxes

The principal add-backs relate to the non-deductible provisions recorded for charges, administrative expenses and depreciation.

The principal allowances relate to the non-taxable portion of dividends received, the deductible portion of IRAP, the use of taxed provisions, the effect of the ACE incentive, the portion of adjustments deductible in the year and those recognised in relation to financial assets on the FTA of IFRS 9.

IRAP (REGIONAL BUSINESS TAX)

The principal disallowances relate to the not-deductible portions of payroll costs, depreciation and other administrative expenses.

The principal allowance related to the portion of adjustments deductible in the year and those recognised in relation to financial assets on the FTA of IFRS 9, as well as the non-taxable portion of dividends.

Section 23 *Profit (loss) of the period of minority interests - line item 340*

23.1 Detail of line item 330 «Profit (loss) of the period of minority interests»

Name of the businesses	31/12/2018	31/12/2017
Equity investments in consolidated companies with significant non-controlling interests		
FACTORIT SPA	3,158	5,974
Total	**3,158**	**5,974**

Section 25 *Earnings per share*

25.1 Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	31/12/2018	31/12/2017
number of shares	453,385,777	453,385,777

This is the weighted average used as the denominator in the calculation of basic earnings per share.

25.2 Other information

IAS 33 requires that EPS «earnings per share» be reported in accordance with the following definitions:

«Basic EPS» , determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS» , determined by taking account of the dilutive effect of all potential ordinary shares.

Diluted earnings per share was calculated with reference to the number of shares issued for payment at the time of the capital increase.

	31/12/2018	31/12/2017
Basic EPS - €	0.244	0.351
Diluted EPS - €	0.244	0.351

PART D *Consolidated comprehensive income*

Analytical statement of consolidated comprehensive income

Items		31/12/2018	31/12/2017
10.	**Profit for the year**	**113,962**	**165,184**
	Other items of comprehensive income that will not be reclassified to profit or loss	9,648	1,435
20.	**Variable-yield securities measured at fair value through other comprehensive income:**	**11,450**	**5,470**
	a) change in fair value	11,450	5,470
	b) transfer to other components of equity	-	-
30.	**Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness):**	**-**	**-**
	a) change in fair value	-	-
	b) transfer to other components of equity	-	-
40.	**Hedge of variable-yield measured at fair value through other comprehensive income:**	**-**	**-**
	a) change in fair value (hedged instrument)	-	-
	b) change in fair value (hedging instrument)	-	-
50.	**Property, equipment and investment property**	**-**	**-**
60.	**Intangible assets**	**-**	**-**
70.	**Defined-benefit plans**	**(805)**	**(5,061)**
80	**Non-current assets and disposal groups held for sale**	**-**	**-**
90.	**Share of valuation reserves of equity investments valued at net equity**	**(69)**	**(1)**
100.	**Income taxes on other items of comprehensive income that will not be reclassified to profit or loss**	**(928)**	**1,027**
	Other items of comprehensive income that may be reclassified subsequently to profit or loss	(80,305)	10
110.	**Hedges of foreign investments:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
120.	**Exchange differences:**	**-**	**-**
	a) change in value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
130.	**Cash-flow hedges:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
140.	**Hedging instruments (non-designated elements):**	**-**	**-**
	a) change in value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
150.	**Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income:**	**(111,223)**	**792**
	a) changes in fair value	(85,426)	31,104
	b) transfer to income statement	(24,817)	(30,312)
	- adjustments for credit risk	(3,969)	-
	- gains/losses on disposals	(20,848)	(30,312)
	c) other changes	(980)	-
160.	**Non-current assets and disposal groups held for sale:**	**-**	**-**
	a) changes in fair value	-	-
	b) transfer to income statement	-	-
	c) other changes	-	-
170.	**Share of valuation reserves of equity investments valued at net equity:**	**(5,830)**	**(717)**
	a) changes in fair value	(5,830)	(717)
	b) transfer to income statement	-	-
	- adjustments for impairment	-	-
	- gains/losses on disposals	-	-
	c) other changes	-	-
180.	**Income taxes on other items of comprehensive income that may be reclassified subsequently to profit or loss**	**36,748**	**(65)**
190.	**Total other income items**	**(70,657)**	**1,445**
200.	**Comprehensive income (Item 10+190)**	**43,305**	**166,629**
210.	**Consolidated comprehensive income pertaining to minority interests**	**3,188**	**5,941**
220.	**Consolidated comprehensive income attributable to the Parent Company**	**40,117**	**160,688**

PART E *Information on risks and related hedging policy*

The information contained in this section is based on internal data prepared for management purposes, which means that it may differ from the figures reported in sections B and C of these notes, except where the book value specifically has to be shown.

The information to be disclosed to the public under Sections Eight and Ten, Title I, Chapter 3 of the Regulation (EU) 575/2013 is provided by the required deadlines in the «Corporate Information» section of the Parent Company's website.

Introduction

The Parent Company has the task of ensuring effective risk management through proper articulation of the roles and responsibilities of key decision-making departments, as well as the integrity and completeness of the Group's system of controls. This principle involves the centralisation of essential choices in terms of risk management, in order to ensure the harmonisation of all systems of risk assessment and control developed within the Group and to implement a risk management policy that is as integrated and consistent as possible.

The strategic guidelines for risk exposure are established by the governing bodies of the Parent Company, evaluating the overall operations of the Group and the actual risks that it runs, based on the specific type of operations and risk profiles of each company. The decisions are supported by mechanisms for monitoring and control inherent in the evolution of the various risks assumed within the perimeter of the Group and their compatibility with respect to the pursuit of sound and prudent management.

The governing bodies of subsidiaries, according to each one's powers, are responsible for implementing the risk management policies defined by the Parent Company in a manner that is consistent with their company's situation, ensuring the functioning of suitable internal control procedures and a constant flow of information to the Parent Company on individual cases of significant risk.

Section 1 *Risks of accounting consolidation*

QUALITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends and economic distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Impaired past due exposures	Performing past due exposures	Other performing exposures	**Total 31/12/2018**
1. Financial assets measured at amortised cost	760,412	988,584	84,206	405,256	30,635,096	32,873,554
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	4,318,748	4,318,748
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	17,505	450	10,382	255,331	283,668
5. Financial assets being sold	–	–	–	–	–	–
Total 31/12/2018	**760,412**	**1,006,089**	**84,656**	**415,638**	**35,209,175**	**37,475,970**
Total 31/12/2017	**779,662**	**1,161,762**	**129,661**	**395,457**	**35,989,594**	**38,456,126**

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net values)

	Impaired				Performing			
Portfolio/quality	Gross exposure	Total adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total adjustments	Net exposure	**Total (net exposure)**
1. Financial assets measured at amortised cost	4,145,687	2,312,486	1,833,201	194,014	31,140,285	99,932	31,040,353	32,873,554
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	4,321,395	2,647	4,318,748	4,318,748
3. Financial assets designated at fair value	–	–	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	26,414	8,459	17,955	–	–	–	265,713	283,668
5. Financial assets being sold	–	–	–	–	–	–	–	–
Total 31/12/2018	**4,172,101**	**2,320,945**	**1,851,156**	**194,014**	**35,461,680**	**102,579**	**35,624,814**	**37,475,970**
Total 31/12/2017	**4,225,197**	**2,154,122**	**2,071,075**	**170,033**	**36,510,240**	**125,189**	**36,385,051**	**38,456,126**

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

With reference to financial assets at fair value, the gross exposure is shown at the value resulting from the valuation at period-end.

Partial write-offs recorded over the years in relation to the above portfolios total € 192.399 million, reflecting the non-performing loans still held on the books.

The following analysis for «Financial assets held for trading and hedging derivatives» presents the accumulated unrealised losses and the net exposures that are obviously of poor quality, as well as the net exposures of the other financial assets.

	Assets obviously of poor quality		Other assets
Portfolio/quality	Accumulated unrealised losses	Net exposure	Net exposure
1. Financial assets held for trading	9	83	170,440
2. Hedging derivatives	–	–	–
Total 31/12/2018	**9**	**83**	**170,440**
Total 31/12/2017	**5**	**106**	**496,202**

b. Information about structured entities (other than securitisation vehicles)

The Group does not have any structured entities for which this type of disclosure is applicable.

Section 2 Risks of consolidation for supervisory purposes

1.1. Credit risk

QUALITATIVE INFORMATION

1. General matters

The Parent Company manages and coordinates the activities of the Swiss subsidiary, thereby ensuring harmonisation of credit policies at group level and a standard approach to risk management.

As outlined in the equivalent section of the notes to the Parent Company's separate financial statement, the lines of strategy that are followed are geared to sustaining local economies, in particular small and medium-sized businesses and households, maintaining low levels of risk and concentration. These policies are applied by the subsidiaries in ways that respect the peculiarities of their counterparties and the particular types of products being offered, as well as the characteristics of the market under concern.

2. Credit risk management policies

2.1 Organisational aspects

The process of credit risk management adopted by the Parent Company and the structure set up to implement it are explained in detail in the corresponding section of the notes relating to the Bank.

The organisational structure of the subsidiaries complies with that of the Parent Company, allowing for differences in size and the area in which they operate.

2.2 Systems for managing, measuring and monitoring

As part of its coordination activities, the Parent Company requires the subsidiaries to apply the control methodology already discussed in detail in the corresponding section of the notes relating to the Bank.

In this regard, it is worth pointing out that the Swiss subsidiary has its own rating system which it applies to customer loans. This system is based entirely on the subjective assessment and discretion of the credit and loans department: this approach involves gathering various set indicators and information of a financial and qualitative nature, depending on the type of customer. The combined evaluation of these elements results in a score, which is used by the person making the final evaluation to assign a rating. This methodology has been analysed by the independent auditors, who consider it appropriate given the scale, complexity and risks involved in the activities performed. Factorit, on the other hand, does not have its own rating system. The company does however make reference to the ratings assigned by the Parent Company to common customers and, for these, can check their risk status and trends at any time.

2.3 Methods for measuring expected losses

The methodological framework implemented by Banca Popolare di Sondrio to calculate the Expected Credit Loss (ECL) on its loan portfolio, in accordance with the requirements of IFRS 9 that came into force on 1 January 2018, is explained in the notes to the financial statements.

As part of its coordination activities, the Parent Company requires the subsidiaries to apply consistent methodology, also by using the same IT tools. At subsidiaries, the models used to calculate writedowns were developed to take account of their specific characteristics, such as the geographical and economic context in which they operate, the nature and level of diversification of their core businesses, and the complexity and scale of their control structures. This is consistent with the methodological framework developed by the Parent Company to comply with the key aspects of the new standard (e.g. estimation of risk parameters over long-term time horizons considering different scenarios, with the writedown time horizon dependent on the staging of the position).

The principal innovation contained in the new standard is to replace the concept of incurred credit losses with an expected loss approach. In order to comply as closely as possible with the new requirements when calculating writedowns, the Group defined a specific methodological framework. Building on a suite of models already used in other business areas and processes, this activity involved developing various methodologies – statistical, econometric and, more generally, quantitative and data driven – for modelling the usual credit risk parameters – PD, LGD, EAD – and methodologies relevant to the calculation of impairment, such as stage allocation methodologies, as well as the micro-modelling of scenario dependency and the calculation of a multi-period ECL that takes account of the above key aspects.

2.4 Credit risk mitigation techniques

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to adopt credit risk mitigation techniques able to ensure efficient management and prudent valuation of the guarantees obtained.

This risk is controlled by the subsidiary Banca Popolare di Sondrio (SUISSE) SA by means of monitoring tools that are substantially similar to those of the Parent Company, as described in the corresponding Section in the explanatory notes. Note that lending with mortgage backing or financial collateral is long-standing practice in Switzerland: in confirmation, more than 80% of loans to customers are guaranteed by mortgages, almost exclusively on residential property.

As regards Factorit's operations, on the other hand, particular tools for mitigating the risk assumed by the factor can be found in the techniques used to consolidate the transfer of risk versus the assigned debtor and in fragmenting it over the series of other people or entities, a typical approach in operations of this kind. The shorter average maturity and, therefore, faster turnover of factoring loans with respect to normal banking transactions ensures a certain flexibility in the recovery of the resources invested.

3. Impaired loans

3.1 Strategies and operational policies

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their loans classification criteria and management methods into line with those of the Parent Company, as explained in the corresponding section of the notes on the Bank.

3.2 Write-off

As part of its functions of coordination and control, the Parent Company requires the subsidiaries to bring their write-off classification and management criteria into line with those of the Parent Company, as explained in the notes on the Bank.

3.3 Impaired financial assets purchased or originated

Also in this area, the Parent Company requires that the subsidiaries comply with the principles adopted by the Parent Company, which are adequately described in the notes on the Bank.

4. Financial assets subject to commercial renegotiation and exposures subject to forbearance

Please refer to the notes on the Bank, which explain the specific management and monitoring policies for these exposures that the Parent Company has extended to the subsidiaries.

QUANTITATIVE INFORMATION

A. Asset quality

A.1 Impaired and performing loans: size, adjustments, trends and economic distribution

A.1.1 Consolidation for supervisory purposes – Distribution of financial assets by past due bands (book values)

	First stage			Second stage			Third stage		
	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days	1 to 30 days	30 to 90 days	More than 90 days
1. Financial assets measured at amortised cost	350,192	13,928	29,397	37,330	115,278	59,937	7,988	49,708	1,281,064
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–	–
Total 31/12/2018	**350,192**	**13,928**	**29,397**	**37,330**	**115,278**	**59,937**	**7,988**	**49,708**	**1,281,064**

A.1.2 Consolidation for supervisory purposes – Financial assets, commitments to make loans and financial guarantees given: dynamics of total writedowns and provisions

	Total writedowns				
	Assets included in the first stage				
Reasons/stages of risk	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost
Opening balance	**46,459**	**6,149**	**–**	**52,608**	**85,283**
Increases in financial assets purchased or originated	–	–	–	–	–
Cancellations other than by write-offs	(2,262)	–	–	(2,262)	(7)
Net adjustments for credit risk (+/-)	(22,823)	(3,571)	–	(26,394)	(5,254)
Contractual amendments without cancellation	556	–	–	556	194
Changes in estimation methodology	–	–	–	–	–
Write-offs	–	–	–	–	–
Other changes	27,263	–	–	27,263	(29,469)
Closing balance	**49,193**	**2,578**	**–**	**51,771**	**50,747**
Collections against financial assets already written off	–	–	–	–	–
Write-offs charged directly to the income statement	–	–	–	–	–

A.1.3 Consolidation for supervisory purposes – Financial assets, commitments to grant loans and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

	Gross exposure/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
Portfolios/stages of risk	From first to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	645,979	1,332,918	273,533	98,916	153,477	28,663
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
3. Commitments to make loans and financial guarantees given	567,024	338,529	39,377	3,284	51,857	5,490
Total 31/12/2018	**1,213,003**	**1,671,447**	**312,910**	**102,200**	**205,334**	**34,153**

Total writedowns											
Assets included in the second stage		Assets included in the third stage						Total provisions on commitments to grant loans and financial guarantees given			
Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual writedowns	of which: collective writedowns	Of which: impaired financial assets purchased or originated	First stage	Second stage	Third stage	**Total 31/12/2018**
468	**-**	**85,751**	**2,163,822**	**-**	**2,163,822**	**-**	**121,586**	**5,459**	**2,650**	**25,984**	**2,336,274**
-	-	-	10,941	-	10,941	-	10,941	-	-	-	10,941
-	-	(7)	(3,720)	-	(3,720)	-	-	-	-	-	(5,989)
(399)	-	(5,653)	265,791	-	265,791	-	29,554	(374)	(1,183)	13,626	245,813
-	-	194	533	-	533	-	-	-	-	-	1,283
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	(211,649)	-	(211,649)	-	-	-	-	-	(211,649)
-	-	(29,469)	86,768	-	86,768	-	(39,383)	-	-	-	84,562
69	**-**	**50,816**	**2,312,486**	**-**	**2,312,486**	**-**	**122,698**	**5,085**	**1,467**	**39,610**	**2,461,235**
-	-	-	878	-	-	-	-	-	-	-	878
-	-	-	-	-	-	-	-	-	-	-	-

A.1.4 Consolidation for supervisory purposes - On- and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure Impaired	Gross exposure Performing	Total adjustments and provisions	Net exposure	Total partial write-offs*
A. **On-balance sheet exposure**					
a) Non-performing loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
c) Impaired past due exposures	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	–	39,972	18	39,954	–
- of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	–	1,764,707	156	1,764,551	–
- of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	**–**	**1,804,679**	**175**	**1,804,505**	**–**
B. **Off-balance sheet credit exposures**					
a) Impaired	–	–	–	–	–
b) Performing	–	301,701	16	301,685	–
Total (B)	**–**	**301,701**	**16**	**301,685**	**–**
Total (A+B)	**–**	**2,106,380**	**191**	**2,106,190**	**–**

On-balance sheet exposures include the loans and receivables with banks, shown under item 40 a), as well as other financial assets consisting of bank securities included in items 20 c), 30 and 40 of assets, excluding variable-yield securities. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

A.1.5 Consolidation for supervisory purposes - On- and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure		Total adjustments and provisions	Net exposure	Total partial write-offs*
	Impaired	Performing			
A. **On-balance sheet exposure**					
a) Non-performing loans	2,481,444	–	1,721,031	760,413	192,399
- of which: exposures subject to forbearance	177,699	–	112,123	65,576	15,924
b) Unlikely-to-pay loans	1,585,573	–	579,483	1,006,090	1,615
- of which: exposures subject to forbearance	620,139	–	208,780	411,359	1,114
c) Impaired past due exposures	105,086	–	20,430	84,656	–
- of which: exposures subject to forbearance	17,731	–	912	16,819	–
d) Performing past due exposures	–	384,082	8,368	375,714	–
- of which: exposures subject to forbearance	–	57,484	3,181	54,303	–
e) Other performing exposures	–	33,530,817	91,401	33,439,416	–
- of which: exposures subject to forbearance	–	572,402	11,193	561,209	–
Total (A)	**4,172,103**	**33,914,899**	**2,420,713**	**35,666,289**	**194,014**
B. **Off-balance sheet credit exposures**					
a) Impaired	381,433	–	39,610	341,823	–
b) Performing	–	20,214,185	6,539	20,207,646	–
Total (B)	**381,433**	**20,214,185**	**46,149**	**20,549,469**	**–**
Total (A+B)	**4,553,536**	**54,129,084**	**2,466,862**	**56,215,758**	**194,014**

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

A.1.7 Consolidation for supervisory purposes – On-balance sheet exposures to customers: dynamics of gross impaired loans

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
Gross exposure at 31/12/2017	**2,301,388**	**1,768,907**	**154,902**
FTA IFRS 9 Effect	**–**	**–**	**–**
A. **Opening gross exposure**	**2,301,388**	**1,768,907**	**154,902**
- of which: sold but not eliminated from the balance sheet	–	6,455	1,766
B. **Increases**	**540,778**	**553,305**	**79,577**
B.1 transfers from performing loans	76,146	345,074	72,745
B.2 transfers from impaired financial assets purchased or originated	–	28,948	38
B.3 transfers from other categories of impaired exposure	345,968	63,775	102
B.4 contractual amendments not resulting in derecognition	–	–	–
B.5 other increases	118,664	115,508	6,692
C. **Decreases**	**360,722**	**736,639**	**129,393**
C.1 transfers to performing loans	560	117,310	23,229
C.2 write-offs	211,420	229	–
C.3 collections	148,742	152,823	24,622
C.4 proceeds from disposals	–	–	–
C.5 losses on disposal	–	–	–
C.6 transfers to other categories of impaired exposure	–	334,052	75,793
C.7 contractual amendments not resulting in derecognition	–	919	–
C.8 other decreases	–	131,306	5,749
D. **Closing gross exposure**	**2,481,444**	**1,585,573**	**105,086**
- of which: sold but not eliminated from the balance sheet	–	9,733	1,632

A.1.7bis Consolidation for supervisory purposes – On-balance sheet exposures to customers: dynamics of gross exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: impaired	Exposures subject to forbearance: not impaired
Gross exposure at 31/12/2017	**657,497**	**637,445**
FTA IFRS 9 Effect	**–**	**–**
A. **Opening gross exposure**	**657,497**	**637,445**
- of which: sold but not eliminated from the balance sheet	1,278	19,368
B. **Increases**	**346,693**	**323,868**
B.1 transfers from performing loans not subject to forbearance	48,756	192,247
B.2 transfers from performing loans subject to forbearance	76,731	–
B.3 transfers from loans subject to forbearance and impaired	–	52,317
B.4 other increases	221,206	79,304
C. **Decreases**	**188,621**	**331,427**
C.1 transfers to performing loans not subject to forbearance	–	136,986
C.2 transfers to performing loans subject to forbearance	52,317	–
C.3 transfers to loans subject to forbearance and impaired	–	76,731
C.4 write-offs	4	–
C.5 collections	82,132	48,882
C.6 proceeds from disposals	–	–
C.7 losses on disposal	–	–
C.8 other decreases	54,168	68,828
D. **Closing gross exposure**	**815,569**	**629,886**
- of which: sold but not eliminated from the balance sheet	2,663	23,760

A.1.9 Consolidation for supervisory purposes – Impaired on-balance sheet exposures to customers: dynamics of total writedowns

Categories	Non-performing loans Total	Non-performing loans of which: exposures subject to forbearance	Unlikely-to-pay loans Total	Unlikely-to-pay loans of which: exposures subject to forbearance	Past due exposures, impaired Total	Past due exposures, impaired of which: exposures subject to forbearance
Opening adjustments at 31/12/2017	**1,521,735**	**69,661**	**607,145**	**165,080**	**25,242**	**3,053**
FTA IFRS 9 Effect	**33,245**	**3,121**	**6,077**	**532**	**(5,320)**	**(1,110)**
A. **Total opening adjustments**	**1,554,980**	**72,782**	**613,222**	**165,612**	**19,922**	**1,943**
- of which: sold but not eliminated from the balance sheet	–	–	921	110	274	16
B. **Increases**	**462,731**	**50,259**	**251,679**	**112,893**	**15,161**	**1,034**
B.1 adjustments to impaired assets purchased or originated	–	–	10,937	–	4	–
B.2 other adjustments	68,359	2,119	113,009	39,563	247	2
B.3 losses on disposal	–	–	–	–	–	–
B.4 transfers from other categories of impaired exposures	135,956	16,967	8,305	1,215	23	–
B.5 contractual amendments not resulting in derecognition	–	–	–	–	–	–
B.6 other increases	258,416	31,173	119,428	72,115	14,887	1,032
C. **Decreases**	**296,680**	**10,918**	**285,418**	**69,725**	**14,653**	**2,065**
C.1 write-backs on valuation	33,958	4,001	12,869	3,415	44	16
C.2 write-backs due to collections	51,200	5,856	45,792	11,126	1,637	626
C.3 gains on disposal	–	–	–	–	–	–
C.4 write-offs	211,420	4	229	–	–	–
C.5 transfers to other categories of impaired exposures	–	–	134,524	16,870	9,760	97
C.6 contractual amendments not resulting in derecognition	–	–	213	213	–	–
C.7 other decreases	102	1,057	91,791	38,101	3,212	1,326
D. **Total closing adjustments**	**1,721,031**	**112,123**	**579,483**	**208,780**	**20,430**	**912**
- of which: sold but not eliminated from the balance sheet	–	–	1.440	268	141	–

A.2 Classification of exposures based on external and internal ratings

Exposure	External rating classes						Unrated	Total 31/12/2018
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. **Financial assets measured at amortised cost**	**5,240,175**	**1,499,141**	**981,403**	**354,975**	**59,556**	**2,981**	**29,954,254**	**38,092,485**
- First stage	5,240,175	1,498,790	950,463	241,403	17,985	417	23,236,763	31,185,996
- Second stage	–	351	30,928	111,149	39,594	42	2,586,518	2,768,582
- Third stage	–	–	12	2,423	1,977	2,522	4,130,973	4,137,907
B. **Financial assets measured at fair value through other comprehensive income**	**3,690,242**	**154,749**	**364,460**	**108,047**	**1,901**	**–**	**1,996**	**4,321,395**
- First stage	3,690,242	154,749	356,781	108,047	1,901	–	1,996	4,313,716
- Second stage	–	–	7,679	–	–	–	–	7,679
- Third stage	–	–	–	–	–	–	–	-
Total (A+B)	**8,930,417**	**1,653,890**	**1,345,863**	**463,022**	**61,457**	**2,981**	**29,956,250**	**42,413,880**
of which: impaired financial assets purchased or originated	–	–	–	–	–	–	306,795	306,795
C. **Commitments to make loans and financial guarantees given**								
- First stage	34,487	455,508	506,301	179,693	8,059	738	17,957,260	19,142,046
- Second stage	6	1,075	40,074	24,899	12,313	1,835	2,100,833	2,181,035
- Third stage	–	2,000	94	7,552	–	–	375,449	385,095
Total (C)	**34,493**	**458,583**	**546,469**	**212,144**	**20,372**	**2,573**	**20,433,542**	**21,708,176**
Total (A+B+C)	**8,964,910**	**2,112,473**	**1,892,332**	**675,166**	**81,829**	**5,554**	**50,389,792**	**64,122,056**

The distribution of exposures other than those in variable-yield securities is reported by classes that reflect the long-term rating awarded to them by leading international agencies, as held in the Group's database.

The risk classes for external ratings indicated in this table refer to the classes of debtor credit-worthiness mentioned in the prudent supervisory regulations. The following is a reconciliation of these rating classes and the ratings issued by the agencies appointed by the Bank. Specifically, the ratings issued by DBRS are used for exposures to governments and central banks, while those of Standard & Poor's and FitchRatings are used for other exposures.

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
DBRS Limited	from AAA to AAL	from AH to AL	from BBBH to BBBL	from BBH to BBL	from BH to BL	CCC
Standard & Poor's Rating Services	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB	from B+ to B-	from CCC+ down
Fitch Ratings	from AAA to AA-	from A+ to A-	from BBB+ to BBB-	from BB+ to BB-	from B+ to B-	from CCC+ down

A.2.2 Consolidation for supervisory purposes: distribution of financial assets, commitments to make loans and financial guarantees given by internal rating class (gross values)

Tables analysing the distribution of financial assets, commitments to make loans and financial guarantees of Banca Popolare di Sondrio by internal rating class are shown in the notes to the financial statements.

Banca Popolare di Sondrio (Suisse) SA has its own customer rating system, which it only applies to customer loans. This system splits the loan book into 11 different risk categories. The first category identifies customers with the lowest risk, while the categories from R6 to R8 indicate various levels of insolvency, depending on how serious it is.

