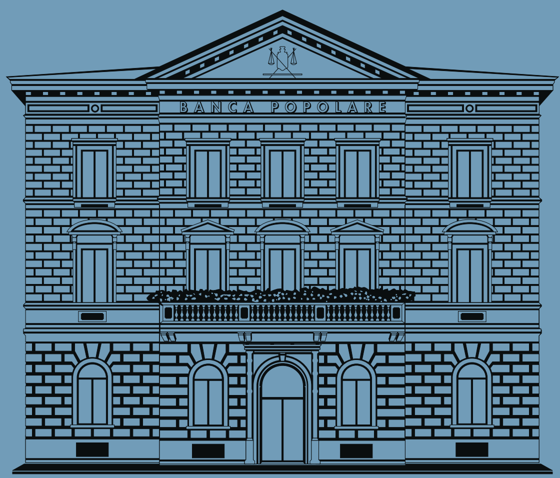
Banca Popolare di Sondrio



CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2018

Banca Popolare di Sondrio

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Banca Popolare di Sondrio

Founded in 1871

CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2018

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

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Official List of Cooperative Banks no. A160536
Parent Company of the Banca Popolare di Sondrio Group -
Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1.360.157.331 – Reserves: € 1.034.954.284 (Figures approved at the shareholders' meeting of 28 April 2018)

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 7 February 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

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

* Members of the Chairman's Committee

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

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO
Founded in 1871

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

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

VIRTUAL UNIT
corso Vittorio Veneto 7, Sondrio

BRANCHES AND TREASURIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PROVINCE OF PADOVA • **PADOVA** via Ponte Molino 4

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

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

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

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

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

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

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

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

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

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

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

PROVINCE OF VERCELLI • **VERCELLI** piazza B. Mazzucchelli 12

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

PROVINCE OF VICENZA
VICENZA corso Santi Felice e Fortunato 88

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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
SWITZERLAND
www.bps-suisse.ch - contact@bps-suisse.ch

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fax +41 58 8553015

HEAD OFFICE
Lugano, via Maggio 1 tel. +41 58 8553100

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LUGANO - LUGANO Cassarate - BASEL - BELLINZONA - BERN - BIASCA - CASTASEGNA - CELERINA - CHIASSO - CHUR - LOCARNO - MARTIGNY - NEUCHÂTEL - PONTRESINA - POSCHIAVO - SAMEDAN - ST. MORITZ - ZÜRICH
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tel. +39 02 58150.1 - fax +39 02 58150.205
www.factorit.it - info@factorit.it

BANCA DELLA NUOVA TERRA SPA
Registered Office: Sondrio, piazza Giuseppe Garibaldi 16
tel. 0342 528 111 - fax 0342 528 204
www.bancanuovaterra.it - infobanca@bancanuovaterra.it

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Registered Office: Roma, via Nazionale 230
Toll-free number 800-735800
www.prestinuova.it - info@prestinuova.it

PIROVANO STELVIO SPA - The Ski University
Albergo Quarto - Passo dello Stelvio (m 2.760-3.450)
Sondrio, via Delle Prese 8 - tel. +39 0342 210 040 - fax +39 0342 514 685
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www.popso.bibliotecacredaro.it - info@popso.bibliotecacredaro.it

Ⓣ Treasury – Updated to 31 July 2018

BRANCH NETWORK OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP

Banca Popolare di Sondrio

Founded in 1871

BRANCHES by province:

- 51 SONDRIO and 15 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
- 2 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 e VICENZA
- 1 in the Autonomous Region of Valle d'Aosta and 2 Treasuries

Representative offices and desks abroad:

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BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

Branches in:

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

Principality of Monaco:

- MONACO

Factorit

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

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

Member of Factors Chain International with over 400 foreign correspondents in the most important international markets.

Operating at Banca Popolaredi Sondrio's branches and at its partner banks' counters.

BNT BANCA

Banca della Nuova Terra

Registered Office: SONDRIO

PrestiNuova

Registered Office: ROMA

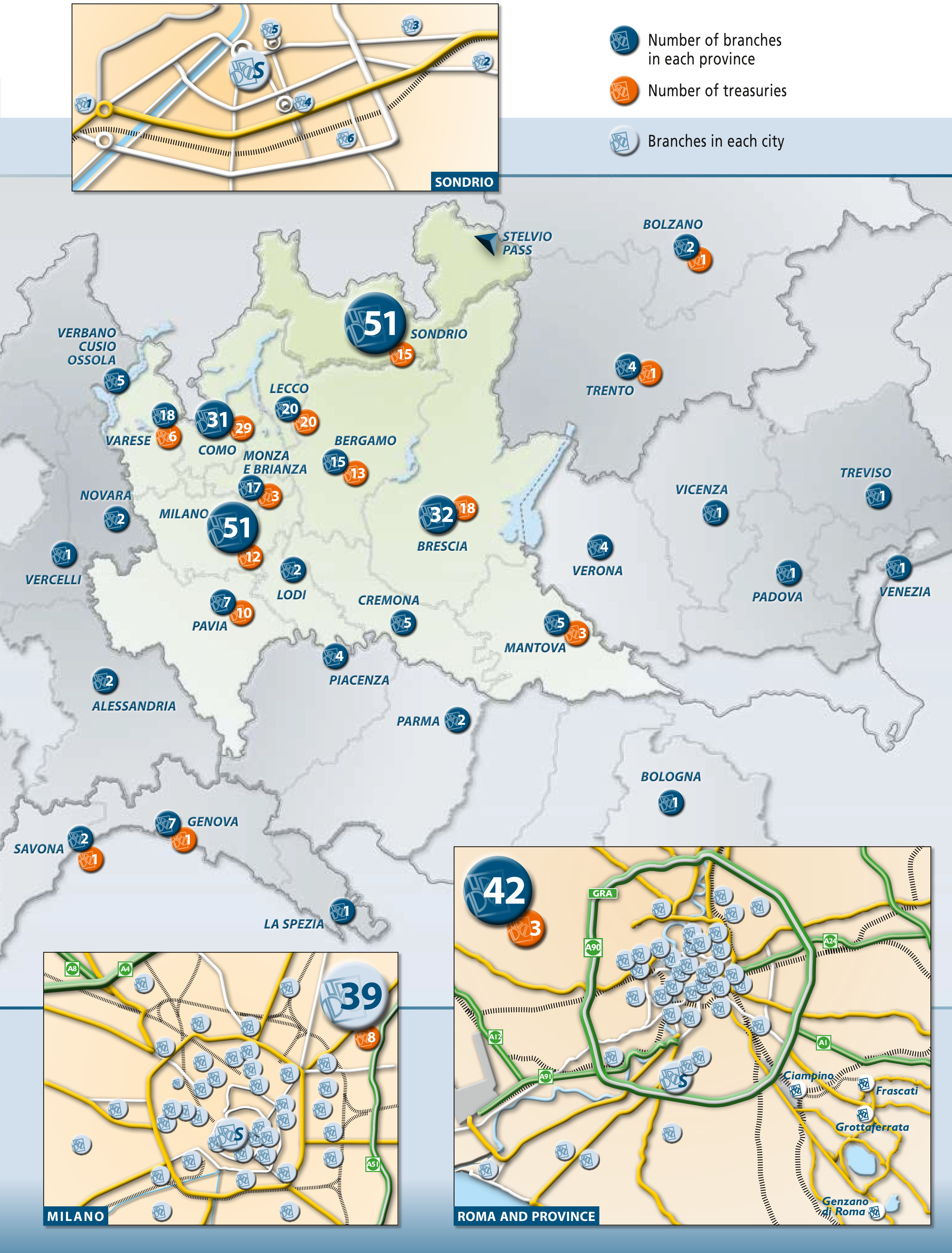
PIROVANO

PASSO DELLO STELVIO 2760 metri 3450

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

THE BANKING GROUP IN THE HEART OF THE ALPS

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



Updated to 31 July 2018

INFORMATION ON OPERATIONS

Note. *The figures contained in this interim report on operations are stated in euro; the percentage changes refer to comparable balance sheet data at the end of 2017 and to comparable income statement data for the period to 30 June 2017, unless specified otherwise.*
Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of amounts expressed in different units.

INTERIM REPORT ON OPERATIONS AT 30 JUNE 2018

INTRODUCTION

The consolidated interim financial report at 30 June 2018 has been prepared pursuant to article 154 ter, paras 2, 3 and 4 of Decree Law 58 of 24 February 1998 and in accordance with the recognition and measurement criteria of the international accounting standards (IAS/IFRS) adopted by the European Community and currently in force, as explained in the notes.

The condensed consolidated interim financial statements have been prepared in compliance with IAS 34. Accordingly, the interim report gives priority to information prepared at a consolidated level. Given the predominance of Banca Popolare di Sondrio S.C.p.A. within the Group, most of the comments refer to its activities.

IFRS 9, which took effect on 1 January 2018, has introduced significant changes in the areas of «classification and measurement», «impairment» and «hedge accounting» of financial instruments.

Please refer to the notes for detailed information on the application of accounting standards and the effects of first-time adoption (FTA) of IFRS 9 and IFRS 15.

The comparative figures in the balance sheet and income statement have not been restated, as envisioned by paragraph 7.2.15 of IFRS 9. The comparative figures for 2017 therefore coincide with the ones that were approved. However, in this report, the effects of FTA have been taken into consideration in the comments on balance sheet items.

THE BANCA POPOLARE DI SONDRIO BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

Banca Popolare di Sondrio S.C.p.A. – Sondrio

Group companies:

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

The Parent Company holds all the capital of Banca Popolare di Sondrio (SUISSE) SA, CHF 180,000,000.

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 Srl, 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.

Popso Covered Bond S.r.l. – Conegliano (Tv).

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

FULLY CONSOLIDATED SHAREHOLDINGS:

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

* equity investments not included in the banking group
** held by Sinergia Seconda S.r.l.

SHAREHOLDINGS MEASURED USING THE EQUITY METHOD:

Name	Head office	Share capital (in thousands)	% held
Alba Leasing S.p.A.	Milan	357,953	19.264
Arca Vita S.p.A.	Verona	208,279	14.837
Arca Holding S.p.A.	Milan	50,000	21.137
Unione Fiduciaria S.p.A.	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Bormio Golf S.p.A.	Bormio	317	25.237
Lago di Como Gal Scrl	Canzo	22	28.953
Acquedotto dello Stelvio S.r.l. **	Bormio	21	27.000
Sifas S.p.A. **	Bolzano	1,209	21.614
Rent2Go S.r.l.	Bolzano	3,300	33.333
Rajna Immobiliare S.r.l.	Sondrio	20	50.000

* held by Banca Popolare di Sondrio (Suisse) SA.
** held by Pirovano Stelvio S.p.a.

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

SUMMARY OF RESULTS

(in millions of euro)

Balance sheet	**30/06/2018**	**01/01/2018***	**% Change**
Loans to customers	26,017	25,696	1.25
Loans and receivables with customers measured at amortised cost	25,795	25,570	0.88
Loans and receivables with customers measured at fair value through profit or loss	222	126	76.19
Loans and receivables with banks	1,282	1,920	-33.23
Financial assets that do not constitute loans	12,177	11,889	2.41
Equity investments	213	218	-2.17
Total assets	41,553	41,586	-0.08
Direct funding from customers	31,193	31,634	-1.40
Indirect funding from customers	30,573	30,119	1.51
Direct funding from insurance premiums	1,386	1,336	3.79
Customer assets under administration	63,152	63,089	0.10
Other direct and indirect funding	10,518	10,164	3.48
Equity	2,599	2,634	-1.32

Income statement	**30/06/2018**	**30/06/2017***	**% Change**
Net interest income	250	239	4.56
Total income	433	443	-2.15
Profit from continuing operations	102	87	17.45
Profit for the period	74	56	31.64

Key ratios (%)		
Cost/income ratio	58.87	54.09
Net interest income/Total assets	0.60	0.59
Net financial income/Total assets	0.83	0.79
Net interest income/Total income	57.64	53.94
Administrative expenses/Total income	62.63	59.24
Profit for the period/Total assets	0.18	0.14
Non-performing loans/Loans and receivables with customers	2.92	3.03
Loans to customers/Direct funding from customers	83.41	81.42

Capital ratios		
CET 1 capital ratio	11.74%	11.60%
Total Capital ratio	13.56%	13.66%
Free capital	1,235	1,287

Other information on the banking group		
Number of employees	3,220	3,196
Number of branches	363	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 30 June 2017 have been calculated in accordance with IAS 39, as are the ratios, so they are not fully comparable.

INTERNATIONAL ASPECTS

Despite a slowdown in the first few months of the year, the outlook for the global economy remains favourable in the short term.

The main risk factors are linked to the intensification of commercial tensions generated by the protectionist orientation of the US Administration. Indeed, at the beginning of the year, there was a decline in the rate of growth of world trade. Growing concerns also derive from the difficulty with which the negotiations for the orderly exit of the United Kingdom from the European Union proceed, a reflection – according to some – of the EU's struggle to reaffirm its fundamental raisons d'être.

Inflationary pressures in the main advanced economies have stayed moderate. Nor have the major emerging nations shown signs of a significant acceleration. This despite a marked increase in oil prices and energy costs generally.

On the interest rate front, the Federal Reserve continued its policy of gradual increases. Further steps in this direction are expected for the current year.

However, the economic cycle in the United States has stayed robust throughout the entire half-year, supported by an increase in employment and disposable income. Japan and the United Kingdom have also done reasonably well, despite a certain deceleration.

China and India have confirmed that they are maintaining strong growth rates, even though there were signs of a slight decline in the second quarter of the year. Russia has benefited from the surge in oil products, while the outlook for Brazil has remained fragile.

The euro area took a breather during the first half of 2018 compared with the good growth achieved the previous year, caused by a particularly marked deceleration in Germany and France. The sharp decline in exports was offset by domestic demand, sustained by private consumption in particular. Inflation has picked up, driven by the increase in the energy bill, among other things.

THE SCENARIO FOR OUR GROUP

Italy

In the first half of the year, the Italian economy basically followed the same script as the rest of the euro area. There was a certain drop in pressure, which had a negative impact on growth.

In particular, while household spending was good, it was offset by a contraction in capital investment and a decline in exports.

Inflation reached 1.5% at the end of the half-year, driven by oil and food prices. However, expectations are for it to evolve slowly.

In the banking sector, the constant improvement in credit quality, also reflected in the decline in new non-performing items, has undoubtedly helped the solid trend in loans to households and the expansion of loans to businesses. Funding has also increased, despite the constant decline in bonds.

Given the strong competition, borrowing conditions are still extremely favourable.

Switzerland

Switzerland also saw a decline in economic momentum at the beginning of 2018.

However, this should only be a temporary slowdown, as a sustained increase in GDP is expected in the coming months, to nearly 2.5%. This is certainly an ambitious goal, but it seems to be due to the fact that the global economic situation and a favourable trend in the exchange rate is pushing demand for Swiss products internationally. At the same time, domestic demand also looks strong.

The Swiss National Bank has maintained its expansionary monetary policy in order to stabilise price rises and support economic activity. The recovery in oil prices justifies a forecast of inflation rising to 0.9% by the end of the year; the level of use of production factors is also continuing to improve.

THE ITALIAN BANKING MARKET

While the official ECB rate remained at zero, between June 2017 and June 2018 the cost of funding from households and non-financial companies fell from 0.76% to 0.73% and the yield on interest-bearing assets from 2.25% to 2.15%, so the spread was reduced to 1.42% from 1.49% a year ago.

Looking ahead, the recent widening of the BTP-Bund spread could lead to higher coupons on proprietary government securities, indirectly contributing, however, to a simultaneous rise in the cost of funding, which in the coming years will be conditioned by the need to place wholesale bond issues to replace TLTRO funds as they expire and meet regulatory requisites for the Minimum Requirement for own funds and Eligible Liabilities (MREL) and the Net Stable Funding Ratio (NSFR).

Any hope to boosting net interest income will therefore depend on a recovery in volumes.

From this point of view, the changes restated to take account of certain phenomena, such as securitisations, were moderately positive for both loans (+2.6%) and deposits (+1.8%).

However, the most important observation continues to be the even stronger trend in asset quality, which reflects on the ratio between net non-performing loans and loans: in the twelve months to May it has fallen from 4.38% to 2.84%; this is the result of cleaning up the financial statements by means of loan disposals and better debt recovery and a reduction in new impaired loans thanks to a better economic situation.

The consequent benefits to the income statement - given that the accounting of losses on the additional loan disposals has already been sterilised on first-time adoption of IFRS 9, with an impact on equity - would be the main lever for improving profitability in the sector generally: with revenues slowing down, also due to the trading situation, and costs that cannot be compressed beyond a certain limit (because of the need to invest in digitisation), it would be good, after last year's return to profitability, if we could repeat this result, but without the extraordinary items that inflated it in 2017.

FUNDING

At system level, bank funding has continued to grow and the clear contrast between the trends in short- and medium/long-term sources was confirmed, with the former rising and the latter shrinking. The negative trend in bonds was offset, above all, by the positive trend in customer deposits.

Direct funding from customers at 30 June 2018, which consists of amounts due to customers (line item 10 b) and debt securities in issue (line item 10 c), amounted to 31,193 million, down by 1.40% on the 2017 year-end and up by 4.88% on June 2017. The excess of customer deposits versus loans has made it possible to continue the steps taken to hold down the cost of funding, which is essential given the current rate structure; this has been helped by the considerable liquidity that the Group has available, partly thanks to the TLTRO refinancing operations.

Indirect funding from customers totalled 30,573 million at market values, +1.51% on the end of 2017.

Direct funding from insurance premiums increased to 1,386 million, +3.79%.

Total funding from customers therefore amounted to 63,152 million, +0.10%.

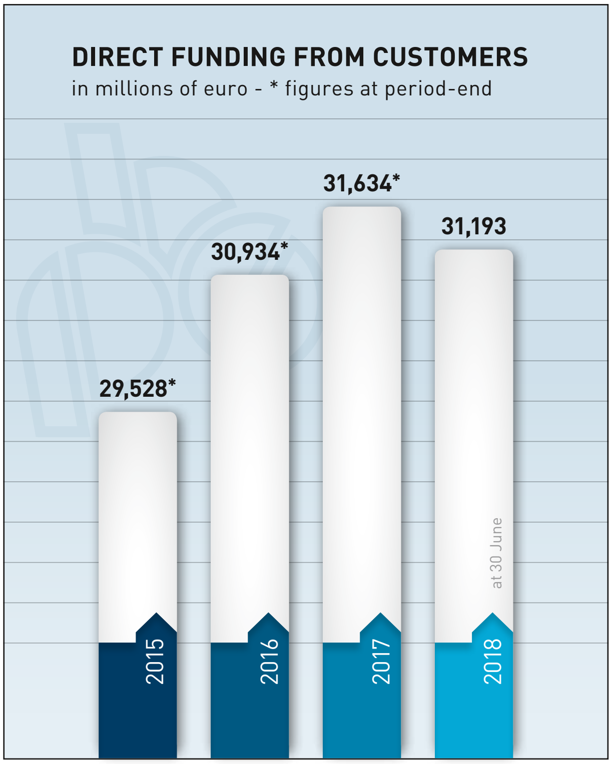
Amounts due to banks totalled 6,391 million, +3.00%. They include the refinancing operations with the European Central Bank for a total of 4,600 million, as explained in the chapter on «Treasury and trading operations».

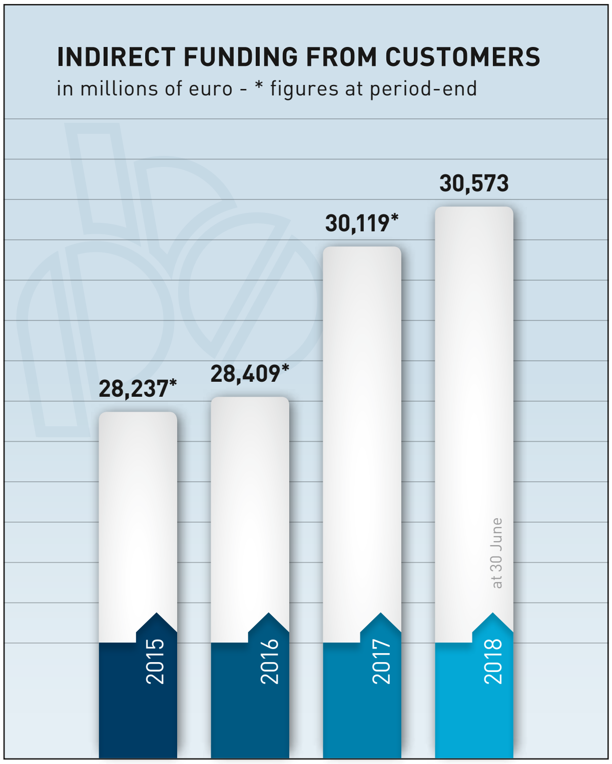
Indirect funding from banks amounts to 4,128 million, +4.24%.

Total funding from customers and banks therefore came to 73,670 million, +0.57%.

The «Direct funding from customers» table shows the various components in greater detail than in the notes and with short comments on the main items.

Considering the individual components, current accounts in euro and foreign currency dropped to 26,164 million, -2.34%, and make up 83.88% of all direct funding. Bonds showed a slight decline to 2,698 million, -0.96%, in line with market sentiment for this type of funding instrument, as did savings deposits, 525 million, -1.15%. Time deposit accounts amounted to 681 million, -39.30%. Repo transactions have





DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	30-06-2018	% of total	01-01-2018	% of total	% Change
Savings deposits	525,150	1.68	531,271	1.68	-1.15
Certificates of deposit	1,793	0.01	2,101	0.01	-14.66
Bonds	2,697,729	8.65	2,723,980	8.61	-0.96
Repo transactions	1,011,629	3.24	356,725	1.13	183.59
Bank drafts and similar	111,375	0.36	107,277	0.34	3.82
Current accounts	23,727,024	76.07	24,451,274	77.29	-2.96
Time deposit accounts	681,342	2.18	1,122,442	3.55	-39.30
Current accounts in foreign currency	2,436,646	7.81	2,339,214	7.39	4.17
Total	**31,192,688**	**100.00**	**31,634,284**	**100.00**	**-1.40**

TOTAL FUNDING

(in thousands of euro)	30-06-2018	% of total	01-01-2018	% of total	% Change
Total direct funding from customers	31,192,688	42.34	31,634,284	43.18	-1.40
Total indirect funding from customers	30,572,770	41.50	30,119,036	41.12	1.51
Total direct funding from insurance premiums	1,386,247	1.88	1,335,569	1.82	3.79
Total	**63,151,705**	**85.72**	**63,088,889**	**86.12**	**0.10**
Due to banks	6,390,698	8.68	6,204,835	8.47	3.00
Indirect funding from banks	4,127,503	5.60	3,959,663	5.41	4.24
Grand total	**73,669,906**	**100.00**	**73,253,387**	**100.00**	**0.57**

increased significantly: 1,012 million, +183.59%. Certificates of deposit amounted to 2 million, continuing to be entirely marginal. Bank drafts amounted to 111 million, +3.82%.

As regards asset management, please see the chapter on Treasury and Trading Operations.

LOANS TO CUSTOMERS

The trend in bank loans remained positive during the first six months of the year, despite signs of a slowdown in the economic cycle. It has undoubtedly benefited from the persistence of favourable supply conditions, which both businesses and families have taken advantage of. The latter have generated strong demand for home-purchase loans and consumer credit. The improvement in asset quality has also continued.

In this context, our Group has operated according to the usual principles of giving preference to support for individuals and small and medium-sized enterprises present in the areas that we serve.

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».