CUSTOMERS – Exposures	Rating 1	Rating 2	Rating 3	Rating 3G	Rating 4
A. **Financial assets measured at amortised cost**	**664**	**572,978**	**556,987**	**2,050,676**	**429,469**
- First stage	664	572,086	554,060	2,040,679	428,744
- Second stage	–	892	2,927	9,997	725
- Third stage	–	–	–	–	–
B. **Financial assets measured at fair value through other comprehensive income**	**–**	**–**	**–**	**–**	**–**
- First stage	–	–	–	–	–
- Second stage	–	–	–	–	–
- Third stage	–	–	–	–	–
Total (A+ B)	**–**	**–**	**–**	**–**	**–**
of which: impaired financial assets purchased or originated	–	–	–	–	–
C. **Commitments to make loans and financial guarantees given**	**–**	**205**	**21**	**56,813**	**8,967**
- First stage	–	205	21	56,813	8,967
- Second stage	–	–	–	–	–
- Third stage	–	–	–	–	–
Total (C)	**–**	**205**	**21**	**56,813**	**8,967**
Total (A+ B + C)	**664**	**573,183**	**557,008**	**2,107,489**	**438,436**

Note that the Bank does not use these internal rating when calculating the capital requirements for certain portfolios, but applies the so-called «standardised approach», which requires the use of ratings issued by external agencies.

A.3 Distribution of guaranteed credit exposures by type of guarantee

Cash loans shown in the «Net exposure» column are stated net of specific and portfolio adjustments. Exposures are classified between «fully guaranteed» and «partially guaranteed» by comparing the gross exposure with the value of the contractual guarantee. The amounts shown in columns «guarantees» refer to the actual value of the collateral (so-called «fair value»), which can be much higher than the amount guaranteed: this means that the real value of the guarantees may exceed that shown in the table.

Internal rating classes							Total
Rating 4G	Rating 5	Rating 6	Rating 6G	Rating 7	Rating 8	Unrated	**31/12/2018**
83,332	**15,430**	**15,733**	**20,242**	**15,096**		**521**	**3,761,130**
–	–	–	–	–		361	3,596,594
83,332	–	–	–	–		161	98,034
–	15,430	15,733	20,242	15,096		–	66,501
–	**–**	**–**	**–**	**–**		**–**	**–**
–	–	–	–	–		–	–
–	–	–	–	–		–	–
–	–	–	–	–		–	–
–	**–**	**–**	**–**	**–**		**–**	**–**
–	–	–	–	–		–	–
53	**–**	**–**	**–**	**–**		**138,734**	**204,793**
–	–	–	–	–		138,734	204,740
53	–	–	–	–		–	53
–	–	–	–	–		–	–
53	**–**	**–**	**–**	**–**		**138,734**	**204,793**
83,386	**15,430**	**15,733**	**20,242**	**15,096**		**139,255**	**3,965,923**

A.3.1 Consolidation for supervisory purposes – Guaranteed on- and off-balance sheet exposures to banks

	Gross exposure	Net exposure	Secured guarantees (1) Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed on-balance sheet exposures:**	**113,433**	**113,367**	**–**	**–**	**–**	**39,793**
1.1. fully guaranteed	87,243	87,203	–	–	–	39,793
- of which: impaired	–	–	–	–	–	–
1.2. partially guaranteed	26,190	26,164	–	–	–	–
- of which: impaired	–	–	–	–	–	–
2. **Guaranteed off-balance sheet exposures:**	**21,793**	**21,793**	**–**	**–**	**1,968**	**–**
2.1. fully guaranteed	2,295	2,295	–	–	1,281	–
- of which: impaired	–	–	–	–	–	–
2.2. partially guaranteed	19,498	19,498	–	–	687	–
- of which: impaired	–	–	–	–	–	–

A.3.2 Consolidation for supervisory purposes - Guaranteed on- and off-balance sheet exposures to customers

	Gross exposure	Net exposure	Secured guarantees (1) Buildings mortgaged	Buildings under finance lease	Securities	Other secured guarantees
1. **Guaranteed on-balance sheet exposures:**	**20,444,893**	**18,975,157**	**12,094,026**	**–**	**1,851,563**	**1,769,510**
1.1. fully guaranteed	19,480,056	18,120,771	12,083,482	–	1,738,109	1,717,019
- of which: impaired	2,848,603	1,552,080	1,333,442	–	10,055	19,934
1.2. partially guaranteed	964,837	854,386	10,544	–	113,454	52,491
- of which: impaired	182,673	76,217	9,801	–	9,951	1,161
2. **Guaranteed off-balance sheet exposures:**	**3,659,414**	**3,649,386**	**425,594**	**23,548**	**112,196**	**111,378**
2.1. fully guaranteed	3,044,498	3,035,861	423,417	23,548	74,867	82,897
- of which: impaired	115,456	109,059	24,736	–	1,164	1,427
2.2. partially guaranteed	614,916	613,525	2,177	–	37,329	28,481
- of which: impaired	29,379	28,450	–	–	489	9,433

Personal guarantees (2)										
Credit derivatives										
		Other derivatives			Guarantees given					
CLN	Central Counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**	
–	**–**	**–**	**–**	**–**	**32**	**–**	**67,353**	**–**	**107,178**	
–	–	–	–	–	32	–	47,378	–	87,203	
–	–	–	–	–	–	–	–	–	–	
–	–	–	–	–	–	–	19,975	–	19,975	
–	–	–	–	–	–	–	–	–	–	
–	**–**	**–**	**–**	**–**	**17,468**	**–**	**1,257**	**–**	**20,693**	
–	–	–	–	–	–	–	1,013	–	2,294	
–	–	–	–	–	–	–	–	–	–	
–	–	–	–	–	17,468	–	244	–	18,399	
–	–	–	–	–	–	–	–	–	–	

Personal guarantees (2)										
Credit derivatives										
		Other derivatives			Guarantees given					
CLN	Central Counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	**Total (1)+(2)**	
–	**–**	**–**	**–**	**–**	**203,813**	**56,903**	**276,875**	**2,412,647**	**18,665,337**	
–	–	–	–	–	105,961	54,890	254,432	2,065,482	18,019,375	
–	–	–	–	–	6,509	286	15,768	148,053	1,534,047	
–	–	–	–	–	97,852	2,013	22,443	347,165	645,962	
–	–	–	–	–	2,642	–	5,396	37,874	66,825	
–	**–**	**–**	**–**	**–**	**12,848**	**154,658**	**43,834**	**2,498,839**	**3,382,895**	
–	–	–	–	–	3,829	149,841	41,594	2,180,381	2,980,374	
–	–	–	–	–	172	–	347	78,971	106,817	
–	–	–	–	–	9,019	4,817	2,240	318,458	402,521	
–	–	–	–	–	395	–	20	13,184	23,521	

A.4 Consolidation for supervisory purposes - Financial and non-financial assets obtained by enforcing guarantees received

	Credit exposure cancelled	Gross value	Total writedowns	Book value	of which obtained during the year
A. **Property, equipment and investment property**	**45,321**	**39,917**	**–**	**39,917**	**39,917**
A.1. For business purposes	45,321	39,917	–	39,917	39,917
A.2. For investment purposes	–	–	–	–	–
A.3. Inventories	–	–	–	–	–
B. **Variable-yield securities and fixed-yield securities**	**8,532**	**7,929**	**–**	**7,929**	**7,929**
C, **Other assets**	**65,472**	**57,481**	**2,007**	**55,474**	**47,032**
D. **Non-current assets and disposal groups held for sale**	**–**	**–**	**–**	**–**	**–**
D.1. Property, equipment and investment property	–	–	–	–	–
D.2. Other assets	–	–	–	–	–
Total 31/12/2018	**119,325**	**105,327**	**2,007**	**103,320**	**94,878**

B. Distribution and concentration of exposure

For the purpose of filling out this section has excluded in the exposures reported in tables A.1.4. and A.1.5., exposures to counterpart risk relating to loans of securities or goods, granted or received.

B.1 Consolidation for supervisory purposes - Distribution by sector of the on- and off-balance sheet exposures to customers

	Public administrations		Financial companies	
Exposures/Counterparties	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **On-balance sheet exposure**				
A.1 Non-performing loans	–	–	6,705	42,219
- of which exposures subject to forbearance	–	–	490	6,035
A.2 Unlikely-to-pay loans	264	134	8,782	13,982
- of which exposures subject to forbearance	–	–	2,395	4,490
A.3 Past due exposures, impaired	3	–	340	26
- of which exposures subject to forbearance	–	–	–	–
A.4 Not impaired exposures	9,796,412	3,485	3,287,294	8,583
- of which exposures subject to forbearance	24,984	15	747	6
Total (A)	**9,796,679**	**3,619**	**3,303,121**	**64,810**
B. **Off-balance sheet credit exposures**				
B.1 Impaired exposures	–	–	599	267
B.2 Not impaired exposures	757,866	9	1,149,371	1,289
Total (B)	**757,866**	**9**	**1,149,970**	**1,556**
Total (A+B) 31/12/2018	**10,554,545**	**3,628**	**4,453,091**	**66,366**
Total (A+B) 31/12/2017	**10,822,733**	**487**	**3,797,876**	**80,943**

The 2017 data is not fully comparable, given the different breakdown required by circular 262 and the different scope of the exposures identified.

Financial companies (of which: insurance companies)		Non-financial companies		Households	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	515,682	1,289,300	238,026	389,512
–	–	44,011	85,942	21,074	20,146
–	–	740,633	470,620	256,411	94,747
–	–	329,845	184,728	79,119	19,562
–	–	46,220	13,835	38,093	6,569
–	–	14,214	549	2,605	364
6,468	4	12,260,817	49,811	8,576,694	37,886
–	–	352,611	9,030	237,170	5,323
6,468	**4**	**13,563,352**	**1,823,566**	**9,109,224**	**528,714**
44	10	312,862	37,871	28,318	1,462
15,268	–	15,560,057	3,960	1,460,865	1,281
15,312	**10**	**15,872,919**	**41,831**	**1,489,183**	**2,743**
21,780	**14**	**29,436,271**	**1,865,397**	**10,598,407**	**531,457**
14,716	**54**	**19,418,113**	**1,904,749**	**7,272,018**	**323,214**

B.2 Consolidation for supervisory purposes - Territorial distribution of on- and off-balance sheet exposures to customers

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **On-balance sheet exposure**				
A.1 Non-performing loans	755,783	1,674,004	4,621	42,663
A.2 Unlikely-to-pay loans	989,827	571,719	16,263	7,764
A.3 Past due exposures, impaired	59,058	14,686	25,582	5,739
A.4 Not impaired exposures	27,952,613	92,562	5,770,780	6,724
Total (A)	**29,757,281**	**2,352,971**	**5,817,246**	**62,890**
B. **Off-balance sheet credit exposures**				
B.1 Impaired exposures	339,791	38,635	2,032	975
B.2 Not impaired exposures	18,223,537	5,815	683,260	703
Total (B)	**18,563,328**	**44,450**	**685,292**	**1,678**
Total (A+B) 31/12/2018	**48,320,609**	**2,397,421**	**6,502,538**	**64,568**
Total (A+B) 31/12/2017	**34,826,849**	**2,238,349**	**6,195,631**	**65,601**

The 2017 data is not fully comparable, given the different scope of the exposures identified

B.3 Consolidation for supervisory purposes - Territorial distribution of on- and off-balance sheet exposures to banks

	ITALY		OTHER EU COUNTRIES	
Exposures/Geographical areas	Net exposure	Total writedowns	Net exposure	Total writedowns
A. **On-balance sheet exposure**				
A.1 Non-performing loans	–	–	–	–
A.2 Unlikely-to-pay loans	–	–	–	–
A.3 Past due exposures, impaired	–	–	–	–
A.4 Not impaired exposures	1,455,898	102	322,200	64
Total (A)	**1,455,898**	**102**	**322,200**	**64**
B. **Off-balance sheet credit exposures**				
B.1 Impaired exposures	–	–	–	–
B.2 Not impaired exposures	167,194	15	121,948	1
Total (B)	**167,194**	**15**	**121,948**	**1**
Total (A+B) 31/12/2018	**1,623,092**	**117**	**444,148**	**65**
Total (A+B) 31/12/2017	**2,069,610**	**–**	**458,256**	**–**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
8	519	–	3,821	1	24
–	–	–	–	–	–
3	1	11	3	2	1
87,634	90	34,477	78	82,141	315
87,645	**610**	**34,488**	**3,902**	**82,144**	**340**
–	–	–	–	–	–
25,753	–	8,474	21	2,403	–
25,753	**–**	**8,474**	**21**	**2,403**	**–**
113,398	**610**	**42,962**	**3,923**	**84,547**	**340**
155,851	**949**	**63,216**	**3,966**	**55,152**	**54**

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
–	–	–	–	(1)	1
–	–	–	–	–	–
–	–	–	–	–	–
20,952	9	3,927	1	1,442	(2)
20,952	**9**	**3,927**	**1**	**1,441**	**(1)**
–	–	–	–	–	–
295	–	6,635	–	1,494	–
295	**–**	**6,635**	**–**	**1,494**	**–**
21,247	**9**	**10,562**	**1**	**2,935**	**(1)**
54,978	**–**	**14,873**	**–**	**4,000**	**–**

B.4 Significant risks

	31/12/2018	31/12/2017
Number of positions	13	12
Exposure	16,116,251	16,653,500
Risk position	3,046,814	2,950,903

The exposure limit of 10% of own funds - the threshold for inclusion of a counterparty in the category of «significant risks» - has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

The above positions include the Republic of Italy (nominal exposure, 8,522 million; risk position, 23 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione e Garanzia - Clearing House (nominal exposure, 1,304 million; risk position, 0 million), principally in relation to lending repo transactions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

C. Securitisation transactions

QUALITATIVE INFORMATION

Within the Group, Prestinuova S.p.a., which was acquired during 2018, has a securitisation transaction for loans against assignment of a fifth of salary.

Objectives, strategies and processes underlying securitisation transactions

At the balance sheet date, the securitisation named Adriano SPV S.r.l. is in place. The transaction was carried out pursuant to Law 130/1999. This securitisation transaction was completed on 1 January 2015 with the transfer of portfolios of loans against the assignment of a fifth of salary/pension paid in favour of private parties by Prestinuova with the simultaneous subscription by the originator of the junior securities issued in proportion to the loans sold for Euro 40 million.

On 1 February 2016, Prestinuova sold an additional Euro 102 million of loans to the SPV Adriano SPV S.r.l. with the simultaneous subscription of an additional Euro 2.1 million of junior securities.

The following ABS securities were issued as part of the entire loan assignment transaction. In detail:

- senior tranche for Euro 367,340 thousand (residual value of Euro 78,765 thousand at 31 December 2018), unrated, with a return indexed to the 3-month Euribor plus 175 bps;
- junior tranche for Euro 42,100 thousand fully subscribed by Prestinuova, unrated, with a yield of 10 bps.

Activities of servicer and arranger.

For the securitisation transaction implemented, the originator Prestinuova signed a specific servicing contract with Adriano SPV S.r.l. for the coordination and supervision of the management, administration and collection of securitised loans, as well as for the recovery activity in the event of default by the debtors. This contract provides for payment of an annual servicing fee.

Zenith Service S.p.A., which had already been appointed back-up servicer, then took over after the Banca Popolare di Vicenza was put into compulsory liquidation.

Accounting treatment of existing positions versus the securitisations

For the securitisation entered into by Prestinuova, given that it did not meet the requirements for derecognition, the residual securitised assets at the reporting date were recognised in the financial statements for the portion referring to the assigned receivables and the corresponding tranches of the ABSs that had been subscribed were reversed.

More specifically, the residual portion of the assigned receivables at the reporting date was recognised under «Financial assets measured at amortised cost - Loans and receivables with customers» and the related liabilities under «Financial liabilities measured at amortised cost - Due to customers», reversing the corresponding portion of ABS securities from this transaction present in the portfolio owned by Prestinuova S.p.a. Against these assets and liabilities, the proceeds and costs accrued during the year were recognised, respectively, under «interest and similar income» and «interest and similar expense», and the securitised loans included once again in the financial statements were remeasured, with the related writedowns being recorded in «net adjustments for credit risk».

Internal measurement systems, risk control and hedging policies

The residual risk which remains with the company in the event of total insolvency of the companies being financed is represented, for its own operations not subject to «recovery» in the financial statements, by the amount of the securities with the highest level of subordination (the junior securities) held in portfolio. The securitisation is monitored periodically with the trend in the key credit and financial variables being checked by the company's staff. With a view to risk control, particular attention is paid to the trend in the so-called trigger ratios, the performance indicators on defaults and delinquents and the excess spread, which represents the remuneration for which the junior securities are held.

At the same time as the ABS securities were issued, a back-to-back interest rate swap (IRS) contract was taken out to protect the SPV from interest rate risk.

QUANTITATIVE INFORMATION

C.1 Consolidation for supervisory purposes - Exposures deriving from the main «own» securitisation transactions broken down by type of securitised assets and by type of exposure

	On-balance sheet exposure					
	Senior		Mezzanine		Junior	
Type of securitised assets/Exposures	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
A. **Fully derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Partially derecognised from the financial statements**	**–**	**–**	**–**	**–**	**–**	**–**
C. **Not derecognised from the financial statements**	**–**	**–**	**–**	**–**	**42,100**	**–**
Loans against assignment of a fifth of salary	–	–	–	–	42,100	–

C.2 Consolidation for supervisory purposes - Exposure deriving from the main securitisation transactions of «third parties» broken down by type of securitised assets and by type of exposure

	On-balance sheet exposure					
	Senior		Mezzanine		Junior	
Type of securitised assets/Exposures	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks	Book value	Writedowns/ writebacks
Bnt Portfolio Spv S.r.l. 15.05.2014/08.02.2042	–	–	-	-	–	-
Mortgage loans	35,516	–	-	-	–	-
Alba 6 Spv 27.06.2014/25.10.2045	–	–	-	-	–	-
Lease contracts	227,858	54	-	-	–	-

The note linked with the securitisation by Bnt Portfolio Spv S.r.l. is classified among the financial assets mandatorily measured at fair value through profit and loss. That fair value is indicated in the «Book value» column.

C.3 Consolidation for supervisory purposes – Interests in special purpose securitisation vehicles

Name	Registered offices	Consolidation	Loans
Alba 6 Spv S.r.l.	Conegliano (TV)	NO	339,119
Bnt Portfolio Spv S.r.l.	Conegliano (TV)	NO	205,854
Adriano Spv S.r.l.	Milan (MI)	YES	108,892

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–

Guarantees given						Credit lines					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks	Net exposure	Writedowns/ writebacks
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-

Assets		Liabilities		
Fixed-yield securities	Other	Senior	Mezzanine	Junior
–	13,445	227,915	–	75,168
–	17,775	304,780	–	–
–	31,198	78,765	–	42,100

C.4 Consolidation for supervisory purposes – Non-consolidated special purpose vehicle for securitisation

The SPV Alba 6 Spv S.r.l. and BNT Portfolio Spv S.r.l. have not been consolidated as there are not the requirements of IFRS 10.

C.6 Consolidation for supervisory purposes - Consolidated special purpose vehicle for securitisation

The following table shows the ABS securities issued for the Adriano SPV S.r.l. securitisation.

SPV	ISIN Code	Class of security	Type	Subscription date
ADRIANO SPV	IT0005082240	Class A1	Senior	20/01/15
	IT0005170466	Class A2	Senior	29/12/16
	IT0005082257	Class B1	Junior	20/01/15
	IT0005170474	Class B2	Junior	29/12/16

The following table shows the value of securitised loans at 31 December 2018, broken down by status.

Categories	Gross loans	Adjustments	Net loans	Proportion of gross loans	% hedging	Proportion of net loans
Impaired loans	1,747	347	1,400	1.53%	19.86%	1.23%
Unlikely-to-pay loans	1,187	313	874	1.04%	26.37%	0.77%
Past due and/or overdrawn exposures	560	34	526	0.49%	6.07%	0.46%
Performing loans	112,436	421	112,015	98.47%	0.37%	98.77%
Total	**114,183**	**768**	**113,415**	**–**	**–**	**–**

Expiration date	Type of rate	Indexing	Rate	Coupon start date	Coupon end date	Nominal value at 31/12/2018
30/10/32	Floating	Euribor90gg+1.75	1.75%	31/10/18	31/01/19	50,867,980
30/10/32	Floating	Euribor90gg+1.75	1.75%	31/10/18	31/01/19	27,897,043
30/10/32	Floating	Flat	0.10%	31/10/18	31/01/19	40,000,000
30/10/32	Floating	Flat	0.10%	31/10/18	31/01/19	2,100,000

D. Disposals

A. Financial assets sold and not eliminated from the balance sheet

QUANTITATIVE INFORMATION

D.1 Consolidation for supervisory purposes - Financial assets sold and recognised in full and associated financial liabilities: book value

	Financial assets sold and recognised in full				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which: impaired	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements
A. **Financial assets held for trading**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	–
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
4. Derivatives	–	–	–	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	–
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–	–	–	–
2. Loans	–	–	–	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**101**	**–**	**101**	**–**	**(100)**	**–**	**(100)**
1. Fixed-yield securities	101	–	101	–	(100)	–	(100)
2. Variable-yield securities	–	–	–	–	–	–	–
3. Loans	–	–	–	–	–	–	–
E. **Financial assets measured at amortised cost**	**228,863**	**113,415**	**115,448**	**1,400**	**(147,514)**	**(47,480)**	**(100,034)**
1. Fixed-yield securities	115,448	–	115,448	–	(100,034)	–	(100,034)
2. Loans	113,415	113,415	–	1,400	(47,480)	(47,480)	–
Total 31/12/2018	**228,964**	**113,415**	**115,549**	**1,400**	**(147,614)**	**(47,480)**	**(100,134)**
Total 31/12/2017	**484,611**	**–**	**484,611**	**–**	**(456,684)**	**–**	**(456,684)**

These are securities sold under repurchase agreements and securitisations.

D.3 Disposals with recourse limited solely to the assets sold and not eliminated from the balance sheet: fair value

	Recognised in full	Partially recognised	**Total 31/12/2018**	**Total 31/12/2017**
A. **Financial assets held for trading**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
4. Derivatives	–	–	–	–
B. **Other financial assets mandatorily measured at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
C. **Financial assets designated at fair value**	**–**	**–**	**–**	**–**
1. Fixed-yield securities	–	–	–	–
2. Loans	–	–	–	–
D. **Financial assets measured at fair value through other comprehensive income**	**101**	**–**	**101**	**355,482**
1. Fixed-yield securities	101	–	101	355,482
2. Variable-yield securities	–	–	–	–
3. Loans	–	–	–	–
E. **Financial assets measured at amortised cost (fair value)**	**242,725**	**–**	**242,725**	**129,129**
1. Fixed-yield securities	117,180	–	117,180	129,129
2. Loans	125,545	–	125,545	–
Total financial assets	**242,826**	**–**	**242,826**	**484,611**
Total associated financial liabilities	**(147,614)**	**–**	**(147,614)**	**(456,684)**
Net value 31/12/2018	**95,212**	**–**	**95,212**	**–**
Net value 31/12/2017	**27,927**	**–**	**–**	**27,927**

D.4. Covered bond operations

On 6 November 2013, the Board of Directors of the Parent Company authorised a covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond S.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million. A second assignment of performing loans totalling € 202 million took place on 4 December 2015, under the same contract.

Two additional assignments were carried out in 2016. The first, on 1 February 2016, relating to a total portfolio of € 576 million of performing loans in connection with the issue of a second series of covered bonds totalling € 500 million on 4 April 2016. The second, on 1 November 2016, relating to a portfolio of performing loans totalling € 226 million.

A fifth assignment of performing loans for a total of € 307 million took place on 1 October 2017 under the same contract.

A sixth assignment of performing loans for a total of € 323 million took place on 1 October 2018 under the same contract.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as assignments without recourse pursuant to IFRS 9. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue including equipping the Parent Company with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparts involved for various reasons, BDO Italia S.p.A., the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bonds issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, Popso Covered Bond S.r.l., acts as Guarantor:

Series and Class	Series 1
ISIN Code	IT0005039711
Issue date	05/08/2014
Maturity Date	05/08/2019
Extended maturity	05/08/2020
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	1.375%
Coupon	Annual
Applicable law	Italian

Series and Class	Series 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
Coupon	Annual
Applicable law	Italian

1.2 Banking group - Market risk

1.2.1 Interest rate risk and price risk - trading portfolio for supervisory purposes

QUALITATIVE INFORMATION

A. General aspects

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

Factorit S.p.A., Sinergia Seconda S.r.l., Banca della Nuova Terra S.p.A. and PrestiNuova S.p.A. are not exposed to rate and price risk inherent to the trading portfolio, whereas Popso Covered Bond S.r.l., which is consolidated synthetically with the Parent Company, is included in the analysis carried out for the separate financial statements.

The interest rate risk deriving from Banca Popolare di Sondrio (Suisse) SA's trading portfolio relates to investments in forward contracts on exchange rates.

The Swiss subsidiary is not exposed to price risk from the trading portfolio.

B. Management and measurement of interest rate risk and price risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

At a consolidated level, similarly to what exists at an individual level, the internal processes for the measurement, control and management of trading portfolio interest rate risk use two separate monitoring systems that are based respectively on:

- an internal model for the daily calculation of Value at Risk (VaR), which is also used for the analysis of sensitivity to price risk;
- an analysis of sensitivity to interest rate based on the strategic Asset & Liability Management (ALM) methodologies detailed in section 2.2 below (interest rate risk and price risk of the bank book).

As regards the model based on the calculation of VaR, the Bank adopts an overall system of limits on the exposure to risks from financial assets at a consolidated level similar to what was explained in the notes to the separate financial statements, to which reference should be made also for the characteristics of the internal model used for calculating Value at Risk (VaR).

In addition to the financial instruments exposed to price risk included in the Parent Company's trading portfolio for supervisory purposes, for interest rate risk, the model used also covers the subsidiary's forward contracts on exchange rates. As for the Swiss subsidiary's proprietary securities (bonds, shares and funds), they were brought back into the banking scope during the year. The price risk on foreign currency mutual funds also includes exchange risk.

With regard to the methodologies used to aggregate the various risk profiles, the aggregation is determined by calculating the VaR in a manner that takes account of the correlation between risk profiles, rather than by simple summation, such that the overall VaR is usually less than the sum of the partial VaRs.

As regards the second methodology, based on sensitivity analyses carried out through an Asset & Liability Management (ALM) procedure that is explained in the notes to the separate financial statements, the following year-end data relates solely to the fixed-yield securities held in the trading portfolio for supervisory purposes, lending and funding repo transactions (with underlying fixed-yield securities held in the trading portfolio for supervisory purposes), forward exchange-rate contracts, interest-rate options and interest-rate swaps held in the Parent Bank's trading portfolio, as well as the forward exchange-rate contracts of Banca Popolare di Sondrio (SUISSE) SA.

The effect of a change in interest rates of +200 basis points over twelve months on the future interest margin – the difference between the future interest income and the future interest expense – would be 24.481 million, whereas a change in interest rates of -200 basis points would decrease in the interest margin by 2.741 million euro. The effect of an instantaneous change in interest rates by +200 basis points on equity – the difference between the present value of assets and liabilities - would be a loss of 4.128 million, whereas a change in interest rates by -200 basis would result in a profit of 0.974 million euro.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

QUANTITATIVE INFORMATION

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of cash financial assets and liabilities and financial derivatives

Currency: EURO

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**1,258,387**	**–**	**–**	**70,113**	**1,895**	**–**	**–**
1.1 Fixed-yield securities	–	53,958	–	–	70,113	1,895	–	–
- with early repayment option	–	–	–	–	–	1,895	–	–
- other	–	53,958	–	–	70,113	–	–	–
1.2 Other assets	–	1,204,429	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**5,430,321**	**891,541**	**1,479,333**	**988,711**	**368,764**	**263,896**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	5,430,321	891,541	1,479,333	988,711	368,764	263,896	–
- Options	–	1,096	3,479	9,151	168,136	327,428	262,892	–
+ Long positions	–	548	1,742	4,579	84,068	163,714	131,446	–
+ Short positions	–	548	1,737	4,572	84,068	163,714	131,446	–
- Other derivatives	–	5,429,225	888,062	1,470,182	820,575	41,336	1,004	–
+ Long positions	–	3,045,498	609,883	1,060,689	410,288	20,668	502	–
+ Short positions	–	2,383,727	278,179	409,493	410,287	20,668	502	–

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. **Cash assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Fixed-yield securities	–	–	–	–	–	–	–	–
- with early repayment option	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. **Cash liabilities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. **Financial derivatives**	**–**	**3,136,756**	**591,747**	**799,325**	**12,035**	**–**	**–**	**–**
3.1 With underlying security	–	664	–	90	–	–	–	–
- Options	–	664	–	90	–	–	–	–
+ Long positions	–	332	–	45	–	–	–	–
+ Short positions	–	332	–	45	–	–	–	–
- Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	3,136,092	591,747	799,235	12,035	–	–	–
- Options	–	1,125	3,632	8,064	–	–	–	–
+ Long positions	–	563	1,816	4,035	–	–	–	–
+ Short positions	–	562	1,816	4,029	–	–	–	–
- Other derivatives	–	3,134,967	588,115	791,171	12,035	–	–	–
+ Long positions	–	1,232,006	122,179	67,535	6,018	–	–	–
+ Short positions	–	1,902,961	465,936	723,636	6,017	–	–	–

2. Trading portfolio for supervisory purposes: distribution of exposures on variable-yield securities and stock indices by principal listing nation

Type of transaction/ Listing index	Listed						Unlisted
	ITALY	UNITED STATES	UNITED KINGDOM	JAPAN	GERMANY	OTHER COUNTRIES	
A. **Variable-yield securities**							
- long positions	68,419	–	–	–	3,054	11,622	–
- short positions	–	–	–	–	–	–	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
C. **Other derivatives on variable-yield securities**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–
D. **Derivatives on stock indices**							
- long positions	–	–	–	–	–	–	–
- short positions	–	–	–	–	–	–	–

3. Trading portfolio for supervisory purposes - internal models and methodologies for the analysis of sensitivity

Here we show the year-end figures for VaR split between interest rate risk and price risk, and between transactions explicitly foreseen in tables above and other transactions for which the calculation is carried out in any case.

Value at Risk (VaR), end of the year

	(in thousands of euro)
1. **Cash assets**	**1,106**
1.1 Fixed-yield securities	1,075
1.2 Other assets	85
2. **Cash liabilities**	**–**
2.1 Repurchase agreements	–
2.2 Other liabilities	–
3. **Financial derivatives**	**107**
3.1 With underlying security	–
- Options (on variable-yield securities)	–
+ Long positions	–
+ Short positions	–
- Other derivatives	–
+ Long positions	–
+ Short positions	–
3.2 Without underlying security	107
- Opzioni	–
+ Long positions	1
+ Short positions	1
- Other derivatives	107
+ Long positions	489
+ Short positions	519
Total interest rate risk	**1,122**
A. **Variable-yield securities**	**2,783**
- Long positions	2,783
- Short positions	–
B. **Purchase/sale transactions not yet settled in variable-yield securities**	**–**
- Long positions	–
- Short positions	–
C. **Other derivatives on variable-yield securities**	**–**
- Long positions	–
- Short positions	–
D. **Derivatives on stock indices**	**–**
- Long positions	–
- Short positions	–
Total Price risk transactions table 2	**2,783**
Mutual funds	**–**
Forward contracts on other instruments (goods)	**–**
- Long positions	87
- Short positions	87
Options on other instruments (goods)	**–**
- Long positions	–
- Short positions	–
Total Price risk	**2,783**
Total Interest rate risk and price risk	**3,402**

Interest-rate risk

Information on average, minimum and maximum VaR is provided below.

Total Value at Risk (VaR)

	(in thousands of euro)
average	1,116
minimum	48
maximum	3,945

With regard to the distribution of VaR during the year, the average interest rate VaR for each of the twelve months in 2018 is shown below.

January	62
February	73
March	63
April	73
May	1,051
June	2,940
July	1,838
August	1,444
September	1,294
October	1,854
November	1,412
December	1,155

With reference to fixed-yield securities forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 10 out of 255 observations, the number of days on which theoretical losses exceeded VaR was 9 out of 255 observations.

The following are the figures taken from the ALM procedure.

Effects of a change in interest rates by +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

	Change in interest margin				
In thousands of euro	31/12/2018				31/12/2017
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	24,481	24,612	21,619	30,397	28,933
negative parallel shift	-2,741	-3,059	-4,069	-2,334	-4,381
flat rotary shift	45,688	45,912	40,297	56,726	53,874
steep rotary shift	-5,058	-5,567	-7,407	-4,286	-8,041
short-term positive shift	47,342	47,585	41,783	58,777	55,896
short-term negative shift	-5,275	-5,819	-7,744	-4,484	-8,400
long-term positive shift	1,650	1,668	1,482	2,047	1,991
long-term negative shift	-215	-255	-342	-195	-356
medium-term positive shift	3,299	3,337	2,963	4,094	4,004
medium-term negative shift	-430	-510	-684	-390	-713
worst-case scenario	-5,275	-5,819	-7,744	-4,484	-8,400

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

Equity is understood as being the difference between the present value assets and liabilities items.

	Change in equity value				
In thousands of euro	31/12/2018				31/12/2017
Exposure to risk	at period end	average	minimum	maximum	at period end
positive parallel shift	-4,128	-4,315	-7,179	-1,246	-13,372
negative parallel shift	974	2,045	974	3,127	5,242
flat rotary shift	-6,403	-6,764	-9,460	-2,347	-17,359
steep rotary shift	1,772	3,795	1,772	6,182	7,532
short-term positive shift	-7,120	-7,480	-11,539	-2,317	-21,360
short-term negative shift	1,794	3,924	1,794	6,389	7,634
long-term positive shift	-867	-870	-2,441	-26	-4,772
long-term negative shift	175	316	107	1,318	2,947
medium-term positive shift	-1,679	-1,672	-4,640	-16	-9,130
medium-term negative shift	197	411	197	1,410	3,049
worst-case scenario	-7,120	-7,480	-11,539	-2,347	-21,360

Price risk

Information on average, minimum and maximum VaR is provided below.

Price Value at Risk (VaR)

	(in thousands of euro)
average	3,113
minimum	2,079
maximum	4,310

With regard to the distribution of VaR during the year, the average VaR for each month in 2018 is presented below.

January	2,854
February	3,298
March	3,771
April	3,079
May	2,459
June	3,454
July	2,896
August	2,943
September	2,643
October	3,130
November	3,438
December	3,441

With reference to variable-yield securities and mutual funds forming part of the trading portfolio for management purposes, the number of days on which actual losses exceeded VaR was 5 out of 255 observations, the number of days on which theoretical losses exceeded VaR was 5 out of 255 observations.

1.2.2 Interest rate risk and price risk - Bank portfolio

QUALITATIVE INFORMATION

A. General aspects, management and measurement of interest rate risk and price risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

For Factorit S.p.A., the interest rate risk is caused by the different times and methods used in repricing the interest rate on assets and liabilities. The presence of diversified fluctuations in interest rates leads to a variation in the expected interest margin, as well as a change in the present value of the assets and liabilities; this in turn alters the economic value of the items at risk. Note that the characteristics of Factorit's assets and liabilities mean that the impact of a change in market rates on the present value of its assets and liabilities is quite marginal. The high level of rotation of the loans and receivables and the fact that the funding is exclusively short-term, which ensure frequent repricings very close to each other, make it possible to maintain lending and funding terms in line with current market conditions.

Banca della Nuova Terra S.p.A. is exposed to modest interest rate risk, given its current limited operations.

For PrestiNuova S.p.A. the presence of fixed-rate loans, consisting almost entirely of loans from the assignment of a fifth of salary mainly in the medium-long term, and the existence of floating-rate funding, both medium to long term at fixed rate and short term, lead to exposure to interest rate risk in terms of cash flows (impact on net interest income) and in terms of fair value (impact on equity). However, this exposure is limited, given that volumes are not particularly high.

Sinergia Seconda S.r.l. is not exposed to interest rate risk, whereas Popso Covered Bond S.r.l., which is consolidated synthetically with the Parent Company, is included in the analysis carried out for the separate financial statements.

The main source of interest rate risk for Banca Popolare di Sondrio (SUISSE) SA consists of fixed-interest mortgage loans, fixed-yield securities attributable to «other financial assets mandatorily measured at fair value» and sight deposits, but with appropriate modelling of the maturities.

From a Group perspective, the internal processes for measuring, controlling and managing the interest rate risk of the banking portfolio make use of two separate monitoring systems managed by the Parent Company, using an integrated database at consolidated level, based respectively on:

- an internal model for the daily calculation of Value at Risk (VaR), which is also used for the analysis of sensitivity to price risk;
- an analysis of sensitivity to interest rate risk based on the strategic Asset & Liability Management (ALM) methodologies.

The daily calculation of VaR is used to monitor the consolidated financial assets classified as «other financial assets mandatorily measured at fair value», the «financial assets measured at fair value through other comprehensive income» and the «financial assets measured at amortised cost», excluding the investments made by the pension and real estate funds; the related process of internal control and management of interest rate risk and price risk is similar to that detailed in the notes to the separate financial statements.

The analysis of sensitivity using strategic ALM methodologies, as discussed in the notes to the separate financial statements, the internal processes for the management and control of interest-rate risk at a consolidated level are based on a system of thresholds, as defined in the consolidated Risk Appetite Framework. The exposure to interest rate risk on the banking book measured by the first indicator is monitored through the attribution of a value limit to the percentage ratio between the amount of capital needed to cover the risk obtained through Sensitivity Analysis in Full Evaluation, at inertial conditions, with simulation of a parallel movement of the reference curves equal to +/- 200 basis points and the total of Tier 1 capital. The exposure to interest rate risk, on banking and trading portfolios, measured by the second indicator is monitored by attributing a value limit to the percentage ratio between the maximum potential reduction in net interest income over a time horizon of one year obtained through Repricing Analysis, under static conditions with constant volumes, simulating a parallel movement of the reference curves of +/- 200 basis points and the expected interest margin over the same period.

Monitoring of these indicators is done monthly.

The process of monitoring interest-rate risk in relation to the bank book is supported by the preparation of suitable internal information, covering both the situation at specific dates and trends. This information is provided to the competent bodies and functions, either on request or with a fixed frequency, together with the risk analyses and measurements carried out.

The various stress testing activities are discussed in the corresponding section of the notes to the financial statements of the Parent Bank.

The source of price risk for Banca Popolare di Sondrio (SUISSE) SA lies in variable-yield securities and mutual funds shown under «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income».

The measurement and control of price risk essentially involves application of the Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

With regard to the monitoring of investments, the model used covers the equity investments of the Parent Company, excluding investments in Banca Popolare di Sondrio (SUISSE) SA, Factorit S.p.A., Popso Covered Bond S.r.l., Sinergia Seconda S.r.l., Banca della Nuova Terra S.p.A. and PrestiNuova S.p.A.; in addition, this includes the variable-yield security held by the Swiss subsidiary and classified as «equity investments», as well as the two variable-yield securities belonging to Sinergia Seconda S.r.l., also classified under «equity investments».

QUANTITATIVE INFORMATION

1. Bank book: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: OTHER CURRENCIES

Type/Residual duration	Sight	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
3. **Financial derivatives**	**–**	**228.681**	**277.034**	**55.471**	**261.248**	**3.194**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	228,681	277,034	55,471	261,248	3,194	–	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
Other	–	228,681	277,034	55,471	261,248	3,194	–	–
+ Long positions	–	176,724	236,090	–	–	–	–	–
+ Short positions	–	51,957	40,944	55,471	261,248	3,194	,	–
4. **Other off-balance sheet transactions**	**11,846**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
+ Long positions	5,923	–	–	–	–	–	–	–
+ Short positions	5,923	–	–	–	–	–	–	–

2. Bank book: internal models and other methodologies for the analysis of sensitivity

Interest-rate risk

The following information is taken from the ALM procedures of the Parent Company.

Effects of a change in interest rates by +/-200 basis points over a twelve-month period on the future interest margin.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

The future interest margin is understood as being the difference between the future interest income and the future interest expense, based solely on transactions outstanding at the reference date, possibly renewed with the same volumes.

In thousands of Exposure to risk	Change in interest margin 31/12/2018 at period end	 average	 minimum	 maximum	 31/12/2017 at period end
positive parallel shift	59,297	57,538	21,498	88,127	1,382
negative parallel shift	4,218	4,370	2,936	5,143	4,464
flat rotary shift	111,762	109,661	42,200	166,488	4,494
steep rotary shift	8,035	8,299	5,560	9,757	8,433
short-term positive shift	117,643	115,165	46,447	173,978	6,229
short-term negative shift	8,316	8,582	5,742	10,086	8,733
long-term positive shift	5,715	5,473	2,379	7,864	1,752
long-term negative shift	168	166	80	229	195
medium-term positive shift	11,571	10,723	4,811	15,073	3,441
medium-term negative shift	444	448	304	531	491
worst-case scenario	168	166	80	229	195

Effects of a change in interest rates of +/-200 basis points on equity.

The scenarios explained below, while retaining the intensity of changes in interest rates, reflect different movements of yield curves: parallel, rotary, short-term, medium-term and long-term. This is in line with what is described in the document containing the Standards for risk in the banking book interest rate issued by the Basel Committee in April 2016.

Equity is understood as being the difference between the present value assets and liabilities items.

In thousands of euro Exposure to risk	Change in equity value 31/12/2018 at period end	 average	 minimum	 maximum	 31/12/2017 at period end
positive parallel shift	-72.543	-54.957	-109.619	26.201	-4.772
negative parallel shift	-100,134	-82,740	-108,756	-62,084	-149,607
flat rotary shift	-242,157	-190,603	-250,326	-88,250	-112,487
steep rotary shift	-92,428	-69,935	-92,428	-51,830	-163,664
short-term positive shift	-200,327	-163,593	-241,740	-39,920	-81,427
short-term negative shift	-123,572	-109,747	-139,986	-89,926	-220,810
long-term positive shift	93,090	88,675	61,920	132,611	104,441
long-term negative shift	-101,711	-83,930	-109,836	-63,198	-105,025
medium-term positive shift	223,200	220,322	174,549	297,057	253,663
medium-term negative shift	-124,857	-108,480	-136,774	-88,088	-150,321
worst-case scenario	-242,157	-190,603	-250,326	-89,926	-220,810

With respect to fixed-yield securities classified as «financial assets mandatorily measured at fair value», «financial assets measured at fair value through other comprehensive income» and «financial assets measured at amortised cost», information on the average, minimum and maximum VaR is given below.

Interest rate Value at Risk (VaR)

	(in thousands of euro)
average	73,261
minimum	17,392
maximum	234,220

With regard to the distribution of VaR during the year, the average VaR for each month in 2018 is presented below.

January	28,111
February	24,146
March	22,799
April	21,083
May	61,081
June	198,874
July	120,225
August	78,544
September	70,053
October	101,029
November	81,323
December	65,538

Price risk

With reference to the closing date, we report above all the VaR figures of variable-yield securities (shares and mutual funds) classified as «other financial assets mandatorily measured at fair value» or «financial assets measured at fair value through other comprehensive income», net of any investments servicing pensions and similar obligations of employees and real estate funds, as well as the figure for investments.

Value at Risk (VaR), end of the year

	(in thousands of euro)
Variable-yield securities	3,417
Mutual funds	1,369
Total	**4,320**
Equity investments	**6,118**

The following information is provided about the average, minimum and maximum VaR regarding the variable-yield securities (shares and mutual funds) classified among the «other financial assets mandatorily measured at fair value» and the «financial assets measured at fair value through other comprehensive income», excluding any relevant investments by the pension and real estate funds.

Price Value at Risk (VaR)

	(in thousands of euro)
average	3,175
minimum	2,366
maximum	4,363

With regard to the distribution of VaR during the year, the average VaR for each month in 2018 is presented below.

January	2,646
February	2,974
March	3,144
April	2,719
May	2,874
June	3,668
July	3,320
August	3,113
September	2,705
October	3,488
November	3,340
December	4,147

1.2.3 Exchange risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of exchange risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

Exchange risk is marginal for Factorit S.p.A., given the company's policy of systematic hedging of foreign currency amounts. This risk exists principally, though for limited volumes, in the case of: fee and interest income not offset by interest expense in a currency other than the euro; guarantees in foreign currencies versus operations in euro. Sinergia Seconda S.r.l., Popso Covered Bond S.r.l., Banca della Nuova Terra S.p.A. and PrestiNuova S.p.A. are not exposed to exchange rate risk, as they have no assets or liabilities in foreign currency.

Except with regard to securities held in its proprietary portfolio, Banca Popolare di Sondrio (SUISSE) SA enters into currency transactions to satisfy customers' requirements and to cover transitory treasury mismatches.

The measurement and control of exchange risk - with reference to the situation at year end - essentially involves application of the Parent Company's internal model for the calculation of Value at Risk (VaR) with the characteristics described in the corresponding section of the notes to the separate financial statements.

In particular, the model used covers the financial instruments exposed to exchange risk included in the Parent Company's investment book and all assets and liabilities in foreign currency (excluding gold), on and off the balance sheet, pertaining to the subsidiaries, which are shown on table 1 below, excluding mutual funds in foreign currency, whose exchange risk is included in price risk. Any intercompany transactions are eliminated.

The forward contracts on exchange rates and variable-yield securities are treated analytically, whereas the overall difference of the other items by individual currency is treated as a deposit (positive or negative) with a maturity of one day.

B. Hedging of exchange risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

The activities of the subsidiary are consistent with those of the Parent Company.

The subsidiary's Exchange Office administers the positions and matches the exchange risk in the interbank market, while maintaining residual exposures within the limits established in the internal regulations.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by foreign currency

	Currency					
Items	US Dollars	Sterling	Japanese Yen	Swiss Francs	Canadian Dollars	Other currencies
A. **Financial assets**	**590,246**	**75,253**	**23,775**	**4,530,708**	**18,361**	**66,994**
A.1 Fixed-yield securities	31,037	–	–	5,660	–	–
A.2 Variable-yield securities	24,684	–	–	1,363	–	–
A.3 Loans to banks	225,471	73,522	18,542	37,103	17,074	63,785
A.4 Loans to customers	308,775	1,635	5,228	3,884,024	1,287	3,195
A.5 Other financial assets	279	96	5	602,558	–	14
B. **Other assets**	**6,098**	**1,902**	**560**	**50,145**	**197**	**2,104**
C. **Financial liabilities**	**734,633**	**80,603**	**23,302**	**2,346,185**	**22,452**	**73,830**
C.1 Due to banks	233,135	6,619	236	661,029	2,379	11,152
C.2 Due to customers	501,497	73,984	23,066	1,665,498	20,073	62,678
C.3 Fixed-yield securities	–	–	–	19,658	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. **Other liabilities**	**10,740**	**991**	**–**	**228,498**	**–**	**454**
E. **Financial derivatives**	**2,096,115**	**245,800**	**100,197**	**1,891,999**	**16,075**	**194,183**
- Options	12,776	–	421	–	–	–
+ long positions	6,580	–	210	–	–	–
+ short positions	6,196	–	210	–	–	–
- Other derivatives	2,083,339	245,800	99,777	1,891,999	16,075	194,183
+ long positions	1,125,469	125,349	48,079	20,468	10,072	100,743
+ short positions	957,870	120,451	51,697	1,871,531	6,003	93,441
Total assets	**1,728,393**	**202,505**	**72,624**	**4,601,321**	**28,630**	**169,840**
Total liabilities	**1,709,439**	**202,044**	**75,210**	**4,446,214**	**28,455**	**167,724**
Net balance (+/-)	**(18,954)**	**(461)**	**2,586**	**(155,107)**	**(175)**	**(2,116)**

2. Internal models and other methodologies for the analysis of sensitivity

Value at Risk (VaR), end of the year

	(in thousands of euro)
Fixed-yield securities	301
Variable-yield securities	38
Net balance between other assets and liabilities	14,190
Financial derivatives	11,981
- Options	–
+ Long positions	56
+ Short positions	56
- Other derivatives	11,981
+ Long positions	11,118
+ Short positions	18,919
Total transactions table 1	**2,398**
- Interest Rate Swap	114
+ Long positions	2,789
+ Short positions	2,902
Total	**2,284**
Details of the principal currencies	
US Dollars	151
Sterling	–
Japanese Yen	6
Swiss Francs	2,215
Canadian Dollars	–
Other currencies	1
Total	**2,284**

Information on average, minimum and maximum VaR is provided below.

Exchange rate Value at Risk (VaR)

	(in thousands of euro)
average	2,478
minimum	1,267
maximum	4,227

With regard to the distribution of VaR during the year, the average VaR for each month in 2018 is presented below.

January	2,640
February	2,813
March	2,543
April	2,170
May	2,397
June	2,508
July	1,865
August	2,296
September	2,855
October	2,860
November	2,444
December	2,352

1.3 Derivative instruments and related hedging policy

1.3.1. Trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: notional values at period end

Underlying assets/Type of derivative	Total 31/12/2018				Total 31/12/2017			
	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**	**–**	**–**	**2,401,230**	**–**	**–**	**–**	**2,213,345**	**–**
a) Options	–	–	24,346	–	–	–	24,366	–
b) Swaps	–	–	2,376,884	–	–	–	2,188,979	–
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**	**–**	**–**	**4,170,072**	**–**	**–**	**–**	**3,995,174**	**–**
a) Options	–	–	26,646	–	–	–	65,741	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	4,143,426	–	–	–	3,929,433	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**9,368**	**–**	**–**	**–**	**17,095**	**–**
5. **Other underlying assets**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**6,580,670**	**–**	**–**	**–**	**6,225,614**	**–**

A.2 Financial trading derivatives: gross positive and negative fair value - breakdown by product

Types of derivatives	Total 31/12/2018				Total 31/12/2017			
	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	–	–	487	–	–	–	1,297	–
b) Interest rate swap	–	–	12,299	–	–	–	12,297	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	18,621	–	–	–	83,473	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	261	–	–	–	917	–
Total	**–**	**–**	**31,668**	**–**	**–**	**–**	**97,984**	**–**
2. **Negative fair value**								
a) Options	–	–	451	–	–	–	1,219	–
b) Interest rate swaps	–	–	11,787	–	–	–	12,853	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forwards	–	–	44,720	–	–	–	16,291	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	253	–	–	–	896	–
Total	**–**	**–**	**57,211**	**–**	**–**	**–**	**31,259**	**–**

A.3 OTC Financial trading derivatives – notional values, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	2,175,615	2,845	222,769
- positive fair value	–	6,281	18	6,103
- negative fair value	–	11,787	–	87
2) **Variable-yield securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	3,576,464	66,100	526,487
- positive fair value	–	15,125	763	3,118
- negative fair value	–	39,296	2,458	3,331
4) **Commodities**	**–**			
- notional value	–	4, 684	–	4,684
- positive fair value	–	9	–	252
- negative fair value	–	246	–	7
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
2) **Variable-yield securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Commodities**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–

A.4 Residual life of OTC financial derivatives: notional values

Underlyings/residual life	Within 12 months	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on fixed-yield securities and interest rates	1,099,424	1,233,831	67,973	2,401,228
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
A.3 Financial derivatives on currency and gold	4,158,037	12,035	–	4,170,072
A.4 Financial derivatives on commodities	8,848	520	–	9,368
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2018	**5,266,309**	**1,246,386**	**67,973**	**6,580,668**
Total 31/12/2017	**4,009,472**	**1,277,441**	**938,701**	**6,225,614**

1.3.2. Accounting hedges

QUALITATIVE INFORMATION

A. Fair value hedges

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements. Significant loans with similar characteristics granted by the subsidiary Banca Popolare di Sondrio (SUISSE) SA are normally hedged against interest rate risk by arranging interest-rate swaps (IRS) via the Parent Company.
Note that the Group has opted to continue applying IAS 39.

B. Cash flow hedges

The Group has not arranged any cash-flow hedges.

C. Hedges of foreign investments

The Group did not carry out any hedges of foreign investments.