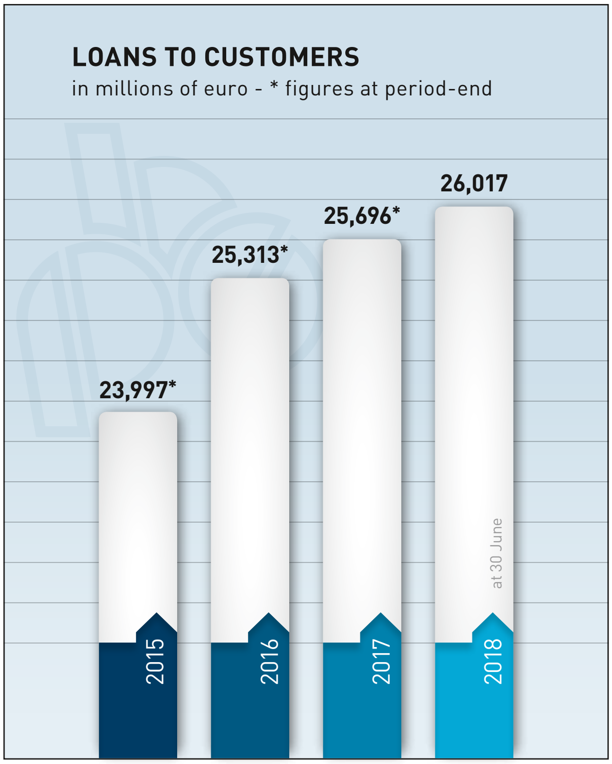
Loans and receivables with customers amounted in total to 26,017 million, up by 1.25% on the 2017 balance as restated on the FTA of IFRS 9. The comparative figure differs from the amount of loans and receivables with customers at 31 December 2017 by 60 million, consisting of negative adjustments recognised on the FTA of IFRS 9.

The various types have contributed to total customer loans to a different extent. The main component is mortgage loans, which posted an increase of 2.09% to 9,707 million, representing 37.31% of total loans. This line item includes loans assigned but not derecognised of 1,359 million in relation to the issue of covered bonds. These loans were not derecognised because the requirements of IAS 39 were not met. Other transactions and unsecured loans have risen by 3.42% to 5,548 million, corresponding to 21.32% of total loans and receivables with customers. Current accounts are up, 4,394 million, +0.82%, as are factoring transactions, 2,352 million, +3.29%.

Advances show a positive trend, +4.83% to 471 million, as do personal loans, +8.46% to 259 million; Advances subject to collection have risen slightly to 222 million, +5.26%. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, have decreased from 1,222 to 1,041 million, -14.74%, as have foreign currency loans, 856 million, -4.34%. Debt securities amounted to 306 million, -9.25%, and relate to customer loan securitisations carried out by Banca della Nuova Terra

S.p.A., a subsidiary, and by Alba Leasing S.p.A., an affiliate. The ratio of loans to customers to amounts due to customers has risen to 83.41% from 81.23%.

The continuation of a positive macroeconomic scenario contributed to the significant improvement in the quality of credit and the default rate, the indicator that represents new inflows to NPLs compared with the stock of performing loans at the beginning of the year. This improvement was also helped by the steps taken by the Group in terms of process efficiency, strengthening of the structures, increasing the workforce and improving the professional skills for the management of loans. Despite this, further substantial provisions have been made against impaired loans, albeit less than in the comparative period, raising the overall level of coverage.



Total net impaired loans - consisting of non-performing loans, unlikely-to-pay loans and past due and/or impaired overdrawn exposures - amounted to 1,936 million, -4.93%, representing 7.44% of loans and receivables with customers, compared with 7.93% at the end of 2017, as restated to reflect negative adjustments recognised on the FTA of IFRS 9. Writedowns of impaired loans come to a total of 2,240 million, representing 53.64% of the

LOANS TO CUSTOMERS

(in thousands of euro)	30-06-2018	% of total	01-01-2018	% of total	% Change
Current accounts	4,394,359	16.89	4,358,568	16.96	0.82%
Foreign currency loans	855,652	3.29	894,508	3.48	-4.34%
Advances	470,947	1.81	449,264	1.75	4.83%
Advances subject to collection	221,688	0.85	210,606	0.82	5.26%
Discounted portfolio	18,432	0.07	17,376	0.07	6.08%
Artisan loans	61,169	0.24	47,743	0.19	28.12%
Agricultural loans	20,000	0.08	23,746	0.09	-15.78%
Personal loans	259,335	1.00	239,096	0.93	8.46%
Other unsecured loans	5,548,394	21.32	5,364,321	20.89	3.42%
Mortgage loans	9,706,957	37.31	9,508,459	37.00	2.09%
Net non-performing loans	760,710	2.92	746,407	2.90	1.92%
Repo transactions	1,041,483	4.00	1,221,596	4.75	-14.74%
Factoring	2,351,660	9.04	2,276,836	8.86	3.29%
Fixed-yield securities	306,306	1.18	337,534	1.31	-9.25%
Total	**26,017,092**	**100.00**	**25,696,061**	**100.00**	**1.25%**

LOANS TO CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		30-06-2018	01-01-2018	(+/-)	% change
Impaired loans	Gross exposure	4,176,606	4,224,890	-48,284	-1.14%
	Adjustments	2,240,339	2,188,132	52,207	2.39%
	Net exposure	**1,936,267**	**2,036,758**	**-100,491**	**-4.93%**
- Non-performing loans	Gross exposure	2,386,116	2,301,388	84,728	3.68%
	Adjustments	1,625,406	1,554,981	70,425	4.53%
	Net exposure	**760,710**	**746,407**	**14,303**	**1.92%**
– Unlikely to pay loans	Gross exposure	1,653,128	1,768,596	-115,468	-6.53%
	Adjustments	601,429	613,228	-11,799	-1.92%
	Net exposure	**1,051,699**	**1,155,368**	**-103,669**	**-8.97%**
– Past due and/or impaired overdrawn exposures	Gross exposure	137,362	154,906	-17,544	-11.33%
	Adjustments	13,504	19,923	-6,419	-32.22%
	Net exposure	**123,858**	**134,983**	**-11,125**	**-8.24%**
Performing	Gross exposure	24,197,268	23,787,359	409,909	1.72%
	Adjustments	116,443	128,056	-11,613	-9.07%
	Net exposure	**24,080,825**	**23,659,303**	**421,522**	**1.78%**
Total loans and receivables with customers	Gross exposure	28,373,874	28,012,249	361,625	1.29%
	Adjustments	2,356,782	2,316,188	40,594	1.75%
	Net exposure	**26,017,092**	**25,696,061**	**321,031**	**1.25%**

gross amount, compared with 51.79%. The table provides an overview of impaired and performing loans, 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 761 million, +1.92%, or 2.92% of total customer loans, compared with 2.90% at 31 December 2017.

To cover estimated losses on non-performing loans, adjustments rose to 1,625 million, +4.53% compared with the comparative figure, providing coverage of 68.12%, compared with 67.57% after recognition of FTA of IFRS 9 and 66.12% at 31 December 2017 according to IAS 39. The level of coverage reflects our prudent provisioning policy and 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 76.72%.

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 1,052 million, -8.97%, or 4.04% of total loans and receivables with customers, compared with 4.50%, while the related adjustments amount to 601 million, -1.92%, with a level of coverage of 36.38% compared with 34.67%.

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 124 million, -8.24%, with a coverage degree of 9.83% and represent 0.48% of the total compared with 0.53% at the end of 2017.

Performing loans amounted to 24,081 million, +1.78%, with writedowns of 116 million, equal to 0.48% compared with 0.54% after FTA of IFRS 9 and 0.53% at 31 December 2017; this last figure is not homogeneous following the reclassifications made at the time of FTA.

Total adjustments come to 2,357 million, +1.75%.

TREASURY AND TRADING OPERATIONS

International markets in the first half of 2018 were characterised by a steady increase in volatility. In Italy, the increase in the spread between Italian and German bonds, especially between May and June, was the highest since 2013. The tension then declined gradually.

Continuation of the ECB's expansive monetary policy, albeit with the expected reduction in security purchases, has guaranteed the system abundant liquidity.

At 30 June 2018, interbank borrowing, net of the Group's securities portfolio, amounted to 5,109 million, up by 825 million from 4,284 million at the end of 2017.

At 30 June 2018, there were two TLTRO II operations outstanding with the ECB for a total of 4,600 million. The first one, for 1,100 million, was taken out on 23 June 2016 and is due to expire on 24 June 2020.

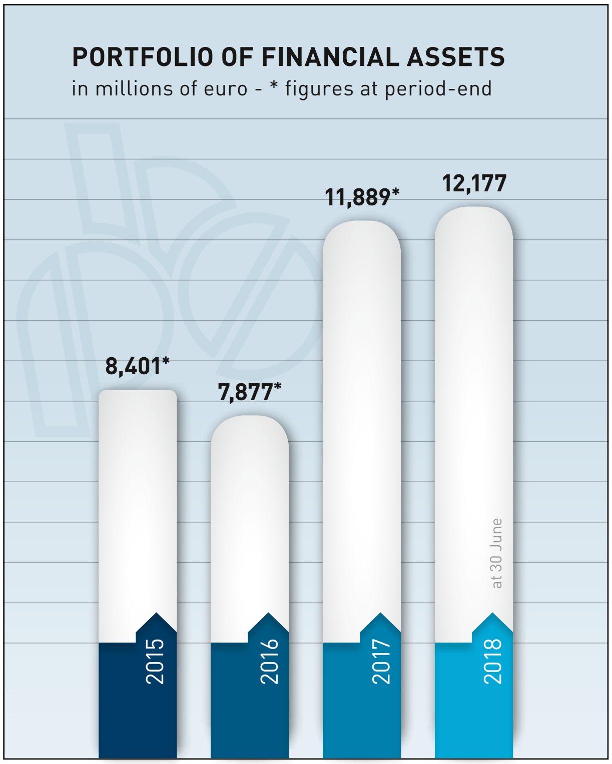
The second was taken out in March 2017 for 3,500 million to take part in the last refinancing operation of the ECB's TLTRO II programme, falling due on 24 March 2021. The aim was again to stimulate the real economy by guaranteeing further liquidity to the banking system.

Net of these operations, which the Parent Company arranged with the ECB for a total of 4,600 million, the balance of interbank borrowing would have been 509 million.

Our Group also benefited from abundant liquidity during the period under consideration, having drawn on these refinancing operations and being able to count on funding from customers that is far higher than its loans to customers. Treasury operations remained intensive throughout the period, albeit with volumes in decline, showing a prevalence of lending over funding transactions.

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 latest available short and medium to long term liquidity indicators, respectively the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) came in well over the minimum requirements. In addition, the Group can always rely on a substantial portfolio of assets eligible for refinancing which, net of haircuts, amount to 12,807 million, up by 1.93% on the end of 2017, of which 6,770 million available and 6,037 million committed.



Following the entry into force of IFRS 9 on financial instruments, the Group 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 valued at fair value through other comprehensive income also includes the majority of debt securities previously classified in the «held-for-trading» portfolio, again 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 mandatorily measured at fair value through profit or loss includes some securitisations, in addition to the financial assets mentioned previously and the debt instruments that did not pass the SPPI test. The notes provide a reconciliation between the balance sheet items at 31 December 2017 (as per IAS 39) and the new balance sheet items (as per IFRS 9), accompanied by explanatory comments.

Total financial assets consisting of securities held in portfolio amounted to 12,177 million at 30 June 2018, a slight increase of +2.38% compared with the balance of 11,893 million at the end of 2017 and +2.41% on the same amount restated to reflect adjustments and reclassifications made on FTA of IFRS 9.

As mentioned previously, the increase in the overall portfolio is low compared with the considerable increases reported in 2017, which were made to allocate the substantial liquidity that we had available.

No transfers of financial assets between portfolios were made during the period. The following table summarises the amounts contained in the individual portfolios.

The composition of the portfolio again shown a prevalence of government securities, with a duration of less than four years, which is slightly lower than at the end of 2017. Recomposition of the portfolios has continued, having started in the first few months of the year, leading to a reduction in financial assets measured at fair value through other comprehensive income and an increase in those measured at amortised cost.

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

(in thousands of euro)	30-06-2018	01-01-2018	% change
Financial assets held for trading	301,314	372,590	-19.13
of which. derivatives	52,260	97,983	-46.66
Other financial assets mandatorily measured at fair value	368,817	390,209	-5.48
Financial assets measured at fair value through other comprehensive income	5,646,053	6,886,971	-18.02
Financial assets measured at amortised cost	5,860,352	4,239,671	38.23
Total	**12,176,536**	**11,889,441**	**2.41**

There are no longer any assets designated at fair value following the decisions made regarding the recomposition of the securities portfolio at the time of FTA.

Financial assets held for trading

Financial assets held for trading, which had already decreased significantly in 2017 compared with 2016 (-32.20%) due to reformulation of the portfolios, have again decreased. Following the reclassifications carried out at the time of FTA of IFRS 9, the portfolio fell from 691 million at 31 December 2017 to 373 million, with Italian government bonds completely eliminated at 31 December. In the first half, it declined further as a result of disposals, reaching 301 million, -19.13%, including some Italian government securities, while foreign government bonds in foreign currencies were sold.

The following table shows the composition of this portfolio.

(in thousands of euro)	30-06-2018	01-01-2018	% change
Floating-rate Italian government securities	54,860	–	–
Fixed-rate Italian government securities	78,159	–	–
Foreign government securities designated in foreign currencies	–	83,232	-100.00
Bonds of other issuers	1,989	–	–
Variable-yield securities	95,960	151,870	-36.81
Mutual funds	18,086	39,505	-54.22
Net book value of derivative contracts	52,260	97,983	-46.66
Total	**301,314**	**372,590**	**-19.13**

Other financial assets mandatorily measured at fair value

Other financial assets mandatorily measured at fair value include the financial assets shown below, as decided by management or because they consist of assets that did not pass the SPPI test.

They amount to 369 million, compared with 390 million, a decrease of 5.48%.

The following table shows the composition of this portfolio, which features a prevalence of mutual funds.

OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE

(in thousands of euro)	30-06-2018	01-01-2018	% change
Bank bonds	12.728	49,790	-74.44
Other bonds	29,176	54,100	-46.07
Variable-yield securities	401	820	-51.10
Mutual funds in euro	323,065	262,215	23.21
Mutual funds in foreign currency (USD)	3,447	23,284	-85.20
Total	**368,817**	**390,209**	**-5.48**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (line item 30) amounted to 5,646 million compared with 6,887 million at the end of 2017 after FTA of IFRS 9, -18.02%. Included in this portfolio are fixed-yield securities, consisting mostly of government bonds, which were previously classified in the portfolio of available-for-sale financial assets.

This portfolio, which under IFRS 9 corresponds to «Held to collect and sell», includes fixed-yield securities that give rise to cash flows that are solely payments of principal and interest and that are held for treasury management purposes, or for sale.

Financial assets measured at fair value through other comprehensive income include Italian government bonds for a total of 4,774 million, -12.53% in the period; foreign government bonds of 273 million, -65.19%; bank bonds of 411 million, -11.72%; bonds of other issuers of 79 million, +0.40%; equities of 109 million, +8.66%.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(in thousands of euro)	30-06-2018	01-01-2018	% change
Floating-rate Italian government securities	501,035	788,044	-36.42
Fixed-rate Italian government securities	4,272,738	4,669,642	-8.50
Foreign government securities	273,129	784,532	-65.19
Bank bonds	411,329	465,939	-11.72
Other bonds	78,771	78,458	0.40
Variable-yield securities	109,051	100,356	8.66
Total	**5,646,053**	**6,886,971**	**-18.02**

Financial assets measured at amortised cost

Securities measured at amortised cost form part of the «Financial assets measured at amortised cost» that include loans and receivables with banks and customers, consisting of securities and loans classified as held to collect (HTC) under IFRS 9.

The balance consists almost entirely of loans and receivables with customers (5,854 million) with just a small amount of loans and receivables with banks (6 million). These consist of Italian government bonds, mainly fixed-rate, for 4,387 million, compared with 3,206 million. They include foreign government securities of 1,419 million, compared with 980 million at the end of 2017 after FTA of IFRS 9, with an increase of 44.79%, and 48 million of other bonds, in addition to the 6 million of bank bonds mentioned above.

The following table shows the composition of this portfolio.

FINANCIAL ASSETS MEASURED AT AMORTISED COST

(thousands of euro)	30-06-2018	01-01-2018	% change
LOANS AND RECEIVABLES WITH BANKS	**6,065**	**6,829**	-11.19
Italian bank bonds	6,065	6,829	-11.19
LOANS AND RECEIVABLES WITH CUSTOMERS	**5,854,287**	**4,232,842**	**38.31**
Floating-rate Italian government securities	810,620	400,624	102.34
Fixed-rate Italian government securities	3,576,405	2,804,936	27.50
Foreign government securities	1,419,542	980,398	44.79
Other bonds	47,720	46,884	1.78
Total	**5,860,352**	**4,239,671**	**38.23**

Asset management

After another positive first quarter, the asset management industry was affected by the turmoil that hit the markets due to uncertainties related to national politics and the arguments over tariffs. However, asset management products picked up again in the second quarter, especially in the bond sector.

The general picture outlined here influenced the activities of our Group, though we managed to cope with the negative trend thanks to a wide and varied range of products on offer. At the end of June, the various forms of asset management amounted to 5,603 million, +3.03% on December 2017.

EQUITY INVESTMENTS

Equity investments came to 213 million at 30 June 2018, down by 5 million since the end of 2017. The change is mainly due to the effect of using the equity method and to the acquisition of an interest in Rent2 Go S.r.l. for 1.8 million.

TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

Balance at 30/06/2018 (in thousands of euro)

	Associated companies of the parent company		Associated companies of subsidiaries	
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
ASSETS				
Loans and receivables with banks	–	–		
Loans and receivables with customers	650,654	603,061	367	366
Other financial assets	–	–	–	–
LIABILITIES				
Due to banks	–	–	–	–
Due to customers	284,836	338,202	841	1,209
Other financial liabilities	–	–	–	–
GUARANTEES AND COMMITMENTS				
Guarantees given	48,987	48,463	89	89
Commitments	73,070	2,876	611	–

Related-party transactions

Transactions with related parties are governed by the «Regulation on related-party transactions» issued by Consob with resolution no. 17221 dated 12 March 2010 and subsequent amendments, with the information required by this regulation provided below, as well as by the Bank of Italy's instructions on «Risk-taking activities and conflicts of interest with related parties» of 12 December 2011.

Related-party transactions, as identified in accordance with IAS 24 and the Consob Regulation, form part of the banking Group's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred.

In compliance with the disclosure obligations laid down in article 5 of the Consob Regulation, during the period 1 January to 30 June 2018, the Parent Company's corporate bodies alone approved the following transactions of greater relevance:

– Release S.p.A., associated company; renewal of lines of credit totalling € 139,000,000 repayable on demand; resolution of 23/03/2018;
– Factorit S.p.A., subsidiary; granting of a revolving facility for guarantees in favour of residents of € 300,000,000 repayable on demand; renewal of lines of credit totalling € 2,870,100,000 repayable on demand; resolutions of 23/03/2018;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; renewal of lines of credit totalling € 2,170,916,197 repayable on demand; resolution of 23/03/2018.

During the period 1 January-30 June 2018, no transactions of greater or lesser relevance were carried out with related parties, which could have had an significant impact on the banking Group's balance sheet or results. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the 2018 balance sheet or results of the Banking Group with regard to the related-party transactions carried out during 2017; in any case none were atypical, unusual or not on market terms.

Note that transactions or balances with related parties, as defined by IAS 24 and the Consob Regulation, have a limited incidence on the balance sheet and financial position, as well as on the Banking Group's economic results and cash flows. In the explanatory notes to the financial statements, the section entitled «Related-party transactions» includes a table that summarises the effect of these relations.

During the first half of 2018 and in the current period, no positions or transactions deriving from atypical and/or unusual operations have arisen. According to Consob Circular DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those - not arising in the ordinary course of business - that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.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Updated to 31 July 2018
THE BANKING GROUP IN THE HEART OF THE ALPS
Banca Popolare di Sondrio • BPS (SUISSE) • Factorit • Banca della Nuova Terra • PrestiNuova • Sinergia Seconda • Popso Covered Bond • Pirovano Stelvio

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets total 348 million, -0.94%. The former totalled 323 million, -1.42%, the decrease being due to depreciation for the period.

The second category, totalling 25 million, has increased by 5.66% and includes goodwill of 8 million. Goodwill is tested annually for impairment.

The most recent test was performed when preparing the consolidated financial statements at 31 December 2017. It was not deemed necessary to repeat the procedure at 30 June 2018.

PROVISIONS

These comprise post-employment benefits of 44 million, -2.34%, and provisions for risks and charges comprising the provision for risks on commitments and guarantees given, totalling 234 million, -0.34%.

RISK MANAGEMENT

A long list of case studies observed over the history of banking intermediation shows that excessive and sometimes unconscious assumption of risk can have prolonged and unpredictable consequences, such as to jeopardise financial stability and the prospects for economic development of entire regions.

Similar events remind us that the principle of «sound and prudent management» requires credit institutions to know and monitor effectively all of the risks that they assume, as well as those potentially assumable, so as to take the most appropriate corrective action. This principle is the basis of our risk management system, the evolutionary lines of which are constantly discussed with the Supervisory Bodies, together with the main dynamics of exposure and possible remedial measures.

The Risk Appetite Framework (RAF) is the compass that guides our risk policies and supports our internal risk control architecture, which consists of a series of organisational processes and controls, methodologies and systems of limits and indicators, reporting tools and IT platforms.

The RAF system is linked to the internal processes for assessing the Group's capital adequacy (ICAAP) and liquidity (ILAAP), the results of which were reported to the Supervisory Authority, as usual, in April by means of a highly detailed reporting package.

Devices for the prevention and management of situations of economic and financial tension, namely the Contingency Plans and, in particularly serious circumstances, the Recovery Plan, are also linked to the RAF. Still on the subject of crisis management, since last February the bank has been committed to supporting the Single Resolution Mechanism in the preparation of the so-called «Resolution Plan», designed to plan the measures, among those prescribed by the Bank Recovery and Resolution Directive (BRRD), to be taken in the event of insolvency, modulating them according to the characteristics of each supervised intermediary, so as to maximise their effectiveness and minimise the impact on the financial system and public taxpayers.

In this first part of the year, our bank was involved, as it was two and four years ago, in carrying out the stress test launched at EU level by the European Banking Authority (EBA) and by the Single Supervisory Mechanism (SSM) in order to analyse the weaknesses of the banking industry and therefore of the individual intermediaries that constitute its backbone, testing its resilience in highly unfavourable conditions. This simulation, which is complex in terms of quantity and quality of the data to be provided, is characterised by strict rules, stringent execution times and predefined reporting deadlines; it will see us engaged, together with the major European credit institutions, until late autumn, when the final results of our analyses will have to be submitted.

Following the entry of Banca della Nuova Terra into the scope of consolidation, several lines of intervention were activated to integrate the company with the Group's organisational, governance and risk control mechanisms, in anticipation of extending to it - according to the principle of proportionality - the same methods, processes and instruments of analysis as those used by the parent company to monitor material risks.

Important refinements have been made to the information and reporting systems on risk exposure, both for the top management bodies and committees and for the business areas that take on risk. Another onerous activity, but one that is not of secondary importance, involves revising and updating the robust body of internal policies and manuals, which regulate the roles and responsibilities of those who are involved in monitoring and managing risks, the techniques, analyses and measurements used to supervise them, the systems of surveillance limits/thresholds and decision-making processes designed to mitigate excessive risk-taking in the event of deviations from the highest levels of tolerance.

Credit and counterparty risks

With regard to the monitoring of credit risk, an ongoing commitment continues to be reserved for the pursuit of all those initiatives, constituting a single medium-term planning programme, aimed at optimising the processes involved in managing problem loans and at providing a further boost to the disposal of non-performing loans by limiting the inflows to states of impairment and improving the ability to recover outstanding loans.

Other important interventions on operational instruments and organisational and procedural systems, in addition to the reinforcement measures already undertaken in previous years, have been put in place and carried out in the first half of this year.

The areas affected by the work on upgrading the «operating machine» for the management of impaired loans or those at risk of impairment are pervasive and wide-ranging. The most significant include: the implementation of more detailed procedures for so-called «forborne» positions through the introduction of orientation maps to guide managers in choosing the type of intervention that is most suitable for the customer; the attribution of explicit credit quality objectives, integrated into the budgets assigned to the network structures, according to the characteristics of the loans being managed, accompanied by regular monitoring of their performance in terms of doubtful loan recoveries; the integration and implementation of a redefined set of «trigger events» for the administrative classification of positions within the IT procedure for managing anomalous credit; the design of new analytical processes and methods of writing down impaired positions; the refinement of models, processes and tools for the valorisation of real estate collateral to cover problem loans, including the development of a «real estate showcase» at specialist websites where we can publish the properties belonging to customers who are insolvent or in temporary difficulty, as well as those belonging the bank, to facilitate the search for potential buyers; industrialisation of the processes for handling non-performing positions, especially of medium sized ones, accompanied by tools able to facilitate the identification of optimal recovery strategies; outsourcing debt recovery on targeted lots of non-performing loans to qualified suppliers.

At the same time, IT adjustments were made to support the changes made to the processes and procedures established for the individual activities. There were also training and awareness courses for corporate resources on the operational levers available for the achievement of the NPL management objectives set at a strategic level.

During the first half of the year, the plan that is guiding the evolution and refinement of our internal rating system, in view of its recognition in determining the capital requirement for credit risk according to the Advanced Internal Rating Based Approach (AIRB), also came into force as required by the supervisory regulations, with specific regard to exposures in the bank's Corporate and Retail areas. At the end of June 2018, all of the portfolios with an internal rating accounted for 53% of total individual credit exposures (93% by number of counterparties).

Having completed the latest technical and methodological interventions on models for estimating risk parameters (PD, LGD and EAD), with a view to incorporating the indications received during ongoing talks with the Supervisory Authorities and to adopt the recommendations made by the validation and internal audit units during the course of their independent checks, significant steps were taken towards obtaining validation for regulatory purposes. In fact, at the beginning of March, as required by the relevant legislation, the so-called «pre-application package» was transmitted, marking the start of the authorisation process. At the end of a preliminary evaluation and review of the material submitted, the bank was able to forward the official model recognition application to the Supervisor in May.

Consequently, according to the procedure, the Supervisory Authority has ordered the start of an on-site inspection starting in June to verify in depth what they have seen from a documentary point of view with regard to the sturdiness of our rating system and its compliance with regulatory requirements and best market practices. We are now on the final stretch of a long and complex journey, which has seen us invest considerable financial resources and deploy a large number of collaborators and professionals at both centralised and decentralised level. The report that will be drafted by the inspection team on completion of the assessment will identify the residual adjustments to be made to parts of the rating system with the ultimate goal of achieving validation by the end of June 2019.

A more accurate classification and assessment of credit risk is achieved through the application from 1 January of the new accounting conventions dictated by IFRS 9, which has led to the transition from a retrospective view (so-called «incurred losses») to the use of prospective scenario-dependent models for forecasting losses (so-called «expected losses»), able to see the possibility of a deterioration in the quality of assets in portfolio, such as to reflect the past, present and future conditions of exposures, even with time horizons that extend over their entire residual life. With regard to the various activities launched in the last two years, the period under review saw the conclusion of residual developments in application tools as planned and the entry into force of the processes affected by the new standard. Also from the evaluations carried out by the Authorities on the degree of compliance with IFRS 9, our bank's positioning was considered in line overall with that achieved by similar intermediaries in terms of size and complexity. As a corollary, initiatives are now under way to update additional areas of analysis and risk management according to the classification criteria laid down in the new standard.

Market risks

The political events that accompanied the formation of the new government again turned the markets into a spotlight on the risk of Italy's sovereign debt, with yields on government bonds starting to rise again, also quite abruptly. The spread between 10-year BTPs and equivalent German Bunds, a thermometer of market confidence in Italy, has reached the highest level for the last five years. The uncertainty among operators has been reflected in a surge in the volatility indices.

Banks, like ours, whose investment portfolios are characterised by a prevalence of «sovereign» securities, have inevitably increased their level of attention, in an attempt to decipher what is likely to happen in the future. Reflections on what to do are constantly on the agenda, supported by a careful monitoring of market variables, by daily surveys of the intrinsic risk metrics of the securities held and by increasingly sophisticated simulations of possible future scenarios, with a view to anticipating as far as possible the dynamics and potential impacts, thereby enabling us to take timely countermeasures.

With more specific reference to the techniques for measuring risk exposure, in the last half-year, after a careful selection process, we identified a new probabilistic model of Value at Risk (VaR) of financial instruments based on historical simulations of market factors, to be used as an alternative method to the one used up to now, called «parametric» as it was based on statistical estimates of the risk parameters. The historical VaR measurements will be carried out by means of specific software tools that we acquired recently.

Lastly, progress has been made in the management and operational reporting systems, enriched with further information on the trends of the main risk indicators and the particular characteristics of the «trading portfolio» and the «banking portfolio».

Interest-rate risk

The refinements to protect against interest rate risk have concerned both the methodological apparatus and the overall instrument of analysis and management of exposure levels, in compliance with the best regulatory and market standards.

As part of the periodic review and update, the parameters of the behavioural models of «on-demand items» - aimed at simulating the persistence profile of the deposits (assets and liabilities) without a contractual maturity and their degree of reactivity to changes in market rates - and those of the so-called «pre-payment» models - aimed at representing the repayment profile of medium/long-term loans taking into account the phenomena of early closure of credit relationships and partial pre-payment - have been restated on the basis of more extensive samples of historical data, also in order to incorporate any variations that may from time to time characterise the phenomena being modelled.

Given the operational peculiarities that influence their behavioural dynamics, a model dedicated to the statistical accounting of the «on-demand items» of our subsidiary BPS (SUISSE) has also been developed, having characteristics similar to those already in place for the Parent Company.

In consideration of the increasing influence of behavioural models on the results of risk measurements, we are then introducing processes and tools aimed at testing on a regular basis the sturdiness of these internal models, verifying their forecasting capacity «after the event» with retrospective techniques (a process known as «backtesting»).

The indicators that summarise the results of the monthly analyses of the sensitivity of the economic value of assets to fluctuations in market rates («Sensitivity Analysis») and the corresponding measures referring to the interest margin generated by the stock of assets and liabilities sensitive to changes in rates («Repricing Analysis»), together qualifying the Group's propensity to interest rate risk, were affected by a partial reformulation because of the need to adapt to a new regulatory context. Significant improvements have also been made to the supervisory reporting system as a consequence of these changes, as well as for the purpose of presenting the elements underlying the risk dynamics in greater detail.

Liquidity risk

Control over exposure to liquidity risk now involves a wide range of parameters and measurements, carried out both from an operational viewpoint and for regulatory purposes, with the aim of keeping the so-called «operational» liquidity position under close supervision. This monitoring is based on daily observation of the trend in short-term cash flows typical of treasury operations, of potential flows obtainable from the disposal of financial assets, or from their use in central refinancing operations. The same also applies to the state of «structural» liquidity, aimed at maintaining a balanced combination of funding and lending over a longer-term horizon. Intraday liquidity risk is also constantly monitored.

The so-called «Additional Liquidity Monitoring Metrics» (ALMM), the reporting of which to the competent banking authorities is prescribed at EU level, have been the subject of significant revisions; among them stands out the integration in the monthly set of analyses of an additional disclosure schedule in the form of a detailed «expiry calendar», which is quite onerous to fill in.

In addition to this reporting of the results of the internal process of adequacy of the governance and management of liquidity risk (ILAAP), this first half of the year included an update of the internal system to monitor liquidity situations that could arise as a result of market crises, or the specific circumstances of our Group represented by the «Contingency Funding Plan» for alignment with the annual review of the «Recovery Plan».

We have also improved the risk exposure reports that are produced periodically and the documentation of an operational and methodological nature in relation to the identification, measurement, control and mitigation of the risk in question, such developments proceeding in line with the continuous refinements to the techniques and monitoring procedures in use.

Operational and IT risks

Given the circumstances, in the past six months we carried out a series of initiatives in the field of supervisory measurements with a view to evolving from the current «basic method» (or BIA, Basic Indicator Approach) to the more advanced «standardized method» (or TSA, Traditional Standardized Approach) prescribed by the supervisory instructions on how to calculate the First Pillar absorption of capital for operational risk, with the aim of repositioning our Group on a methodological target that is more in line with that of the main Italian banks and, in this way, to crown the substantial investments made in recent years to strengthen internal supervision of capital.

The Group's intention to adopt TSA, notified to the Supervisory Authority in May, did not raise any objections from the European Central Bank, following its verification of our compliance with the regulatory criteria. Application of the new approach therefore starts with submitting the prudential reports at 30 June, on a consolidated basis as well as individually for the Parent Company and for the subsidiary Banca della Nuova Terra.

The risk monitoring and control apparatus for purely managerial purposes has also been enriched thanks to the introduction of a new set of operational indicators, hierarchically subordinated to the more general risk appetite parameters established in the RAF. These new «Key Risk Indicators», associated with specific early warning thresholds, aim to measure the evolution of losses incurred as a result of operational and IT risks, highlighting any anomalous «peaks».

It is also worth mentioning that we have finished the monitoring and periodic reporting of the stages of completion of the measures of prevention and mitigation of the critical issues identified during the ordinary activities of detection («Loss Data Collection») and prospective evaluation (Risk Self Assessment) of the risks in question.

The monitoring of the so-called «Cyber Risk» remains high. We would emphasise the effectiveness of the control instruments implemented by the bank to limit the impact of increasingly frequent attempts at hacking and computer fraud, which are effectively blocked at birth.

In the same context, from an evolutionary point of view, constant attention is paid to the aspects of IT security, also with regard to the regulatory adjustments relating to the new European directive on payment services (so-called «PSD2»), as well as to the structure of the new instant settlement system known as «Instant Payment», due to be released soon.

Overall, the assessments of our controls over IT risk carried out during the period on the initiative of the Supervisory Authority confirm the validity of the planned interventions to refine ICT processes, especially in order to ensure a better link between the operational needs of the company's offices or the risk analyses and strategic guidelines that direct long-term investments in technology and innovation.

Reputational and money laundering risk

With regard to the management of reputational risk, similar to what was done for operational risk, we structured a more rigorous monitoring process for the prevention and mitigation actions of the main factors of uncertainty, from which this kind of risk typically derives, identified above all during the annual «Reputational Risk Assessment». All this was supported by the introduction of special archive systems for storing information on the progress made and production of the related management reports.

In the period under review, we started to extend, from a Group perspective, the mechanisms for systematic sounding out of the web and the main social monitoring platforms currently used by the bank in the search for negative news and opinions likely to damage the bank's excellent reputation, to be treasured and safeguarded more than ever as one of our critical success factors.

Constant attention has been paid to monitoring the risks of money laundering and terrorist financing, the rigour and intensity of which in terms of prevention and control are articulated on a risk-based approach, as highlighted in recent implementation measures of the EU's IV Directive on the subject. In this way, also with a view to streamlining the multiple verification steps required of the company's structures by internal and external regulations, during the first half-year a dedicated «dashboard» was set up with an incremental logic, to become a single point of reference for these activities, while also allowing more effective tracking of the assessment processes being followed.

Regulatory non-compliance risk

The Compliance Function has worked intensely on adopting the new and complex European regulations on investment services (MiFID 2 and related implementing regulations) and privacy (General Data Protection Regulation - GDPR). These activities led to a considerable increase in checks and opinions confirming that the company's procedures complied with the regulations, reflecting the increasingly central role that the structure has taken on in the bank's internal controls.

In addition, control activities continued in relation to the areas of operation ordinarily covered by the Compliance Function, including specific checks on transparency, investment services and usury; the area in charge of storing IT documents was submitted to a compliance analysis for the first time.

Lastly, an important decision was taken to outsource compliance testing at Banca della Nuova Terra. To date, two audits have been planned in the areas of transparency and usury.

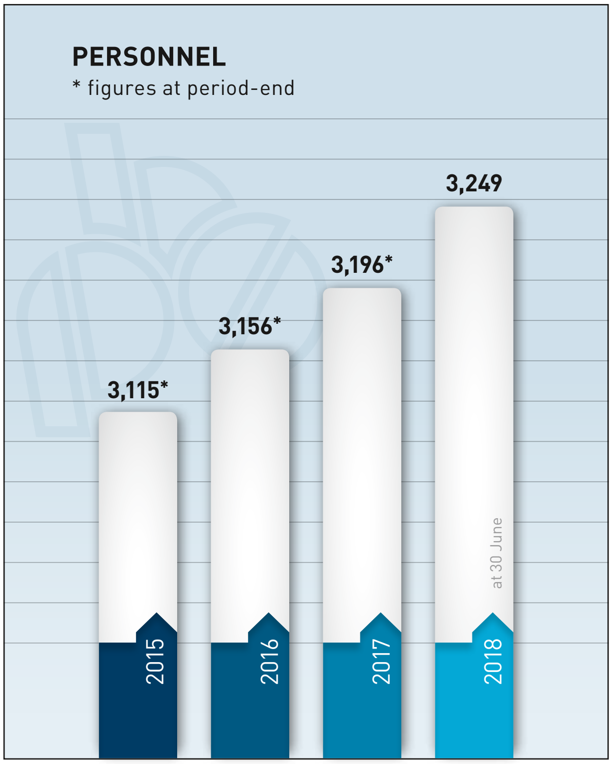
HUMAN RESOURCES

At the end of the period, the Banking Group's workforce consisted of 3,220 people, of whom 2,723 are employed by the Parent Company, 327 by Banca Popolare di Sondrio (SUISSE) SA and 170 by Factorit S.p.A.. The total number of employees has increased by 24 (+0.75%) compared with 31 December and by 51 (+1.60%) compared with 30 June 2017. These figures are significant given the current trend in the banking sector, usually in the opposite direction.

At 30 June 2018, 70% of the Banking Group's staff operated in the distribution network with the rest employed at the central offices of the respective companies.

The average age was 41 years and 5 months, with an average period of service of 15 years and 6 months.

In addition to the Banking Group's staff, there is also the personnel of the subsidiary Pirovano Stelvio S.p.A.: 29 people at 30 June 2018, 26 of whom are employed seasonally.



PROMOTIONAL AND CULTURAL ACTIVITIES

Today, activities, consumer goods, services and products of various kinds are advertised even more than in the past. The methods used for this are far more timely and effective than in the past. Just think of the internet, mobile phones, print and other media to realise how much we are targeted every day by ads and slogans: a tidal wave that tends to be overwhelming.

Our Group also makes use of these media, but without exaggerating, and it does so above all to provide information on its operations, news concerning our various activities, on our future prospects and so on. In this way, those who are interested in our products and services are able to evaluate them being fully aware of the facts. Moreover, our habit of devoting time and space to initiatives of a cultural nature has not diminished, indeed it has got even stronger.

First of all, we would like to mention our «Notiziario», a newsletter than comes out every four months. Among the many contributions that we published in the first issue of the year, one concerned the conference entitled «The legal passion for freedom - Writings of Luigi Luzzatti», held in Rome on 30 November 2017, in honour of the late, unforgettable chairman of Banca Popolare di Sondrio, Piero Melazzini, two years after his death (on 30 November 2015). Incidentally, it is worth mentioning that he was a great admirer of this economist and banker of the past. The same issue also hosted a substantial monograph on Clay Regazzoni, the Swiss racing champion with an aggressive and confident driving style, who died in December 2006 at the age of 67. The same monograph also embellished the 2017 Annual Report of the subsidiary BPS (SUISSE) SA, while the 2017 Report of Banca Popolare di Sondrio included illustrations of various paintings belonging to the bank of Valtellina art, dating back to the second half of the last century. With these works, a showcase entitled «Traces - The evocative landscape in the art of Valtellina from the second half of the 20th Century» was set up at the multifunctional structure in Bormio, which hosted our Shareholders' Meeting on 28 April, a successful initiative that was repeated in the same place on 20 July. During the Shareholders' Meeting in April, the members who took part were given a book, published by the bank, called «Painted Alps», consisting of photographic images of alpine landscapes with a thousand intense colours, which blend with the flora and fauna of the area.

The cycle of public conversations opened on 2 February with the conference that Monsignor Dario Edoardo Viganò, a well-known person in the field of communication, held at our premises in Sondrio on the theme «The reform of communication desired by Pope Francis».

The company-owned library, named after Luigi Credaro, registered a large number of users: students, teachers, professionals, pensioners and so on. A large part of the correspondence and the documents held by the library come from donations. It is a vast collection of material of considerable value which we treat as well as we can, keeping it carefully and making it available for consultation. All this is a considerable cost for the bank, which nevertheless supports it, year after year, as we want to pass on this cultural heritage in perfect condition. We believe that culture can feed the minds both of today and of tomorrow.

We received awards from MF, the Milan business and financial newspaper, as part of the Milano Finanza Global Awards 2018. Banca Popolare di Sondrio was awarded the «Creator of Value Award as the best Bank of the Lombardia Region Index of more than 7» and the «Guido Carli Award as Retail Bank of the Year».

At our Pirovano Complex in the Stelvio Pass, also known as the Ski and Mountain University, sports initiatives were carried out in several disciplines, attracting athletes, supporters and mountain lovers. The events enjoyed considerable interest and wide participation.

EQUITY

Consolidated shareholders' equity at 30 June 2018, inclusive of valuation reserves and the profit for the period of 74.154 million, amounts to 2,599.329 million.

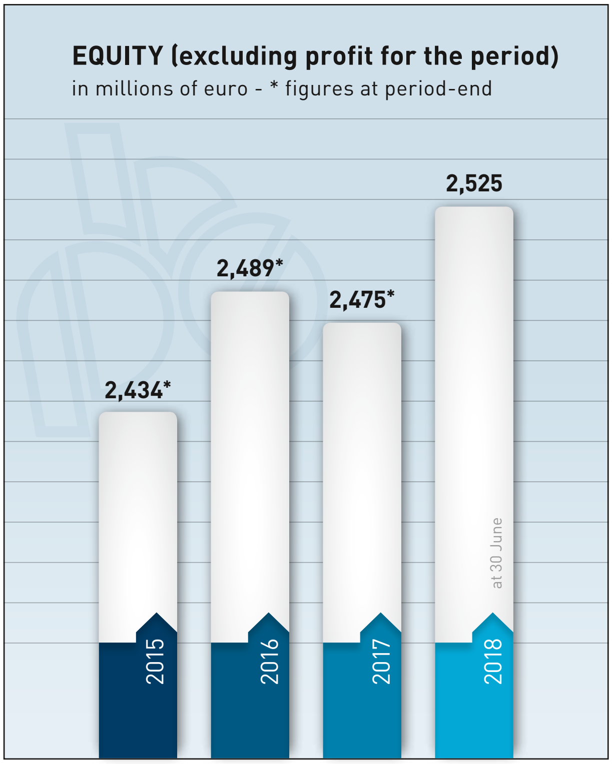
Following the entry into force of IFRS 9 on 1 January 2018, equity at 31 December 2017, which amounted to 2,678.920 million, was adjusted on the FTA of IFRS 9 via the recognition of a negative FTA reserve of 45.118 million. Accordingly, on a comparable basis, equity decreased in the period January-June 2018 by 34.473 million.

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

The share premium reserve remained unchanged at 79.005 million, whereas the line item Treasury Shares rose slightly to 25.391 million.

Reserves increased to 1,155.624 million; the increase is mostly attributable to the significant share of the 2017 profit that was retained, together with the negative reserve of 52.876 million recognised on FTA of IFRS 9, net of the provisional tax effect. The Ordinary Shareholders' Meeting of 28 April 2018 approved 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 other comprehensive income and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a negative net balance of 44.220 million compared with a positive balance of 28.478 million at the end of 2017. It was negatively impacted by the trend in government bond prices, which suffered from a sudden increase in interest rates due to the resurgence in Italy's sovereign risk between the end of May and mid-June 2018, while FTA of IFRS 9 had a positive effect of 7.758 million.



As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force pursuant to Regulation (EU) no. 575/2013 (CRR) and EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios that, when fully implemented (January 2019), will be 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio. These ratios are expected to be lower in 2018, which is still part of the transition phase. Using the information gathered during the prudential review and assessment process, the ECB has the authority to set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the Parent Company was informed in December of the decision made by the Supervisory Board regarding the new minimum coefficients applicable from 28 January for 2018.

The new minimum capital ratios to be met by the Banking Group are indicated below:

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

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, is added to the two ratios. 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.

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,012 million at 30 June 2018. Risk-weighted assets totalled 22,208 million.

Set out below are the Group's adequacy requirements at 30 June 2018 and the minimum requirements for the current year required by the EBC:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	11.74%	8.375%
Tier 1 Capital Ratio	11.79%	8.375%
Total Capital Ratio	13.56%	11.875%

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.

The leverage ratio at 30 June 2018, taking account of the attributable portion of profit in Tier 1 and applying the phased in transitional criteria in force for 2018, comes to 5.74% (5.68% «fully phased»).

The Texas ratio is 75.22%.

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:

– *capital/direct funding from customers*
  8.33% v. 8.47%

– *capital/loans and receivables with customers*
  9.99% v. 10.40%

– *capital/financial assets*
  21.35% v. 22.52%

– *capital/total assets*
  6.26% v. 6.44%

– *net non-performing loans/capital*
  29.27% v. 29.10%

BPS STOCK

BPS stock is listed on the Mercato Telematico Azionario (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed the first six months of 2018 with a performance of +13.27%, marking a reference price at 29 June 2018 of 3.448 euro, compared with 3.044 euro at the end of 2017. The general FTSE Italia All-Share index recorded an decrease in the period of 1.51%, whereas the FTSE Italia All-Share Banks sector index showed a negative performance of 8.07%.

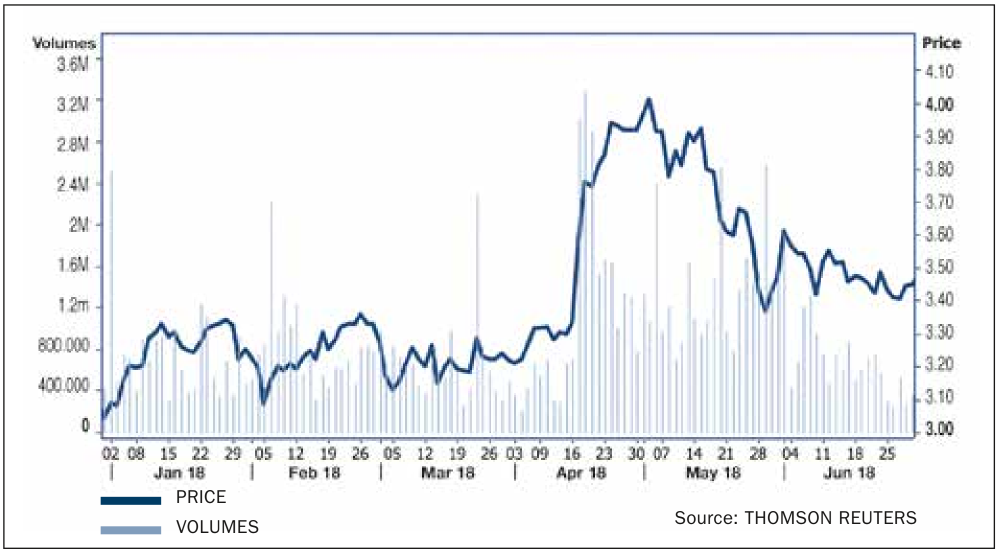
The average daily volume of securities traded on the MTA market of Borsa Italiana in the first six months of the year was 931 thousand, up form 769 thousand in the same period of 2017.