QUANTITATIVE INFORMATION

A. Financial hedging derivatives

A.1 Financial hedging derivatives: notional values at period end

	Total 31/12/2018				Total 31/12/2017			
	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
1. **Fixed-yield securities and interest rates**	**–**	**–**	**412,814**	**–**	**–**	**–**	**560,747**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	412,814	–	–	–	560,747	–
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	**–**	**–**	**412,814**	**–**	**–**	**–**	**560,747**	**–**

A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by product

	Positive and negative fair value								Change in the amount used to calculate the effectiveness of the hedge	
	Total 31/12/2018				**Total 31/12/2017**					
	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	**Total 31/12/2018**	**Total 31/12/2017**
Positive fair value										
a) Options	–	–	–	–	–	–	–	–	–	–
b) Interest rate swap	–	–	–	–	–	–	–	–	–	–
c) Cross currency swaps	–	–	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–	–	–
e) Forward	–	–	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Negative fair value										
a) Options	–	–	–	–	–	–	–	–	–	–
b) Interest rate swap	–	–	16,826	–	–	–	22,468	–	–	–
c) Cross currency swaps	–	–	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–	–	–
e) Forward	–	–	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–	–	–
Total	**–**	**–**	**16,826**	**–**	**–**	**–**	**22,468**	**–**	**–**	**–**

A.3 OTC Financial hedging derivatives – notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other parties
Contracts which are not part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	412,814	–	–
- positive fair value	–	–	–	–
- negative fair value	–	16,826	–	–
2) **Variable-yield securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Other assets**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) **Other**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
Contracts which are part of settlement agreements				
1) **Fixed-yield securities and interest rates**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
2) **Variable-yield securities and stock indices**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4) **Other assets**				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–

A.4 Residual life of OTC financial hedging derivatives: notional amounts

Underlyings/residual life	Within 12 months	1 to 5 years	Over 5 years	**Total**
A.1 Financial derivatives on fixed-yield securities and interest rates	148,372	261,248	3,195	412,815
A.2 Financial derivatives on variable-yield securities and stock indices	–	–	–	–
A.3 Financial derivatives on currency and gold	–	–	–	–
A.4 Financial derivatives on commodities	–	–	–	–
A.5 Other financial derivatives	–	–	–	–
Total 31/12/2018	**148,372**	**261,248**	**3,195**	**412,815**
Total 31/12/2017	**156,384**	**351,735**	**52,628**	**560,747**

1.3.3. Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central Counterparties	Banks	Other financial companies	Other parties
A. **Financial derivatives**				
1) **Fixed-yield securities and interest rates**				
- notional value	–	2,588,429	2,845	222,769
- net positive fair value	–	6,281	18	6,103
- net negative fair value	–	28,613	–	87
2) **Variable-yield securities and stock indices**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
3) **Currency and gold**				
- notional value	–	3,576,464	66,100	526,487
- net positive fair value	–	15,125	763	3,118
- net negative fair value	–	39,296	2,458	3,331
4) **Commodities**				
- notional value	–	4,684	–	4,684
- net positive fair value	–	9	–	252
- net negative fair value	–	246	–	7
5) **Other**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
B. **Credit derivatives**				
1) **Purchase of protection**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–
2) **Sale of protection**				
- notional value	–	–	–	–
- net positive fair value	–	–	–	–
- net negative fair value	–	–	–	–

1.4 Banking group - Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management and measurement of liquidity risk

Information on the Parent Company is provided in the corresponding section of the notes to the separate financial statements.

The Group's overall strategy for managing liquidity risk, with its low propensity for risk, consists of giving priority to matching assets and liabilities, taking a prudent approach, while at the same time pursuing reasonable levels of profitability.

The coverage of expected liquidity requirements is checked and monitored on a continuous basis and a timely action is taken in the markets to ensure the appropriate availability of funds.

In this context, the Parent Company acts as the subsidiary's counterparty of choice in the raising of funds and in the investment of any cash surpluses.

The liquidity reserves in the form of assets eligible as collateral at the European Central Bank are mostly held by the Parent Company; the total value of the assets in question, net of haircuts, amounted to Euro 11,924 million, also including securities only temporarily held as collateral for repurchase agreements (Euro 1,050 million). Of the 11,924 million total, 6,827 were free and 5,096 used as collateral or pledged (including 1,451 million of A.Ba.Co. receivables).

As regards the Swiss subsidiary, it holds a bond portfolio mainly composed of securities eligible as collateral at the European Central Bank.

The Parent Company monitors liquidity risk at consolidated level on a daily basis.

The subsidiaries control this type of risk by using adequate monitoring tools according to the type of operations that they carry on; in the case of Banca Popolare di Sondrio (Suisse) SA, they comply with the rules laid down by the Swiss Supervisory Authority.

We would emphasise that the following information, taken together with that shown in part B Liabilities Section 1 Table 1.5 of the Parent Company's financial statements, complies with the requirements of IFRS 7.39.

QUANTITATIVE INFORMATION

1. Distribution by residual duration of financial assets and liabilities

Currency: EURO

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**5,311,066**	**1,706,517**	**484,381**	**735,999**	**1,489,602**	**1,246,764**	**2,944,343**	**12,549,309**	**6,783,710**	**487,851**
A.1 Government securities	-	-	1,781	1,680	12,372	6,359	1,599,822	6,060,053	2,156,000	-
A.2 Other fixed-yield securities	187	-	-	340	3,895	12,648	14,312	428,591	578,403	395
A.3 Mutual funds	381,754	-	-	-	-	-	-	-	-	-
A.4 Loans	4,929,125	1,706,517	482,600	733,979	1,473,335	1,227,757	1,330,209	6,060,665	4,049,307	487,456
- Banks	247,690	25,494	31,138	12,869	28,449	3,699	11,734	266	-	469,600
- Customers	4,681,435	1,681,023	451,462	721,110	1,444,886	1,224,058	1,318,475	6,060,399	4,049,307	17,856
B. **Cash liabilities**	**25,794,820**	**172,550**	**39,078**	**226,680**	**471,754**	**260,179**	**803,507**	**6,205,238**	**113,618**	**-**
B.1 Deposits and current accounts	25,635,020	172,500	38,996	91,288	396,289	176,279	100,566	33,381	-	-
- Banks	302,576	13,861	13,881	84,120	43,846	-	-	30,000	-	-
- Customers	25,332,444	158,639	25,115	7,168	352,443	176,279	100,566	3,381	-	-
B.2 Fixed-yield securities	81,216	44	82	25,271	65,240	81,630	590,101	1,509,933	81,922	-
B.3 Other liabilities	78,584	6	-	110,121	10,225	2,270	112,840	4,661,924	31,696	-
C. **Off-balance sheet transactions**	**6,188,079**	**364,393**	**264,042**	**3,443,574**	**1,484,942**	**1,618,739**	**2,199,529**	**305,272**	**536,519**	**-**
C.1 Financial derivatives with exchange of capital	-	349,670	214,521	1,276,481	1,007,459	657,875	365,049	11,681	-	-
- Long positions	-	116,354	73,996	518,608	307,119	70,156	39,521	5,841	-	-
- Short positions	-	233,316	140,525	757,873	700,340	587,719	325,528	5,840	-	-
C.2 Financial derivatives without exchange of capital	24,728	-	-	-	-	-	-	-	-	-
- Long positions	12,631	-	-	-	-	-	-	-	-	-
- Short positions	12,097	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	6,163,351	14,723	49,521	2,167,093	477,483	960,864	1,834,480	293,591	536,519	-
- Long positions	3,246	9,648	36,263	2,137,605	406,131	898,993	1,815,507	290,085	536,519	-
- Short positions	6,160,105	5,075	13,258	29,488	71,352	61,871	18,973	3,506	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Line item B.1 – Deposits and current accounts reports due to banks and customers allocated to the specific line items.

The breakdown by maturity is based on the residual life of assets and liabilities, being the difference between the balance sheet date and the maturity dates of each transaction. In the event of repayment plans, the residual maturity of each payment has been considered. Mutual funds are conventionally assigned to the «sight» segment. The deposit with the Bank of Italy as a compulsory reserve is shown under loans and receivables with banks within unspecified duration. Impaired loans are allocated to the pertinent time bands on the basis of forecasts for the recovery of the underlying cash flows made by the Group for financial statement purposes. Irrevocable commitments to make loans include all of the irrevocable commitments, whether or not certain to be called on, relating to lines of credit granted to banks and customers.

1. Distribution by residual duration of financial assets and liabilities

Currency: OTHER CURRENCIES

Items/Time bands	Sight	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. **Cash assets**	**293,629**	**171,990**	**154,712**	**185,749**	**351,988**	**326,472**	**320,966**	**1,636,789**	**1,015,909**	**-**
A.1 Government securities	-	-	-	2,600	5,212	-	-	9,860	481	-
A.2 Other fixed-yield securities	-	-	-	2,601	-	4,333	3,966	5,861	-	-
A.3 Mutual funds	24,336	-	-	-	-	-	-	-	-	-
A.4 Loans	269,293	171,990	154,712	180,548	346,776	322,139	317,000	1,621,068	1,015,428	-
- Banks	96,674	106,181	106,183	56,946	42,388	719	2,551	-	-	-
- Customers	172,619	65,809	48,529	123,602	304,388	321,420	314,449	1,621,068	1,015,428	-
B. **Cash liabilities**	**2,335,510**	**82,063**	**235,347**	**36,051**	**123,076**	**80,301**	**93,185**	**74,006**	**259,807**	**-**
B.1 Deposits and current accounts	2,335,473	82,063	235,214	35,958	122,051	74,224	68,922	55,499	259,527	-
- Banks	193,168	81,181	232,773	18,021	61,334	16,873	940	55,385	259,527	-
- Customers	2,142,305	882	2,441	17,937	60,717	57,351	67,982	114	-	-
B.2 Fixed-yield securities	37	-	133	93	1,025	6,077	24,263	18,507	280	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. **Off-balance sheet transactions**	**12,233**	**360,280**	**232,285**	**1,463,054**	**1,266,331**	**767,166**	**463,982**	**12,036**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	360,059	232,217	1,462,184	1,264,350	764,595	460,224	12,036	-	-
- Long positions	-	238,396	147,718	845,817	818,822	626,030	370,222	6,018	-	-
- Short positions	-	121,663	84,499	616,367	445,528	138,565	90,002	6,018	-	-
C.2 Financial derivatives without exchange of capital	61	91	58	375	1,293	2,558	3,758	-	-	-
- Long positions	31	-	-	-	-	-	-	-	-	-
- Short positions	30	91	58	375	1,293	2,558	3,758	-	-	-
C.3 Deposits and loans to be received	4,796	-	-	-	-	-	-	-	-	-
- Long positions	2,398	-	-	-	-	-	-	-	-	-
- Short positions	2,398	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to make loans	7,376	130	10	495	688	13	-	-	-	-
- Long positions	3,525	-	-	-	-	-	-	-	-	-
- Short positions	3,851	130	10	495	688	13	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5 Banking group - Operational risks

QUALITATIVE INFORMATION

A. General aspects, management and measurement of operational risk

The operational risk represents the risk of suffering losses from the inadequacy or malfunctioning of procedures, human resources and internal systems, or from external events.

This category also includes losses caused by fraud, human error, operational interruptions, system downtime, contractual non-performance and natural catastrophes; the scope of operational risk includes legal risk and IT risk, but excludes strategic and reputational risks.

«Section 4 - Operational Risks» in the Separate Financial Statements of the Parent Company Banca Popolare di Sondrio explains the system of operational risk management adopted at Group level, which is applied by the subsidiaries, each in proportion to the nature and size of its activity.

QUANTITATIVE INFORMATION

The most significant impact in absolute terms is the losses recorded in connection with violations of regulatory provisions and/or the adoption of improper commercial and market practices, mainly in the form of prudent provisions set aside for legal and conduct-related disputes.

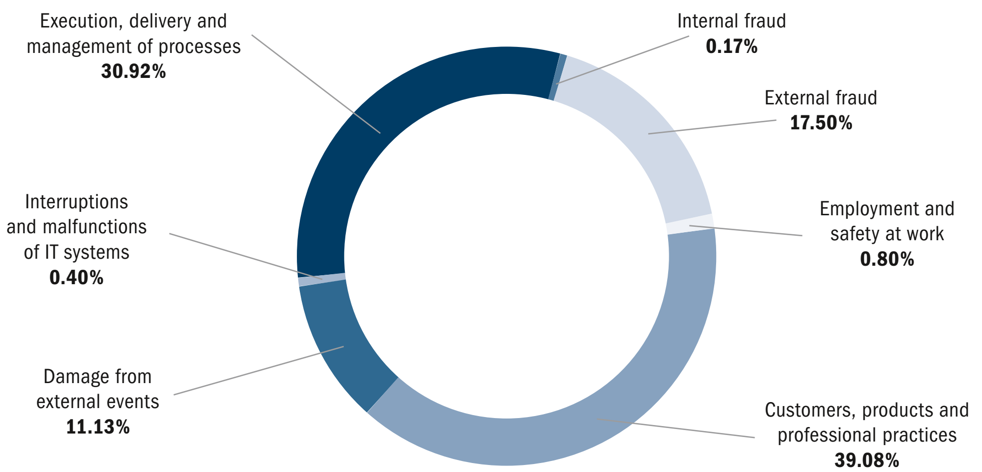
Total operational losses also include the effect of errors in the performance of daily activities, especially in the execution of transactions or in the context of relations with counterparties other than customers, as well as those deriving from exogenous events, such as counterfeiting / fraudulent collection of cheques and the theft / loss / cloning of payment cards, which are generally mitigated by dedicated insurance policies.

The following chart shows the operational losses recognised by the Group over the past five years (2014 – 2018) as part of the Loss Data Collection process, using the regulatory classification for operational risk events (Event type):

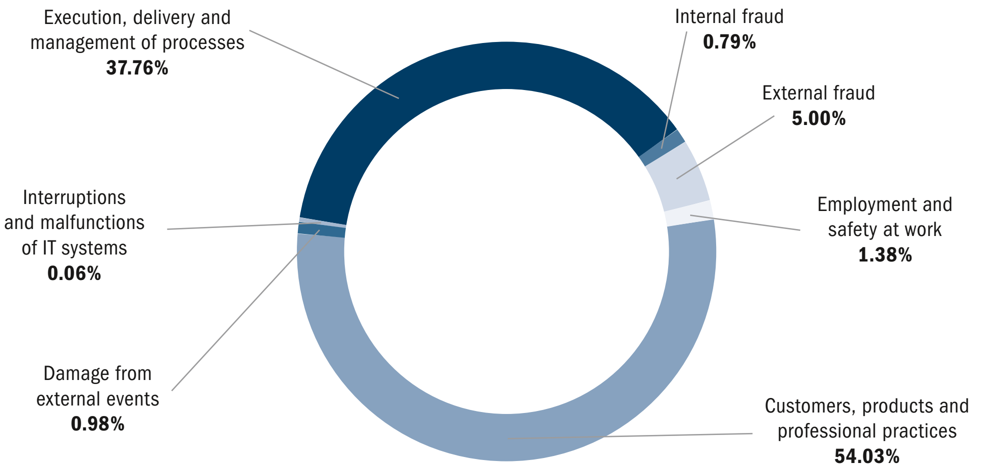
- Internal fraud – Events involving fraud, embezzlement or circumvention of the law by the Bank's own staff to obtain personal benefits that involve damage (in the form of monetary losses) that would be borne by the Bank.
- External fraud – Events of fraud, embezzlement or circumvention of the law by external/ third parties to obtain personal benefits that involve damage to the Bank.
- Employment and safety at work – Events attributable to acts that do not comply with the law or agreements on employment, health and safety at work.
- Customers, products and professional practices - Events due to non-compliance/ negligence in the application of laws, codes, rules of conduct and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models.
- Damage from external events - Events involving damage or destruction of property due to accidents, natural disasters or other vandalism.
- Operational interruptions and system malfunctions - Events due to interruptions or malfunctions of the Bank's IT systems (hardware/software).
- Execution, delivery and management of processes - Events due to errors, shortages and unintentional delays in the execution of daily operations, in the management of processes and relationships with counterparties other than customers (e.g. commercial counterparties, suppliers of goods and services).

Banca Popolare di Sondrio – Sources of operational losses (accounting period: 01/01/2014 - 31/12/2018)

Number of operational loss events - breakdown by Event Type



Impact of the events of operational losses - Breakdown by Event Type



1.6 Banking group – Sovereign risk

Information on exposure to sovereign debt

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

In this regard we communicate that the overall exposure of the Banking Group as at 31/12/2018 amounted to € 10,187 million and was structured as follows:

a) Government securities: € 9,722 million;

b) Securities of other issuers: € 73 million;

c) Loans to government departments: € 56 million;

d) Loans to state-owned or local government-owned enterprises: € 297 million;

e) Loans to other public administrations and miscellaneous entities: € 39 million.

PART F *Information on consolidated equity*

Section 1 *Consolidated capital*

A. QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for the Group to absorb any losses without prejudicing the rights of depositors, bearing in mind that the existence of losses also affects its reputation.

The need for adequate capital has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery.

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of Banca Popolare di Sondrio features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

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

The crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit S.p.A. with a view to providing specialist tools in support of the real economy. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

The Extraordinary Meeting held on 28 April 2018 authorised the Board of Directors to increase capital for payment, with the exclusion of pre-emption rights, by a maximum of € 40 million in order to service the acquisition of the majority of the share capital of Cassa di Risparmio Cento S.p.a. On 30 October 2018, Banca Popolare di Sondrio, Fondazione Cassa di Risparmio di Cento and Holding CR Cento S.p.A have signed the final contract for the acquisition of the majority of the share capital of Cassa di Risparmio di Cento.

The responsibilities that the bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

ESMA (European Securities and Markets Authority) with document 725/2012 of 12 November, noting that the market value of many listed companies was less than their book value because of the current economic situation, recommended that they should carry out impairment tests as required by IAS 36. The Parent Company decided to carry out a second-level impairment test applied to the entire corporate structure rather than the individual asset by comparing the recoverable amount of the Group with the book value of shareholders' equity at 31/12/2018. The method used to estimate the recoverable amount is the Dividend Discount Model (DDM), which assumes that the value of the Group is equal to the sum of the dividends distributed to the shareholders over a chosen planning horizon (2019-2023), while maintaining an adequate level of capitalisation for expected future development and assuming a rate of the dividend growth after the explicit planning period of 2% per year and a cost of capital used to discount future dividends of 9.65%. The test carried out by the Corporate Finance Department in conjunction with the Planning and Control Department showed that the Group was worth more than its consolidated equity.

The Group's value in use amounted to € 3,876 million, with a surplus over its consolidated equity of € 1,225 million.

B. QUANTITATIVE INFORMATION

The component parts and size of the Parent Company's capital and equity are described in Part B, Sections 15 and 16 of these notes to the financial statements.

B.1 Consolidated equity: breakdown by type of business

Items/Amounts	Consolidation for supervisory purposes	Insurance companies	Other businesses	Consolidated eliminations and adjustments	**Total**
1. **Share capital**	**1,393,746**	**–**	**–**	**–**	**1.393.746**
2. **Share premium reserve**	**83,363**	**–**	**–**	**–**	**83.363**
3. **Reserves**	**1,180,447**	**–**	**2,450**	**29,864**	**1,212,761**
4. **Equity instruments**	**–**	**–**	**–**	**–**	**–**
5. **(Treasury shares)**	**(25,375)**	**–**	**–**	**–**	**(25,375)**
6. **Valuation reserve**	**(34,458)**	**–**	**192**	**(320)**	**(34,586)**
- Variable-yield securities measured at fair value through other comprehensive income	21,427	–	–	–	21,427
- 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	–	–	–	–	-
- Property, equipment and investment property	–	–	–	–	-
- Intangible assets	–	–	–	–	-
- Hedges of foreign investments	–	–	–	–	-
- Cash-flow hedges	–	–	–	–	-
- Hedging instruments (non-designated elements)	–	–	–	–	-
- Exchange differences	–	–	–	–	-
- Non-current assets and disposal groups held for sale	–	–	–	–	-
- Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)	–	–	–	–	-
- Actuarial profits (losses) related to defined-benefit pension plans	(55,885)	–	–	–	(55,885)
- Portions of valuation reserves related to subsidiaries carried at equity	–	–	–	(320)	(320)
- Special revaluation regulations	–	–	192	–	192
7. **Profit (loss)**	**105,621**	**–**	**(829)**	**9,170**	**113,962**
Total	**2,703,344**	**–**	**1,813**	**38,714**	**2,743,871**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Values	Consolidation for supervisory purposes		Insurance companies		Other		Consolidated eliminations and adjustments		**Total 31/12/2018**	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	39,494	(79,698)	–	–	–	–	–	–	39,494	(79,698)
2. Variable-yield securities	97,624	(35,993)	–	–	–	–	–	–	97,624	(35,993)
Mutual funds	–	–	–	–	–	–	–	–	–	-
3. Loans	–	–	–	–	–	–	–	–	–	-
Total 31/12/2018	**137,118**	**(115,691)**	**–**	**–**	**–**	**–**	**–**	**–**	**137,118**	**(115,691)**
Total 31/12/2017	**80,837**	**(1,733)**	**–**	**–**	**–**	**–**	**–**	**–**	**80,837**	**(1,733)**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
Opening balance at 31/12/2017	**26,375**	**50,987**	**1,742**	**–**
FTA IFRS 9 Effect	**9,500**	**–**	**(1,742)**	**–**
1. **Opening balance**	**35,875**	**50,987**	**–**	**–**
2. **Positive changes**	**1,988**	**46,637**	**–**	**–**
2.1 Increases in fair value	1,500	46,637	–	–
2.2 Adjustments for credit risk	468	–	–	–
2.3 Transfer to income statement of negative reserves from disposals	20	–	–	–
2.4 Transfer to other components of equity (variable-yield securities)	–	–	–	–
2.5 Other changes	–	–	–	–
3. **Negative changes**	**78,067**	**35,993**	**–**	**–**
3.1 Reductions in fair value	58,676	35,993	–	–
3.2 Write-backs for credit risk	4,438	–	–	–
3.3 Transfer to income statement from positive reserves: from disposals	13,973	–	–	–
3.4 Transfer to other components of equity (variable-yield securities)	–	–	–	–
3.5 Other changes	980	–	–	–
4. **Closing balance**	**(40,204)**	**61,631**	**–**	**–**

B.4 Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans has a negative balance of € 55.885 million.

This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Section 2 *Capital and capital adequacy ratios*

2.1 Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36 EU (CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

While the CRR Regulation is directly applicable in national law, the CRD IV Directive was implemented by Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to Own Funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the EU instructions.

2.2 Bank own funds

QUALITATIVE INFORMATION

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds comprise:

- Tier 1 Capital;
- Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:

- Common Equity Tier 1 - CET1;
- Additional Tier 1 – AT1.

The Tier 1 capital (CET1) is made up of the following positive and negative components:

- Share capital;
- Share premium reserve;
- Retained earnings;
- Negative valuation reserves - OCI;
- Other reserves;
- Previous CET 1 instruments subject to transitional instructions (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

Additional Tier 1 capital (AT1) consists of the following positive and negative components:

- Equity instruments and related premiums;
- Previous AT1 instruments subject to transitional instructions (grandfathering);
- Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:

- Equity instruments, subordinated loans and related premiums;
- Previous T2 instruments subject to transitional instructions (grandfathering);
- Deductions.

The supervisory regulations envisaged a transition period, still in progress, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

Following the entry into force of the ECB Regulation, since October 2016 larger banks have to include in or deduct from CET 1, respectively, their unrealised gains and losses arising from exposures to EU central administration classified in the portfolio measured at FVOCI (formerly AFS). The transition period prior to supervisory recognition of profits and losses on securities allocated to the portfolio of «Financial assets measured at fair value through other comprehensive income» ended at the start of 2018, with the consequence that these amounts are now added to/deducted from CET1 capital.

Following the introduction of the new IFRS 9, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, an additional amount in the calculation of their CET1 capital aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of the new standard. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 95% in 2018 to 25% in 2022, until it is completely eliminated in 2023. The expected impact on capital ratios calculated under the transitional (or «Phased in») rules is therefore more limited.

QUANTITATIVE INFORMATION

	31/12/2018	31/12/2017
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,652,172**	**2,644,205**
of which: CET1 instruments subject to transitional arrangements	–	–
B.1 **Prudential filters of CET1 (+/-)**	**–**	**–**
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,652,172**	**2,644,205**
D. **Elements to be deducted from CET1**	**50,121**	**23,711**
E. **Transitional instructions - Impact on CET1 (+/-), including minority interest subject to transitional instructions**	**33,645**	**17,012**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,635,696**	**2,637,506**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions**	**9,042**	**8,758**
of which: AT1 instruments subject to transitional instructions	–	–
H. **Elements to be deducted from AT1**	**–**	**–**
I. **Transitional instructions – Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions**	**–**	**- 1,752**
L. **Total Additional Tier 1 - AT1 (G - H +/- I)**	**9,042**	**7,006**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions**	**350,838**	**445,237**
of which: T2 instruments subject to transitional instructions	–	*11,677*
N. **Elements to be deducted from T2**	**14,715**	**21,365**
O. **Transitional instructions – Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional instructions**	**–**	**37,888**
P. **Total Tier 2 - T2 (M - N +/- O)**	**336,123**	**461,760**
Q. **Total Own funds (F + L + P)**	**2,980,861**	**3,106,272**

The composition of own funds takes account of the profit for the period, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

2.3 Capital adequacy

QUALITATIVE INFORMATION

The Basel 3 regulations establish the following minimum ratios for banking groups:

- CET 1 ratio of 4.50%;
- Tier 1 ratio of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions are provided for:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; currently this is not being implemented in Italy but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;

- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significant may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;
- Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which on a fully phased basis (January 2019) shall be as follows:

- CET 1 ratio of 7%;
- Tier 1 ratio of 8.5%;
- Total Capital Ratio of 10.5%.

Reduced coefficients applied in 2018, which was the final year of the transition phase.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

The European Central Bank used its powers and in November 2017 communicated the Supervisory Board's decision concerning the minimum capital requirements to be maintained at a consolidated level in 2018:

- a minimum requirement of Common Equity Tier 1 ratio of 8.375%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.875%), and an additional Second Pillar requirement (2%);
- a minimum requirement of Total Capital Ratio of 11.875%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.875%) and an additional Second Pillar requirement (2%).

Indeed, on the basis of the evidence collected as part of the Supervisory Review and Evaluation Process (SREP), it is up to the ECB to set the capital ratios and/or cash ratios for each intermediary under its direct supervision, as well as an indication of further qualitative and quantitative considerations and recommendations: similar activities are also carried out by the Bank of Italy for the smaller banks that are under its direct supervision.

On 5 February 2019 the European Central Bank sent the bank the decision of the Supervisory Board with respect to the new minimum ratios to be applied with effect from 1 March, for the year 2019. The new minimum capital levels required of our Banking Group are:

- a minimum requirement of Common Equity Tier 1 ratio of 9.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (2.25%);
- a minimum requirement of Total Capital Ratio of 12.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (2.25%).

While the first two items of each index shown above are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

At 31 December 2018, the Group expressed the following coefficients:

- CET 1 Capital ratio 12.03%;
- Tier 1 Capital ratio 12.07%;
- Total Capital ratio 13.61%.

The leverage ratio required by Basel 3, calculated as the ratio of Tier 1 to total on- and off-balance sheet assets, is 5.85% applying the transitional criteria in force for 2018 and 5.78% under the definitive criteria.

B. QUANTITATIVE INFORMATION

	Unweighted amounts		Weighted amounts/ requirements	
Categories/Amounts	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
A. **Assets at risk**				
A.1 Credit and counterparty risk	–	–	–	–
1. Standardised approach	41,553,294	41,699,814	19,868,036	19,972,641
2. Approach based on internal ratings	–	–	–	–
2.1 Basic	–	–	–	-
2.2 Advanced	–	–	–	-
3. Securitisations	263,375	350,784	234,064	311,964
B. **Capital adequacy requirements**				
B.1 Credit and counterparty risk	–	–	1,608,168	1,622,768
B.2 Loan adjustment risk	–	–	864	2,088
B.3 Regulation risks	–	–	–	–
B.4 Market risks	–	–	–	–
1. Standard methodology	–	–	18,827	55,228
2. Internal models	–	–	–	-
3. Concentration risk	–	–	–	-
B.5 Operational risk	–	–	–	–
1. Basic method	–	–	–	138,930
2. Standardised approach	–	–	124,760	-
3. Advanced method	–	–	–	-
B.6 Other calculation elements	–	–	–	-
B.7 Total precautionary requirements	–	–	1,752,618	1,819,014
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets	–	–	21,907,727	22,737,670
C.2 CapitCommon Equity Tier 1/Risk-weighted assets (CET1 capital ratio)	–	–	12.03	11.60
C.3 Tier 1 capital/ Risk-weighted assets (Tier 1 capital ratio)	–	–	12.07	11.63
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)	–	–	13.61	13.66

PART G Operations of business divisions

Section 1 Operations realised during the year

Business combination: Acquisition of Prestinuova S.p.a.

Description of the transaction

The acquisition by the Parent Company Banca Popolare di Sondrio S.c.p.a. of the majority holding of Prestinuova S.p.a., equal to 100% of the capital, took effect on 23 July 2018.

The company was wholly owned by Banca Popolare di Vicenza S.p.a. in compulsory liquidation. The amount recognized for the acquisition amounted to Euro 53.370 million.

The relevant figures relating to the business combination are shown below (in thousands of euro).

Name	Date of the transaction (a)	Cost of the transaction	Holding acquired (b)	Total revenues (c)	Profit/loss of the Company (d)
Prestinuova S.p.A	23/07/2018	53,370	100%	4,788	1,899

Key:
(a) Date of control acquisition.
(b) Percentage of holding with voting rights at Ordinary Shareholders' Meeting.
(c) Total income (line item 120 of the income statement) at 30 June 2018.
(d) Profit/loss of the subsidiary at 30 June 2018.

Accounting for the transaction

IFRS 3 «Business combinations» is the reference standard for the accounting of acquisition of Prestinuova S.p.a. in the consolidated financial statements of the Banca Popolare di Sondrio Group. This standard defines a business combination as a transaction or other event in which a buyer acquires control over one or more businesses and consolidates the assets, liabilities and contingent liabilities of the company acquired at their respective fair values as of the acquisition date, including any identifiable intangible assets not recognised in the financial statements of the acquired company.

According to IFRS 3, all business combination must be accounted for on the basis of the Acquisition Method. The application of this method requires four steps:

- Identification of the purchaser;
- Determination of the acquisition date;
- Identification and measurement of acquired assets, liabilities assumed and non-controlling interests;
- Identification and measurement of goodwill and realized profit.

IFRS 3 requires that at the acquisition date, the buyer identifies, the assets acquired, the liabilities assumed and the non-controlling interests separately from goodwill.

This standard requires that the acquisition has to take place on the date when the purchaser effectively obtains control over the business acquired. In the case in question, the date of the acquisition is 23 July 2018.

At the acquisition date, the buyer must recognise, classify and measure the assets, liabilities and non-controlling interests acquired as part of the business combination, separately from goodwill.

On that date, the buyer must identify goodwill as the difference between the total amount reported in the following point (a) and the amount indicated in point (b)

a) The sum of:
- Paid consideration expressed at fair value;
- Value of non-controlling interests;
- Fair value of the investment already held by the purchaser in the case of business combinations carried out in stages;

b) The net fair value of the identifiable assets acquired and the identifiable liabilities assumed.

In any case, IFRS 3 allows that the definitive accounting of the business combination can be carried out within twelve months from the acquisition date. Specifically, paragraph 45 of IFRS 3 provides that in the event that «at the end of the year in which a business combination takes place, the initial accounting of the combination is incomplete, the purchaser still has to recognise in its financial statements provisional figures for the elements whose accounting is incomplete. During the evaluation period, the purchaser must recognize additional assets or liabilities. During the evaluation period, the buyer must also recognize additional assets or liabilities. However, the valuation period must not last for more than one year from the date of acquisition».

As mentioned previously, accounting for the business combination requires the measurement of the assets acquired and the liabilities assumed (to the extent that they can be identified) at their respective fair values, including potential liabilities and any identifiable intangible assets not recognised in the financial statements of the acquired company. What remains after this allocation has to be recorded as goodwill, which represents a payment made by the buyer in anticipation of future economic benefits deriving from assets that cannot be identified individually and recorded separately.

After initial recognition in the consolidated interim financial report at 30 September 2018 of provisional goodwill for Euro 13.7 million, in the months following the acquisition the Group carried out the activities needed to determine the fair value of assets and liabilities, which are considered completed with these financial statements. The purchase price was then reconstructed to calculate any goodwill or badwill. The Parent Company purchased the entire investment by subscribing quotas for a total for Euro 53.370 million. In order to determine the fair value of the assets and liabilities involved in the acquisition, the situation of Prestinuova S.p.a. at 30 June 2018 was analysed as follows: most of the assets side consists of receivables (loans against assignment of a fifth of salary), while the rest consists of tax assets, apart from some other minor items. The liabilities side includes the funding, consisting of short-term bank loans and the liability for the assets transferred and not derecognised, which represent the contra-entry of the receivables sold as part of the Adriano SPV securitisation. The latter constitute the bulk of liabilities. As there was no need for certain items in the financial statements (in the case of direct funding from banks, as these are very short-term transactions closed in the first few days of July 2018 at nominal value) or since the effects of the fair value measurement of other balance sheet items were not significant, the main items being valued, which contributed most to the Purchase Price Allocation (PPA) were the receivables and liabilities involved in the securitisation, including the hedging structure.

In light of the analyses performed and the other information taken into consideration, a specific intangible asset was identified for the Client Relationship, represented by all of the contractual dealings which are the essence of relationships with the acquired clientèle.

The following table then reconstructs the calculation of the residual goodwill after the PPA process (in thousands of euro).

Acquisition date	23/07/2018	
Purchase price of 100% of Prestinuova	53,370	A
Net equity value of Prestinuova at 30/06/2018	39,664	B
Difference to be allocated	13,706	C=A-B

	Carrying amount	Fair value	Difference	
Measurement of fifth of salary loans at fair value	250,116	260,958	10,842	D
Measurement of financial assets at fair value	34	29	(5)	E
Measurement of liabilities involved in the securitisation at fair value	201,229	202,376	(1,147)	F
Measurement of the derivative at fair value	99	514	(415)	G
Measurement of intangible asset (customer list)	–	3,873	3,873	H
DTL (tax on FV of assets)	40	4,769	(4,729)	I
DTA (tax on FV of liabilities)	1,276	1,778	502	L
Net fair value of Prestinuova's identifiable assets acquired and identifiable liabilities assumed at 30/06/2018	48,585	M=B+D+E+F+G+H+I+L		
Final goodwill	4,785	N=A-M		

The net fair value of Prestinuova's identifiable assets acquired and identifiable liabilities at 30/06/2018 therefore amounted to Euro 48.585 million. A comparison of this amount with the consideration paid resulted in goodwill of Euro 4.785 million, recorded under item «100. Intangible assets».

PART H *Related party transactions*

1. Information on the remuneration of managers with strategic responsibilities

The emoluments of the directors, the statutory auditors, the general manager and managers with strategic responsibilities is detailed in the following table.

Name and surname	Office	Period in office	Expiry of office	Emoluments for the office held in Banca Popolare di Sondrio	Non-monetary benefits	Bonuses and other incentives	Other emoluments
VENOSTA FRANCESCO	Chairman	01/01/2018-31/12/2018	31/12/2018	250	-	-	35
STOPPANI LINO	Deputy Chairman	01/01/2018-31/12/2018	31/12/2019	136	-	-	14
PEDRANZINI MARIO ALBERTO	Director	01/01/2018-31/12/2018	31/12/2019	150	-	-	129
BIGLIOLI PAOLO	Director	01/01/2018-31/12/2018	31/12/2019	46	-	-	-
CARRETTA ALESSANDRO	Director	01/01/2018-31/12/2018	31/12/2020	30	-	-	-
CORRADINI CECILIA	Director	01/01/2018-31/12/2018	31/12/2019	44	-	-	-
CREDARO LORETTA	Director	01/01/2018-31/12/2018	31/12/2020	50	-	-	-
DEPPERU DONATELLA	Director	01/01/2018-31/12/2018	31/12/2020	35	-	-	-
FALCK FEDERICO	Director	01/01/2018-31/12/2018	31/12/2018	48	-	-	-
FERRARI ATTILIO PIERO	Director	01/01/2018-31/12/2018	31/12/2020	48	-	-	-
FONTANA GIUSEPPE	Director	01/01/2017-31/12/2017	31/12/2017	14	-	-	-
GALBUSERA CRISTINA	Director	01/01/2018-31/12/2018	31/12/2018	50	-	-	-
PROPERSI ADRIANO	Director	01/01/2018-31/12/2018	31/12/2020	47	-	-	-
RAINOLDI ANNALISA	Director	01/01/2018-31/12/2018	31/12/2019	51	-	-	-
ROSSI SERENELLA	Director	01/01/2018-31/12/2018	31/12/2018	47	-	-	-
SOZZANI RENATO	Director	01/01/2017-31/12/2017	31/12/2017	25	-	-	3
TRIACCA DOMENICO	Director	01/01/2018-31/12/2018	31/12/2018	71	-	-	2
FORNI PIERGIUSEPPE	Chairman of the Board of Statutory Auditors	01/01/2018-31/12/2018	31/12/2020	94	-	-	8
DEPPERU DONATELLA	Serving Statutory Auditor	01/01/2017-31/12/2017	31/12/2017	25	-	-	6
VITALI MARIO	Serving Statutory Auditor	01/01/2017-31/12/2017	31/12/2017	24	-	-	8
VITALI LAURA	Serving Statutory Auditor	01/01/2018-31/12/2018	31/12/2020	48	-	-	-
ZOANI LUCA	Serving Statutory Auditor	01/01/2018-31/12/2018	31/12/2020	52	-	-	27
PEDRANZINI MARIO ALBERTO (*)	General Manager	01/01/2018-31/12/2018	-	-	90	80	945
MANAGERS WITH STRATEGIC RESPONSIBILITIES	Deputy General Manager	01/01/2018-31/12/2018	-	-	54	187	923

(*) also Managing Director.

In accordance with the changes introduced by Consob resolution 18049 of 23 December 2011 on the transparency of remuneration, the bank has taken steps to make the Remuneration Report available both at its head office and on its website. This report provides details on the data summarised above. The Remuneration Report also shows the shareholdings of directors, statutory auditors, general manager and managers with strategic responsibilities.

Of the compensation reported at the balance sheet date, emoluments for € 2.765 million have been paid. The column «Emoluments for the office held in Banca Popolare di Sondrio includes € 0.083 million for taking part in committees.

The other emoluments of the general manager and of managers with strategic responsibilities mainly consist of their salaries, while the «Bonuses and other incentives» column shows the variable portion of remuneration.

Expiry of office is the closing date of the financial statements for the last year in office; pursuant to art. 34 and 48 of the Articles of Association, note that directors and statutory auditors remain in office up to the date of the Shareholders' Meeting called to approve those financial statements.

As regards the directors, general manager, managing director and managers with strategic responsibilities, note that there are no stock option plans.

2. Related party disclosures

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

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

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

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

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

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

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	988	6,342	19	25	136	1,257
Statutory auditors	555	149	10	–	354	298
Management	–	842	–	5	406	-
Family members	2,878	11,894	63	51	900	9,541
Subsidiaries	2,832,919	73,189	2,519	277	1,873,929	13,842
Associated companies	626,019	367,971	972	336	143,501	1,233
Other related parties	101,692	28,644	729	37	101,939	26,984

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.A and Banca della Nuova Terra S.p.A, while loans to associated companies relate for € 579 million to Alba Leasing S.p.A; assets with other related parties include loans of € 80 million granted to the affiliate Release S.p.A.

PART L *Segment information*

Segment information has been prepared in compliance with IFRS 8, the which introduction did not involve significant changes in the identification of operating segments or in management reporting methods compared with IAS 14.

Given that the Group's benefits and risks are significantly influenced by differences in the various products and services and only marginally by the territorial distribution of the sales network, the primary segment comprises the Bank's business activities while the secondary segment relates to the geographical areas concerned.

Each sub-segment has been identified based on the nature of the products and services offered and on the type of customer concerned, so that the related risk profile and profitability are sufficiently similar.

Even though this classification reflects the lines of business envisaged under the Standardised Approach for calculating the minimum capital requirement for operational risk, it is based substantially on internal practice for the subdivision of activities used to apply corporate policies and to evaluate their results.

Geographical information is based on the distribution of branches throughout Italy and Switzerland.

A. Primary format

A.1 Distribution by business segment: income statement

The following sub-segments are discussed:

- *Enterprises*: these comprise «non-financial companies» and «family»; the figures shown here relate to credit and loans, deposits, leasing and payment services. Revenues from currency transactions with resident and non-resident customers are also significant to this sub-segment.
- *Individuals and other customers*: these comprise «consumer households», «public administrations», «finance companies» and «non-profit organisations»; the results reported derive from routine transactions with these customers, including the taking of deposits, intermediation in savings transactions, the granting of long-term loans and consumer credit, the provision of collection and payment services, the issue of credit and debit cards and other ancillary functions.
- *Securities*: this sub-segment comprises the results of transactions with customers involving direct trading in, the acceptance of instructions, the placement of financial instruments, insurance and pension productions, and the management of portfolios.
- *Central functions*: this sub-segment reports the results deriving from the management of portfolio own securities and equity investments, currency transactions on own account, and treasury management activities. In addition, it includes certain residual activities not classified elsewhere since the revenues earned are not significant.

The following tables show the pre-tax results of the above sub-segments for 2018 and 2017.

Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment.

This aspect is managed by using a multiple internal transfer rate («treasury pool»), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the «central functions» sub-segment.

Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The «reconciliation» column is used for the tie-in to the financial statements».

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2018**
Interest income	345,260	271,809	–	187,740	804,809	-180,294	624,515
Interest expense	-62,310	-114,977	–	-119,387	-296,674	180,294	-116,380
Net interest income	**282,950**	**156,832**	**–**	**68,353**	**508,135**	**–**	**508,135**
Fee and commission income	150,817	79,387	93,943	12,931	337,078	-932	336,146
Fee and commission expense	-6,365	-8,468	-4,983	-553	-20,369	-116	-20,485
Dividends and similar income	–	–	–	29,097	29,097	–	29,097
Net trading income	–	–	–	19,151	19,151	675	19,826
Net hedging gains (losses)	–	520	–	-615	-95	–	-95
Gains/losses from sales or repurchases	–	–	–	5,486	5,486	–	5,486
Net change in financial assets and liabilities carried at fair value	-5,366	1,733	–	-8,224	-11,857	–	-11,857
Total income	**422,036**	**230,004**	**88,960**	**125,626**	**866,626**	**-373**	**866,253**
Adjustments to the net value of financial assets	-219,730	-19,232	–	-1,190	-240,152	–	-240,152
Net financial income	**202,306**	**210,772**	**88,960**	**124,436**	**626,474**	**-373**	**626,101**
Administrative expenses	-130,753	-170,803	-55,111	-118,728	-475,395	-46,463	-521,858
Provisions for risks and charges	-10,692	98	–	-373	-10,967	–	-10,967
Depreciation and net impairment losses on property, equipment and investment property	-4,284	-6,484	-2,065	-4,882	-17,715	–	-17,715
Amortisation and net impairment losses on intangible assets	-4,548	-7,039	-2,268	-3,419	-17,274	–	-17,274
Other operating income/expense	8,335	5,515	-237	4,390	18,003	46,836	64,839
Net gains (losses) on equity investments	–	–	–	19,903	19,903	–	19,903
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-368	-368	–	-368
Net gains on sales of investments	–	–	–	26	26	–	26
Gross profit	**60,364**	**32,059**	**29,279**	**20,985**	**142,687**	**–**	**142,687**

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 31/12/2017**
Interest income	376,830	301,639	–	164,939	843,408	-211,769	631,639
Interest expense	-76,764	-151,646	–	-125,076	-353,486	211,769	-141,717
Net interest income	**300,066**	**149,993**	**–**	**39,863**	**489,922**	**–**	**489,922**
Fee and commission income	149,745	75,835	88,168	11,513	325,261	-1,208	324,053
Fee and commission expense	-6,340	-7,412	-5,148	35	-18,865	-108	-18,973
Dividends and similar income	–	–	–	5,533	5,533	–	5,533
Net trading income	–	–	–	59,460	59,460	969	60,429
Net hedging gains (losses)	–	872	–	-987	-115	–	-115
Gains/losses from sales or repurchases	–	–	–	95,244	95,244	–	95,244
Net change in financial assets and liabilities carried at fair value	–	–	–	5,761	5,761	–	5,761
Total income	**443,471**	**219,288**	**83,020**	**216,422**	**962,201**	**-347**	**961,854**
Adjustments to the net value of financial assets	-198,831	-32,900	–	-35,802	-267,533	–	-267,533
Net financial income	**244,640**	**186,388**	**83,020**	**180,620**	**694,668**	**-347**	**694,321**
Administrative expenses	-132,972	-164,305	-54,751	-117,196	-469,224	-53,076	-522,300
Provisions for risks and charges	-6,567	3,793	–	1,322	-1,452	–	-1,452
Depreciation and net impairment losses on property, equipment and investment property	-4,634	-6,888	-2,277	-5,146	-18,945	–	-18,945
Amortisation and net impairment losses on intangible assets	-4,608	-7,003	-2,338	-3,320	-17,269	–	-17,269
Other operating income/expense	9,171	6,103	-344	3,923	18,853	53,423	72,276
Net gains (losses) on equity investments	–	–	–	26,517	26,517	–	26,517
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	515	515	–	515
Net gains on sales of investments	–	–	–	17	17	–	17
Gross profit	**105,030**	**18,088**	**23,310**	**87,252**	**233,680**	**–**	**233,680**

A.2 Distribution by business segment: balance sheet

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total 31/12/2018**
Financial assets	16,715,786	11,091,740	–	10,568,672	38,376,198
Other assets	–	–	–	2,390,567	2,390,567
Property, equipment and investment property	56,453	83,232	26,138	162,338	328,161
Intangible assets	4,456	6,549	2,053	20,201	33,259
Financial liabilities	7,468,511	23,534,605	–	6,299,268	37,302,384
Other liabilities	15,563	1,187	–	773,108	789,858
Provisions	109,324	99,377	24,615	58,756	292,072
Guarantees given	2,999,686	330,241	–	100,807	3,430,734
Commitments	13,583,975	2,531,804	42,922	186,057	16,344,758

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total 31/12/2017**
Financial assets	16,637,584	10,918,372	–	12,230,993	39,786,949
Other assets	–	–	–	1,486,495	1,486,495
Property, equipment and investment property	57,683	80,740	25,909	163,158	327,490
Intangible assets	4,508	6,306	2,023	10,883	23,720
Financial liabilities	8,548,227	23,095,912	–	6,248,707	37,892,846
Other liabilities	13,141	390	–	668,844	682,375
Provisions	96,105	102,154	25,147	56,514	279,920
Guarantees given	3,161,032	325,170	–	106,317	3,592,519
Commitments	1,186,122	131,476	28,240	16,662	1,362,500

Summary discussion of results

The results of the various sub-segments are discussed below.

Enterprises: Factorit made an appreciable contribution, with a positive result in this area of Euro 13,431 thousand, even if this was down on the previous year (-26.6%), mainly due to a significant increase in adjustments to financial assets.

This segment contributes 42.3% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 16,716 million and € 7,469 million respectively.

Net adjustments for the impairment of financial assets represent 52.1% of total income, while administrative expenses absorb 31.0%.

Comparison with the prior year shows a significant decrease in the segment result (- Euro 44,666 thousand), mainly because of the Parent Company's contribution with a fall of Euro 40,501 thousand, attributable above all to a combination of following factors:

- a significant reduction in net interest income (-6.05%), due to a marked contraction in funding spreads, where volumes are considerable, not offset by a slight improvement in deposits spreads, which show more limited volumes;
- substantial stability of commission flows (+0.5%), where there has been a significant increase in fees for collections and payments;
- marked increase in adjustments to financial assets (+11.1%), due to an increase in provisions and a decrease in writebacks not fully offset by good results in terms of out-of-period income;
- a slight decrease in administrative expenses (-1.0%, of which other costs -1.4%, personnel expenses -0.5%);
- significant increase in net provisions for risks and charges, like in the previous year (+62.7%).

Individuals and other customers: the Swiss subsidiary's contribution was decisive, with a positive result of Euro 27,275 thousand in this area, even if lower than the previous year (-9.5%), mainly due to a significant increase in adjustments to financial assets.

This segment contributes 22.5% of overall results.

Loans (financial assets) and direct deposits (financial liabilities) amount to € 11,092 million and € 23,535 million respectively.

With respect to total income, net adjustments for the impairment of financial assets represent 8.4% of the total, while administrative expenses absorb 74.3%.

Comparison with the previous year shows a significant improvement in the sector result (+ Euro 13,971 thousand), influenced by the positive performance of the Parent Company which, while largely offsetting the contraction in the results of the Swiss subsidiary and

Factorit, posted an increase of Euro 23,639 thousand, mainly thanks to synergies between the following factors:

- a significant increase in net interest income (+8.8%), due to the significant improvement in funding spreads, where there are the largest volumes, and an increase, albeit to a lesser extent, in lending spreads, where volumes are much lower;
- significant growth in commission flows (+6.1%), attributable in particular to commissions on current accounts and fees on credit cards, collections and payments;
- a marked improvement in impairment adjustments to financial assets (-59.6%), due to a considerable increase in out-of-period income together with a significant reduction in provisions, which more than offset an increase in losses and a contraction in writebacks;
- a significant increase in administrative expenses (+5.2%, of which other costs +5.5%, personnel expenses +4.9%);
- a significant decrease in provisions for risks and charges (-97.1%).

Securities: the contribution of the Swiss subsidiary, Euro 988 thousand, increased more than the previous year (+27.6%), mainly due to an appreciable reduction in administrative expenses and net impairment adjustments to property, equipment and investment property and intangible assets, which offset a slight decrease in net commission flows.

This segment contributes 20.5% of the overall results.

Administrative expenses absorb 62.0% of total income.

Comparison with the prior year shows a significant increase in the segment result (+25.6%), mainly because of the Parent Company's contribution with a rise of Euro 5,756 thousand, attributable above all to a combination of following factors:

- a significant increase in commission flows (+9.4%), attributable to the marked increase in the results of the investment fund and insurance sectors;
- a slight increase in administrative expenses (+2.2%, of which other costs +2.4%, personnel expenses +2.1%).

Central functions: this segment's contribution to the overall result is 14.7%.

The contribution of the Swiss subsidiary and Factorit came to a total of - Euro 16,363 thousand, which is an improvement on the previous year (+18.4%).

Comparison with the previous year shows a significant decrease in the result, mainly influenced by the contribution of the Parent Company, where there was a reduction of 61.9%, essentially attributable to the contraction in the result of securities trading following the increased volatility in financial markets and the absence of significant capital gains realised in the comparative period; this negative trend is partially offset by an appreciable improvement in both net interest income due to a higher coupon flow, and dividends thanks to the extraordinary payment by Nexi S.p.A..

B. Secondary format

The following information refers to the location of branches.

An alternative analysis, based on the residence of counterparties, does not give significantly different results.

Branches are aggregated into two geographical areas, «Northern Italy» and «Central Italy», since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same.

In particular, in the North, the volume of business is principally generated by «non-financial companies» and «consumer households and family businesses», while in Central Italy the «public administrations» are especially significant.

There are differences between the Parent Company and the Swiss subsidiary regarding the types of customer served, the products and services provided, and commercial and operational policies adopted. Accordingly, the analysis includes the «Swiss» area as well as the domestic market.