The shareholder base at 30 June 2018 consists of 173,245 members, a decrease of 2,302 members compared with 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, which is unchanged since the end of 2017. 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. Their carrying amount is 25.391 million, of which 25.322 involves use of the reserve for purchase of treasury shares of the Parent Company of 30 million.

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

BANCA POPOLARE DI SONDRIO stock - MTA segment of Borsa Italiana



RATINGS

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

These ratings, unchanged with respect to those of last year, refer to the date of the update of the assessments by Dagong Europe Credit Rating on 7 February 2018 and to the periodic review by Fitch Ratings on 13 June 2018.

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 7 February 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 STRENGTH 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**

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

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

(in thousands of euro)	Equity	of which: profit for the period
Equity of the Parent Company as of 30/06/2018	2,338,360	65,371
Consolidation adjustments	(15,328)	(15,328)
Difference with respect to the carrying amounts of equity investments in:		
- companies consolidated on a line-by-line basis	235,680	14,694
- companies valued using the equity method	40,617	9,417
Balance as of 30/06/2018, as reported in the consolidated financial statements	**2,599,329**	**74,154**

INCOME STATEMENT

The general economic growth recorded in 2017 continued in the first half of 2018, but with some signs of slowing down, not helped by the appearance of risks mainly linked to protectionist measures that have been implemented or threatened. In Italy, doubts about the formation of a new government were reflected in burgeoning volatility on financial markets.

The consolidation of a positive economic framework helped the quality of credit and led to a lower need for adjustments. This, together with a good performance on the part of net fee and commission income, allowed the Group to close the first half of the year with a significant increase in profit, despite lower results from securities and foreign exchange trading than in the same period last year: 74.154 million compared with 56.332 million, +31.64%.

Continuation of the expansionary monetary policy (ECB rates at 0% and negative Euribor) has negatively affected the trend in the interest margin, also because it left less room for manoeuvre in borrowing and lending rates at a time of increasingly fierce competition on prices.

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 30 June 2017 have not been rendered comparable.

Net interest income increased by 4.56%, coming in at 249.702 million during the year. Net interest income from customers showed a substantially stable trend, while the interest component of the securities portfolio grew considerably, as a result of the strong increase in volume during the current year compared with the average balance last year. The income statement also benefited from the negative interest accrued on the funds received from the ECB as part of TLTRO II, which was not accounted for last year as it was not yet certain that it was due. The cost of funding decreased in percentage terms by more than that of interest income, thereby consolidating the positive trend in this margin already seen at 31 March. Interest income fell slightly by 0.33% to 308.765 million, reflecting the above factors, whereas interest expense came to 59.063 million, down by 16.78%.

The new rules for the recognition of interest accrued on impaired financial assets included in stage 3 have had a limited impact on net interest income.

Net fee and commission income performed well, coming in at 153.393 million, +3.38%. This is a fairly general increase, more marked for those on the placement of financial products, especially asset management and insurance products, but which also involved those on current accounts, loans, collections and payments. Commissions for guarantees given have decreased.

Dividends collected amounted to 3.195 million, -29.95%.

The results of financial activities, relating to the securities portfolio and currency and derivative transactions (the sum of the line items 80, 90, 100 and 110 of the income statement), contributed 26.929 million -47.18% from 50.979, especially due to the lower results in trading and selling activities. The favourable result from securities trading in 2017 was possible due to the realisation of previously unrealised gains.

Net trading income, line item 80, amounted to 17.282 million with an increase in the negative imbalance between revaluations and write-downs of securities, a lower net result on derivative trading, as well as a reduction in income from foreign exchange and currencies.

Gains on sale or repurchase, line item 100, equal to 12.338 million, derive from financial assets measured at amortised cost for 2.240 million and from financial assets measured at fair value through other comprehensive income for 10.234 million, while a loss was recognised on financial liabilities of 0.136 million. Lastly, net hedging income amounted to 0.077 million, while the net loss on other financial assets measured at fair value through profit or loss, line item 110, amounted to 2.768 million.

Income from banking activities therefore fell to 433.219 million, compared with 442.737 million, -2.15%. Net interest income contributed 57.64% of this aggregate, compared with 53.94%.

The improvement in the general economic situation had a positive impact on impaired loans, which decreased, making it possible to reduce provisions.

Net adjustments for credit risk, line item 130, amounted to 85.533 million on 123.795 million, -30.91%. Net adjustments for credit risk relating to financial assets measured at amortised cost, consisting of exposures to customers and banks in the form of loans and securities, amounted to 88.310 million; adjustments to loans to customers, which is the most significant component, amounted to 89.036 million, whereas there have been writebacks on securities and loans to banks for a total of 0.726 million. Compared with the prior year balance of loans to customers, this amount shows a substantial decrease in adjustments, even if the figures are not directly comparable because of differences in methods of recognition between IFRS 9 and IAS 39. Given that the new impairment model for loans measured at amortised cost and the approach for the computation of adjustments are more conservative under the new accounting regime, it is clear that there has been a significant improvement in the credit quality of the portfolio.

Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income consisted of reversals of 2.777 million relating to fixed-yield securities, while in the comparative period, impairment adjustments to available for sale financial assets amounted to

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	30/06/2018	30/06/2017	(+/-)	% change
Net interest income	249,702	238,819	10,883	4.56
Dividends	3,195	4,561	-1,366	-29.95
Net fee and commission income	153,393	148,378	5,015	3.38
Results of financial activities	26,929	50,979	-24,050	-47.18
Total income	**433,219**	**442,737**	**-9,518**	**-2.15**
Net adjustments to loans and financial assets	-85,533	-123,795	38,262	-30.91
Gains/losses on contractual amendments not resulting in derecognition	-724	–	–	–
Net financial income	**346,962**	**318,942**	**28,020**	**8.79**
Personnel expenses	-117,444	-116,966	-478	0.41
Other administrative expenses	-151,775	-139,464	-12,311	8.83
Other operating income/expense	30,254	32,085	-1,831	-5.71
Net accruals to provisions for risks and charges	-634	304	-938	–
Adjustments to property, equipment and investment property and intangible assets	-15,423	-15,787	364	-2.31
Operating costs	**-255,022**	**-239,828**	**-15,194**	**6.34**
Operating profit (loss)	**91,940**	**79,114**	**12,826**	**16.21**
Net gains (losses) on equity investments and other investments	9,876	7,577	2,299	30.34
Profit (loss) before tax	**101,816**	**86,691**	**15,125**	**17.45**
Income taxes	-25,390	-25,930	540	-2.08
Profit (loss)	**76,426**	**60,761**	**15,665**	**25.78**
Profit pertaining to minority interests	-2,272	-4,429	2,157	-48.70
Profit attributable to the Parent Company	**74,154**	**56,332**	**17,822**	**31.64**

Note: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement. Personnel expenses and other operating income have been reclassified, netting them off against the proceeds of the post-employment benefits fund of 2.115 thousand.

29.900 million that mostly related to writedowns of units in Fondo Atlante. If the consolidation of economic growth was reflected in an improvement in credit quality, with a reduction in the flow of new impaired loans, it should however be stressed that the various activities and processes activated by the bank for the monitoring and control of loans and receivables with customers in the various phases of disbursement and management provides positive feedback. The ratio of net adjustments to customer loans/total customer loans, which is defined as the cost of credit, has fallen from 0.90% at 31 December 2017 to 0.70%.

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 0.724 million. Financial income therefore comes to 346.962 million, +8.79%.

As always, cost containment and rationalisation of the bank's structures have been carefully monitored. Despite the efforts to improve the efficiency of the bank's structures, which continued during the period and are reflected in the trend of operating costs, they increased from 239.828 million to 255.022 million, +6.34%. They were also affected by the strong regulatory pressures that have significant impacts in terms of maintaining adequate operating structures, skills and personnel.

The ratio of operating costs to income from banking activities, otherwise known as the cost-income ratio, has risen to 58.87%, from 54.17%, while the annualised ratio of operating costs to total assets has came to 1.23% from 1.15%.

Looking at costs in greater detail, administrative expenses - normalised after excluding the proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense - amounted to 269.219 million, +4.99%, of which personnel expenses came in at 117.444 million on 116.966 million, +0.41% and other administrative expenses rose to 151.775 million from 139.464 million, +8.83%. The latter posted a significant increase in the contributions incurred or expected for the Interbank Deposit Guarantee and Single Resolution Funds, which went from 13.991 million to 24.924 million, +78.14%. The increases in consultancy fees, the use of interbank networks and IT costs are significant. Net accruals to provisions for risks and charges included a provision of 0.634 million, compared with a release of 0.304 million. This now includes provisions for credit risk relating to commitments and guarantees given (that previously had been allocated to income statement line item 130).

The depreciation of property, equipment and investment property and the amortisation of software amounted to 15.423 million, -2.31%. Other income, after the reclassification mentioned above and net of other operating expenses, amounted to 30.254 million, -5.71%.

The aggregate profits/losses on equity and other investments shows a positive balance of 9.876 million, compared with 7.577 million. Profit before income taxes therefore came to 101.816 million, +17.45%. After deducting income taxes of 25.390 million on 25.930 million, and the non-controlling interest of 2.272 million, the profit for the period amounted to 74.154 million, +31.64%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 24.94% compared with 29.91% in the previous year.

SIGNIFICANT SUBSEQUENT EVENTS

On 23 July, the Parent Company completed the acquisition of 100% of PrestiNuova S.p.A., a financial brokerage company that grants loans that are repayable through the assignment of one-fifth of the borrower's salary or pension. This company will operate in synergy with Banca della Nuova Terra S.p.A. in what is considered one of the most important consumer credit segments in Italy.

The Council of State, at the session of 31 July, decided to continue the suspension of the deadline for the transformation of cooperative banks into joint-stock companies - originally envisaged for 27 December 2017 in the reform of the banking sector launched by the Council of Ministers with Decree Law 3 of 24 January 2015 and converted into Law 33 of 24 March 2015 - up to the date of publication of the judgement of merit that will be issued by the Council of State following the hearing already scheduled for 18 October. The administrative judges' decision follows the measure in the so-called «Decreto Milleproroghe», which a few days earlier, on 24 July, postponed the deadline for transformation to 31 December 2018.

OUTLOOK

The general economic scenario remains positive, even if it is less favourable than the forecasts made at the start of the year. It remains conditioned, on the one hand, by an attitude of greater prudence on the part of businesses and consumers and, on the other, by the possible reaction of the markets when the next Budget is announced, with its potential impact on public finances.

With regard to our Banking Group, it is reasonable to assume that the improvement in profitability achieved so far can be consolidated in the second part of the year.

Sondrio, 9 August 2018

THE BOARD OF DIRECTORS

CONDENSED CONSOLIDATED INTERIM REPORT FOR THE PERIOD ENDED 30 JUNE 2018

PRESENTATION OF COMPARATIVE AMOUNTS

In the financial statements set out below, the comparative balance sheet amounts at 31/12/2017 and the income statement comparatives for the period ended 30/06/2017 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 amounts at 31 December 2017 and income statement amounts for the period ended 30 June 2017, which do not reflect the impact of applying IFRS 9, are not comparable with the amounts presented in the interim report for the period ended 30 June 2018 .

CONSOLIDATED BALANCE SHEET

(in thousands of euro)

IFRS 9	IAS 39			30-06-2018		31-12-2017
10.	10.	CASH AND CASH EQUIVALENTS		**723,237**		**699,379**
20.		FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		**891,859**		**-**
20 *a)*	20.	FINANCIAL ASSETS HELD FOR TRADING		**301,314**		**372,590**
20 *c)*		OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE		**590,545**		**-**
	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		**5,646,053**		**-**
	20.	FINANCIAL ASSETS HELD FOR TRADING		**-**		**256,358**
	40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**-**		**6,630,613**
40.		FINANCIAL ASSETS MEASURED AT AMORTISED COST		**32,937,762**		**-**
40 *a)*	60.	LOANS AND RECEIVABLES WITH BANKS		**1,288,111**		**1,920.,320**
	50.	HELD-TO-MATURITY INVESTMENTS		**-**		**6,856**
40 *b)*	70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**31,649,651**		**25,623,303**
	40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**-**		**116,824**
	50.	HELD-TO-MATURITY INVESTMENTS		**-**		**4,119,711**
70.	100.	EQUITY INVESTMENTS		**212,917**		**217,634**
90.	120.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**322,839**		**327,490**
100.	130.	INTANGIBLE ASSETS		**25,062**		**23,720**
		of which:				
		- goodwill	7,847		7,847	
110.	140.	TAX ASSETS		**463,683**		**435,064**
		a) current	48,403		49,618	
		b) deferred	415,280		385,446	
130.	160.	OTHER ASSETS		**329,670**		**352,052**
		TOTAL ASSETS		**41,553,082**		**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		30-06-2018		31-12-2017
10.		FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		**37,583,386**		**-**
10 *a)*	10.	DUE TO BANKS		**6,390,698**		**6,204,835**
10 *b)*	20.	CUSTOMER DEPOSITS		**28,381,791**		**28,800,925**
10 *c)*	30.	SECURITIES ISSUED		**2,810,897**		**2,833,359**
20.	40.	FINANCIAL LIABILITIES HELD FOR TRADING		**55,851**		**31,259**
40.	60.	HEDGING DERIVATIVES		**19,021**		**22,468**
60.	80.	TAX LIABILITIES		**25,295**		**38,855**
60 *a)*	80	*a)* current	1,778		2,705	
60 *b)*	80	*b)* deferred	23,517		36,150	
80.	100.	OTHER LIABILITIES		**900,006**		**643,520**
90.	110.	POST-EMPLOYMENT BENEFITS		**44,428**		**45,491**
100.		PROVISIONS FOR RISKS AND CHARGES		**233,626**		**-**
100 *a)*		Commitments and guarantees given	34,122		-	
	100.	OTHER LIABILITIES		**-**		**30,152**
	120.	PROVISIONS FOR RISKS AND CHARGES		**-**		**204,277**
100 *b)*	120 *a)*	pension and similar obligations	163,194		160,799	
100 *c)*	120 *b)*	other provisions for risks and charges	36,310		43,478	
120.	140.	VALUATION RESERVES		**(44,220)**		**28,478**
150.	170.	RESERVES		**1,155,624**		**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 (-)		**(25,391)**		**(25,370)**
190.	210.	NON-CONTROLLING INTEREST (+/-)		**92,140**		**90,593**
200.	220.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**74,154**		**159,210**
		TOTAL LIABILITIES AND EQUITY		**41,553,082**		**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		30-06-2018		30-06-2017	
10.	10.	INTEREST AND SIMILAR INCOME		308,765		309,791
		of which: interest income calculated using the effective interest method	306,108		-	
20.	20.	INTEREST AND SIMILAR EXPENSE		(59,063)		(70,972)
30.	30.	**NET INTEREST INCOME**		**249,702**		**238,819**
40.	40.	FEE AND COMMISSION INCOME		163,294		157,703
50.	50.	FEE AND COMMISSION EXPENSE		(9,901)		(9,325)
60.	60.	**NET FEE AND COMMISSION INCOME**		**153,393**		**148,378**
70.	70.	DIVIDENDS AND SIMILAR INCOME		3,195		4,561
80.	80.	NET TRADING INCOME		17,282		31,506
90.	90.	NET HEDGING GAINS (LOSSES)		77		(15)
100.	100.	GAINS/LOSSES FROM SALE OR REPURCHASE OF:		12,338		13,814
100 *a)*		financial assets measured at amortised cost	2,240		-	
100 *b)*		financial assets measured at fair value through other comprehensive income	10,234		-	
	100 *b)*	available-for-sale financial assets	-		13,866	
100 *c)*		financial liabilities	(136)		-	
	100 *d)*	financial liabilities	-		(52)	
110.	110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		(2,768)		5,674
		a) financial assets and liabilities designated at fair value	-		5,674	
		b) other financial assets mandatorily measured at fair value	(2,768)		-	
120.	120.	**TOTAL INCOME**		**433,219**		**442,737**
130.	130.	NET ADJUSTMENTS FOR CREDIT RISK RELATING TO:		(85,533)		(123,795)
		a) financial assets measured at amortised cost	(88,310)		(93,895)	
		b) financial assets measured at fair value through other comprehensive income	2,777		(29,900)	
140.		GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(724)		-
150.	140.	**NET FINANCIAL INCOME**		**346,962**		**318,942**
180.	170.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**		**346,962**		**318,942**
190.	180.	ADMINISTRATIVE EXPENSES:		(271,334)		(262,267)
		a) personnel expenses	(119,559)		(122,803)	
		b) other administrative expenses	(151,775)		(139,464)	
200.	190.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(634)		304
		a) commitments for guarantees given	(21)		(372)	
		b) other net provisions	(613)		676	
210.	200.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(8,517)		(8,979)
220.	210.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(6,906)		(6,808)
230.	220.	OTHER OPERATING INCOME/EXPENSE		32,369		37,922
240.	230.	**OPERATING COSTS**		**(255,022)**		**(239,828)**
250.	240.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		10,217		7,577
260.	250.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS		(352)		(5)
280.	270.	NET GAINS ON SALE OF INVESTMENTS		11		5
290.	280.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**101,816**		**86,691**
300.	290.	INCOME TAXES		(25,390)		(25,930)
310.	300.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**76,426**		**60,761**
330.	320.	**PROFIT (LOSS) FOR THE PERIOD**		**76,426**		**60,761**
340.	330.	PROFIT (LOSS) FOR THE PERIOD OF NON-CONTROLLING INTEREST		(2,272)		(4,429)
350.	**340.**	**PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY**		**74,154**		**56,332**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

IFRS 9	IAS 39		30/06/2018	30/06/2017
10.	10.	**Profit (loss) for the period**	**76,426**	**60,761**
		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	7,965	–
	100.	Available-for-sale financial assets		5,090
70.	40.	Defined-benefit plans	(756)	1,322
90.	60.	Share of valuation reserves of equity investments valued at net equity	(3,144)	2
		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	(81,611)	(562)
160.	120.	Share of valuation reserves of equity investments valued at net equity	(2,893)	(977)
170.	130.	**Total other income items net of income taxes**	**(80,439)**	**4,875**
180.	140.	**Comprehensive income (Item 10+170)**	**(4,013)**	**65,636**
190.	150.	Consolidated comprehensive income attributable to non-controlling interest	(2,288)	(4,435)
200.	160.	**Consolidated comprehensive income attributable to the Parent Company**	**(6,301)**	**61,201**

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	–	–	–	–
b) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	1,119,099	(51,266)	1,067,833	131,267	–	3,416	–
b) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**28,315**	**7,757**	**36,072**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,370)**	**–**	**(25,370)**	**–**	**–**	**–**	**–**
Profit for the period	**165,184**	**–**	**165,184**	**(131,267)**	**(33,917)**	**–**	**–**
Equity attributable to the group	**2,678,920**	**(45,119)**	**2,633,801**	**–**	**(31,567)**	**3,416**	**–**
Equity attributable to non-controlling interest	**90,593**	**1,610**	**92,203**	**–**	**(2,350)**	**–**	**–**

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	–	(4,560)	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**41,797**	**–**	**41,797**	**–**	**–**	**–**	**–**
Equity instruments							
Treasury shares	**(25,349)**	**–**	**(25,349)**	**–**	**–**	**–**	**–**
Profit for the period	**99,875**	**–**	**99,875**	**(72,791)**	**(27,084)**	**–**	**–**
Equity attributable to the group	**2,587,756**	**–**	**2,587,756**	**–**	**(27,084)**	**(4,560)**	**–**
Equity attributable to non-controlling interest	**84,652**	**–**	**84,652**	**–**	**–**	**–**	**–**

Changes during the period								
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 at 30.06.2018**	**Equity pertaining to minority interests at 30.06.2018**
–	–	–	–	–	–	–	**1,360,157**	**33,579**
–	–	–	–	–	–	–	–	-
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	**1,152,395**	**50,121**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**(80,439)**	**(44,220)**	**(147)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(21)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,391)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**76,426**	**74,154**	**2,272**
(21)	**–**	**–**	**–**	**–**	**–**	**(6,301)**	**2,599,329**	**–**
–	**–**	**–**	**–**	**–**	**–**	**2,288**	**–**	**92,140**

Changes during the period								
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 at 30.06.2017**	**Equity pertaining to minority interests at 30.06.2017**
–	–	–	–	–	–	–	**1,360,157**	**33,579**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	**1,097,143**	**44,888**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**4,875**	**46,796**	**(124)**
(26)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,375)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**60,761**	**56,332**	**4,429**
(26)	**–**	**–**	**–**	**–**	**–**	**61,201**	**2,617,287**	**–**
–	**–**	**–**	**–**	**–**	**–**	**4,435**	**–**	**89,087**

CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

	30-06-2018	30-06-2017
A. **OPERATING ACTIVITIES**		
1. **Cash generated from operations**	**238,524**	**196,332**
- profit for the year (+/-)	74,154	56,332
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through other comprehensive income (-/+)	12,958	(1,374)
- net hedging gains (losses) (-/+)	(77)	15
- net impairment losses	–	137,145
- net adjustments for credit risk (+/-)	89,915	–
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	15,775	15,787
- provisions for risks and charges and other costs/revenues (+/-)	18,601	12,518
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	25,390	25,930
- other adjustments (+/-)	1,808	(50,021)
2. **Cash generated/absorbed by financial assets**	**(143,675)**	**(3,593,313)**
- financial assets held for trading	8,938	172,431
- financial assets measured at fair value	–	(6,660)
- available-for-sale financial assets	–	(3,894,694)
- loans and receivables with banks: sight	–	17,773
- loans and receivables with banks: other receivables	–	547,588
- loans and receivables with customers	–	(482,812)
- financial assets designated at fair value	–	–
- other financial assets mandatorily measured at fair value	(82,810)	–
- financial assets measured at fair value through other comprehensive income	1,239,168	–
- financial assets measured at amortised cost	(1,272,663)	–
- other assets	(36,308)	53,061
3. **Cash generated/absorbed by financial liabilities**	**(39,810)**	**3,379,633**
- due to banks: sight	–	82,206
- due to banks: other payables	–	3,758,767
- due to customers	–	(923,051)
- securities issued	–	(241,966)
- financial liabilities valued at amortised cost	(291,602)	–
- financial liabilities held for trading	10,567	(26,415)
- financial liabilities measured at fair value	–	–
- other liabilities	241,225	730,092
Net cash generated/absorbed by operating activities	**55,039**	**(17,348)**

	30-06-2018	30-06-2017
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**10,082**	**50,212**
- sales of equity investments	–	–
- dividends collected from equity investments	9,892	8,670
- sales and reimbursements of held-to-maturity investments	–	39,085
- sales of property, equipment and investment property	190	2,457
- sales of intangible assets	–	–
- sales of business divisions	–	–
2. **Cash absorbed by**	**(14,188)**	**(42,599)**
- purchases of equity investments	(1,800)	–
- purchases of held-to-maturity investments	–	(16,455)
- purchases of property, equipment and investment property	(4,157)	(17,030)
- purchases of intangible assets	(8,231)	(9,114)
- purchases of business divisions	–	–
Net cash generated/absorbed by investing activities	**(4,106)**	**7,613**
C. **FINANCING ACTIVITIES**	**–**	**–**
- issues/purchases of treasury shares	(20)	(26)
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(33,832)	(26,984)
- sale/purchase of controlling interests in third parties	–	–
Net cash generated/absorbed by financing activities	**(33,852)**	**(27,010)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**17,081**	**(36,745)**

Key:

(+) generated (-) absorbed

RECONCILIATION

Line items	30-06-2018	30-06-2017
Cash and cash equivalents at beginning of period	699,379	789,612
Total net cash generated/absorbed in the period	17,081	(36,745)
Cash and cash equivalents: effect of change in exchange rates	6,777	(12,422)
Cash and cash equivalents at end of period	**723,237**	**740,445**

EXPLANATORY NOTES

Form and content of the report on the first half of 2018

The report for the first half 2018 has been prepared in accordance with art. 154-ter of Legislative Decree 58 of 24 February 1998 «Consolidated Law on financial intermediation under arts. 8 and 21 of law 52 of 6/2/1996» and the provisions issued by Consob. Account has also been taken of the instructions issued by Consob with resolutions 15520 of 27/7/2006 and Communication DEM/6064293 of 28/7/2006 and Communication DEM/11070007 of 5/8/2011.