B.1 Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2018**
Interest income	676,601	67,396	62,185	806,182	-181,667	624,515
Interest expense	-246,049	-32,627	-18,135	-296,811	180,431	-116,380
Net interest income	**430,552**	**34,769**	**44,050**	**509,371**	**-1,236**	**508,135**
Fee and commission income	263,893	52,334	22,834	339,061	-2,915	336,146
Fee and commission expense	-12,178	-7,246	-2,482	-21,906	1,421	-20,485
Dividends and similar income	45,396	–	13	45,409	-16,312	29,097
Net trading income	1,685	–	18,181	19,866	-40	19,826
Net hedging gains (losses)	–	–	520	520	-615	-95
Gains/losses from sales or repurchases	5,486	–	–	5,486	–	5,486
Net change in financial assets and liabilities carried at fair value	-12,246	148	472	-11,626	-231	-11,857
Total income	**722,588**	**80,005**	**83,588**	**886,181**	**-19,928**	**866,253**
Adjustments to the net value of financial assets	-194,740	-42,515	-2,241	-239,496	-656	-240,152
Net financial income	**527,848**	**37,490**	**81,347**	**646,685**	**-20,584**	**626,101**
Administrative expenses	-378,415	-42,279	-59,122	-479,816	-42,042	-521,858
Provisions for risks and charges	-2,200	-8,529	-18	-10,747	-220	-10,967
Depreciation and net impairment losses on property, equipment and investment property	-14,663	-1,323	-1,729	-17,715	–	-17,715
Amortisation and net impairment losses on intangible assets	-13,506	-1,389	-2,379	-17,274	–	-17,274
Other operating income/expense	18,381	3,008	433	21,822	43,017	64,839
Net gains (losses) on equity investments	443	–	–	443	19,460	19,903
Net result of fair value measurement of property, equipment and investment property and intangible assets	-368	–	–	-368	–	-368
Net gains on sales of investments	26	–	–	26	–	26
Gross profit	**137,546**	**-13,022**	**18,532**	**143,056**	**-369**	**142,687**

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 31/12/2017**
Interest income	705,748	77,300	62,088	845,136	-213,497	631,639
Interest expense	-279,773	-54,226	-22,236	-356,235	214,518	-141,717
Net interest income	**425,975**	**23,074**	**39,852**	**488,901**	**1,021**	**489,922**
Fee and commission income	252,763	49,380	24,326	326,469	-2,416	324,053
Fee and commission expense	-10,653	-6,929	-2,573	-20,155	1,182	-18,973
Dividends and similar income	18,648	–	13	18,661	-13,128	5,533
Net trading income	36,968	–	20,385	57,353	3,076	60,429
Net hedging gains (losses)	–	–	872	872	-987	-115
Gains/losses from sales or repurchases	95,244	–	–	95,244	–	95,244
Net change in financial assets and liabilities carried at fair value	4,247	–	–	4,247	1,514	5,761
Total income	**823,192**	**65,525**	**82,875**	**971,592**	**-9,738**	**961,854**
Adjustments to the net value of financial assets	-246,897	-20,368	-268	-267,533	–	-267,533
Net financial income	**576,295**	**45,157**	**82,607**	**704,059**	**-9,738**	**694,321**
Administrative expenses	-370,998	-41,376	-60,993	-473,367	-48,933	-522,300
Provisions for risks and charges	-2,510	-422	1,480	-1,452	–	-1,452
Depreciation and net impairment losses on property, equipment and investment property	-14,961	-1,391	-2,593	-18,945	–	-18,945
Amortisation and net impairment losses on intangible assets	-12,801	-1,367	-3,101	-17,269	–	-17,269
Other operating income/expense	22,203	3,278	621	26,102	46,174	72,276
Net gains (losses) on equity investments	-595	–	–	-595	27,112	26,517
Net result of fair value measurement of property, equipment and investment property and intangible assets	515	–	–	515	–	515
Net gains on sales of investments	17	–	–	17	–	17
Gross profit	**197,165**	**3,879**	**18,021**	**219,065**	**14,615**	**233,680**

B.2 Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2018**
Financial assets	32,081,733	2,368,095	3,926,370	38,376,198
Other assets	1,753,129	–	637,438	2,390,567
Property, equipment and investment property	295,641	17,665	14,855	328,161
Intangible assets	30,761	1,397	1,101	33,259
Financial liabilities	24,578,687	8,509,719	4,213,978	37,302,384
Other liabilities	760,610	6,350	22,898	789,858
Provisions	230,885	36,851	24,336	292,072
Guarantees given	2,661,823	604,488	164,423	3,430,734
Commitments	13,093,209	3,034,022	217,527	16,344,758

Items	Northern Italy	Central Italy	Switzerland	**Total 31/12/2017**
Financial assets	33,389,698	2,653,453	3,743,798	39,786,949
Other assets	863,772	–	622,723	1,486,495
Property, equipment and investment property	294,431	17,833	15,226	327,490
Intangible assets	21,152	1,394	1,174	23,720
Financial liabilities	25,287,579	8,563,119	4,042,148	37,892,846
Other liabilities	654,180	5,013	23,182	682,375
Provisions	229,462	28,556	21,902	279,920
Guarantees given	2,809,581	641,780	141,158	3,592,519
Commitments	986,468	350,093	25,939	1,362,500

Disclosure of information State by State pursuant to Circular 285 of 17 December 2013 on «Supervisory instructions for banks» 4th update of 17 June 2014

This information is available (in Italian) in the Corporate Information section of the website www.popso.it.

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

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Manager responsible for preparing the company's accounting documents of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Decree 58 of 24 February 1998, confirm:

– the adequacy in relation to the characteristics of the company and
– the effective application

of the administrative and accounting procedures for the formation of the consolidated financial statements for the period 1 January 2018 / 31 December 2018

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the "Internal Control - Integrated Framework (CoSO)", issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the consolidated financial statements at 31 December 2018:

– have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
– agree with the balances on the books of account and the accounting entries;
– are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the scope of consolidation.

The directors' report on operations includes a reliable analysis of the progress and performance, the situation of the Bank and the consolidated companies together with a description of the main risks and uncertainties to which they are subjected.

Sondrio, 21 March 2019

The Managing Director

Mario Alberto Pedranzini

The Manager responsible for preparing the company's accounting documents

Maurizio Bertoletti

Banca Popolare di Sondrio S.C.p.A.

Consolidated financial statements at December 31, 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010, and arti 10 of EU Regulation n. 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca Popolare di Sondrio Group (the "Group"), which comprise the balance sheet at December 31, 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at December 31, 2018, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.
We are independent of Banca Popolare di Sondrio S.C.p.A. (the "Bank" or the "Parent Company") in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Capitale Sociale Euro 2.525.000,00 i.v.
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Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Impacts related to the first-time application of the International Financial Reporting Standard 9 "Financial instruments"	
On January 1, 2018 the International Financial Reporting Standard 9, endorsed by European Commission on November 22, 2016 with Regulation n. 2016/2067 (the "Standard" or "IFRS 9") became effective, replacing the standard IAS 39 in relation to the classification and measurement of the financial instruments. As required by IAS 8 "Accounting policies, changes in accounting estimates and errors" and in accordance with the first-time application approach envisaged by IFRS 9, the Group accounted for in the opening balances the cumulative effects derived from the transition to the new Standard, for an amount of Euro 43 million. Moreover, the Group exercised the option foreseen by the Standard to not restate the comparative data. The IFRS 9 first time application constituted a relevant aspect for the audit both because the impacts on financial figures have been significant for the consolidated financial statements as a whole and for the significant implementation related to processes, procedures, controls, methodologies and IT systems made by the Group. The disclosure on the effects of the first-time application is provided by the directors within the Part A – Accounting policies – Other aspects included in the notes to the consolidated financial statements.	In relation to these matters, our audit procedures included, among other: • understanding and analysis of the main accounting and implementing choices made by the Group in relation to the classification, valuation and impairment of the financial instruments, also through the analysis of the new accounting and operational policies; • understanding and analysis, also with the support of our specialists in risk management, valuations of financial instruments, disposal of non-performing loans and IT systems, of the processes and controls implemented in relation to the IFRS 9 first time application and the execution of compliance procedures on key controls, including those relating to IT; • understanding of the modalities of determination by the Group of the first-time application impacts, including those related to tax effects, and performing substantive procedures aimed at verifying their consistency with the requirements of the Standard. Finally, we have analysed the adequacy of the disclosure provided in the notes to the consolidated financial statements.

Key Audit Matter	Audit Response
Classification and evaluation of loans to customers Loans to customers measured at amortised cost, the amount of which is shown in Item 40 b) of the balance sheet of the annual consolidated financial statements, represent, as at December 31, 2018, 77%of total assets. The process of classifying loans to customers in the various risk categories and measuring them is relevant for the audit because the value of loans is significant for the consolidated financial statements as a whole and because the value of the related impairment losses is determined by the directors through the use of estimates that have a high degree of subjectivity. Among these, the following are particularly relevant: the identification of objective evidence of impairment of the loans, the recoverable amount of the collateral acquired, the determination of expected cash flows and their timing of collection, the costs expected to be incurred for the collection of the loans, the probability of disposal and related cash flows, for those loans for which there is a disposal plan. Furthermore, as regards to the statistical evaluations, those particularly relevant are: the definition of homogeneous loan categories in terms of credit risk, the determination of the probability of default ("PD") and the related estimated loss (Loss Given Default - "LGD"), based on historical data observation for each risk class and on forward looking information, including macroeconomic factors, and the determination of significant risk increase parameters for the classification among the various reference stage. Information on the evolution of the quality, classification and measurement of loans to customers is provided within Part A – Accounting policies, Part B – Information on the consolidated balance sheet, Part C – Information on the consolidated income statement, Part E – Information or risks and related hedging policies to the notes of the consolidated financial statements.	In relation to these aspects, our audit procedures included, among other: • understanding of the policies, processes and controls implemented by the Group in relation to the classification and measurement of loans to customers and performing compliance procedures on the key controls, including those relating to IT; • performing substantive procedures, on a sample basis, aimed at verifying the correct classification and measurement of credit positions; • understanding, also with the support of our risk management and information systems specialists, of the methodology used in relation to statistical evaluations and the reasonableness of the assumptions adopted also to consider the forward looking information in the parameter of PD, LGD and Exposure at Default ("EAD) as well as the performing of test of controls and substantive procedures, aimed at the verification of the accurate determination of the PD, LGD and EAD parameters, relevant for the purpose of determining the impairment losses; • performing procedures for the comparative analysis of the portfolio of loans to customers and the related coverage levels, and analysis of the most significant deviations, also considering the effects from IFRS 9 first time application and the comparison with sectoral data. Finally, we have analysed the adequacy of the disclosure provided in the notes to the consolidated financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Board of statutory auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca Popolare di Sondrio S.C.p.A., in the general meeting held on April 29, 2017, appointed us to perform the audit of the consolidated financial statements of each year from the year ending December 31, 2017 to December 31, 2025.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the Board of statutory auditors ("Collegio Sindacale") in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of the Group at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of the Group at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of the Group at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of CONSOB Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information is subject to a separate compliance report signed by us.

Milan, April 4, 2019

EY S.p.A.
Signed by: Davide Lisi, Partner

This report has been translated into the English language solely for the convenience of international readers.

EXTRAORDINARY PART

Point 1) on the agenda: Proposal to amend article 6 of the Articles of Association. Related and consequent resolutions.

Report of the Board of Directors of Banca Popolare di Sondrio società cooperativa per azioni prepared pursuant to article 125-*ter* of Legislative Decree 58 of 24 February 1998, and subsequent amendments, and article 72 and table 3 of Attachment 3A to the Regulation adopted by Consob Resolution no. 11971 of 14 May 1999 and subsequent amendments (Issuers' Regulation)

Shareholders,

with this Report (the «**Report**»), prepared pursuant to articles 125-*ter* of Legislative Decree 58 of 24 February 1998 (**TUF**), and 72 and table 3 of the attachment 3A to the Issuers' Regulation, we wish to provide an explanation of the proposed amendment to the Articles of Association of Banca Popolare di Sondrio - società cooperativa per azioni («**BPS**» or the «**Bank**») that the Board of Directors of the Bank intends to submit for your approval.

* * *

1. Reasons for the proposed amendments to the Articles of Association

The proposed amendment to the Articles of Association that is submitted for the approval of the Shareholders refers to article 6.4 of BPS's Articles of Association.

* * *

Proposal to give the Board of Directors a mandate to issue bonds that are convertible and/or to be converted into shares pursuant to art. 2420-*ter* of the Italian Civil Code, also excluding or limiting option rights pursuant to art. 2441, fourth paragraph, first sentence, and fifth paragraph of the Italian Civil Code and amendment of article 6, fourth paragraph, of the Articles of Association

With reference to the fourth paragraph of article 6 of the Articles of Association, it is proposed to provide for the possibility that the Shareholders' Meeting, pursuant to article 2420-*ter* of the Italian Civil Code, might give a mandate to the Board of Directors to issue bonds that are convertible and/or to be converted into shares (as well as to increase the share capital to service the conversion of bonds), also excluding and/or limiting option rights pursuant to article 2441, paragraphs 4, first sentence, and 5, of the Italian Civil Code. In fact, pursuant to article 2420-*bis*, first paragraph, of the Italian Civil Code, the issue of bonds that are convertible (or to be converted) is the responsibility of the Extraordinary Shareholders' Meeting. However, the Extraordinary Shareholders' Meeting can grant the right to issue bonds that are convertible (or to be converted) to the directors by amending the Articles of Association pursuant to article 2420-*ter* of the Italian Civil Code. This amendment to the Articles of Association is preparatory to the proposal to give a mandate to the Board of Directors in relation to the acquisition of a majority interest in the share capital of Cassa di Risparmio di Cento S.p.A. pursuant to point 2 on the agenda; in particular, it is an amendment aimed at giving the directors of the Bank the possibility to pay for part of the shares in Cassa di Risparmio di Cento S.p.A. by issuing bonds to be converted into shares.

* * *

2. Current and proposed text of the Articles of Association, with an explanation of the amendments.

The Articles of Association are shown below with evidence of the proposed change compared with the current text.

Current text	Proposed amendment
Art. 6. **Share capital** **Procedure for variation** **Price of shares** Share capital is variable and is represented by registered shares without nominal value. The issue of shares, which in principle is without limit, may be decided upon in the following ways: 1 - routinely by the Board of Directors; 2 - exceptionally, by a resolution adopted at an Extraordinary Shareholders' Meeting in accordance with the provisions of article 2441 of the Italian Civil Code. So long as the shares are quoted on a regulated market, the issue of new shares can only take place by a resolution of the Extraordinary Shareholders' Meeting. The Extraordinary Shareholders' Meeting can give the Board of Directors a Mandate	**Art. 6.** **Share capital** **Procedure for variation** **Price of shares** Share capital is variable and is represented by registered shares without nominal value. The issue of shares, which in principle is without limit, may be decided upon in the following ways: 1 - routinely by the Board of Directors; 2 - exceptionally, by a resolution adopted at an Extraordinary Shareholders' Meeting in accordance with the provisions of article 2441 of the Italian Civil Code. So long as the shares are quoted on a regulated market, the issue of new shares can only take place by a resolution of the Extraordinary Shareholders' Meeting. The Extraordinary Shareholders' Meeting can give the Board of Directors a mandate

pursuant to article 2443 of the Italian Civil Code to increase the share capital, also excluding and/or limiting option rights pursuant to the fourth paragraph, first sentence, and the fifth paragraph of article 2441 of the Italian Civil Code. The share capital can also be increased with contributions in kind and receivables. The Extraordinary Shareholders' Meeting of 28 April 2018 resolved to give the Board of Directors a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, on one or more occasions, for a maximum of Euro 40,000,000.00 (forty million euro), including any share premium, by issuing ordinary shares with the same characteristics as those outstanding at the issue date and for the maximum number set by the Board of Directors depending on their issue price, to be paid up by means of a contribution in kind of investments in banks, as identified in the Board of Directors' report prepared for the meeting of 28 April 2018, subject to the authorisations required by law. This Mandate may be exercised within 12 (twelve) months from the date of the shareholders' resolution, with the broadest possible powers for the Board of Directors to establish, from time to time, in compliance with the procedures and criteria established by the legislation applicable at the time, methods, terms and conditions of the resolution or resolutions to increase the share capital, among which the dividend and voting rights, the issue price of the shares (and the parameters to determine it at the time of execution) and the calculation of the part to be booked to share capital and the amount to be booked to share premium, it being understood, in any case, that the Board of Directors will	pursuant to art. 2443 of the Italian Civil Code to increase the share capital **and/or pursuant to article 2420-*ter* of the Italian Civil Code to issue bonds that are convertible or to be converted into shares**, also excluding and/or limiting option rights pursuant to art. 2441, fourth paragraph, first sentence, and of fifth paragraph, of the Italian Civil Code. The share capital can also be increased with contributions in kind and receivables. The Extraordinary Shareholders' Meeting of 28 April 2018 resolved to give the Board of Directors a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, on one or more occasions, for a maximum of Euro 40,000,000.00 (forty million euro), including any share premium, by issuing ordinary shares with the same characteristics as those outstanding at the issue date and for the maximum number set by the Board of Directors depending on their issue price, to be paid up by means of a contribution in kind of investments in banks, as identified in the Board of Directors' report prepared for the meeting of 28 April 2018, subject to the authorisations required by law. This Mandate may be exercised within 12 (twelve) months from the date of the shareholders' resolution, with the broadest possible powers for the Board of Directors to establish, from time to time, in compliance with the procedures and criteria established by the legislation applicable at the time, methods, terms and conditions of the resolution or resolutions to increase the share capital, among which the dividend and voting rights, the issue price of the shares (and the parameters to determine it at the time of execution) and the calculation of the part to be booked to

determine the issue price, including the possible share premium of the new shares to be issued.	share capital and the amount to be booked to share premium, it being understood, in any case, that the Board of Directors will determine the issue price, including the possible share premium of the new shares to be issued.
	Comment The fourth paragraph envisages that the issue of bonds that are convertible and/or to be converted into shares can be delegated to the Board of Directors, also excluding or limiting option rights pursuant to article 2441, paragraphs 4, first sentence, and 5, of the Italian Civil Code.

* * *

3. Withdrawal: the proposed amendment would not give shareholders a right to withdraw

Pursuant to article 72, paragraph 1, of the Issuers' Regulation and as indicated in table 3 of attachment 3A to it, it should be noted that the proposed amendment to article 6, fourth paragraph, of the Bank's Articles of Association does not give a right of withdrawal under article 2437 of the Italian Civil Code.

* * *

4. Authorisations

The proposed statutory amendment is subject to authorisation by the Supervisory Authority pursuant to articles 56 and 61 of Legislative Decree 385 of 1 September 1993 («**CBA**»).

* * *

5. Resolution proposed to the Extraordinary Shareholders' Meeting

In light of the above, the Board of Directors of Banca Popolare di Sondrio società cooperativa per azioni, submits the following proposal to the Extraordinary Shareholders' Meeting:

«*The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio società cooperativa per azioni, having taken note of the Board of Directors' Report on the proposed amendment to the Articles of Association* *and the proposal made in it, subject to obtaining the required legal authorisations,*

HEREBY RESOLVES

A. to amend article 6 of the Articles of Association, approving this amendment according to the text shown in the Report for the reasons explained in it;
B. to grant the Board of Directors, and for it to the Chairman and the Managing Director, jointly or severally, within the limits of the law, all possible powers to do anything that is necessary to implement and fully execute this resolution, with each and every power necessary and appropriate for this purpose, none excluded and excepted, including to make changes to this resolution, as well as additions or elimination of a non-substantial nature necessary for registration in the Companies Register, including any changes that may be necessary or opportune for technical-juridical reasons or requested by the competent Authorities, declaring as of now such action to be valid and ratified».

Sondrio, 22 March 2019

THE BOARD OF DIRECTORS

Point 2) on the agenda: Proposal to give the Board of Directors a mandate (i) pursuant to art. 2443 of the Italian Civil Code to increase the share capital for payment, on one or more occasions, excluding option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, through the issue of ordinary shares with the same characteristics as those outstanding to be paid up by means of a contribution in kind; and (ii) pursuant to art. 2420-*ter* of the Italian Civil Code to issue bonds convertible into ordinary shares, on one or more occasions, with the exclusion of option rights pursuant to art. 2441, fifth paragraph, of the Italian Civil Code, with consequent increase in capital to service the conversion through the issue of ordinary shares with the same characteristics as those outstanding; without prejudice to the requirement that the maximum total value, including any premium, of the increase in capital for payment made on one or more occasions through the issues or conversions referred to in points (i) and (ii) above shall be Euro 40,000,000.00 (forty million/00). Furthermore, in exercising the mandate within 18 (eighteen) months of the date of the shareholders' resolution and in accordance with the limits indicated above, from time to time, the Board of Directors shall have the fullest right to establish methods, terms and conditions of the transaction. Consequent amendments to Article 6 of the Articles of Association. Related and consequent resolutions.

Report of the Board of Directors of Banca Popolare di Sondrio - società cooperativa per azioni prepared pursuant to article 125-*ter*

of Legislative Decree 58 of 24 February 1998, and subsequent amendments, and articles 70 and 72 of the Regulation adopted with Consob Resolution no. 11971 of 14 May 1999 and subsequent amendments and integrations

Shareholders,

the Board of Directors of Banca Popolare di Sondrio – società cooperativa per azioni («**BPS**», the «**Bank**» or the «**Company**») has convened the Ordinary and Extraordinary Shareholders' Meeting for 26 April 2019 at 10.00 a.m. in Sondrio at the registered office, piazza Garibaldi no. 16, on first call and, if necessary, on 27 April 2019 at 10.30 a.m. in Bormio (SO), at the Centro Polifunzionale Pentagono, via Alessandro Manzoni no. 22, on second call, to discuss and resolve on the following Agenda of the extraordinary part:

1. Proposal to amend article 6 of the Articles of Association. Related and consequent resolutions.
2. Proposal to give the Board of Directors a mandate (i) pursuant to art. 2443 of the Italian Civil Code to increase the share capital for payment, on one or more occasions, excluding option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, through the issue of ordinary shares with the same characteristics as those outstanding to be paid up by means of a contribution in kind; and (ii) pursuant to art. 2420-*ter* of the Italian Civil Code to issue bonds convertible into ordinary shares, on one or more occasions, with the exclusion of option rights pursuant to art. 2441, fifth paragraph, of the Italian Civil Code, with consequent increase in capital to service the conversion through the issue of ordinary shares with the same characteristics as those outstanding; without prejudice to the requirement that the maximum total value, including any premium, of the increase in capital for payment made on one or more occasions through the issues or conversions referred to in points (i) and (ii) above shall be Euro 40,000,000.00 (forty million/00). Furthermore, in exercising the mandate within 18 (eighteen) months of the date of the shareholders' resolution and in accordance with the limits indicated above, from time to time, the Board of Directors shall have the fullest right to establish methods, terms and conditions of the transaction. Consequent amendments to Article 6 of the Articles of Association. Related and consequent resolutions.

This report («**Report**»), prepared pursuant to article 125-*ter* of Legislative Decree 58 of 24 February 1998 and subsequent amendments (the Consolidated Finance Act or «**CFA**»), articles 70 and 72 of the Regulations adopted by Consob resolution no. 11971 of 14 May 1999, as amended and integrated, («**Issuers' Regulation**»), and according to Attachment 3A, table 2 of the Issuers' Regulations, as well as in compliance with article 2441, sixth paragraph of the Italian Civil Code, sets out the reasons of these proposals relating to point 2) on the agenda of the extraordinary session, which is part of the acquisition of the majority of the share capital of Cassa di Risparmio di Cento S.p.A. (the «**Transaction**»), whose main terms and conditions were communicated to the public on 30 October 2018 and on 22 March 2019 through specific press releases, and, in particular, the reasons for the contribution in kind and the exclusion of option rights.

The Board of Directors, upon expiry of the mandate to increase the share capital with the exclusion of the option right pursuant to art. 2443 of the Italian Civil Code given by the Extraordinary Shareholders' Meeting of 28 April 2018 to the Board of Directors (and not yet exercised by the latter) has convened an Extraordinary Shareholders' Meeting to submit for your approval, subject to revocation of the above mandate, the proposal to give the Board a new mandate, granting, on the one hand, in line with the mandate approved by the Extraordinary Shareholders' Meeting of 28 April 2018, the faculty to increase the share capital by issuing ordinary shares with the same characteristics as those outstanding on the issue date pursuant to and for the purposes of article 2443 of the Italian Civil Code (the «**Increase in Capital**»), and, on the other hand, the right to issue bonds with mandatory conversion (so-called «bonds to be converted») into ordinary shares with the same characteristics as those outstanding at the issue date with the consequent increase in capital to service the conversion pursuant to and for the purposes of article 2420-*ter* of the Italian Civil Code (the «**Bonds**»), it being understood that, in accordance with the mandate approved by the Extraordinary Shareholders' Meeting of 28 April 2018, the total maximum amount, including any share premium, of the increase in share capital against payment and in divisible form, on one or more occasions, consequent to the issues of shares and conversions of the Bonds, will be equal to Euro 40,000,000.00 (forty million) (the «**Mandate**»).

The proposal for granting the Mandate, subject to revocation of the previous mandate granted by the Extraordinary Shareholders' Meeting on 28 April 2018, is aimed at carrying out the Transaction on the terms and conditions agreed in the contract signed on 30 October 2018 (the «**Contract**») by BPS with Fondazione Cassa di Risparmio di Cento (the «**Foundation**») and Holding CR Cento S.p.A. («**Holding**»), as amended on 22 March 2019, concerning the purchase by BPS of the investment held by the Foundation and the Holding in Cassa di Risparmio di Cento S.p.A. («**CRC**»).

As detailed in the following paragraph, with the Mandate it is proposed to give the Board of Directors of the Bank the faculty to pay for part of the CRC shares that will be acquired by BPS through a combination of BPS shares and Bonds.

The Mandate, subject to the competent Authorities issuing the authorisations and/or clearances required by applicable law, may be exercised in one or more occasions within the period of 18 (eighteen) months from the date of the shareholders' resolution and, being at the service of CRC shares that will be transferred, and/or sold, to BPS, the Increase in Capital and the issue of Bonds will take place with the exclusion of the option right pursuant to article 2441, fourth paragraph, first sentence, and fifth paragraph, of the Italian Civil Code.

Within the limits of the overall amount of this Mandate, the Board of Directors will have the widest possible powers to:

(i) identify, in one or more occasions, the technical forms of each exercise of the Mandate itself and, in particular, the measure of the combination between the issue of shares and the issue of Bonds;
(ii) identify and set the amount of each issue;
(iii) establish, shortly before each issue, from time to time and in compliance with the limits indicated above, the methods, terms and conditions of the transaction, including the number of shares and/or Bonds (as well as the shares to service the latter) and voting rights, in accordance with the methods described in paragraph 4) below of this Report.

* * *

1. Explanation of the Transaction and reasons for/destination of the Increase in Capital and issue of Bonds

1.1. Explanation of the Transaction and reasons for/destination of the Increase in Capital and issue of Bonds

The proposal to give a Mandate to the Board of Directors of BPS to increase the share capital and issue Bonds with the exclusion of option rights pursuant to article 2441, fourth paragraph, first sentence, and fifth paragraph of the Italian Civil Code, is part of the broader context of the acquisition by Banca Popolare di Sondrio of the controlling interest of CRC held by the Foundation and the Holding, a company whose share capital is wholly owned by the Foundation.

CRC is a credit institute founded in 1859 that has been operating in the Cento area for more than 160 years; today CRC serves its customers through a network of 47 branches in the provinces of Ferrara, Bologna, Ravenna and Modena.

In this regard, it should be noted that CRC, which has a high level of geographical and industrial complementarity and a particular cultural compatibility with the BPS Group, is a local reality with strong roots in a region (Emilia Romagna) where the BPS Group is only marginally present (namely, in the provinces of Bologna, Parma and Piacenza). The Transaction would therefore give BPS an opportunity to consolidate its presence in a region with a solid industrial and agricultural economy, which is in line with the Bank's development strategy. In addition, CRC has profitability and capital ratios that are substantially comparable with those of BPS, so that it can reasonably be expected that the process of integrating CRC with the BPS group should involve low implementation risk and a relatively short period of time.

At 31 December 2018, CRC's share capital is held as follows: 67.08% is held directly (51.44% of the share capital of CRC) and indirectly (through the Holding, which holds 15.64% of the share capital of CRC) by the Foundation, while the other 32.92% is held by approximately 10,000 minority shareholders.

CRC shares are circulated widely among the public pursuant to article 2-bis of the Issuers' Regulation and are traded on the Hi-MTF multilateral trading system.

Pursuant to the Contract, as well as in compliance with the disclosure made to the market through the press release issued on 30 October 2018, the Transaction is made up of the following two phases:

(i) in the first phase, it is expected that BPS will acquire from the Foundation and the Holding a number of shares representing 51% of the share capital of CRC for a mixed consideration (part in cash and part in BPS shares);

(ii) in the second phase, it is expected that BPS will acquire from the Foundation and the Holding the remaining shares of CRC held by them (equal to 16.08% of the share capital of CRC), proposing the purchase of the respective CRC shares to all the other CRC shareholders, according to the technical forms still to be defined.

In particular, with reference to the first phase of the Transaction referred to in paragraph (i) above, the following has been provided for in the Contract:

– the purchase by BPS of 1,000,000 CRC shares, of which 500,000 transferred by the Holding and the other 500,000 transferred by the Foundation, for a total consideration of Euro 6,500,000.00; and
– the exchange between 6,624,467 CRC shares owned by the Foundation (the «**CRC investment**») and 9,274,254 BPS shares, representative on the date of stipulation of the Contract of 2.05% of the share capital of BPS (the «**Exchange**»), on the basis of an exchange ratio between BPS and CRC shares equal to 1.4 newly issued BPS shares for each CRC share, assuming a conventional value for BPS share equal to Euro 3.41 and a conventional value for each CRC share equal to Euro 4.774 (the «**Exchange Ratio**»).

With specific reference to the technical methods of implementing the Exchange, the Contract provides that, on the basis of the Exchange Ratio, the Foundation will transfer its Investment in CRC to BPS in kind and BPS will give newly issued BPS shares to the Foundation through a capital increase reserved for the Foundation. To this end, the Bank's Board of Directors submitted to BPS Shareholders' Meeting of 28 April 2018 a proposal (approved by the same Shareholders' Meeting) to give a mandate to increase the share capital up to a maximum of Euro 40,000,000.00 (forty million), including any share premium, with the exclusion of the option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, to be reserved for subscription to the Foundation.

In the Contract, BPS, the Foundation and the Holding have expressly taken into account the provisions of art. 30, second paragraph, CBA («*No one, directly or indirectly, can hold shares to an extent exceeding 1 per cent of the share capital, without prejudice to the statutory power to provide more* *limited limits, however not less than 0.5 per cent*») and, in order to comply with this regulatory provision, they have agreed that the number of BPS shares received by the Foundation in exchange for the CRC Investment could be changed. In particular, the consideration for the CRC shares subject to the contribution in kind to BPS, consisting of the portion of BPS shares exceeding 1% of the share capital of BPS, could be settled in cash, so as to comply with the limit set by art. 30, second paragraph, CBA. As part of the contractual documentation, it was envisaged that the BPS shares exchanged with CRC shares transferred in kind to BPS might be sold on the market by the Foundation, at the end of a lock-up period of 12 (twelve) months from the closing of the Transaction.

The Contract also provided for execution of the Transaction in the terms defined: in particular, the Exchange between CRC shares, the subject of the contribution in kind to BPS, and BPS shares to be issued on exercising the mandate pursuant to art. 2443 of the Italian Civil Code and reserved for subscription to the Foundation, subject to the occurrence of certain conditions precedent, including the release by the competent Supervisory Authorities of the necessary legal authorisations, as well as the satisfactory outcome, in the opinion of BPS, of a supplement of due diligence to be conducted on CRC.

As part of the discussion with the Supervisory Authorities (including, first and foremost, with regard to BPS, the European Central Bank and the Bank of Italy, and, as regards the Foundation, the Ministry of Economy and Finance), taking into account the provisions of art. 30, second paragraph, CBA, BPS, the Foundation and the Holding modified the Contract on 22 March 2019, providing for an increase in the number of CRC shares sold and purchased (and settled in cash) and that the Exchange could also take place through a transfer of Bonds, in addition to an exchange for BPS shares.

In particular, with the amendment of the Contract, it is envisaged that the Exchange can take place, subject to the release of the legal authorisations and the other conditions provided for in the Contract, as follows:

(i) purchase by BPS of 1,092,473 CRC shares, of which 500,000 sold by the Holding and the other 592,473 sold by the Foundation, for a total cash payment of Euro 6,941,466.00;

(ii) 3,265,997 CRC shares (the «**CRC Shares Transferred**») will be transferred in kind by the Foundation to BPS (the «**Contribution in Kind**») to pay up 4,572,396 BPS shares (representing 1% of the share capital) to be issued by the Increase in Capital;

(iii) against these 3,265,997 CRC shares sold by the Foundation to BPS (the «**CRC Shares Sold**»), BPS will issue Bonds in favour of the Foundation (for the conversion of which a maximum of 4,572,396 BPS shares may be issued), also by offsetting the receivable of BPS from the Foundation relating to the subscription of the Bonds and the receivable to the Foundation from BPS in relation to the consideration of the CRC Shares Sold.

2. Analysis of the composition of short- and long-term net financial debt

The Transaction is not intended to have a significant impact on the financial indebtedness of the BPS Group.

3. Underwriting or placement consortia and any other forms of placement envisaged, their composition and the methods and terms of their intervention

Since this is a Mandate to issue new shares, through an Increase in Capital, and Bonds with the exclusion of option rights to be reserved for subscription by the Foundation, there are no guarantee and/or placement consortia or other forms of placement.

4. Terms and conditions of the Increase in Capital and issue of Bonds to be resolved in the exercise of the Mandate. In particular: the exclusion of option rights

4.1. - Consistent with the considerations made previously with reference to the reasons and destination of the Increase in Capital and the Bonds, the proposal to the Shareholders is to give the Board of Directors the following Mandate:

(i) pursuant to article 2443 of the Italian Civil Code, to increase, on one or more occasions, the share capital for payment by issuing ordinary shares (without par value) with the same characteristics as those outstanding on the issue date (and, therefore, in the case of a transformation over time of shares in joint stock companies), with the exclusion of option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, to be offered to the Foundation in exchange for the Contribution in Kind of the CRC Shares Transferred; and

(ii) pursuant to article 2420-*ter* of the Italian Civil Code to issue Bonds, on one or more occasions, with a consequent increase in capital to serve the conversion by issuing ordinary shares with the same characteristics as those outstanding on the issue date (and, therefore, in the case of a transformation over time of shares in joint stock companies), with the exclusion of option rights pursuant to article 2441, fifth paragraph, of the Italian Civil Code, to be offered for subscription to the Foundation in exchange for the sale of the CRC Shares Sold to BPS;

it being understood that the maximum total amount, including any share premium, of the increase in capital for payment and in divisible form, on one or more occasions, consequent to the issue or conversions referred to in the previous points (i) and (ii) will be Euro 40,000,000.00 (forty million).

Furthermore, in exercising the Mandate and subject to the limits mentioned above, the Board of Directors will have the widest possible powers to establish methods, terms and conditions of the transaction.

It is therefore specified that, without prejudice to the maximum amount of Euro 40 (forty) million mentioned above, the exact size of the Increase in Capital consequent to the issues and conversions referred to in points (i) and (ii) above will be decided by the Board of Directors in the exercise of the Mandate, to the extent strictly necessary (a reasonable amount less than the maximum) to meet the need to hand over the newly issued securities and bonds in exchange for the purchase of the CRC shares. In this regard, it should be noted that the Mandate will only be exercised by the Board of Directors of BPS subject to fulfilment of the conditions precedent set forth in the Contract, including the release of all legal authorisations (which will also concern the methods of payment of the consideration for the CRC shares acquired by BPS through newly issued BPS shares and Bonds), the satisfactory outcome in the opinion of BPS of the supplement of due diligence on CRC and that the expert (i.e. the expert appointed by the competent court pursuant to art. 2343 of the Italian Civil Code or the independent expert established by articles 2343-*ter* and 2440, second paragraph, of the Italian Civil Code) certifies that the value attributed, for the purposes of determining the capital and any share premium, to the CRC shares transferred to BPS does not exceed (i.e. being equal to or lower than) the value attributed to the same CRC shares by the expert. In this latter regard, it should be noted that, in the absence of the aforementioned certification, the Transaction may not be implemented unless the parties in good faith reach an agreement on the solutions to be adopted in compliance with the provisions of the law to implement the Transaction.

The Mandate to the Board of Directors constitutes a suitable instrument to guarantee greater flexibility in order to execute the Transaction and to determine the terms and conditions of the Increase in Capital and the issue of Bonds as soon as the conditions to which execution of the Transaction is subordinated are fulfilled. In fact, fulfilment of the above conditions, as well as the preparation of the report as per articles 2343 of the Italian Civil Code or, as the case may be, 2343-*ter* of the Italian Civil Code, will require a period of several months, which cannot be determined precisely, so the Mandate given to the Board of Directors would make it possible to adjust the executive decisions relating to the capital transaction described herein with the final terms and conditions of the Transaction.

In this regard, it should also be considered that article 2441, sixth paragraph, of the Italian Civil Code provides that, if option rights are excluded, the issue price of the shares is to be determined on the basis of the Company's net worth (equity), also taking into account the trend in stock prices during the last six months if they are listed on regulated markets. Moreover, given that these are indicative parameters, it is worth remembering that, if option rights are excluded, the regulatory reference to net worth has to be understood in a way that does not necessarily coincide with just the book figure. Instead, reference has to be made to the company's economic value which has to be determined taking market parameters into consideration as well. In this regard, it should be noted that the independent auditors of BPS will be called upon, during the exercise of the Mandate, to verify the adequacy of the issue price of BPS shares by issuing a specific opinion.

The Board of Directors meeting of BPS of 22 March 2019, also taking into account the aforementioned regulatory provision, determined in Euro 40 (forty) million, including any share premium, the maximum amount of the Mandate, to be understood as being to service the Increase in Capital and the Bond issue (and of the increase in capital to service conversion of the Bonds) for the purposes of the first phase of the Transaction as described.

The Mandate proposal must be understood as being subject to approval by the Shareholders' Meeting of the proposed amendment to the Articles of Association (as explained in the separate report mentioned in the introduction to which express reference is made) and to registration of the Shareholders' resolution in the pertinent Companies Register.

Also for the reasons described above, it was considered opportune that the Mandate should be exercised by the Board of Directors within 18 (eighteen) months from the date of the shareholders' resolution rather than within 5 (five) years, which is the legal deadline. Subject to obtaining the required authorisations and fulfilment of the other contractual conditions precedent, it is envisaged that, if the Mandate is granted, the Board of Directors will use it soon to implement the Transaction by the end of the current year.

* * *

4.2. - The Board of Directors will have the power to establish the methods, terms and conditions of the share issue and, therefore, the resolutions to Increase the Share Capital pursuant to article 2443 of the Italian Civil Code, excluding option rights pursuant to article 2441, fourth paragraph, first sentence of the Italian Civil Code will therefore have to establish in compliance with the procedures and criteria established by the applicable legislation, in accordance with this Report, and taking into account the report of the expert pursuant to article 2343 of the Italian Civil Code or, depending on the circumstances, 2343-*ter* of the Italian Civil Code, the exact amount of the Increase in Capital to service the Contribution in Kind, including the exact number of BPS shares to be reserved for subscription to the Foundation, as well as the portion of the issue price of the shares to be accounted for as capital and the portion, if any, to be accounted for as a share premium.

* * *

4.3. - The Board of Directors will have the right pursuant to article 2420-*ter* of the Italian Civil Code to issue, on one or more occasions, with exclusion of the option rights pursuant to article 2441, fifth paragraph, of the Italian Civil Code, Bonds, with consequent divisible increase of the share capital to service conversion of the Bonds into ordinary shares of the Company, with normal dividend and voting rights, having the same characteristics as those outstanding at the issue date.

It is expected, at present, that the bonds will have the following main features:

– the bonds will be subject to mandatory conversion (so-called «bonds to be converted»), for a total nominal amount of Euro 15,600,000.00 (fifteen million and six hundred thousand) in a number equal to 156 each with a nominal value of Euro 100,000.00 (one hundred thousand) («**Unit Nominal Value**»);
– the unit issue price will be 100% of the Unit Nominal Value;
– the duration of the bond loan will be 36 months;
– the bonds will bear simple gross annual interest of 2.25% calculated on the principal amount of the outstanding Bonds from time to time;
– the maximum number of shares that BPS will be able to issue for the conversion will be 4,572,396 ordinary shares. Conversion price of Euro 3.41;
– over the duration of the bond loan, the holder of the Bonds will be able to ask for conversion of the Bonds starting from the 12th (twelfth) month following the date of issue and subscription of the Bonds (i.e. at the end of the lock-up period for BPS shares delivered against the CRC Shares Transferred: see paragraph 1.1 of this Report) provided that, following the conversion request and taking into account the BPS shares already held, the holder of the Bonds does not come to hold a number of BPS shares higher than the limit set by art. 30, second paragraph, of the CBA.
  If, as a result of the conversion, the holder of the Bonds comes to hold a number of BPS shares greater than the limit referred to in the aforementioned art. 30, second paragraph, CBA, the Bonds will be converted up to the aforementioned limit, while the Bonds for which conversion has been requested in excess of this limit will not be converted and will continue to be in force for a further year;
– at the maturity date of the bond, the Bonds will be converted into BPS shares, without prejudice to the mechanism described in the previous paragraph for the case in which, following the conversion and taking into account the BPS shares already held, the holder of the Bonds will come to hold a number of BPS shares higher than the limit set by art. 30, second paragraph, CBA.

Consistently with the characteristics outlined here, it is proposed to give the Board of Directors the power to determine, among other things, close to or in any case prior to the issue of the bond, all of the terms and conditions of the bond loan (including the regulation governing it) and of the capital increase to service conversion of the Bonds.

Issuance of the Bonds by BPS will be subject to a specific review on the part of the Supervisory Authorities, so the characteristics of the bond loan outlined in this explanatory report could also undergo changes in the light of any comments and/or recommendations that the Supervisory Authorities could make.

* * *

4.4. - On the occasion of the exercise of the Mandate for the Increase in Capital to service the Contribution in Kind as well as for the issue of Bonds for the purchase of the CRC Shares Sold, the Board of Directors will communicate to the Board of Statutory Auditors and to the Independent Auditors the criteria used to determine the price of the newly issued shares (including the shares deriving from conversion of the Bonds) and the related number. EY S.p.A., the Independent Auditors, will then issue their opinion on the fairness of the issue price of the BPS shares to be offered in exchange for the CRC Shares Transferred and of the BPS shares deriving from conversion of the Bonds, pursuant to article 2441, sixth paragraph, of the Italian Civil Code and article 158 of the CFA.

Furthermore, with regard to the Increase in Capital, pursuant to the applicable legal provisions contained in the Italian Civil Code for contributions in kind, note that the value of the shares for the Contribution in Kind must be the subject of a specific appraisal by a expert designated by the competent Court pursuant to article 2343 of the Italian Civil Code or an independent expert pursuant to article 2343-*ter*, second paragraph, letter (b), of the Italian Civil Code.

The opinion of the Independent Auditors appointed to audit the accounts pursuant to articles 2441, sixth paragraph, of the Italian Civil Code and 158 of the CFA and the expert report pursuant to article 2343 or 2343-*ter* of the Italian Civil Code and any other document required pursuant to the provisions of law and regulations in connection with the Transaction will be made available according to the terms and in the forms provided for in current legislation.

5. Authorisations of the competent authorities

The Increase in Capital and issue of Bonds explained in this Report are subject to authorisation by the competent Authorities. The European Central Bank and the Bank of Italy will be required to issue their approval of the amendment to BPS's Articles of Association relating to the Mandate pursuant to articles 56 and 61 of the CBA.

The Transaction is, among other things, subject to the following authorisations:

(i) authorisation by the European Central Bank for the purchase of a controlling interest in CRC pursuant to article 19 of the CBA;
(ii) authorisation by the Antitrust Authority pursuant to article 16, fourth paragraph of Law 287 of 10 October 1990;

and, as regards the Foundation,

(iii) authorisation by the Ministry of the Economy and Finance for the full transfer by the Foundation of its direct and indirect investment in CRC, in one or more tranches.

6. Shareholders who have expressed their willingness to subscribe

As of the date of this Report, the Company has not received any expressions of interest or willingness to subscribe the newly issued shares and Bonds, since it is a Mandate to Increase the Share Capital and issue Bonds, excluding option rights. The Increase in Capital and the Bonds are, in fact, reserved for subscription by the Foundation.

7. Expected period for execution of the increase in capital

In exercising the Mandate, the Board of Directors will establish the period of execution of the transaction.

As indicated in paragraph 5 above, the Transaction is subject to the authorisations required by law. Subject to obtaining these authorisations, it is envisaged that, if the Mandate is granted, the Board of Directors will use it soon to execute the Transaction, which may also take place before the end of the current year.

In any case, adequate and punctual information will be given to the market regarding the expected timing for execution of the Transaction explained in this Report.

8. Date of dividend and voting rights of the new shares

The BPS ordinary shares that will be issued following the Increase in Capital (or conversion of the Bonds) will be reserved for subscription by the Foundation for the CRC Shares Transferred and the CRC Shares Sold, respectively, and will be admitted to trading on the Screen-Traded Market (MTA) with the same dividend and voting rights as the BPS ordinary shares outstanding on the issue date.

9. Economic and financial effects of the Transaction, effects on the unit value of the shares and dilution

9.1 BPS and CRC: performance of BPS in 2018 and figures at 30 June 2018 for CRC

In the exercise of the Mandate, the market will be informed of the economic effects of the Transaction explained in this Report.

Having said this, the main consolidated financial figures of the BPS Group for the year ended 31 December 2018, already communicated to the public on 11 February and 22 March 2019, and of the CRC Group at 30 June 2018, already communicated to the public on 7 August 2018, are provided and commented on below, given that, as of the date of this Report, CRC has not yet released its figures for the year ended 31 December 2018. As regards BPS, the following figures must therefore be considered as preliminary as they still have to be approved by BPS's Shareholders' Meeting and then published.

In 2018, the BPS Group recorded a profit of Euro 110.8 million and, even though this was down on the previous year, it shows the resilience of the Group and its constant ability to produce value over time and self-finance its growth. The result, which has been significantly affected by the negative performance of financial markets, was positively influenced for Euro 20.8 million by the extraordinary dividend from NEXI S.p.A., whereas it was penalised for Euro 32.2 million by having to pay the contributions designed to stabilise the banking system. These results made it possible to consolidate the growth process and the capital strengthening of the BPS Group which has achieved a Phased in CET1 ratio of 12.03%, up 43 basis points compared with 11.60% in 2017.

Gross and net NPL ratios stand at 14.75% and 7.16% respectively, compared with 15.08% and 7.93% at the end of 2017.

The coverage ratio for impaired loans stands at 55.64%, while the one for non-performing loans stands at 69.36%. The Texas Ratio, which is the ratio between total net impaired loans and tangible equity, has improved yet again, from 77.99% to 70.71%.

On the other hand, CRC closed the first six months of 2018 with an individual profit of Euro 1.2 million, a marked increase over the same period last year.

The Common Equity Tier 1 (CET1) Ratio comes to 12.70%, down compared with 13.52% at 31 December 2017 due to the FTA of IFRS 9 and the increase in loans to customers, but it is still well above the SREP threshold established by the Bank of Italy.

Net impaired loans (127 million) are down by 14.4% compared with the end of 2017. The coverage of impaired loans has also improved, rising from 60.3% at 31 December 2017 to 66.3% in June 2018, while the coverage of non-performing loans only, which comes to 78.2% compared with 71.8% at the end of 2017, are both well above market averages and aligned with the most solid banks in the system.

The Texas ratio improved to 79%.

During the first six months of 2018, Cassa di Risparmio di Cento also finalised the procedures for setting up the Cassa di Risparmio di Cento Banking Group, made necessary after its acquisition of Ifiver S.p.A., a company with years of experience in the assignment of one fifth of salary or pension.

Over the next few weeks, a report will be issued regarding its performance for the whole of 2018.

9.2 BPS: Outlook for operations

The economy is expected to slow steady, both internationally and in Italy above all. General reasons, from the slowdown of Chinese growth to the problems afflicting international trade due to the threatened reintroduction of tariffs, combined with domestic reasons, such as the high level of public borrowing and the low productivity of our economic system, suggest that there will be no shortage of obstacles to growth in the coming months.

With regard to Banca Popolare di Sondrio, the guidance provided by the monetary authorities regarding this possible deterioration in the economic climate means that we cannot expect net interest income to improve significantly, although it is reasonable to believe that commission income will grow. Despite this general economic context, we believe that the improvement in credit quality can continue, with positive effects on the amount of adjustments being charged to the income statement. The result of securities trading will continue to be affected by the performance of the financial markets, but it is difficult to make any kind of forecast about them in light of the numerous elements of uncertainty. Any increase in operating costs is expected to be limited.

Taken together, the above factors should enable our profitability levels to be maintained.

With regard to the NPL strategy, BPS today believes that the acquisition of control of CRC, if carried out, should not generate significant impacts on the Group, also considering the small size of the transaction: the CRC's assets amount to about 7% of the BPS Group's assets.

However, we would emphasise that BPS's NPL strategy is still being finalised and will be discussed with the supervisor in the coming months.

9.3 Dilutive effects of the Increase in Capital and the conversion of Bonds

On the assumption that the Increase in Capital is approved for the maximum amount indicated in this Report and that all the Bonds are converted into BPS shares, at present it is estimated that the Earnings Per Share (EPS), considering the synergies immediately activated after the acquisition of CRC, could be slightly higher (from € 0.24/share to € 0.25/share) with practically no dilutive effect for the current shareholders.

* * *

The current text of article 6 of the Articles of Association is shown below, together with a comparative column with the proposed amendments (shown in bold). The table also includes the amendments explained in the separate report of the administrative body referred to in the introduction, in paragraph 4. The amendment to the Articles of Association related to the proposal Mandate to be given to the Board of Directors is contained in the sixth and final paragraph of article 6.

Current text	Proposed amendment
Art. 6. **Share capital** **Procedure for variation** **Price of shares** Share capital is variable and is represented by registered shares without nominal value. The issue of shares, which in principle is without limit, may be decided upon in the following ways: 1 - routinely by the Board of Directors; 2 - exceptionally, by a resolution adopted at an Extraordinary Shareholders' Meeting in accordance with the provisions of article 2441 of the Italian Civil Code. So long as the shares are quoted on a regulated market, the issue of new shares can only take place by a resolution of the Extraordinary Shareholders' Meeting. The Extraordinary Shareholders' Meeting can give the Board of Directors a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital, also excluding or limiting option rights pursuant to the fourth paragraph, first sentence, and the fifth paragraph of article 2441 of the Italian Civil Code. The share capital can also be increased with contributions in kind and receivables. The Extraordinary Shareholders' Meeting of 28 April 2018 resolved to give the Board of Directors a Mandate pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, on one or more occasions, for a maximum of Euro 40,000,000.00 (forty million euro), including any share premium, by issuing ordinary shares with the same characteristics as those outstanding at the issue date and for the maximum number set by the Board of Directors depending on their issue price, to be paid up by means of	**Art. 6.** **Share capital** **Procedure for variation** **Price of shares** Share capital is variable and is represented by registered shares without nominal value. The issue of shares, which in principle is without limit, may be decided upon in the following ways: 1 - routinely by the Board of Directors; 2 - exceptionally, by a resolution adopted at an Extraordinary Shareholders' Meeting in accordance with the provisions of article 2441 of the Italian Civil Code. So long as the shares are quoted on a regulated market, the issue of new shares can only take place by a resolution of the Extraordinary Shareholders' Meeting. The Extraordinary Shareholders' Meeting can give the Board of Directors a mandate pursuant to art. 2443 of the Italian Civil Code to increase the share capital **and/or pursuant to article 2420-ter of the Italian Civil Code to issue bonds that are convertible or to be converted into shares,** also excluding and/or limiting option rights pursuant to art. 2441, fourth paragraph, first sentence, and of fifth paragraph, of the Italian Civil Code. The share capital can also be increased with contributions in kind and receivables. The Extraordinary Shareholders' Meeting of ~~28 April 2018~~ **[•] April 2019** resolved to give the Board of Directors a Mandate **(i)** pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, on one or more occasions, ~~for a maximum of Euro 40,000,000.00 (forty million euro), including any share premium~~, by issuing ordinary shares

a contribution in kind of investments in banks, as identified in the Board of Directors' report prepared for the meeting of 28 April 2018, subject to the authorisations required by law. This Mandate may be exercised within 12 (twelve) months from the date of the shareholders' resolution, with the broadest possible powers for the Board of Directors to establish, from time to time, in compliance with the procedures and criteria established by the legislation applicable at the time, methods, terms and conditions of the resolution or resolutions to increase the share capital, among which the dividend and voting rights, the issue price of the shares (and the parameters to determine it at the time of execution) and the calculation of the part to be booked to share capital and the amount to be booked to share premium, it being understood, in any case, that the Board of Directors will determine the issue price, including the possible share premium of the new shares to be issued.	with the same characteristics as those outstanding at the issue date and for the ~~maximum~~ number **that will be** set by the Board of Directors ~~depending on their issue price~~, to be paid up by means of a contribution in kind of ~~investments in banks~~ **shares of Cassa di Risparmio di Cento S.p.A.,** as identified in the Board of Directors' report prepared for the meeting of ~~28 April 2018~~ **[•] April 2019**, subject to the authorisations required by law; **and (ii) pursuant to art. 2420-*ter* of the Italian Civil Code to issue, with the exclusion of option rights pursuant to article 2441, fifth paragraph, of the Italian Civil Code, bonds to be converted with a consequent increase in capital to service the conversion by issuing ordinary shares, to be paid up by the sale of the shares of Cassa di Risparmio di Cento S.p.A., as identified in the explanatory report of the Board of Directors for the Shareholders' Meeting of [•] April 2019, subject to the authorisations required by law. without prejudice to the requirement that the maximum total value, including any premium, of the increase in capital for payment made on one or more occasions through the issues or conversions referred to in points (i) and (ii) above shall be Euro 40,000,000.00 (forty million/00).** This Mandate may be exercised within ~~12~~ **18** (~~twelve~~ **eighteen**) months from the date of the shareholders' resolution, with the broadest possible powers for the Board of Directors to establish, from time to time, in compliance with the procedures and criteria established by the legislation applicable at the time **and as detailed in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of [•] April 2019**, methods, terms and conditions

	of the resolution or resolutions to **(i)** increase the share capital, among which the dividend and voting rights, **the number of shares to be issued**, ~~the issue price of the shares (and the parameters to determine it at the time of execution)~~ and the calculation ~~of the part~~ **of the issue price** to be booked to share capital and the amount to be booked to share premium, ~~it being understood, in any case, that the Board of Directors will determine the issue price, including the possible share premium of the new shares to be issued~~, **as well as (ii) the issue of bonds to be converted, including all the necessary powers to define all the features of the bonds to be converted and the terms of the increase in capital to service the conversion of bonds, as well as the contents of the regulation governing the bond loan.** **Following the exercise of the mandate referred to in the previous points (i) and (ii), the Board of Directors is delegated to proceed with all the consequent formalities, which include updating the Articles of Associations and subsequent filing with the Companies Register.**

10. Withdrawal

The proposal to amend article 6 of the Articles of Association referred to in this Report does not give a right of withdrawal under article 2437 of the Italian Civil Code to shareholders who have not contributed to the resolutions referred to in this Report.