The consolidated interim report at 30 June 2018 has been prepared in accordance with IAS 34 and comprises:

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

General information

Declaration of compliance with International Financial Reporting Standards

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

Basis of preparation

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

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

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

4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or its interpretation. The Group has elected not to present comparative information in compliance with IFRS 9 and 15, which are effective as of 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 consolidated financial statements.

The consolidated interim report is prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, this consolidated interim report reflects the requirements of Decree 136/2015, the Italian Civil Code (c.c.) and the regulations contained in the Consolidated Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

All figures reported in the financial statements and explanatory notes are stated in thousands of euro.

Scope and methods of consolidation

The consolidated interim report presents the economic and financial position at 30 June 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, Banca della Nuova Terra S.p.a., Popso Covered Bond S.r.l. and the entities that are controlled by the Group pursuant to IFRS 10.

The following companies have been consolidated on a line-by-line basis:

Name	Location	Type of relationship (1)	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 180,000	100	100
Factorit S.p.a.	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	1	60,000	100	100
Banca della Nuova Terra S.p.a.	Sondrio	1	31,315	100	100
Pirovano Stelvio S.p.a. **	Sondrio	1	2,064	100	100
Servizi Internazionali e Strutture Integrate 2000 S.r.l.**	Milan	1	75	100	100
Immobiliare San Paolo S.r.l. **	Tirano	1	10 *	100	100
Immobiliare Borgo Palazzo S.r.l.**	Tirano	1	10 *	100	100
Popso Covered Bond S.r.l.	Conegliano V.	1	10	60	60

(1) 1 = majority of voting rights at ordinary shareholders' meeting.
4 = other form of control
* held by Sinergia Seconda S.r.l.
** equity investments not included in the Banking Group

In addition, Fondo Immobiliare Centro delle Alpi Real Estate, which is 100% held by the Parent Company, has been consolidated. As defined by IFRS 10, control exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control may therefore be obtained in various ways, including via exposure to risks and rewards, and not just as a consequence of the power to influence financial and operating policies.

In the first half of the year, 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. 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 in that the shareholding is between 20% and 50%; or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

a) the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;
b) the Bank takes part in the decision-making process, including decisions regarding dividends;
c) there are significant transactions between the parent company and the affiliate;
d) there is an exchange of managers;
e) essential technical information is being provided.

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

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the company's net result for the year pertaining to the group is shown in a specific item in the income statement.

The ownership percentages are specified in the following table:

Name	Location	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Arca Holding S.p.a.	Milan	50,000	21.137
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Bormio Golf S.p.a.	Bormio	317	25.237
Lago di Como Gal S.c.r.l.	Canzo	22	28.953
Sofipo S.A.	Lugano	(CHF) 2,000 *	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21 **	27.000
Sifas S.p.a.	Bolzano	1,209 **	21.614

* held by Banca Popolare di Sondrio (SUISSE) SA
** held by Pirovano Stelvio S.p.a.

With line-by-line consolidation, the carrying amount of the investments is eliminated against the related equity and all of the assets and liabilities, guarantees, commitments and other memorandum accounts are included, as are the revenues and costs of the subsidiaries.

Insignificant income and charges pertaining to transactions carried out at normal market conditions have not been eliminated. The financial statements of these Group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the Group.

Companies in which the bank does not have an investment, but for which it has received pledged voting shares are not consolidated, because the pledge is designed to protect the loans granted and not to influence the company's operating policies to obtain economic benefits.

The significant evaluations and assumptions adopted to establish the existence of control are also given in paragraph 7 «Equity Investments» in 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 3 of IFRS 12.

Translation of financial statements in currencies other than the euro

The interim report of Banca Popolare di Sondrio (SUISSE) SA is translated into euro at the official period-end exchange rate for balance sheet items, while costs and revenues are translated into euro at the average exchange rate for the period. Differences arising on translation are booked to reserves.

Subsequent events

No events have taken place between the reporting date of this consolidated interim report and its approval by the Board of Directors on 09/08/2018 that would require an adjustment to the approved information, and nothing of significance has occurred that would require additional disclosures.

On 23 July 2018, the acquisition was completed of a 100% interest in PrestiNuova S.p.a., a financial intermediation company, which had previously formed part of Banca Popolare di Vicenza Group and that is specialised in the granting of salary - or pension-backed loans or loans secured by delegation of payment.

Other aspects

The financial statements presented in this consolidated interim report on operations comply with the mandatory reporting formats required for statutory reporting purposes by the Bank of Italy Regulation no. 262 dated 22 December 2005, 5th update of 22 December 2017. The accounting policies adopted for the period are consistent with those of the prior year, except for the adoption as from 1 January 2018 of the International Financial Reporting Standards IFRS 9 (Financial instruments) and IFRS 15 (Revenue from contracts with customers). Various other amendments and interpretations became applicable for the first time in 2018, but have not had any impact on the Group's condensed consolidated interim financial statements.

The consolidated interim report, accompanied by the report on operations, consists of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the financial statements.

Preparing the consolidated interim report requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, and the use of valuation models for identifying the fair value of instruments that are not listed on active markets.

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; however, as allowed by IAS 34, this consolidated interim report does not include all of the information provided in an annual report.

The Parent Company and other Group companies have defined the estimation processes that support the carrying amounts of the more significant items recognised in the consolidated interim report at 30 June 2018, as required by the prevailing accounting standards and relevant regulations.

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

The outcome of this work supports the carrying amount of these items at 30 June 2018.

It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context that have made it increasingly difficult to prepare even short-term forecasts for the 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 particularly uncertain macroeconomic and market environment which could, as in the past, experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts stated in the interim report at 30 June 2018.

The consolidated interim report is subject to a limited audit by EY S.p.A. in accordance with the shareholders' resolution of 29 April 2017 which appointed them as auditors for the nine-year period from 2017 to 2025.

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 elected to continue to apply IAS 39.

Classification and Measurement

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 lesser amount 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 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. **Minority 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. Minority 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. **Minority 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 (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 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 recognition of impairment losses.

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 and Loans					**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. Effective 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 (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 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)**
Group's 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.

Analysis of the principal captions contained in the consolidated interim report

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. Also included are derivative contracts with a positive fair value, excluding those that are part of master netting agreements that are subject to early termination.

A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index, is settled on maturity and requires a limited initial net investment. If the derivative qualifies as a hedging derivative, the applicable line item is «hedging derivatives». If a financial asset contains an embedded derivative, it is measured by measuring the entire asset at fair value. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This line item also includes financial assets designated at fair value (fixed-yield securities and loans) as the result of the exercise of the fair value option. For the time being, the Group has decided not to apply the fair value option, but does not exclude the exercise thereof in the future.

Lastly, it includes other financial assets mandatorily measured at fair value (fixed-yield securities, variable-yield securities, mutual funds and loans) or that do not meet the requirements for classification at amortised cost or at fair value through other comprehensive income, since they did not pass the contractual cash flow characteristics test (SPPI test), as well as variable-yield securities and mutual funds (that are not held for trading) and debt instruments held within a fair value business model.

Recognition

Assets measured at fair value through profit or loss are recognised at the settlement date at fair value, which normally corresponds to the consideration paid, with the exception of transaction costs and revenues that are recognised directly in profit or loss. Trading derivatives are recognised at the «contract» date and are stated at their current value at the time of acquisition.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value at the reporting date.

With regard to instruments listed on official markets, fair value is calculated with reference to their official bid price at the close of trading, while the fair value of instruments not listed on official markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

If data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity; cost, in the event that this is the best approximation of fair value).

As regards loans and receivables (due from banks and customers), the models used differ based on the nature and the characteristics of the instruments being measured. Currently, three main base models are applied:

- Discounted Cash Flow Model (DCF).
- Reverse mortgage model.
- ABS model.

The above models are used to measure performing exposures. In the event of non performing loans or loans repayable on demand, the fair value equates to the gross balance adjusted for impairment.

Recognition of components affecting the income statement

Income statement components generated by changes in fair value of financial assets measured at fair value through profit or loss are recognised in the income statement in the period they arise under «Net trading income» and «Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss» split between the sub-items: «financial assets and liabilities designated at fair value» and «other financial assets mandatorily measured at fair value».

Interest income and dividends are reported in the income statement under «Interest and similar income» and «Dividends and similar income» respectively.

Derecognition

Financial assets held for trading are derecognised on expiry of the contractual rights over the related financial flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits of ownership.

2. 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.

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.

Group policy relating to fixed-yield securities and loans is that any changes in business models due to a lack of consistency between portfolio management and the chosen business model, or due to significant changes in strategic decisions, shall be decided by the Board of Directors of each Group company.

No possibility exists for the reclassification of variable-yield securities. The exercise of the FVOCI option, being the option envisaged by the standard that permits equity instruments to be designated at fair value through other comprehensive income upon initial recognition, is in fact irrevocable.

Accounting policies

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value in the same manner as financial assets measured at fair value through profit or loss.

The line item «Financial assets measured at fair value through other comprehensive income» comprises equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Group operates. These instruments represent the majority in this portfolio. 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 year end or interim reporting date, fixed-yield securities classified at «fair value through other comprehensive income» are subject to impairment testing based on an impairment calculation framework similar to that designed for financial instruments measured at amortised cost. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

As regards variable-yield securities classified in the line item «Financial assets measured at fair value through other comprehensive income» no impairment testing is required, since changes in fair value due to a deterioration in credit status are recognised in an equity reserve named «Valuation reserves».

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the difference between cost and redemption value, is recorded in the income statement. Income and charges deriving from changes in fair value, 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» within equity.

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognised on expiry of the contractual rights over the related cash flows or when the financial asset is sold with the transfer of essentially all the related risks and benefits of ownership.

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 assigned to the company and booked in the name of the assigned debtor for which the related risks and benefits have all been substantially transferred to the assignee.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method.

Group policy is that any changes in business models due to a lack of consistency between portfolio management and the chosen business model, or due to significant changes in strategic decisions, shall be decided by the Board of Directors of each Group company that shall also establish any reclassification to be made.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans (less than 12 months) without a specific repayment date and loans repayable on demand are recognised at historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this amount. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount expected cash flows, even if there has been a credit change associated with the loan triggered by loan forbearance that has led to a change in the contractual rate.

For measurement purposes, financial assets measured at amortised cost are classified in one of 3 different stages as follows:

- Stage 1: performing positions for which there has been no significant increase in credit risk since the date of initial recognition
- Stage 2: performing positions for which there has been a significant increase in credit risk since the date of initial recognition
- Stage 3: positions classified in one of the credit-impaired categories (overdrawn for more than 90 days, unlikely-to-pay, non-performing)

Classification in one of the 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, 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.

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.

As regards performing positions, measurement is performed on an overall basis, taking account of the risk parameters consisting of probability of default (PD) and loss given default (LGD), as well as exposure at default (EAD).

As regards credit-impaired positions, measurement may be performed on an overall or detailed basis. More specifically:

- 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.

Reference should be made to paragraph 4 below for specific criteria relating to commitments and guarantees.

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 regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), in accordance with IFRS 9, 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 substantially all the related risks and benefits have been transferred and no control over them is retained.

IFRS 9 thus confirms the rules for derecognition of financial assets already established by IAS 39.

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.

4. 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».

5. Hedging derivatives

Classification and recognition

Financial and credit derivatives held for hedging purposes with a positive or negative fair value are recognised in the corresponding balance sheet line item. The IASB is still developing new hedging requirements that will replace the rules set out in IAS 39 and, accordingly, until the completion and publication of the new standard, the Group has decided to continue to apply the hedge accounting requirements set out in IAS 39 based on the exemption offered by IFRS 9.

The portfolio of hedging derivatives comprises the derivative instruments used by the Group to neutralise or minimise the losses arising in relation to hedged assets and liabilities. The hedging of market risks can take two different forms:

- fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with year end or interim 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 year end reporting date.

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.

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.

6. Equity investments

Classification

The portfolio of equity investments comprises holdings in subsidiary companies, associated companies and companies under joint control, other than those included in the line item «financial assets measured at fair value through profit or loss» in accordance with IAS 28 and IFRS 11. Control is presumed to exist when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control is therefore deemed to exist in the following circumstances:

- 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;
- exposure to the variability of results, for example in terms of an overall economic interest in the investment;
- with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

A company is an associated company if the Group exercises significant influence over its activities or, in any case, if it holds 20% or more of the voting rights or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

- it has a representative on the Board of Directors or the equivalent body of the affiliate;
- it takes part in the decision-making process, including decisions regarding dividends;
- there are significant transactions between the parent company and the affiliate;
- there is an exchange of managers;
- 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

Investments are subsequently valued at equity, determined with reference to the value indicated in the latest approved financial statements. The initially-recorded value of each equity investment is increased or decreased in proportion to the profit or loss for the year of the company concerned, and is reduced by the amount of any dividends collected. If the solvency of an equity investment appears to have deteriorated, it is subjected to impairment testing to check if there has been any loss in value. The impairment loss is the difference between the lower new value and the previous carrying value.

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Measurement and recognition of components affecting the income statement

The negative differences on initial recognition, the interest in profits or losses for the year, gains and losses on disposal and impairment losses are recorded in the «net gains (losses) on equity investments» caption of the income statement, except for «profit (loss) from disposal of subsidiaries» which are recorded under caption «Net gains on sales of investments».

Derecognition

Equity investments are derecognised when the financial asset is sold together with the transfer of all the risks and benefits of ownership.

7. 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 measured at fair value. Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life. Property, equipment and investment property are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying amount with respect to their recoverable amount is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent writebacks do not exceed the impairment losses recorded previously.

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and writebacks are recorded in the «depreciation and net impairment losses on property, equipment and investment property» caption of the income statement.

It is not permitted to book any subsequent recoveries in value.

With regard to buildings held for investment purposes, the net result of their measurement at fair value is recorded separately in the income statement.

Derecognition

Property, equipment and investment property are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

8. Intangible assets

Classification

This caption comprises identifiable, intangible, non-monetary assets that will benefit future years.

Intangible assets comprise software and goodwill.

Recognition

Intangible assets are recorded at purchase cost plus any related charges, only if it is probable that the future economic benefits attributable to such assets will be realised and their cost can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed in the period incurred; any costs incurred subsequently are only capitalised if they increase the value of or the economic benefits expected from the assets concerned.

Goodwill is booked to assets when it derives from a business combination according to the criteria laid down in IFRS 3 as the residual surplus between the overall cost incurred for the operation and the net fair value of the acquired assets and liabilities that constitute businesses or business units.

If the cost incurred is lower than the fair value of the assets and liabilities acquired, the negative difference («badwill») is booked directly to the income statements.

Accounting policies

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any impairment losses.

Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned.

If there is evidence of impairment at the reporting date, the recoverable amount of the asset is estimated: the impairment loss, being the difference between the carrying amount and the recoverable amount, is charged to the income statement.

Once booked, goodwill is not amortised but tested periodically to ensure that the book value is holding up. This test is carried out once a year or more frequently if there are signs of impairment. For this reason, cash generating units (CGUs) to which the individual amounts of goodwill can be allocated are identified. The amount of any reduction in value is determined on the basis of the difference between the carrying value of the goodwill and its recoverable value, if this is less. This recoverable amount is equal to the higher of the fair value of the CGU, net of any costs to sell, and the related value in use, represented by the present value of the estimated cash flows for the years that the CGU is expected to operate, including those deriving from its disposal at the end of its useful life.

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and writebacks are recorded in the «amortisation and net impairment losses on intangible assets» caption of the income statement.

It is not permitted to book any subsequent recoveries in value.

Derecognition

Intangible assets are derecognised when they are not expected to generate any further economic benefits.

9. Non-current assets held for sale and discontinued operations

Non-current assets are only included in this item when it is considered very probable that they will be sold.

They are measured at the lower of book value and fair value, net of selling costs. Differences arising on valuation are booked to the income statement.

10. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as «Tax assets» and «Tax liabilities». Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes.

Taxable or deductible timing differences give rise to the recognition of deferred tax assets and liabilities. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation since, at present, the conditions for the payment of such taxation in future do not apply. Deferred tax assets are recognised using the liability method, only if their recovery in future years is reasonably certain.

Deferred tax assets determined on the basis of deductible temporary differences are recorded in the financial statements to the extent that they are likely to be recovered; this probability is assessed by carrying out a probability test, based on the 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.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to equity; in this case, the matching entries are also recorded within equity.

11. Provisions for risks and charges

This caption comprises the following provisions:

- The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to disburse loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.

The sub-item «Provisions for pensions and similar obligations» includes provisions for defined benefit and defined contribution supplementary pension schemes classified as internal schemes pursuant to current pension legislation and other supplementary pension schemes classified as external schemes, but only if a guarantee has been provided concerning capital repayment and/or the return to the beneficiaries, based on the measurement of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of post-employment benefits; once again, the actuarial gains and losses deriving from actuarial estimates are treated in accordance with the provisions of the revised version of IAS 19 endorsed by EC Regulation 475 of 5 June 2012, i.e. booked to equity as shown in the statement of comprehensive income. These are:

- 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. Reference should be made to the disclosures provided in liability section 12.3 of the notes to the 2017 consolidated financial statements for further information concerning these actuarial liabilities.

– The sub-item other provisions for risks and charges includes, in addition to the provision for long-service bonuses, which consists of the liability for bonuses to employees who have reached a period of service of 30 years as well as provisions recognised for liabilities whose timing and amount are uncertain, which can be 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).

12. 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 loans linked to the provision of financial services as defined by the Consolidated Banking Act and the Consolidated Finance Act and variation margins with clearing houses arising from derivative transactions. Amounts due to customers and banks and securities issued comprise the financial 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

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected. This amount does not include the charges made to creditors in order to recover administrative costs.

The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected.

Liabilities covered by effective hedges are measured in accordance with the regulations applying to such transactions.

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest and similar expense». Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses from sale or repurchase of financial liabilities».

Derecognition

Financial liabilities are derecognised when they expire or are settled.

Funding liabilities that are subsequently repurchased are eliminated from the financial statements.

13. 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.

14. Financial liabilities measured at fair value

The financial statements do not include any financial liabilities measured at fair value.

15. Currency transactions

Classification

They include all assets and liabilities denominated in currencies other than the Euro.

Recognition

Assets and liabilities denominated in currencies other than the Euro are recognised initially using the spot exchange rates applying on the transaction dates.

Accounting policies

On the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period.

Exchange differences on non-monetary assets defined as available for sale are recorded under valuation reserves.

Derecognition

The policies applied are those indicated for the corresponding line items. The exchange rate used is the one ruling on the date of payment.

16. Termination indemnities

Termination indemnities are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this obligation is determined by extrapolating the current liability, using actuarial assumptions, in order to estimate the amount that will be paid upon termination of the employment relationship and determine the present value of this amount. The actuarial calculations are performed using the projected unit credit method, under which each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out every six months by an independent actuary.

As a result of the reform of supplementary pensions by Decree 252 of 5 December 2005, the termination indemnities accrued up to 31 December 2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee. This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements.

Gains and losses arising from changes in actuarial assumptions are booked to equity as shown in the statement of comprehensive income.

17. Other information

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives. We would also point out that the amount of this remuneration component is not significant and relates only to an extremely limited number of corporate officers.

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.

Dividends are recorded upon collection.

Any treasury shares held are deducted from equity. Any gains or losses from transactions in treasury shares are also reflected in equity.

Covered bonds

On 6 November 2013, the Board of Directors of the Parent Company authorised a 5-year covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 30 May 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

A second assignment of performing loans totalling € 202 million took place on 4 December 2015, under the same contract.

Two additional assignments were carried out in 2016. The first, on 1 February 2016, relating to a total portfolio of € 576 million of performing loans in connection with the issue of a second series of covered bonds totalling € 500 million on 4 April 2016. The second, on 31 October 2016, relating to a portfolio of performing loans totalling € 226 million.

A fifth assignment of performing loans for a total of € 308 million took place on 1 October 2017 under the same contract.

Given that the Parent Company maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet.

Transfer of financial assets held for trading

As in the previous year, the Parent Company did not carry out any reclassifications of financial assets, except for those arising from the FTA of IFRS 9. A reclassification was made on the basis of the amendment to IAS 39 approved by EU Regulation 1004 of 15/10/2008. In very particular circumstances, this amendment makes it possible to reclassify certain financial instruments from one portfolio to another. Its purpose is to reduce the volatility in the income statement (or in equity) of financial institutions and companies that apply IAS/IFRS in situations of illiquid markets and/or characterised by prices that do not reflect the realisable value of financial instruments.

INFORMATION ON FAIR VALUE

Qualitative information

IFRS 13 Fair Value Measurement came into force on 1 January 2013. This standard collects in one document the rules governing the determination of fair value that were previously contained in several accounting standards. IFRS 13 essentially does not change the concept of fair value, but provides new application guidelines and envisages additional disclosures.

The information about fair value required by IFRS 13 is provided below. This standard defines fair value as the price that would be received from the sale of an assets or that would be paid for the transfer of a liability in a orderly transaction between market operators on the measurement date. Fair value is a criterion based on market value; however, while transactional or observable market information may be available for certain assets and liabilities, such information may not be available for other assets and liabilities. When the price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

The principal innovations introduced by IFRS 13 include clarification about the measurement of counterparty credit risk when determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument. With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the CVA (Credit value adjustment) and represents the potential loss associated with the counterparty credit risk, while the DVA (Debit value adjustment) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

Fair value levels 2 and 3: measurement techniques and inputs used

Level 2 inputs exclude the listed prices used in Level 1 and include: prices for similar assets or liabilities listed in active markets, prices for identical or similar assets or liabilities listed in inactive markets, and information other than observable listed prices, such as routinely listed interest rates and yield curves observable at intervals, implicit volatility, credit spreads and inputs corroborated by the market.

This information is usually supplied by providers or determined with reference to prices calculated with reference to the market parameters of similar financial assets.

Level 3 inputs consist of unobservable inputs for the asset or liability concerned and are used to determine fair value to the extent that significant observable inputs are not available. They must reflect the assumptions that market operators would use to determine the price of the asset or liability, including those regarding the related risk. The inputs not observable in the marketplace derive from internal estimates and valuations based on pricing models that take account of expected cash flows and pricing and spread information, as well as of historical data and series of data concerning the risk factors, and relevant specialist reports.

Processes and sensitivity of the measurements

The Group 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 contained in the portfolio of financial assets measured at fair value through other comprehensive income 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.

For those Level 3 instruments whose fair value is determined using unobservable quantitative inputs, the economic results are not significantly affected by changes in one or more of the unobservable parameters, such as the credit spreads associated with the counterparties that were used for measurement purposes.

The fair value does not alter significantly on changes of +/- 1 basis point in the credit spread and other input parameters.

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.