11. Resolution proposed to the Extraordinary Shareholders' Meeting

In light of the above, the Board of Directors intends to submit to the Extraordinary Shareholders' Meeting the following resolution proposal relating to the second item on the agenda for the extraordinary part:

«The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio: - società cooperativa per azioni:

- having examined the Board of Directors' report and the proposals made,

hereby resolves

1. *to revoke the mandate granted to the Board of Directors to increase the share capital pursuant to article 2443 of the Italian Civil Code assumed by the Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio – società cooperativa per azioni on 28 April 2018, starting from the date of this resolution;*

2. *to give the Board of Directors a mandate:*

(i) pursuant to article 2443 of the Italian Civil Code, to increase, on one or more occasions, the share capital for payment with the exclusion of option rights as per article 2441, fourth paragraph, first sentence, of the Italian Civil Code by issuing ordinary shares with the same characteristics as those outstanding on the issue date and for the number set by the Board of Directors itself, to be paid up by means of a contribution in kind of shares of Cassa di Risparmio di Cento S.p.A., subject to the authorisations required by law; and

(ii) pursuant to article 2420-ter of the Italian Civil Code to issue, excluding option rights pursuant to article 2441, fifth paragraph, of the Italian Civil Code, bonds to be converted, with a consequent increase in share capital to service the conversion through the issue of ordinary shares to be paid up through the transfer of shares of Cassa di Risparmio di Cento S.p.A., subject to the authorisations required by law;

without prejudice to the requirement that the maximum total value, including any premium, of the increase in capital for payment made on one or more occasions through the issues or conversions referred to in points (i) and (ii) above shall be Euro 40,000,000.00 (forty million/00).

3. *to establish, therefore, that the shares of Banca Popolare di Sondrio – società cooperativa per azioni that will be issued as part of the increase in share capital referred to in point 2(i) above which are the subject of this mandate will be subscribed and paid up by means of a contribution in favour of Banca Popolare di Sondrio – società cooperativa per azioni of the Cassa di Risparmio di Cento S.p.A. shares identified in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of [•] April 2019;*

4. *to establish, therefore, that the bonds to be converted of Banca Popolare di Sondrio – società cooperativa per azioni that will be issued as part of the bond loan referred to in point 2(ii) above, which is the subject of this mandate, will be subscribed and paid up through the sale of the shares of Cassa di Risparmio di Cento S.p.A. as identified in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of [•] April 2019, which may also be carried out by offsetting the receivable of Banca*

Popolare di Sondrio – società cooperativa per azioni versus Fondazione Cassa di Risparmio di Cento relating to the subscription of the bonds with the receivable of Fondazione Cassa di Risparmio di Cento versus Banca Popolare di Sondrio – società cooperativa per azioni in relation to the consideration for the shares of Cassa di Risparmio di Cento S.p.A. sold to Banca Popolare di Sondrio – società cooperativa per azioni;

5. *to grant the Board of Directors the power to establish, in the exercise of the aforementioned Mandate and in compliance with the applicable laws and regulations:*

- with reference to the increase in share capital:

(i) the amount of the increase in share capital to be resolved within the overall limits set in the point 2 above and in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of [•] April 2019;

(ii) the number of shares of Banca Popolare di Sondrio – società cooperativa per azioni to be offered in exchange for the shares of Cassa di Risparmio di Cento S.p.A. to act as a contribution in kind to the share capital of Banca Popolare di Sondrio – società cooperativa per azioni;

(iii) any other term or condition of the mandated increase in capital within the limits set by the applicable regulations and by this Mandate resolution;

- with reference to the bond loan:

(i) the nominal amount of the bond loan to be resolved within the overall limits set in the point 2 above and in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of [•] April 2019;

(ii) the number of bonds to be converted of Banca Popolare di Sondrio – società cooperativa per azioni that will be offered in exchange for the shares of Cassa di Risparmio di Cento S.p.A. that will be sold to Banca Popolare di Sondrio – società cooperativa per azioni, also by offsetting the receivable of Banca Popolare di Sondrio – società cooperativa per azioni versus Fondazione Cassa di Risparmio di Cento relating to the issue of bonds with the receivable of Fondazione Cassa di Risparmio di Cento versus Banca Popolare di Sondrio – società cooperativa per azioni in relation to the consideration for the shares of Cassa di Risparmio di Cento S.p.A. sold to Banca Popolare di Sondrio – società cooperativa per azioni, as identified in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of [•] April 2019;

(iii) any other term or condition of the mandated bond loan within the limits set by the applicable regulations and by this Mandate resolution;

6. *to amend article 6 of the Articles of Association accordingly by inserting a new sixth paragraph with the following content:*

The Extraordinary Shareholders' Meeting of [•] April 2019 resolved to give the Board of Directors a Mandate (i) pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, on one or more occasions by issuing ordinary shares with the same characteristics as those outstanding at the issue date and for the number that will be set by the Board of Directors, to be paid up by means of a contribution in kind of shares of Cassa di Risparmio di Cento S.p.A., as identified in the Board of Directors' report prepared for the meeting of [•] April 2019, subject to the authorisations required by law; and (ii) pursuant to art. 2420-*ter* of the Italian Civil Code to issue, with the exclusion of the option rights pursuant to article 2441, fifth paragraph, of the Italian Civil Code, bonds to be converted with a consequent increase in capital to service the conversion by issuing ordinary shares, to be paid up by the sale of the shares of Cassa di Risparmio di Cento S.p.A., as identified in the explanatory report of the Board of Directors for the meeting of [•] April 2019, subject to the authorisations required by law; without prejudice to the requirement that the maximum total value, including any premium, of the increase in capital for payment made on one or more occasions through the issues or conversions referred to in points (i) and (ii) above shall be Euro 40,000,000.00 (forty million/00).

This Mandate may be exercised within 18 (eighteen) months from the date of the Shareholders' resolution, with the broadest possible powers for the Board of Directors to establish, from time to time, in compliance with the procedures and criteria established by the legislation applicable at the time and as detailed in the explanatory report of the Board of Directors prepared for the meeting of [•] April 2019, methods, terms and conditions of the resolution or resolutions to (i) increase the share capital, among which the dividend and voting rights, the number of shares to be issued and the calculation of the part of the issue price to be booked to share capital and the amount to be booked to share premium, as well as (ii) the issue of bonds to be converted, including all the necessary powers to define all the features of the bonds to be converted and the terms of the increase in capital to service the conversion of bonds, as well as the contents of the regulation governing the bond loan.

Following the exercise of the mandate referred to in points (i) and (ii) above, the Board of Directors is delegated to proceed with all the consequent formalities, which include updating the Articles of Associations and subsequent filing with the Companies Register».

7. *to grant the Board of Directors, and for it to the Chairman and the Managing Director, jointly or severally, within the limits of the law, all possible powers to do anything that is necessary to implement and fully execute this resolution, with each and every power necessary and appropriate for this purpose, none excluded and excepted, including to make changes to this resolution, as well as additions or elimination of a non-substantial nature necessary for registration in the Companies Register, including any changes that may be necessary or opportune for technical-juridical reasons or requested by the competent Authorities, declaring as of now such action to be valid and ratified».*

Sondrio, 22 March 2019

The Board of Directors

RESOLUTIONS OF THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS’ MEETING

of 27 April 2019 (at second calling)

AGENDA

Ordinary part

1) *Presentation of the financial statements as of 31 December 2018: report of the Board of Directors and proposed allocation of profit; report of the Board of Statutory Auditors; related resolutions; presentation of the consolidated financial statements as of 31 December 2018;*
2) *Approval of the document entitled «Compensation Policies of the Banca Popolare di Sondrio Banking Group»;*
3) *Approval of the Remuneration Report, as per art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act);*
4) *Authorisation to buy and sell treasury shares in accordance with art. 21 of the articles of association and arts. 2529 and 2357 et seq. of the Italian Civil Code, in order to facilitate the circulation of shares, and authorisation to use the treasury shares already owned to service the compensation plan in implementation of the compensation policies;*
5) *Determination of directors' emoluments;*
6) *Appointment of five Directors for the three-year period 2019-2021;*
7) *Appointment of advisors and alternate advisors for the three-year period 2019-2021.*

Extraordinary part

1) *Proposal to amend article 6 of the Articles of Association. Related and consequent resolutions;*
2) *Proposal to give the Board of Directors a mandate (i) pursuant to art. 2443 of the Italian Civil Code to increase the share capital for payment, on one or more occasions, excluding option rights pursuant to art. 2441, fourth paragraph, first sentence, of the Italian Civil Code, through the issue of ordinary shares with the same characteristics as those outstanding to be paid up by means of a contribution in kind; and (ii) pursuant to art. 2420-ter of the Italian Civil Code to issue bonds convertible into ordinary shares, on one or more occasions, with the exclusion of option rights pursuant to art. 2441, fifth paragraph, of the Italian Civil Code, with consequent increase in capital to service the conversion through the issue of ordinary shares with the same characteristics as those outstanding; without prejudice to the requirement that the maximum total value, including any premium, of the increase in capital for payment made on one or more occasions through the issues or conversions referred to in points (i) and (ii) above shall be Euro 40,000,000.00 (forty million/00). Furthermore, in exercising the mandate within eighteen (18) months of the date of the shareholders' resolution and in accordance with the limits indicated above, from time to time, the Board of Directors shall have the fullest right to establish methods, terms and conditions of the increase in capital. Consequent amendments to article 6 of the Articles of Association. Related and consequent resolutions.*

For the ordinary part

Point 1) on the agenda

Having heard the directors' report on operations for 2018 and the proposed allocation of the profit for the year, having taken note of the report of the Board of Statutory Auditors and that of the Independent Auditors, having taken as read the balance sheet, income statement and explanatory notes, as well as the financial statements of the subsidiaries, the Meeting

approved:

– the directors' report on operations;
– the financial statements at 31 December 2018, comprising the balance sheet, income statement and related explanatory notes; the financial statements that show a profit for the year of € 83,623,117. The Shareholders' Meeting also approved the allocation of profit for the year of € 83,623,117 as proposed by the Board of Directors in accordance with current legislation and the articles of association and, in particular, resolved:

a) to allocate:		
– 10% to the legal reserve	€	8,362,311.70
– 30% to the statutory reserve	€	25,086,935.10
b) to pay a dividend of € 0.05 to each of the 453,385,777 shares in circulation at 31/12/2018 with dividend rights as from 1/1/2018, transferring to the statutory reserve the amount of the dividends due to any treasury shares held by the Bank on the working day prior to going ex-coupon, for a total amount of	€	22,669,288.85
c) to allocate the residual profit:		
– to the reserve for donations	€	100,000.00
– to the legal reserve, a further	€	27,404,581.35

In accordance with the Stock Exchange calendar, the dividend was paid from 22 May 2019, going ex-coupon (no. 41) on 20 May 2019.

Point 2) on the agenda

The Meeting approved the document «Compensation Policies of the Banca Popolare di Sondrio Banking Group» and information on how these compensation policies were implemented in 2018.

Point 3) on the agenda

The Shareholders' Meeting approved the first Section of the Remuneration Report, as per art. 123-ter of Legislative Decree 58/98 (Consolidated Finance Act).

Point 4) on the agenda

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

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

Purchases and sales will be possible between the date of this Shareholders' Meeting and the next Shareholders' Meeting called to approve the 2019 financial statements. Purchases have to take place at a price that is not higher than the closing price posted at the end of the market day immediately prior to each purchase using the above-mentioned «Reserve» of Euro 30,000,000 and with a further limit that, depending on the trades carried out, share ownership must not exceed a maximum number of 2% of the shares making up the share capital. Sales have to take place at a price that is not lower than the closing price posted on the market day immediately prior to each sale, reducing the use of the above-mentioned «Reserve» of Euro 30,000,000.

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

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

The Meeting authorised the Board of Directors to use, up to a maximum total amount of Euro 496,600, the ordinary shares in Banca Popolare di Sondrio already held by the Bank to service the 2019 Compensation Plan based on financial instruments during the life of that plan. The number of shares used to service the above Plan shall be determined with reference to the closing price struck on the date on which the Board of Directors resolves to assign the variable remuneration.

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

Point 5) on the agenda

The Meeting set the remuneration of the directors in accordance with the current «Compensation Policies of the Banca Popolare di Sondrio Banking Group».

Point 6) on the agenda

The Meeting appointed the following as directors for the period 2019-

2021: Francesco Venosta, Serenella Rossi, Cristina Galbusera, Domenico Triacca and Federico Falck.

Point 7) on the agenda

The Meeting appointed the following as advisors for the period 2019-2021: Alberto Crespi, Giuseppe Guarino, Andrea Monorchio, acting advisors, Diana Bracco and Antonio La Torre, alternate advisors.

For the extraordinary part

Point 1) on the agenda

The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio società cooperativa per azioni, having taken note of the Board of Directors' Report on the proposed amendments to the Articles of Association and the proposals made in it, subject to obtaining the required legal authorisations,

resolved:

A. to amend article 6 of the Articles of Association, approving this amendment according to the text shown in the Report for the reasons explained in it;
B. to grant the Board of Directors, and for it to the Chairman and the Managing Director, jointly or severally, within the limits of the law, all possible powers to do anything that is necessary to implement and fully execute this resolution, with each and every power necessary and appropriate for this purpose, none excluded and excepted, including to make changes to this resolution, as well as additions or elimination of a non-substantial nature necessary for registration in the Companies Register, including any changes that may be necessary or opportune for technical-juridical reasons or requested by the competent Authorities, declaring as of now such action to be valid and ratified

Point 2) on the agenda

The Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio:
- società cooperativa per azioni:
– having examined the Board of Directors' report and the proposals made,

resolved:

1. *to revoke the mandate granted to the Board of Directors to increase the share capital pursuant to article 2443 of the Italian Civil Code assumed by the Extraordinary Shareholders' Meeting of Banca Popolare di Sondrio – società cooperativa per azioni on 28 April 2018, starting from the date of this resolution;*
2. *to give the Board of Directors a mandate:*
(i) pursuant to article 2443 of the Italian Civil Code, to increase, on one

or more occasions, the share capital for payment with the exclusion of option rights as per article 2441, fourth paragraph, first sentence, of the Italian Civil Code by issuing ordinary shares with the same characteristics as those outstanding on the issue date and for the number set by the Board of Directors itself, to be paid up by means of a contribution in kind of shares of Cassa di Risparmio di Cento S.p.A., subject to the authorisations required by law; and

(ii) pursuant to article 2420-ter of the Italian Civil Code to issue, excluding option rights pursuant to article 2441, fifth paragraph, of the Italian Civil Code, bonds to be converted, with a consequent increase in share capital to service the conversion through the issue of ordinary shares to be paid up through the transfer of shares of Cassa di Risparmio di Cento S.p.A., subject to the authorisations required by law;

without prejudice to the requirement that the maximum total value, including any premium, of the increase in capital for payment made on one or more occasions through the issues or conversions referred to in points (i) and (ii) above shall be Euro 40,000,000.00 (forty million/00).

3. *to establish, therefore, that the shares of Banca Popolare di Sondrio – società cooperativa per azioni that will be issued as part of the increase in share capital referred to in point 2(i) above which are the subject of this mandate will be subscribed and paid up by means of a contribution in favour of Banca Popolare di Sondrio – società cooperativa per azioni of the Cassa di Risparmio di Cento S.p.A. shares identified in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of 27 April 2019;*

4. *to establish, therefore, that the bonds to be converted of Banca Popolare di Sondrio – società cooperativa per azioni that will be issued as part of the bond loan referred to in point 2(ii) above, which is the subject of this mandate, will be subscribed and paid up through the sale of the shares of Cassa di Risparmio di Cento S.p.A. as identified in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of 27 April 2019, which may also be carried out by offsetting the receivable of Banca Popolare di Sondrio – società cooperativa per azioni versus Fondazione Cassa di Risparmio di Cento relating to the subscription of the bonds with the receivable of Fondazione Cassa di Risparmio di Cento versus Banca Popolare di Sondrio – società cooperativa per azioni in relation to the consideration for the shares of Cassa di Risparmio di Cento S.p.A. sold to Banca Popolare di Sondrio – società cooperativa per azioni;*

5. *to grant the Board of Directors the power to establish, in the exercise of the aforementioned Mandate and in compliance with the applicable laws and regulations:*

– with reference to the increase in share capital:

(i) the amount of the increase in share capital to be resolved within the overall limits set in the point 2 above and in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of 27 April 2019;

(ii) the number of shares of Banca Popolare di Sondrio – società

cooperativa per azioni to be offered in exchange for the shares of Cassa di Risparmio di Cento S.p.A. to act as a contribution in kind to the share capital of Banca Popolare di Sondrio – società cooperativa per azioni;

(iii) any other term or condition of the mandated increase in capital within the limits set by the applicable regulations and by this Mandate resolution;

– *with reference to the bond loan:*

(i) the nominal amount of the bond loan to be resolved within the overall limits set in the point 2 above and in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of 27 April 2019;

(ii) the number of bonds to be converted of Banca Popolare di Sondrio – società cooperativa per azioni that will be offered in exchange for the shares of Cassa di Risparmio di Cento S.p.A. that will be sold to Banca Popolare di Sondrio – società cooperativa per azioni, also by offsetting the receivable of Banca Popolare di Sondrio – società cooperativa per azioni versus Fondazione Cassa di Risparmio di Cento relating to the issue of bonds with the receivable of Fondazione Cassa di Risparmio di Cento versus Banca Popolare di Sondrio – società cooperativa per azioni in relation to the consideration for the shares of Cassa di Risparmio di Cento S.p.A. sold to Banca Popolare di Sondrio – società cooperativa per azioni, as identified in the explanatory report of the Board of Directors prepared for the Shareholders' Meeting of 27 April 2019;

(iii) any other term or condition of the mandated bond loan within the limits set by the applicable regulations and by this Mandate resolution;

6. to amend article 6 of the Articles of Association accordingly by inserting a new sixth paragraph with the following content:

«The Extraordinary Shareholders' Meeting of 27 April 2019 resolved to give the Board of Directors a Mandate (i) pursuant to article 2443 of the Italian Civil Code to increase the share capital for payment, excluding option rights pursuant to article 2441, fourth paragraph, first sentence, of the Italian Civil Code, on one or more occasions by issuing ordinary shares with the same characteristics as those outstanding at the issue date and for the number that will be set by the Board of Directors, to be paid up by means of a contribution in kind of shares of Cassa di Risparmio di Cento S.p.A., as identified in the Board of Directors' report prepared for the meeting of 27 April 2019, subject to the authorisations required by law; and (ii) pursuant to art. 2420-ter of the Italian Civil Code to issue, with the exclusion of the option rights pursuant to article 2441, fifth paragraph, of the Italian Civil Code, bonds to be converted with a consequent increase in capital to service the conversion by issuing ordinary shares, to be paid up by the sale of the shares of Cassa di Risparmio di Cento S.p.A., as identified in the explanatory report of the Board of Directors for the meeting of 27 April 2019, subject to the authorisations required by law;

without prejudice to the requirement that the maximum total value, including any premium, of the increase in capital for payment made on one or more occasions through the issues or conversions referred to in points (i) and (ii) above shall be Euro 40,000,000.00 (forty million/00).
This Mandate may be exercised within 18 (eighteen) months from the date of the Shareholders' resolution, with the broadest possible powers for the Board of Directors to establish, from time to time, in compliance with the procedures and criteria established by the legislation applicable at the time and as detailed in the explanatory report of the Board of Directors prepared for the meeting of 27 April 2019, methods, terms and conditions of the resolution or resolutions to (i) increase the share capital, among which the dividend and voting rights, the number of shares to be issued and the calculation of the part of the issue price to be booked to share capital and the amount to be booked to share premium, as well as (ii) the issue of bonds to be converted, including all the necessary powers to define all the features of the bonds to be converted and the terms of the increase in capital to service the conversion of bonds, as well as the contents of the regulation governing the bond loan.
Following the exercise of the mandate referred to in the previous points (i) and (ii), the Board of Directors is delegated to proceed with all the consequent formalities, which include updating the Articles of Associations and subsequent filing with the Companies Register».

7. *to grant the Board of Directors, and for it to the Chairman and the Managing Director, jointly or severally, within the limits of the law, all possible powers to do anything that is necessary to implement and fully execute this resolution, with each and every power necessary and appropriate for this purpose, none excluded and excepted, including to make changes to this resolution, as well as additions or elimination of a non-substantial nature necessary for registration in the Companies Register, including any changes that may be necessary or opportune for technical-juridical reasons or requested by the competent Authorities, declaring as of now such action to be valid and ratified.*

THE BANK'S GROWTH SINCE ITS FOUNDATION, KEY FINANCIAL DATA

Year	Financial investments euro	Customer loans euro	Fiduciary funds euro	Equity (capital &reserves) euro	Profit for the year euro	Dividend euro
1871	26	93	37	47	1	0.001
1875	109	675	569	181	21	0.002
1880	46	1,024	777	360	33	0.002
1885	213	1,431	1,161	410	42	0.002
1890	459	1,805	1,646	457	49	0.002
1895	840	1,380	1,631	453	36	0.002
1900	860	1,627	1,987	465	43	0.002
1905	940	2,330	2,834	504	53	0.002
1910	1,460	3,717	4,738	563	68	0.003
1915	2,425	3,399	5,178	658	59	0.002
1920	7,906	9,100	22,320	1,232	186	0.005
1925	9,114	35,692	39,924	2,303	523	0.006
1930	12,899	43,587	54,759	3,230	561	0.006
1935	21,402	30,912	53,190	3,543	339	0.004
1940	24,397	32,808	57,064	3,091	312	0.002
1945	112,239	101,840	191,619	6,491	817	0.002
1950	608,460	892,440	1,359,864	50,496	10,834	0.041
1955	1,413,363	2,372,139	3,573,499	262,122	25,998	0.124
1960	3,474,898	5,864,314	9,124,181	495,960	45,997	0.150
1965	6,564,058	9,861,955	18,238,851	670,265	60,044	0.170
1970	11,228,709	21,140,462	34,440,002	1,577,469	86,800	0.196
1975	49,247,998	46,458,454	103,136,018	4,940,413	336,351	0.284
1980	248,877,713	135,350,391	386,128,259	44,618,760	2,298,768	0.620
1981	303,227,605	149,856,755	435,958,220	70,294,839	3,543,126	0.878
1982	434,505,499	168,991,589	564,440,308	93,988,765	5,876,973	0.930
1983	551,731,767	201,889,280	722,876,267	105,498,725	9,795,722	1.394
1984	657,323,707	244,311,938	885,640,690	117,286,747	11,754,271	1.911
1985	669,773,787	327,572,423	985,454,131	123,347,208	13,332,058	2.582
1986	854,978,708	381,346,894	1,108,118,326	129,106,270	13,582,958	2.169
1987	954,429,924	407,643,937	1,205,007,005	134,486,897	13,588,657	2.169
1988	950,465,324	510,164,638	1,285,408,512	139,730,318	13,665,548	2.272
1989	958,277,398	634,760,956	1,431,120,712	145,100,954	13,984,014	2.324
1990	919,261,388	819,877,375	1,567,539,101	170,006,961	14,919,668	1.653
1991	886,480,827	1,014,385,379	1,708,284,250	192,743,654	16,018,859	1.653
1992	1,162,262,510	1,202,265,949	2,151,786,340	198,979,714	16,304,997	1.704
1993	1,675,065,908	1,441,158,530	2,862,510,529	250,913,662	17,860,906	1.136
1994	1,438,251,891	1,701,208,296	2,922,731,483	258,100,923	16,976,601	1.136
1995	1,828,374,994	1,903,530,111	3,401,567,857	335,480,368	18,688,353	0.413
1996	1,817,497,737	2,120,842,006	3,590,238,215	345,127,951	20,685,619	0.439
1997	1,730,940,393	2,485,706,688	3,844,781,082	353,507,281	20,796,084	0.439
1998	2,005,202,039	2,990,333,100	4,343,203,973	535,162,454	24,784,724	0.196
1999	1,993,529,114	3,724,763,745	5,058,960,710	557,555,696	30,555,532	0.232
2000	2,043,141,602	4,443,945,484	5,829,901,035	576,036,331	38,428,768	0.300
2001	2,618,137,267	5,579,546,805	7,374,954,358	731,304,438	46,064,525	0.180
2002	3,218,789,508	6,246,734,925	8,626,473,276	752,369,741	46,703,800	0.190
2003	2,827,584,863	7,117,211,453	9,139,503,657	773,957,639	60,117,119	0.230
2004	3,492,730,224	8,078,424,234	10,498,481,204	1,031,391,991	73,210,556	0.170
2005	4,029,597,013	9,197,849,967	11,928,279,967	1,119,500,111	85,178,406	0.190
2006	4,216,404,673	10,560,504,042	13,316,179,364	1,231,012,722	107,113,135	0.230
2007	5,174,395,815	12,402,268,867	15,844,113,698	1,592,235,650	130,823,404	0.220
2008	5,260,646,663	14,936,103,083	18,469,073,506	1,492,021,195	13,735,247	0.030
2009	4,794,397,579	16,711,080,589	19,779,755,056	1,683,715,881	190,674,454	0.330
2010	5,063,550,816	18,247,861,145	21,243,136,724	1,722,830,035	133,319,754	0.210
2011	5,742,516,051	20,606,382,386	24,261,565,885	1,676,472,699	57,283,707	0.090
2012	7,098,208,844	22,3 90,051,929	27,490,789,964	1,711,323,846	25,822,369	0.033
2013	8,696,206,457	20,843,577,225	27,752,052,266	1,773,767,299	48,831,672	0.050
2014	11,078,365,152	20,535,826,086	29,329,977,518	2,221,418,922	97,552,111	0.060
2015	10,945,940,157	20,021,406,321	28,704,284,801	2,334,513,952	100,064,082	0.070
2016	11,185,303,807	21,331,910,550	30,252,182,840	2,334,785,742	80,047,620	0.060
2017	15,201,247,408	21,819,028,458	34,664,943,911	2,426,948,619	118,400,102	0.070
2018	14,716,303,975	21,483,735,791	33,770,793,630	2,366,819,712	83,623,117	0.050

The figures for the years prior to 1993 have not been adjusted for consistency with those of subsequent years, which are aggregated with different criteria following the regulatory changes that have occurred.

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