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

Fair value hierarchy

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

Financial assets/liabilities carried at fair value	30/06/2018		
	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	567,942	50,378	273,539
a) Financial assets held for trading	250,936	50,378	–
- Financial assets designated at fair value	–	–	–
c) Other financial assets mandatorily measured at fair value	317,006	–	273,539
2. Financial assets measured at fair value through other comprehensive income	5,522,930	–	123,123
3. Hedging derivatives	–	–	–
4. Property, equipment and investment property	–	–	63,093
5. Intangible assets	–	–	–
Total	**6,090,872**	**50,378**	**459,755**
1. Financial assets held for trading	4,141	51,710	–
2. Financial liabilities designated at fair value	–	–	–
3. Hedging derivatives	–	19,021	–
Total	**4,141**	**70,731**	**–**

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
1. **Opening balance at 01/01/2018**	**196,967**	**–**	**–**	**196,967**	**114,595**	**–**	**63,445**	**–**
2. **Increases**	**111,679**	**1,602**	**–**	**110,077**	**10,418**	**–**	**434**	**–**
2.1. Purchases	106,131	1,601	–	104,530	128	–	–	–
2.2. Income booked to:	4,983	1	–	4,981	10,196	–	434	–
2.2.1. Income statement	4,983	1	–	4,981	18	–	434	–
- of which realized gains	3,759	–	–	3,759	–	–	434	–
2.2.2. Equity	–	–	–	–	10,178	–	–	–
2.3. Transfers from other levels	–	–	–	–	–	–	–	–
2.4. Other increases	565	–	–	565	94	–	–	–
3. **Decreases**	**35,108**	**1,602**	**–**	**33,506**	**1,890**	**–**	**786**	**–**
3.1. Sales	1,657	1,602	–	55	26	–	–	–
3.2. Reimbursements	26,582	–	–	26,582	127	–	–	–
3.3. Losses booked to:	4,893	–	–	4,893	1,701	–	786	–
3.3.1. Income statement	4,893	–	–	4,893	–	–	786	–
- of which realized losses	4,893	–	–	4,893	–	–	786	–
3.3.2. Equity	–	–	–	–	1,701	–	–	–
3.4. Transfers from other levels	–	–	–	–	–	–	–	–
3.5. Other decreases	1,976	–	–	1,976	36	–	–	–
4. **Closing balance**	**273,539**	**–**	**–**	**273,539**	**123,123**	**–**	**63,093**	**–**

Changes during the year in financial liabilities carried at fair value (level 3)

There are no financial liabilities carried at a level 3 fair value.

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	**30/06/2018**			
	BV	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	32,937,762	5,667,092	–	28,383,686
2. Investment property	–	–	–	–
3. Non-current assets and disposal groups held for sale	–	–	–	–
Total	**32,937,762**	**5,667,092**	**–**	**28,383,686**
1. Financial liabilities measured at amortised cost	37,583,386	2,486,174	334,043	28,381,792
2. Liabilities associated with assets held for sale	–	–	–	–
Total	**37,583,386**	**2,486,174**	**334,043**	**28,381,792**

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».

Information on the balance sheet

Assets

Financial assets held for trading - line item 20

Financial assets held for trading: breakdown by sector

	30/06/2018			31/12/2017		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	135,008	–	–	83,232	–	–
1.1 Structured securities	1,989	–	–	–	–	–
1.2 Other fixed-yield securities	133,019	–	–	83,232	–	–
2. Variable-yield securities	95,960	–	–	151,870	–	–
3. Mutual funds	18,086	–	–	39,505	–	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Totale (A)	**249,054**	**–**	**–**	**274,607**	**–**	**–**
B. **Derivatives**	**–**	**–**	**–**	**–**	**–**	**–**
1. Financial derivatives:	1,882	50,378	–	–	97,983	–
1.1 for trading	1,882	50,378	–	–	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)	**1,882**	**50,378**	**–**	**–**	**97,983**	**–**
Total (A+B)	**250,936**	**50,378**	**–**	**274,607**	**97,983**	**–**

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

	30/06/2018			31/12/2017		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**35,631**	**–**	**44,885**	**34,636**	**–**	**83,220**
1.1 Structured securities	–	–	44,878	–	–	83,213
1.2 Other fixed-yield securities	35,631	–	7	34,636	–	7
2. **Variable-yield securities**	**1**	**–**	**400**	**–**	**–**	**820**
3. **Mutual funds**	**281,374**	**–**	**45,137**	**284,862**	**–**	**39,463**
4. **Loans**	**–**	**–**	**183,117**	**–**	**–**	**79,739**
4.1 Structured	–	–	–	–	–	–
4.2 Other	–	–	183,117	–	–	79,739
Total	**317,006**	**–**	**273,539**	**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.

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

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

	30/06/2018			31/12/2017		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Fixed-yield securities**	**5,522,930**	**–**	**14,072**	**6,772,376**	**–**	**14,239**
1.1 Structured securities	362,001	–	12,643	480,612	–	12,655
1.2 Other fixed-yield securities	5,160,929	–	1,429	6,291,764	–	1,584
2. **Variable-yield securities**	**–**	**–**	**109,051**	**–**	**–**	**100,356**
3. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**5,522,930**	**–**	**123,123**	**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. Unlisted equities for which observable inputs are not available and for which the most recent information available to measure their fair value is insufficient, the best estimate was made considering their cost.

Financial assets measured at amortised cost - line item 40

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

	Total 30/06/2018						Total 31/12/2017	
	Book value			Fair value			Book 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
A. **Deposits with central banks**	**327,455**	**–**	**–**	**–**	**–**	**324,474**	**1,110,969**	**–**
1. Fixed-term deposits	–	–	–	–	–	–	–	–
2. Compulsory reserve	324,474	–	–	–	–	–	1,107,575	–
3. Repo transactions	–	–	–	–	–	–	–	–
4. Other	2,981	–	–	–	–	–	3,394	–
B. **Loans and receivables with banks**	**960,656**	**–**	**–**	**6,198**	**–**	**958,947**	**816,207**	**–**
1. Loans	954,591	–	–	–	–	958,947	809,351	–
1.1. Current accounts and sight deposits	263,729	–	–	–	–	–	270,303	–
1.2. Fixed-term deposits	636,097	–	–	–	–	–	484,696	–
1.3. Other loans:	54,765	–	–	–	–	–	54,352	–
- Repo transactions	–	–	–	–	–	–	–	–
- Financial leases	–	–	–	–	–	–	–	–
- Other	54,765	–	–	–	–	–	54,352	–
2. Fixed-yield securities	6,065	–	–	6,198	–	–	6,856	–
2.1 Structured securities	–	–	–	–	–	–	–	–
2.2 Other fixed-yield securities	6,065	–	–	6,198	–	–	6,856	–
Total	**1,288,111**	**–**	**–**	**6,198**	**–**	**1,283,421**	**1,927,176**	**–**

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».

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

Type of transaction/Amounts	Total 30/06/2018						Total 31/12/2017	
	Book value			Fair value			Book value	
	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
1. **Loans**	**23,606,819**	**1,920,850**	**180,126**	**–**	**–**	**26,820,010**	**23,266,466**	**2,058,846**
1.1. Current accounts	3,796,265	804,824	75,706	–	–	–	3,921,460	875,082
1.2. Repo transactions	1,041,483	–	–	–	–	–	1,221,602	-
1.3. Mortgage loans	12,432,922	982,575	92,999	–	–	–	12,099,757	1,029,663
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	251,338	9,865	678	–	–	–	231,397	11,286
1.5. Financial leases	–	–	–	–	–	–	-	-
1.6. Factoring	2,343,197	9,200	–	–	–	–	2,260,979	10,443
1.7. Other loans	3,741,614	114,386	10,743	–	–	–	3,531,271	132,372
2. **Fixed-yield securities**	**6,121,982**	**–**	**–**	**5,660,894**	**–**	**280,255**	**4,534,526**	**-**
2.1. Structured securities	1,328,642	–	–	1,014,158	–	280,255	1,116,819	–
2.2. Other fixed-yield securities	4,793,340	–	–	4,646,736	–	–	3,417,707	–
Total	**29,728,801**	**1,920,850**	**180,126**	**5,660,894**	**–**	**27,100,265**	**27,800,992**	**2,058,846**

Receivables are object of a partial specific hedge.

Mortgage loans include € 1,331 million of residential mortgages, which were the subject of securitisation and covered bond transactions by the Parent Company.

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 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».

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	6,129,357	–	1,887	–	3,171	26	–	–
Loans	21,152,086	–	3,853,117	4,135,530	37,209	79,128	2,214,682	86,192
Total 30/06/2018	**27,281,443**	**–**	**3,855,004**	**4,135,530**	**40,380**	**79,154**	**2,214,682**	**86,192**

At 30 June 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.

Equity investments - line item 100

Equity investments: changes during the year

	30/06/2018	31/12/2017
A. **Opening balance**	**217,634**	**208,575**
B. **Additions**	**4,786**	**15,228**
B.1 Purchases	1,800	
B.2 Write-backs	–	–
B.3 Revaluations	–	27
B.4 Other changes	2,986	15,201
C. **Decreases**	**9,503**	**6,169**
C.1 Disposals	–	–
C.2 Adjustments	–	168
C.3 Other changes	9,503	6,001
D. **Closing balance**	**212,917**	**217,634**
E. **Total revaluations**	**–**	**–**
F. **Total adjustments**	**(447)**	**(447)**

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

Property, equipment and investment property - line item 90

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

Assets/Values	30/06/2018	31/12/2017
1. **Owned assets**	**234,455**	**238,244**
a) land	61,064	61,036
b) buildings	154,740	157,028
c) furniture	5,328	5,510
d) IT equipment	2,249	2,595
e) other	11,074	12,075
2. **Assets purchased under finance leases**	**25,291**	**25,801**
a) land	6,803	6,803
b) buildings	18,488	18,998
c) furniture	–	–
d) IT equipment	–	–
e) other	–	–
Total	**259,746**	**264,045**
of which: obtained by enforcing guarantees received	31,563	–

Investment property: analysis of assets carried at fair value

	30/06/2018			31/12/2017		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1 **Owned assets**	**–**	**–**	**63,093**	**–**	**–**	**63,445**
a) land	–	–	–	–	–	–
b) buildings	–	–	63,093	–	–	63,445
2. **Assets purchased under finance leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**63,093**	**–**	**–**	**63,445**
of which: obtained by enforcing guarantees received	–	–	–	–	–	–

At 30 June 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.

Intangible assets - line item 100

Intangible assets: breakdown by type

	30/06/2018		31/12/2017	
Assets/Values	Finite life	Indefinite life	Finite life	Indefinite life
A.1 **Goodwill**	**–**	**7,847**	**–**	**7,847**
A.1.1 Attributable to the banking group	–	7,847	–	7,847
A.1.2 Pertaining to minority interests	–	–	–	–
A.2 **Other intangible assets:**	**17,215**	**–**	**15,873**	**–**
A.2.1 Carried at cost	17,215	–	15,873	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	17,215	–	15,873	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**17,215**	**7,847**	**15,873**	**7,847**

Intangible assets comprise the cost of purchasing software with a finite life, normally 3 years, which is amortised over that period, and goodwill relating to the acquisition of Factorit S.p.A.. Goodwill booked for € 7.847 million refers to the acquisition of Factorit Spa. IFRS 3 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 business.

The allocation took place according to the purchase method, which says that allocation of the identifiable assets and liabilities acquired has to take place with reference to the acquisition date. The difference between the acquisition price and the fair value of the assets and liabilities has to be recognised as goodwill and allocated to the CGU concerned.

It is particularly important to identify as accurately as possible the fair value of the assets and liabilities so that only the residual portion of the purchase cost that cannot be allocated to specific assets or liabilities gets booked as goodwill; for this reason, the standard makes it possible to book goodwill on a provisional basis by the end of the year in which the combination takes place. A definitive value then has to be booked within 12 months of the acquisition date. The Parent Company therefore booked a provisional figure of € 7.847 million, which was the difference between the price paid and the book net equity at the acquisition date, with the possibility of establishing a more accurate fair value for the assets and liabilities within 12 months of the acquisition date.

From a careful review, there were no differences in fair value attributable to assets and liabilities which involved corrections of the values attributed at the time of the acquisition, which meant that there was no need to adjust the value of goodwill booked on a provisional basis.

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

Other assets - line item 130

Other assets: breakdown

	30/06/2018	31/12/2017
Advances paid to tax authorities	48,525	52,399
Withholdings on interest due to customers	1	134
Tax credits and related interest	2,924	16,254
Unpaid cheques and bills	14,790	–
Current account cheques drawn on third parties	320	25,796
Current account cheques drawn on Group banks	–	13,352
Transactions in customers' securities	2,895	2,330
Inventories	20,749	15,393
Costs pertaining to the subsequent year	–	3,682
Advances to suppliers	1,573	1,161
Advances to customers awaiting collections	22,195	21,529
Miscellaneous debits in transit	51,406	54,714
Liquidity of pension fund	5,249	13,162
Accrued expenses not allocated	27,555	38,851
Prepayments not allocated	33,437	24,371
Differences on elimination	2,287	1,080
Residual items	95,764	67,844
Total	**329,670**	**352,052**

Accrued income and prepayments refer mainly to commissions receivable and expenses incurred, recognized in compliance with the accrual principle.

Liabilities and equity

Financial liabilities measured at amortised cost - line item 10

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

Type of transaction/ Members of the Group	30/06/2018				31/12/2017			
		Fair Value				Fair Value		
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. **Due to central banks**	**4,652,256**	**-**	**-**	**-**	**4,631,240**	**-**	**-**	**-**
2. **Due to banks**	**1,738,442**	**-**	**-**	**-**	**1,573,595**	**-**	**-**	**-**
2.1 Current accounts and sight deposits	582,878	-	-	-	533,523	-	-	-
2.2 Fixed-term deposits	601,249	-	-	-	495,910	-	-	-
2.3 Loans	545,858	-	-	-	541,137	-	-	-
2.3.1 Repo transactions	99,959	-	-	-	99,959	-	-	-
2.3.2 Other	445,899	-	-	-	441,178	-	-	-
2.4 Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
2.5 Other payables	8,457	-	-	-	3,025	-	-	-
Total	**6,390,698**	**-**	**-**	**6,390,698**	**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 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 (within twelve months).

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

Type of transaction/ Members of the Group	30/06/2018				31/12/2017			
		Fair Value				Fair Value		
	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**26,163,248**	**-**	**-**	**-**	**26,965,149**	**-**	**-**	**-**
2. **Fixed-term deposits**	**1,114,447**	**-**	**-**	**-**	**1,429,251**	**-**	**-**	**-**
3. **Loans**	**1,021,173**	**-**	**-**	**-**	**367,838**	**-**	**-**	**-**
3.1 Repo transactions	1,011,629	-	-	-	356,725	-	-	-
3.2 Other	9,544	-	-	-	11,113	-	-	-
4. **Payables for commitments to repurchase own equity instruments**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
5. **Other payables**	**82,923**	**-**	**-**	**-**	**38,687**	**-**	**-**	**-**
Total	**28,381,791**	**-**	**-**	**28,381,791**	**28,800,925**	**-**	**-**	**28,800,925**

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 (within twelve months).

Financial liabilities measured at amortised cost: breakdown of securities issued

	30/06/2018				31/12/2017			
		Fair Value				Fair Value		
Type of security/Amounts	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
A. **securities**								
1. Bonds	2,697,730	2,486,174	220,876	-	2,723,981	2,509,595	242,110	-
1.1 structured	148,713	-	148,713	-	163,930	-	163,930	-
1.2 others	2,549,017	2,486,174	72,163	-	2,560,051	2,509,595	78,180	-
2. other securities	113,167	-	113,167	-	109,378	-	109,378	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	109,378	-	109,378	-
Total	**2,810,897**	**2,486,174**	**334,043**	**-**	**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.

Level 1 securities refer to covered bonds issued in previous years.

Financial liabilities held for trading - line item 20

Financial liabilities held for trading: breakdown by sector

	30/06/2018					31/12/2017				
Type of		Fair Value					Fair Value			
transaction/Amounts	NV	Level 1	Level 2	Level 3	Fair Value*	NV	Level 1	Level 2	Level 3	Fair Value*
A. **Cash liabilities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. **Derivatives**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Financial derivatives	-	4,141	51,710	-	-	-	-	31,259	-	-
1.1 For trading	-	4,141	51,710	-	-	-	-	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	**-**	**4,141**	**51,710**	**-**	**-**	**-**	**-**	**31,259**	**-**	**-**
Total (A+B)	**-**	**4,141**	**51,710**	**-**	**-**	**-**	**-**	**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.

Hedging derivatives - line item 40

Hedging derivatives: breakdown by type of hedge and by level

Type of derivatives/ Underlying assets	Nominal Value 30/06/2018	Fair Value Level 1	Level 2	Level 3	Nominal Value 31/12/2017	Fair Value Level 1	Level 2	Level 3
A. **Financial derivatives**	**473,507**	**-**	**19,021**	**-**	**560,747**	**-**	**22,468**	**-**
1) Fair value	473,507	-	19,021	-	560,747	-	22,468	-
2) Financial flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. **Credit derivatives**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
Total	**473,507**	**-**	**19,021**	**-**	**560,747**	**-**	**22,468**	**-**

Other liabilities - line item 80

Other liabilities – breakdown

	30/06/2018	31/12/2017
Amounts at the disposal of third parties	419,471	350,698
Taxes to be paid on behalf of third parties	100,934	48,642
Taxes to be paid	1,525	1,633
Employee salaries and contributions	17,716	18,578
Suppliers	19,416	15,970
Transit accounts for sundry entities	6,254	16,651
Invoices to be received	2,350	15,579
Credits in transit for financial transactions	2,521	4,799
Value date differentials on portfolio transactions	17,605	18,927
Directors' and statutory auditors' emoluments	220	1,167
Loans disbursed to customers to be finalised	9,971	5,396
Miscellaneous credit items being settled	135,490	45,239
Accrued expenses not allocated	10,373	12,671
Deferred income not allocated	27,836	15,399
Differences on elimination	32,856	13,398
Residual items	95,465	58,773
Total	**900,006**	**643,520**

This line item shows an increase of € 256.486 million mainly due for € 90.251 million in miscellaneous credit items being settled and for € 68.773 million in amounts at the disposal of third parties. At 31 December 2017 this figure was restated by the allowance for risks on guarantees and commitments of € 30.152 million which was recorded under provisions for risks and charges as required by IFRS 9.

Post-employment benefits - line item 90

Post-employment benefits: changes during the year

	30/06/2018	31/12/2017
A. **Opening balance**	**45,491**	**44,805**
B. **Additions**	**3,544**	**10,273**
B.1 Provisions for the period	3,543	7,792
B.2 Other changes	1	2,481
C. **Decreases**	**4,607**	**9,587**
C.1 Payments made	607	2,389
C.2 Other changes	4,000	7,198
D. **Closing balance**	**44,428**	**45,491**

Provisions for risks and charges - line item 100

Provisions for risks and charges: breakdown

Items/Components	30/06/2018	31/12/2017
1. **Provisions for credit risk related to commitments and financial guarantees given**	**34,122**	**30,152**
2. **Provisions on other commitments and other guarantees given**	**–**	**–**
3. **Pension and similar obligations**	**163,194**	**160,799**
4. **Other provisions for risks and charges**	**36,310**	**43,478**
4.1 Legal disputes	23,791	23,975
4.2 Personnel expenses	9,873	16,627
4.3 Other	2,646	2,876
Total	**233,626**	**234,429**

The Parent Company's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Parent Company and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 382 employees and 263 pensioners. Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen. BPS Suisse SA is a member of the BVG collective foundation of Rentenanstalt, which guarantees a professional pension to its employees through SWISS Life.

The adequacy of the fund with respect to the present value of the obligation at the reference date is periodically verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in remuneration and benefits. The technical assessments made reference to dynamic economic and financial assumptions.

The discounting rate reflects the yield on prime bonds.

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 30/06/2018 as the discount rate.

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses.

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

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

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling € 1,360.157 million. Shares in circulation have dividend and voting rights from 1 January 2018.

At the period-end, the Parent Company held treasury shares with a carrying value of € 25.391 million.

Other information

Commitments and financial guarantees given

Items/technical forms	Nominal value on commitments and financial guarantees given First stage	Second stage	Third stage	Total 30/06/2018
Commitments to make loans	**15,710,563**	**3,272,876**	**304,013**	**19,287,452**
a) Central banks	–	–	–	–
b) Public administrations	525,306	104,198	–	629,504
c) Banks	207,624	47,878	–	255,502
d) Other financial companies	1,268,281	17,004	562	1,285,847
e) Non-financial companies	12,497,651	2,907,654	269,678	15,674,983
f) Households	1,211,701	196,142	33,773	1,441,616
Financial guarantees given	**446,312**	**97,623**	**15,213**	**559,148**
a) Central banks	–	–	–	–
b) Public administrations	8,541	131	–	8,672
c) Banks	11,168	3,285	–	14,453
d) Other financial companies	120,666	5	216	120,887
e) Non-financial companies	257,920	81,013	13,364	352,297
f) Households	48,017	13,189	1,633	62,839

Management and intermediation for third parties

Type of service	30/06/2018
1. **Execution of orders on behalf of customers**	**514,221**
a) Purchases	315,447
1. settled	312,172
2. not settled	3,275
b) Sales	198,774
1. settled	197,298
2. not settled	1,476
2. **Portfolio management**	**1,754,523**
a) individual	1,754,523
b) collective	–
3. **Custody and administration of securities**	**49,125,883**
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,840,268
1. securities issued by consolidated companies	38,114
2. other securities	1,802,154
b) Third-party securities on deposit (excluding portfolio management): other	16,298,636
1. securities issued by consolidated companies	2,314,248
2. other securities	13,984,388
c) Third-party securities on deposit with third parties	18,594,173
d) Own securities on deposit with third parties	12,392,806
4. **Other transactions**	**–**

Information on the consolidated income statement

Interest - line items 10 and 20

Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	30/06/2018
1. **Financial assets measured at fair value through profit or loss**	**683**	**1,961**	**–**	**2,644**
1.1 Financial assets held for trading	231	–	–	231
1.2 Financial assets designated at fair value	–	–	–	–
1.3 Other financial assets mandatorily measured at fair value	452	1,961	–	2,413
2. **Financial assets measured at fair value through other comprehensive income**	**10,442**	**–**	**–**	**10,442**
3. **Financial assets measured at amortised cost**	**10,989**	**271,974**	**–**	**282,963**
3.1 Loans and receivables with banks	–	5,443	–	5,443
3.2 Loans and receivables with customers	10,989	266,531	–	277,520
4. **Hedging derivatives**	**–**	**–**	**–**	**–**
5. **Other assets**	**–**	**–**	**13**	**13**
6. **Financial liabilities**	**–**	**–**	**–**	**12,703**
Total	**22,114**	**273,935**	**13**	**308,765**
of which: interest and similar income on impaired financial assets	–	36,854	–	36,854

Comparative figures are not being presented because the change in accounting standard does not allow a precise allocation of interest to the various items.

Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 30/06/2018**	**Total 30/06/2017**
1. **Financial liabilities measured at amortised cost**	**(21,394)**	**(25,718)**	**–**	**(47,112)**	**(59,822)**
1.1 Due to central banks	(67)	–	–	(67)	(34)
1.2 Due to banks	(3,924)	–	–	(3,924)	(2,839)
1.3 Due to customers	(17,403)	–	–	(17,403)	(26,091)
1.4 Securities issued	–	(25,718)	–	(25,718)	(30,858)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**–**	**–**	**(3,969)**
5. **Hedging derivatives**	**–**	**–**	**(4,572)**	**(4,572)**	**(7,181)**
6. **Financial assets**	**–**	**–**	**–**	**(7,379)**	**–**
Total	**(21,394)**	**(25,718)**	**(4,572)**	**(59,063)**	**(70,972)**

Differentials on hedging transactions

Items	**30/06/2018**	**30/06/2017**
A. Positive differentials on hedging transactions:	–	–
B. Negative differentials on hedging transactions:	(4,572)	(7,181)
C. **Net total (A-B)**	**(4,572)**	**(7,181)**

Interest expense on finance lease transactions

	30/06/2018	30/06/2017
Interest expense on finance lease transactions	(1)	(1)

Commissions - line items 40 and 50

Fee and commission income: breakdown

Type of service/Amounts	30/06/2018	30/06/2017
a) **guarantees given**	**13,893**	**14,041**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**47,405**	**46,610**
1. trading in financial instruments	1,915	4,400
2. trading in foreign currencies	5,076	5,000
3. portfolio management	5,250	5,195
3.1 individual	5,250	5,195
3.2 collective	–	–
4. custody and administration of securities	3,800	3,946
5. custodian bank	1,659	1,492
6. placement of securities	15,105	12,776
7. order receipt and transmission	5,439	5,391
8. consultancy	15	92
8.1 investments	15	–
8.2 corporate finance	–	92
9. distribution of third-party services	9,146	8,318
9.1 portfolio management	–	–
9.1.1 individual	–	–
9.1.2 collective	–	–
9.2 insurance products	7,949	6,529
9.3 other products	1,197	1,789
d) **collection and payment services**	**36,775**	**35,808**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**10,458**	**11,429**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**17,511**	**16,112**
j) **other services**	**37,252**	**33,703**
Total	**163,294**	**157,703**

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

Fee and commission expense: breakdown

Services/Amounts	30/06/2018	30/06/2017
a) **guarantees received**	**(331)**	**(231)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(1,975)**	**(1,954)**
1. trading in financial instruments	(849)	(890)
2. trading in foreign currencies	–	–
3. portfolio management:	–	–
3.1 own	–	–
3.2 delegated by third parties	–	–
4. custody and administration of securities	(1.126)	(1.064)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(5,092)**	**(4,784)**
e) **other services**	**(2,503)**	**(2,356)**
Total	**(9,901)**	**(9,325)**

Dividends and similar income - line item 70

Dividends and similar income: breakdown

	30/06/2018		30/06/2017	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,498	87	777	131
B. Other financial assets mandatorily measured at fair value	–	412	–	–
C. Financial assets measured at fair value through other comprehensive income	1,155	13	3,454	175
D. Equity investments	30	–	24	–
Total	**2,653**	**542**	**4,255**	**306**

Net trading income - line item 80

Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	**Profit (loss) [(A+B)-(C+D)] 30/06/2018**
1. **Financial assets held for trading**	**9,405**	**21,652**	**(16,753)**	**(320)**	**13,984**
1.1 Fixed-yield securities	–	507	(6,543)	(79)	(6,115)
1.2 Variable-yield securities	718	9,259	(10,053)	(225)	(301)
1.3 Mutual funds	–	578	(143)	(16)	419
1.4 Loans	–	–	–	–	–
1.5 Other	8,687	11,308	(14)	–	19,981
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
Other financial assets and liabilities: exchange differences	**–**	**–**	**–**	**–**	**(83)**
3. **Derivatives**	**5,240**	**18,329**	**(7,145)**	**(13,018)**	**3,381**
3.1 Financial derivatives:	5,240	18,329	(7,145)	(13,018)	3,381
- On debt securities and interest rates	3,054	5,882	(2,706)	(5,817)	413
- On equities and equity indices	1,882	11,243	(4,141)	(6,034)	2,950
- On currency and gold	–	–	–	–	(25)
- Other	304	1,204	(298)	(1,167)	43
3.2 Credit derivatives	–	–	–	–	–
Of which: natural hedges linked to the fair value option	–	–	–	–	–
Total	**14,645**	**39,981**	**(23,898)**	**(13,338)**	**17,282**

Net trading income has gone from € 31.506 million to € 17.282 million with a decrease in net trading income on securities from € 11.458 million to € 10.024 million. The valuation effect shows an overall decrease which is attributable to the net negative balance between unrealised gains and losses on securities of € 7.348 million versus € 0.269 million in the previous period.

The income from trading in «other financial assets» of € 11.308 million is made up principally of exchange gains.

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

Net hedging gains (losses) - line item 90

Net hedging gains (losses): breakdown

Income items/Amounts	30/06/2018	30/06/2017
A. **Income from:**	**–**	**–**
A.1 Fair value hedging derivatives	3,296	7,203
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)	**3,296**	**7,203**
B. **Charges from:**	**–**	**–**
B.1 Fair value hedging derivatives	–	–
B.2 Hedged financial assets (fair value)	(3,219)	(7,218)
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)	**(3,219)**	**(7,218)**
C. **Net hedging gains (losses) (A – B)**	**77**	**(15)**
of which: hedging result on net positions	–	–

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

Gains (losses) on sale or repurchase - breakdown

	30/06/2018			30/06/2017		
Items/income items	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
Financial assets						
1. **Financial assets measured at amortised cost**	**2,240**	**–**	**2,240**	**–**	**–**	**–**
1.1 Loans and receivables with banks	–	–	–	–	–	–
1.2 Loans and receivables with customers	2,240	–	2,240	–	–	–
2. **Financial assets measured at fair value through other comprehensive income**	**11,432**	**(1,198)**	**10,234**	**14,570**	**(704)**	**13,866**
2.1 Fixed-yield securities	11,432	(1,198)	10,234	14,544	–	14,544
2.2 Loans	–	–	–	–	–	–
Variable-yield securities and mutual funds	**–**	**–**	**–**	**26**	**(704)**	**(678)**
Total assets (A)	**13,672**	**(1,198)**	**12,474**	**14,570**	**(704)**	**13,866**
Financial liabilities measured at amortised cost						
1. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Due to customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Securities issued**	**19**	**(155)**	**(136)**	**284**	**(336)**	**(52)**
Total liabilities (B)	**19**	**(155)**	**(136)**	**284**	**(336)**	**(52)**

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

Net change in the value of other financial assets and liabilities measured at fair value through profit of loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income items	Gains (A)	Gains on disposal (B)	Losses (C)	Losses on disposal (D)	**Profit (loss) [(A+B)-(C+D)] 30/06/2018**
1. **Financial assets**	**5,140**	**1,519**	**(10,104)**	**(690)**	**(4,135)**
1.1 Fixed-yield securities	1,493	1,505	(1)	(653)	2,344
1.2 Variable-yield securities	5	2	–	–	7
1.3 Mutual funds	1,613	12	(6,164)	(37)	(4,576)
1.4 Loans	2,029	–	(3,939)	–	(1,910)
2. **Financial assets: exchange differences**	**–**	**–**	**–**	**–**	**1,367**
Total	**5,140**	**1,519**	**(10,104)**	**(690)**	**(2,768)**

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.

Net adjustments for credit risk - line item 130

Net adjustments for credit risk related to financial assets measured at amortised cost: 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 30/06/2018**	**Total 30/06/2017**
A. **Loans and receivables with banks**	**(125)**	**–**	**–**	**76**	**–**	**(49)**	**–**
- Loans	(125)	–	–	76	–	(49)	–
- Fixed-yield securities	–	–	–	–	–	–	–
B. **Loans and receivables with customers**	**(47,707)**	**(5,687)**	**(232,965)**	**71,243**	**126,855**	**(88,261)**	**(93,895)**
- Loans	(46,495)	(5,687)	(232,965)	69,843	126,855	(88,449)	(91,797)
- Fixed-yield securities	(1,212)	–	–	1,400	–	188	(2,098)
Total	**(47,832)**	**(5,687)**	**(232,965)**	**71,319**	**126,855**	**(88,310)**	**(93,895)**

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 Write-off	First and second stage Write-off	Third stage	First and second stage	Third stage	**Total 30/06/2018**	**Total 30/06/2017**
A. **Debt securities**	**–**	**–**	**–**	**2,777**	**–**	**2,777**	**–**
B. **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Customers	–	–	–	–	–	–	–
- Banks	–	–	–	–	–	–	–
C. **Variable-yield securities and mutual funds**	**–**	**–**	**–**	**–**	**–**	**–**	**(29,900)**
Total	**–**	**–**	**–**	**2,777**	**–**	**2,777**	**(29,900)**

The accounting standard IFRS 9 has significantly changed the rules for the classification, measurement and impairment of financial instruments. The value reported last year refers to the impairment on equity securities and mutual funds. According to the new rules, gains and losses on equities classified as Fair Value through Other Comprehensive Income (FVOCI) are no longer booked to the income statement, but directly to equity.

Administrative expenses - line item 190

11.1 Personnel expenses: breakdown

Type of expense/Amounts	30/06/2018	30/06/2017
1) **Employees**	**(118,195)**	**(121,361)**
a) Wages and salaries	(77,142)	(77,534)
b) Social security contributions	(19,613)	(19,237)
c) Termination indemnities	(13)	–
d) Pension expenses	(2,328)	(2,368)
e) Provision for employee termination indemnities	(3,533)	(3,609)
f) Provision for pension and similar obligations:	(3,034)	(6,781)
- defined contribution	–	–
- defined benefits	(3,034)	(6,781)
g) Payments to external supplementary pension funds:	(1,808)	(1,761)
- defined contribution	(1,808)	(1,761)
- defined benefits	–	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(10,724)	(10,071)
2) **Other working personnel**	**(150)**	**(221)**
3) **Directors and Statutory Auditors**	**(1,214)**	**(1,221)**
4) **Retired personnel**	**–**	**–**
Total	**(119,559)**	**(122,803)**

Average number of employees by category

	30/06/2018	31/12/2017
1) **Employees**	**3,185**	**3,171**
a) Managers	38	39
b) Officials	773	770
c) Other employees	2,374	2,362
2) **Other personnel**	**24**	**7**

	30/06/2018	31/12/2017
- Number of employees at year-end	3,249	3,199
- Other personnel	6	3
BRANCHES	**363**	**363**

Other administrative expenses: breakdown

Type of service/Amounts	30/06/2018	30/06/2017
Telephone, post and data transmission	(7,889)	(7,800)
Maintenance of property, equipment and investment property	(4,909)	(4,716)
Rent of buildings	(13,113)	(13,811)
Security	(3,084)	(3,264)
Transportation	(1,802)	(1,846)
Professional fees	(17,789)	(16,492)
Office materials	(1,215)	(1,376)
Electricity, heating and water	(2,456)	(2,581)
Advertising and entertainment	(1,765)	(1,957)
Legal	(7,579)	(9,112)
Insurance	(969)	(960)
Company searches and information	(3,542)	(3,089)
Indirect taxes and dues	(27,664)	(27,104)
Software and hardware rental and maintenance	(8,642)	(8,453)
Data entry by third parties	(942)	(969)
Cleaning	(2,878)	(2,952)
Membership fees	(982)	(982)
Services received from third parties	(3,027)	(2,334)
Outsourced activities	(11,245)	(10,102)
Deferred charges	(384)	(1,048)
Goods and services for employees	(570)	(485)
Other	(29,329)	(18,031)
Total	**(151,775)**	**(139,464)**

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

Net accruals to provisions for risks and charges: breakdown

The line item amounts to € 0.634 million.

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

Net gains (losses) on equity investments: breakdown

Income item/Segments	30/06/2018	30/06/2017
1) **Joint-ventures**		
A. Income	7	9
1. Revaluations	7	9
2. Gains on disposal	–	
3. Write-backs	–	
4. Other income	–	
B. Charges	(55)	
1. Write-downs	(55)	
2. Impairment adjustments	–	
3. Losses on disposal	–	
4. Other charges	–	
Profit (loss)	**(48)**	**9**
2) **Associated companies**		
A. Income	10,265	7,922
1. Revaluations	9,464	7,922
2. Gains on disposal	801	
3. Write-backs	–	
4. Other income	–	
B. Charges	–	(354)
1. Write-downs	–	(186)
2. Impairment adjustments	–	(168)
3. Losses on disposal	–	
4. Other charges	–	
Profit (loss)	**10,265**	**7,568**
Total	**10,217**	**7,577**

Net gains on sale of investments - line item 280

Income items/Amounts	30/06/2018	30/06/2017
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**11**	**5**
- Gains on disposal	13	5
- Losses on disposal	(2)	–
Profit (loss)	**11**	**5**

Earnings per share

Average number of ordinary shares (fully diluted)

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	30/06/2018	30/06/2017
number of shares	453,385,777	453,385,777

Other information

IAS 33 requires that earnings per share (EPS) have to 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 into account the dilutive effect of all potential ordinary shares.

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

	30/06/2018	30/06/2017
basic EPS	0.164	0.124
diluted EPS	0.164	0.124

Information on risks and related hedging policy

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

Risks of the Banking Group

Credit risk

QUALITATIVE INFORMATION

Qualitative information about credit risk is provided in the financial statements at 31/12/2017. With reference to impaired financial assets, please refer to the information in the report on operations, in the paragraph on «Lending», and in the notes, in the «Financial assets measured at amortised cost» section.

QUANTITATIVE INFORMATION

Asset quality

Impaired and performing loans: size, adjustments

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

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Impaired past due exposures	Performing past due exposures	Other performing exposures	**Total 30/06/2018**
1. Financial assets measured at amortised cost	760,708	1,039,467	120,672	526,266	30,490,643	32,937,756
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	5,537,002	5,537,002
3. Financial assets at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	12,550	3,186	15,851	232,046	263,663
5. Financial assets being sold	–	–	–	–	–	–
Total 30/06/2018	**760,708**	**1,052,017**	**123,858**	**542,117**	**36,259,691**	**38,738,391**
Total 31/12/2017	**779,652**	**1,161,762**	**129,661**	**395,457**	**35,989,594**	**38,456,126**

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

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

Portfolio/quality	Impaired				Performing			Total (net exposure)
	Gross exposure	Total writedowns	Net exposure	Total partial write-offs*	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortised cost	4,135,529	(2,214,682)	1,920,847	86,192	31,136,443	(119,534)	31,016,909	32,937,756
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	5,540,648	(3,646)	5,537,002	5,537,002
3. Financial assets designated at fair value	–	–	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	41,394	(25,658)	15,736	15	–	–	247,897	263,633
5. Financial assets being sold	–	–	–	–	–	–	–	–
Total 30/06/2018	**4,176,923**	**(2,240,340)**	**1,936,583**	**86,207**	**36,677,091**	**(123,180)**	**36,801,808**	**38,738,391**
Total 31/12/2017	**4,225,197**	**(2,154,122)**	**2,071,075**	**–**	**36,510,240**	**(125,189)**	**36,385,051**	**38,456,126**

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

Consolidation for supervisory purposes - 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	–	–	–	–	–
- 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	–	19	(1)	18	–
- of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	–	1,709,485	(832)	1,708,653	–
- of which: exposures subject to forbearance	–	–	–	–	–
Total A		1,709,504	(833)	1,708,671	–
B. **Off-balance sheet credit exposures**					
a) Impaired	–	–	–	–	–
b) Performing	–	314,472	(23)	314,450	–
Total B	**–**	**314,472**	**(23)**	**314,450**	**–**
Total A+B	**–**	**2,023,976**	**(855)**	**2,023,121**	**–**

Cash 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 and 30 of assets, excluding variable-yield securities. The off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).

Consolidation for supervisory purposes - 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	2,386,116	–	(1,625,407)	760,709	85,078
- of which: exposures subject to forbearance	149,508	–	(90,522)	58,986	6,184
b) Unlikely-to-pay loans	1,653,466	–	(601,430)	1,052,016	1,129
- of which: exposures subject to forbearance	566,353	–	(176,130)	390,223	1,129
c) Impaired past due exposures	137,362	–	(13,504)	123,858	–
- of which: exposures subject to forbearance	12,579	–	(659)	11,920	–
d) Performing past due exposures	–	554,257	(12,158)	542,099	–
- of which: exposures subject to forbearance	–	63,305	(1,680)	61,625	–
e) Other performing exposures	–	34,653,632	(107,229)	34,546,403	–
- of which: exposures subject to forbearance	–	626,038	(11,826)	614,212	–
Total A	**4,176,924**	**35,207,889**	**(2,359,728)**	**37,025,085**	**86,207**
B. **Off-balance sheet credit exposures**					
a) Impaired	319,226	–	(25,687)	293,539	–
b) Performing	–	20,228,134	(8,414)	20,219,720	–
Total B	**319,226**	**–**	**(34,101)**	**20,513,259**	**–**
Total A+B	**4,496,150**	**–**	**(2,393,829)**	**57,538,344**	**86,207**

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 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).

Significant risks

	30/06/2018	**31/12/2017**
Number of positions	12	12
Exposure	17,029,059	16,653,500
Risk position	3,064,014	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, 9,695 million; risk position, 23 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione Garanzia - Clearing House (nominal exposure, 2,156 million), principally in relation to lending and funding repo transactions, as well as nominal exposures to Spain and France of 1,693 million with zero risk positions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

Banking group - Market risk

Qualitative information about interest rate, price and exchange rate risks is provided in the financial statements at 31/12/2017.

Derivative instruments and related hedging policy

Financial derivatives

Financial trading derivatives: notional values at period end

	Total 30/06/2018				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**	**–**	**–**	**2,333,986**	**–**	**–**	**–**	**2,213,345**	**–**
a) Options	–	–	23,226	–	–	–	24,366	–
b) Swaps	–	–	2,310,760	–	–	–	2,188,979	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**253,378**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	253,378	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**3,994,420**	**–**	**–**	**–**	**3,995,174**	**–**
a) Options	–	–	54,693	–	–	–	65,741	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	3,939,727	–	–	–	3,929,433	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**30,469**	**–**	**–**	**–**	**17,095**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**6,612,253**	**–**	**–**	**–**	**6,225,614**	**–**

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

	Total 30/06/2018				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	–	–	2,663	–	–	–	1,297	–
b) Interest rate swap	–	–	13,241	–	–	–	12,297	–
c) Cross currency swap	–	–	–	–	–	–	–	–
d) Equity swap	–	–	–	–	–	–	–	–
e) Forward	–	–	35,735	–	–	–	83,473	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	621	–	–	–	917	–
Total	**–**	**–**	**52,260**	**–**	**–**	**–**	**97,984**	**–**
2. **Negative fair value**								
a) Options	–	–	4,874	–	–	–	1,219	–
b) Interest rate swap	–	–	13,271	–	–	–	12,853	–
c) Cross currency swap	–	–	–	–	–	–	–	–
d) Equity swap	–	–	–	–	–	–	–	–
e) Forward	–	–	37,112	–	–	–	16,291	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	594	–	–	–	896	–
Total	**–**	**–**	**55,851**	**–**	**–**	**–**	**31,259**	**–**

Financial hedging derivatives

Financial hedging derivatives: notional values at period end

Underlying assets/Type of derivative	Total 30/06/2018				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**	**–**	**–**	**473,507**	**–**	**–**	**–**	**560,747**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	473,507	–	–	–	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	**–**	**–**	**473,507**	**–**	**–**	**–**	**560,747**	**–**

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

	Total 30/06/2018			
	Over the counter			
		Without Central Counterparties		
Types of derivatives	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
Positive fair value				
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**–**	**–**	**–**	**–**
Negative fair value				
a) Options	–	–	–	–
b) Interest rate swap	–	–	19,021	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forward	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**–**	**–**	**19,021**	**–**

Banking group - Liquidity risk

Qualitative information about liquidity risk is provided in the financial statements at 31/12/2017.

Securitisation transactions and disposal of assets

Covered bonds

On 6 November 2013, the Board of Directors of the Parent Company authorised a covered bond programme for a maximum amount of € 5 billion, based on the assignment to a vehicle company of residential mortgages and construction loans arranged by the Parent Company.

On 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.

Positive and negative fair value				Change in the amount used to calculate the effectiveness of the hedge	
Total 31/12/2017					
	Over the counter				
	Without Central Counterparties				
Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	**Total 30/06/2018**	**Total 31/12/2017**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–
–	–	22,468	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	**–**	**22,468**	**–**	**–**	**–**

A fifth assignment of performing loans for a total of € 308 million took place in 2017 under the same contract.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted with subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, these operations are not treated as assignments without recourse pursuant to the International Accounting Standards. 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 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

Banking group - Operational risks

Qualitative information about operational risks is provided in the financial statements at 31/12/2017.

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 Group as at 30/06/2018 amounted to € 11,901 million and was structured as follows:

a) Loans and securities to public administrations: € 11,078 million;

b) Loans and securities to local administrations: € 56 million;

c) Loans and securities to state-owned or local government-owned enterprises: € 600 million;

d) Loans and securities to other public administrations and miscellaneous entities: € 167 million.

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

Information on consolidated equity

Consolidated capital

QUALITATIVE INFORMATION

A healthy banking system is absolutely in the public interest, and the solvency and reliability of banks requires them to maintain appropriate capital resources. Such resources must be sufficient for banks to absorb any losses without prejudicing the rights of depositors, bearing in mind that losses also affect the bank's reputation.

The need for adequate capital has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. Indeed, the economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of credit quality and the uncertain value of assets. Without forgetting the need to support the economy in order to stimulate a recovery. Recent events that have affected the banking system - and that are far from being sorted out - are evidence of this.

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 the Group features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

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

The crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit Spa with a view to providing specialist tools in support of the real economy. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

The responsibilities that the bank has towards its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

QUANTITATIVE INFORMATION

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

Consolidated capital: breakdown by type of company

Equity items	Banking group	Insurance companies	Other businesses	Consolidated eliminations and adjustments	**Total 30/06/2018**
1. **Share capital**	**1,393,736**	**–**	**–**	**–**	**1,393,736**
2. **Share premium reserve**	**83,363**	**–**	**–**	**–**	**83,363**
3. **Reserves**	**1,170,707**	**–**	**2,558**	**34,436**	**1,207,701**
4. **Equity instruments**	**–**	**–**	**–**	**–**	**–**
5. **(Treasury shares)**	**(25,391)**	**–**	**–**	**–**	**(25,391)**
6. **Valuation reserve:**	**(42,476)**	**–**	**192**	**(2,082)**	**(44,366)**
- Variable-yield securities measured at fair value through other comprehensive income	58,951	–	–	–	58,951
- 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	(45,734)				(45,734)
- Property, equipment and investment property	–	–	–	–	–
- Intangible assets	–	–	–	–	–
- Hedges of foreign investments	–	–	–	–	–
- Cash-flow hedges	–	–	–	–	–
- Hedging instruments (non-designated elements)					
- Exchange differences	–	–	–	–	–
- Non-current assets held for sale and discontinued operations	–	–	–	–	–
- Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)					
- Actuarial profits (losses) on defined-benefit plans	(55,693)	–	–	–	(55,693)
- Share of valuation reserves of equity investments valued at net equity	–	–	–	(2,082)	(2,082)
- Special revaluation regulations	–	–	192	–	192
7. **Profit (loss) of the year (+/-) of the Group and of minority interests**	**78,740**	**–**	**(1,282)**	**(1,032)**	**76,426**
Total	**2,658,679**	**–**	**1,468**	**31,322**	**2,691,469**

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

Assets/Values	Consolidation for supervisory purposes		Insurance companies		Other businesses		Consolidated eliminations and adjustments		**Total 30/06/2018**	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	11,006	(56,740)	–	–	–	–	–	–	11,006	(56,740)
2. Variable-yield securities	59,209	(258)	–	–	–	–	–	–	59,209	(258)
3. Loans	–	–	–	–	–	–	–	–	–	–
Total 30/06/2018	**70,215**	**(56,998)**	**–**	**–**	**–**	**–**	**–**	**–**	**70,215**	**(56,998)**
Total 31/12/2017	**80,837**	**(1,733)**	**–**	**–**	**–**	**–**	**–**	**–**	**80,837**	**(1,733)**

Valuation reserves of financial assets measured at fair value through other comprehensive income: changes during the year

Valuation reserves for available-for-sale financial assets: changes during the year

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
Opening balance 31/12/2017	**26,375**	**50,987**	**1,742**	**–**
FTA IFRS 9 Effect	**9,500**	**–**	**(1,742)**	**–**
1. **Opening balance 01/01/2018**	**35,875**	**50,987**	**–**	**–**
2. **Positive changes**	**1,798**	**9,456**	**–**	**–**
2.1 Increases in fair value	1,361	9,456	–	–
2.2 Adjustments for credit risk	272	–	–	–
2.3 Transfer to income statement of negative reserves from disposals	1	–	–	–
2.4 Transfer to other components of equity (variable-yield securities)	–	–	–	–
2.5 Other changes	164	–	–	–
3. **Negative changes**	**83,409**	**1,492**	**–**	**–**
3.1 Reductions in fair value	72,687	1,492	–	–
3.2 Write-backs for credit risk	2,130	–	–	–
3.3 Transfer to income statement from positive reserves : -from disposals	6,529	–	–	–
3.4 Transfer to other components of equity (variable-yield securities)	–	–	–	–
3.5 Other changes	2,063	–	–	–
4. **Closing balance**	**(45,734)**	**58,951**	**–**	**–**

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

The valuation reserve relating to the defined-benefit plans is negative by € 55.693 million.

This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Capital and capital adequacy ratios

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.

Bank's 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;
- Valuation reserves - OCI;
- Other reserves;
- Previous CET 1 instruments subject to transitional arrangements (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 arrangements (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 arrangements (grandfathering);
- Deductions.

The supervisory regulations envisaged a transition period, still in progress, with the gradual introduction («phase in») of part of 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.

As from 1 January 2018, unrealized gains and losses deriving from exposures to EU central administrations classified in the FVOCI portfolio are fully included in CET 1.

QUANTITATIVE INFORMATION

	30/06/2018	31/12/2017
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,615,475**	**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 arrangements (A +/- B)**	**2,615,475**	**2,644,205**
D. **Elements to be deducted from CET1**	**35,895**	**23,711**
E. **Transitional arrangements - Impact on CET1 (+/-), including minority interest subject to transitional arrangements**	**28,723**	**17,012**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,608,304**	**2,637,506**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional arrangements**	**9,398**	**8,758**
of which: AT1 instruments subject to transitional arrangements		
H. **Elements to be deducted from AT1**		
I. **Transitional arrangements – Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional arrangements**		**(1,752)**
L. **Total Additional Tier 1 - AT1 (G - H +/- I)**	**9,398**	**7,006**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional arrangements**	**399,091**	**445,237**
of which: T2 instruments subject to transitional arrangements	12,531	11,677
N. **Elements to be deducted from T2**	**18,119**	**21,365**
O. **Transitional arrangements – Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional arrangements**	**13,703**	**37,888**
P. **Total Tier 2 - T2 (M - N +/- O)**	**394,675**	**461,760**
Q. **Total Own funds (F + L + P)**	**3,012,377**	**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.

Following the introduction of IFRS 9, the Bank chose to make use of the transitional arrangements set out in EU Regulation 2017/2395 with a view to mitigating the impact of the higher adjustments arising on FTA of the new accounting method for calculating expected credit losses (ECLs) compared with the previous one (as per IAS 39) by including the additional write-downs, net of tax, as a positive element of Common Equity Tier 1 (or CET1) capital (the so-called «static part»).

The regulation also envisages the possibility of increasing CET1, but only for positions in stage 1 and 2, by the amount of any higher adjustments recognised at the reporting date compared with those at 01/01/2018 (the so-called «dynamic part»).

Both of these elements, static and dynamic, are included on the basis of a declining percentage from 2018 to 2022.

The adjustments that are included as a positive element of CET1 are sterilised when calculating capital ratios by applying a so-called «scaling factor» to reduce the write-downs that lower the exposure used when calculating risk-weighted assets.

Capital adequacy

QUALITATIVE INFORMATION

The Basel 3 regulations establish the following minimum ratios for banking groups:

- CET 1 of 4.50%;
- Tier 1 of 6%;
- Total Capital Ratio of 8%.

In addition to the above, the following additional restrictions have been introduced:

- 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; this is currently not implemented but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;
- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significance may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;
- Capital reserves against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which on a fully phased basis (January 2019) shall be as follows:

- CET 1 of 7%;
- Tier 1 of 8.5%;
- Total Capital Ratio of 10.5%.

These ratios are expected to be lower in 2018, which is part 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, the Group 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.

On 28 November 2017 the European Central Bank sent the bank the decision of the Supervisory Board with respect to the new minimum ratios to be applied with effect from 1 January, for the year 2018. The new minimum capital levels required of our Banking Group are:

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

While the first two items of each index shown above are indicated by prudential regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

At 30 June 2018, the parameters of the Group under the new regulations are as follows:

- CET 1 Capital Ratio 11.74%;
- Tier 1 Capital Ratio 11.79%;
- Total Capital Ratio 13.56%.

The leverage ratio required by Basel 3, calculated as the ratio of Tier 1 to total on- and off-balance sheet assets, is 5.74% applying the transitional criteria in force for 2018 and 5.68% under the definitive criteria.

The Texas ratio is 75.22%.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts 30/06/2018	Unweighted amounts 31/12/2017	Weighted amounts/ requirements 30/06/2018	Weighted amounts/ requirements 31/12/2017
A. **ASSETS AT RISK**				
A.1 Credit and counterparty risk				
1. Standardised approach	42,132,973	41,699,814	20,057,257	19,972,641
2. Approach based on internal ratings				
2.1 Basic	–	–	–	–
2.2 Advanced	–	–	–	–
3. SECURITISATIONS	306,308	350,784	265,709	311,964
B. **CAPITAL ADEQUACY REQUIREMENTS**				
B.1 Credit and counterparty risk			1,625,837	1,622,768
B.2 Loan adjustment risk			1,487	2,088
B.3 Regulation risks				
B.4 Market risks				
1. Standard methodology			23,983	55,228
2. Internal models			–	–
3. Concentration risk			–	–
B.5 Operational risk				
1. Basic method				138,930
2. Standardised approach			125,346	–
3. Advanced method			–	–
B.6 Other calculation elements			–	–
B.7 Total precautionary requirements			1,776,653	1,819,014
C. **RISK ASSETS AND CAPITAL RATIOS**				
C.1 Risk-weighted assets			22,208,160	22,737,670
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			11.74	11.60
C.3 Tier 1 capital/ Risk-weighted assets (T1 capital ratio)			11.79	11.63
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)			13.56	13.66

Related-party transactions

Related party disclosures

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

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

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

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

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

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

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.

	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	1,029	7,512	10	13	135	1,257
Statutory auditors	518	125	5	–	400	298
Management	19	1,296	–	3	410	–
Family members	3,215	12,643	34	26	1,652	8,394
Subsidiaries	3,034,882	213,184	6,672	3,455	1,288,330	13,660
Associated companies	651,020	290,794	1,096	157	122,475	2,119
Other related parties	106,165	15,080	374	28	156,291	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 € 642 million to Alba Leasing S.p.A.; assets with other related parties include loans of € 83 million granted to the affiliate Release S.p.A..

Segment information

Primary format

Note that the accounting changes introduced by IFRS 15 on revenue recognition have had an impact mainly on fee and commission income for the variable fees to be received from companies for the placement of third-party products. The impact is not significant.

Distribution by business segment: income statement

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 30/06/2018**
Interest income	181,824	135,826	–	80,893	398,543	-89,778	308,765
Interest expense	-32,573	-58,770	–	-57,498	-148,841	89,778	-59,063
Net interest income	**149,251**	**77,056**	**–**	**23,395**	**249,702**	**–**	**249,702**
Fee and commission income	73,911	39,457	44,713	5,564	163,645	-351	163,294
Fee and commission expense	-2,742	-4,629	-2,714	239	-9,846	-55	-9,901
Dividends and similar income	–	–	–	3,195	3,195	–	3,195
Net trading income	–	–	–	16,893	16,893	389	17,282
Net hedging gains (losses)	–	399	–	-322	77	–	77
Gains/losses from sales or repurchases	–	–	–	12,338	12,338	–	12,338
Net change in financial assets and liabilities carried at fair value	-2,957	1,047	–	-858	-2,768	–	-2,768
Total income	**217,463**	**113,330**	**41,999**	**60,444**	**433,236**	**-17**	**433,219**
Adjustments to the net value of financial assets	-84,992	-2,733	–	1,468	-86,257	–	-86,257
Net financial income	**132,471**	**110,597**	**41,999**	**61,912**	**346,979**	**-17**	**346,962**
Administrative expenses	-63,331	-85,742	-27,421	-69,718	-246,212	-25,122	-271,334
Provisions for risks and charges	1,778	-2,237	–	-175	-634	–	-634
Depreciation and net impairment losses on property, equipment and investment property	-2,075	-3,096	-999	-2,347	-8,517	–	-8,517
Amortisation and net impairment losses on intangible assets	-1,863	-2,812	-913	-1,318	-6,906	–	-6,906
Other operating income/expense	3,836	2,779	-91	706	7,230	25,139	32,369
Net gains (losses) on equity investments	–	–	–	10,217	10,217	–	10,217
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-352	-352	–	-352
Net gains on sales of investments	–	–	–	11	11	–	11
Gross profit	**70,816**	**19,489**	**12,575**	**-1,064**	**101,816**	**–**	**101,816**

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 30/06/2017**
Interest income	193,218	155,506	–	72,018	420,742	-110,951	309,791
Interest expense	-39,975	-77,569	–	-64,379	-181,923	110,951	-70,972
Net interest income	**153,243**	**77,937**	**–**	**7,639**	**238,819**	**–**	**238,819**
Fee and commission income	74,334	37,225	40,915	5,688	158,162	-459	157,703
Fee and commission expense	-2,978	-3,747	-2,626	81	-9,270	-55	-9,325
Dividends and similar income	–	–	–	4,561	4,561	–	4,561
Net trading income	–	–	–	31,008	31,008	498	31,506
Net hedging gains (losses)	–	300	–	-315	-15	–	-15
Gains/losses from sales or repurchases	–	–	–	13,814	13,814	–	13,814
Net change in financial assets and liabilities carried at fair value	–	–	–	5,674	5,674	–	5,674
Total income	**224,599**	**111,715**	**38,289**	**68,150**	**442,753**	**-16**	**442,737**
Adjustments to the net value of financial assets	-77,832	-16,064	–	-29,899	-123,795	–	-123,795
Net financial income	**146,767**	**95,651**	**38,289**	**38,251**	**318,958**	**-16**	**318,942**
Administrative expenses	-67,121	-80,283	-27,392	-59,216	-234,012	-28,255	-262,267
Provisions for risks and charges	-1,822	860	–	1,266	304	–	304
Depreciation and net impairment losses on property, equipment and investment property	-2,248	-3,208	-1,061	-2,462	-8,979	–	-8,979
Amortisation and net impairment losses on intangible assets	-1,946	-2,726	-895	-1,241	-6,808	–	-6,808
Other operating income/expense	4,447	3,262	-153	2,095	9,651	28,271	37,922
Net gains (losses) on equity investments	–	–	–	7,577	7,577	–	7,577
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-5	-5	–	-5
Net gains on sales of investments	–	–	–	5	5	–	5
Gross profit	**78,077**	**13,556**	**8,788**	**-13,730**	**86,691**	**–**	**86,691**

Distribution by business segment: balance sheet

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total 30/06/2018**
Financial assets	20,391,302	13,182,564	–	6,114,725	39,688,591
Other assets	–	–	–	1,516,590	1,516,590
Property, equipment and investment property	55,353	80,327	25,568	161,591	322,839
Intangible assets	4,671	6,825	2,181	11,385	25,062
Financial liabilities	8,092,166	23,128,076	–	6,438,016	37,658,258
Other liabilities	11,137	3,702	–	910,462	925,301
Provisions	103,103	94,099	24,575	56,277	278,054
Guarantees given	440,519	104,176	–	14,453	559,148
Commitments	16,194,266	2,814,627	23,057	255,502	19,287,452

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

Secondary format

Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 30/06/2018**
Interest income	334,173	34,241	30,021	398,435	-89,670	308,765
Interest expense	-123,538	-17,233	-8,269	-149,040	89,977	-59,063
Net interest income	**210,635**	**17,008**	**21,752**	**249,395**	**307**	**249,702**
Fee and commission income	128,681	25,083	10,948	164,712	-1,418	163,294
Fee and commission expense	-5,978	-3,459	-1,257	-10,694	793	-9,901
Dividends and similar income	18,477	–	13	18,490	-15,295	3,195
Net trading income	9,034	–	8,089	17,123	159	17,282
Net hedging gains (losses)	–	–	399	399	-322	77
Gains/losses from sales or repurchases	12,338	–	–	12,338	–	12,338
Net change in financial assets and liabilities carried at fair value	-3,995	423	848	-2,724	-44	-2,768
Total income	**369,192**	**39,055**	**40,792**	**449,039**	**-15,820**	**433,219**
Adjustments to the net value of financial assets	-76,299	-7,734	-1,666	-85,699	-558	-86,257
Net financial income	**292,893**	**31,321**	**39,126**	**363,340**	**-16,378**	**346,962**
Administrative expenses	-198,920	-21,044	-28,333	-248,297	-23,037	-271,334
Provisions for risks and charges	-4,084	3,632	2	-450	-184	-634
Depreciation and net impairment losses on property, equipment and investment property	-7,038	-632	-847	-8,517	–	-8,517
Amortisation and net impairment losses on intangible assets	-5,463	-563	-880	-6,906	–	-6,906
Other operating income/expense	7,584	1,441	411	9,436	22,933	32,369
Net gains (losses) on equity investments	801	–	–	801	9,416	10,217
Net result of fair value measurement of property, equipment and investment property and intangible assets	-352	–	–	-352	–	-352
Net gains on sales of investments	11	–	–	11	–	11
Gross profit	**85,432**	**14,155**	**9,479**	**109,066**	**-7,250**	**101,816**

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 30/06/2017**
Interest income	347,778	42,407	31,690	421,875	-112,084	309,791
Interest expense	-144,960	-26,251	-12,408	-183,619	112,647	-70,972
Net interest income	**202,818**	**16,156**	**19,282**	**238,256**	**563**	**238,819**
Fee and commission income	120,056	26,809	11,926	158,791	-1,088	157,703
Fee and commission expense	-5,213	-3,432	-1,277	-9,922	597	-9,325
Dividends and similar income	16,305	–	13	16,318	-11,757	4,561
Net trading income	19,926	–	10,747	30,673	833	31,506
Net hedging gains (losses)	–	–	300	300	-315	-15
Gains/losses from sales or repurchases	13,814	–	–	13,814	–	13,814
Net change in financial assets and liabilities carried at fair value	4,062	–	–	4,062	1,612	5,674
Total income	**371,768**	**39,533**	**40,991**	**452,292**	**-9,555**	**442,737**
Adjustments to the net value of financial assets	-119,981	-4,552	738	-123,795	–	-123,795
Net financial income	**251,787**	**34,981**	**41,729**	**328,497**	**-9,555**	**318,942**
Administrative expenses	-183,282	-21,452	-31,328	-236,062	-26,205	-262,267
Provisions for risks and charges	-514	-579	1,397	304	–	304
Depreciation and net impairment losses on property, equipment and investment property	-7,252	-662	-1,065	-8,979	–	-8,979
Amortisation and net impairment losses on intangible assets	-5,483	-579	-746	-6,808	–	-6,808
Other operating income/expense	10,684	1,811	225	12,720	25,202	37,922
Net gains (losses) on equity investments	-168	–	–	-168	7,745	7,577
Net result of fair value measurement of property, equipment and investment property and intangible assets	-5	–	–	-5	–	-5
Net gains on sales of investments	5	–	–	5	–	5
Gross profit	**65,772**	**13,520**	**10,212**	**89,504**	**-2,813**	**86,691**

Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	**Total 30/06/2018**
Financial assets	32,703,658	3,176,974	3,807,959	39,688,591
Other assets	879,585	–	637,005	1,516,590
Property, equipment and investment property	291,210	17,114	14,515	322,839
Intangible assets	22,229	1,439	1,394	25,062
Financial liabilities	25,951,037	7,597,358	4,109,863	37,658,258
Other liabilities	896,558	5,912	22,831	925,301
Provisions	231,385	24,046	22,623	278,054
Guarantees given	361,437	67,725	129,986	559,148
Commitments	15,704,536	3,360,604	222,312	19,287,452

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

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

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as the Manager responsible for preparing the 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 from 1 January 2018 to 30 June 2018.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the condensed consolidated interim financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the "Internal Control - Integrated Framework (CoSO)", issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the condensed consolidated interim financial statements at 30 June 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 report on operations contains a reliable analysis of the significant events that occurred in the first six months of the year and their impact on the condensed consolidated interim financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Sondrio, 8 August 2018

The Managing Director
Mario Alberto Pedranzini

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

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Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

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

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet as of June 30, 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the period then ended and the related explanatory notes of Banca Popolare di Sondrio S.C.p.A. (the "Bank") and its subsidiaries (the "Banca Popolare di Sondrio Group"). The Directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of the Banca Popolare di Sondrio Group at June 30, 2018 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
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Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

Milan, August 11, 2018

EY S.p.A.
Signed by: Davide Lisi, partner

This report has been translated into the English language solely for the convenience of international readers.

Attachment 1

FINANCIAL STATEMENTS OF THE PARENT BANK AT 30 JUNE 2018

BALANCE SHEET

IFRS 9	IAS 39	ASSET ITEMS		30-06-2018		31-12-2017
10.	10.	CASH AND CASH EQUIVALENTS		**122,985,382**		**112,049,023**
20.		FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		**927,413,414**		**-**
20 *a)*	20.	FINANCIAL ASSETS HELD FOR TRADING		**306,611,434**		**327,458,084**
20 *c)*		OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE		**620,801,980**		**-**
	20.	FINANCIAL ASSETS HELD FOR TRADING		**-**		**24,104,531**
	30.	FINANCIAL ASSETS CARRIED 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 VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS WITH AN IMPACT ON COMPREHENSIVE INCOME		**5,645,475,052**		**-**
	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		**29,756,717,027**		**-**
40 *a)*	60.	LOANS AND RECEIVABLES WITH BANKS		**2,275,554,754**		**2,815,465,621**
	50.	HELD-TO-MATURITY INVESTMENTS		**-**		**6,855,926**
40 *b)*	70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**27,481,162,273**		**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		**508,982,438**		**506,727,965**
80.	110.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**181,036,905**		**184,145,045**
90.	120.	INTANGIBLE ASSETS		**15,218,754**		**14,396,056**
100.	130.	TAX ASSETS		**415,243,568**		**385,613,399**
		a) current	43,952,090		41,717,531	
		b) deferred	371,291,478		343,895,868	
120.	150.	OTHER ASSETS		**278,324,761**		**305,819,797**
		TOTAL ASSETS		**37,851,397,301**		**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		30-06-2018		31-12-2017
10.		FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		**34,356,939,244**		**-**
10 *a)*	10.	DUE TO BANKS		**5,759,678,873**		**5,635,658,170**
10 *b)*	20.	DUE TO CUSTOMERS		**25,829,013,485**		**26,244,477,812**
10 *c)*	30.	SECURITIES ISSUED		**2,768,246,886**		**2,784,807,929**
20.	40.	FINANCIAL LIABILITIES HELD FOR TRADING		**57,960,698**		**51,079,682**
60.	80.	TAX LIABILITIES		**15,505,895**		**27,779,910**
60 *b)*	80	*b)* deferred	15,505,895		27,779,910	
80.	100.	OTHER LIABILITIES		**832,757,923**		**599,522,297**
90.	110.	POST-EMPLOYMENT BENEFITS		**41,799,220**		**42,848,291**
100.		PROVISIONS FOR RISKS AND CHARGES		**208,074,551**		**-**
100 *a)*		commitments and guarantees given	33,888,538		-	
	100.	OTHER LIABILITIES		**-**		**29,699,468**
	120.	PROVISIONS FOR RISKS AND CHARGES		**-**		**179,477,008**
100 *b)*	120 *a)*	pension and similar obligations	142,838,630		141,658,773	
100 *c)*	120 *b)*	other provisions for risks and charges	31,347,383		37,818,235	
110.	130.	VALUATION RESERVES		**(26,623,654)**		**38,642,710**
140.	160.	RESERVES		**885,771,094**		**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 OF THE PERIOD		**65,371,420**		**118,400,102**
		TOTAL LIABILITIES AND EQUITY		**37,851,397,301**		**38,022,299,186**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

INCOME STATEMENT

IFRS 9	IAS 39	ITEMS	30-06-2018		30-06-2017	
10.	10.	INTEREST AND SIMILAR INCOME		266,584,024		267,018,569
		of which: interest income calculated using the effective interest method	264,266,645		-	
20.	20.	INTEREST AND SIMILAR EXPENSE		(50,950,495)		(60,115,475)
30.	30.	**NET INTEREST INCOME**		**215,633,529**		**206,903,094**
40.	40.	FEE AND COMMISSION INCOME		141,905,726		134,156,497
50.	50.	FEE AND COMMISSION EXPENSE		(7,694,787)		(7,100,058)
60.	60.	**NET FEE AND COMMISSION INCOME**		**134,210,939**		**127,056,439**
70.	70.	DIVIDENDS AND SIMILAR INCOME		18,446,519		16,280,160
80.	80.	NET TRADING INCOME		9,434,734		20,377,068
100.	100.	GAINS/(LOSSES) FROM SALES OR REPURCHASES OF:		12,337,573		13,814,211
100 *a)*		financial assets measured at amortised cost	2,240,003			
	100 *a)*	loans	-		(43)	
100 *b)*		financial assets measured at fair value through other comprehensive income	10,233,610		-	
	100 *b)*	available-for-sale financial assets	-		13,866,382	
100 *c)*		financial liabilities	(136,040)		-	
	100 *d)*	financial liabilities	-		(52,128)	
110.	110.	NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		(3,571,932)		4,062,080
		a) financial assets and liabilities designated at fair value	-		4,062,080	
		b) other financial assets mandatorily measured at fair value	(3,571,932)		-	
120.	120.	**TOTAL INCOME**		**386,491,362**		**388,493,052**
130.	130.	NET ADJUSTMENTS FOR CREDIT RISK RELATING TO:		(81,336,229)		(130,640,719)
		a) financial assets measured at amortised cost	(84,112,869)		(100,741,142)	
		b) financial assets measured at fair value through other comprehensive income	2,776,640		(29,899,577)	
140.		GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(723,716)		-
150.	140.	**NET FINANCIAL INCOME**		**304,431,417**		**257,852,333**
160.	150.	ADMINISTRATIVE EXPENSES:		(231,891,671)		(219,856,524)
		a) personnel expenses	(92,620,690)		(94,581,987)	
		b) other administrative expenses	(139,270,981)		(125,274,537)	
170.	160.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		282,453		73,476
		a) commitments for guarantees given	318,491		(438,952)	
		b) other net provisions	(36,038)		512,428	
180.	170.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(6,684,893)		(6,913,352)
190.	180.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(5,959,096)		(6,041,480)
200.	190.	OTHER OPERATING INCOME/EXPENSE		29,327,860		35,793,025
210.	200.	**OPERATING COSTS**		**(214,925,347)**		**(196,944,855)**
220.	210.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		800,788		(167,852)
250.	240.	NET GAINS ON SALES OF INVESTMENTS		7,148		4,279
260.	250.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**90,314,006**		**60,743,905**
270.	260.	INCOME TAXES		(24,942,586)		(18,115,038)
280.	270.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**65,371,420**		**42,628,867**
300.	**290.**	**PROFIT FOR THE PERIOD**		**65,371,420**		**42,628,867**

Castelli Poligrafiche S.p.A. - Cenate Sotto (BG) - Italy