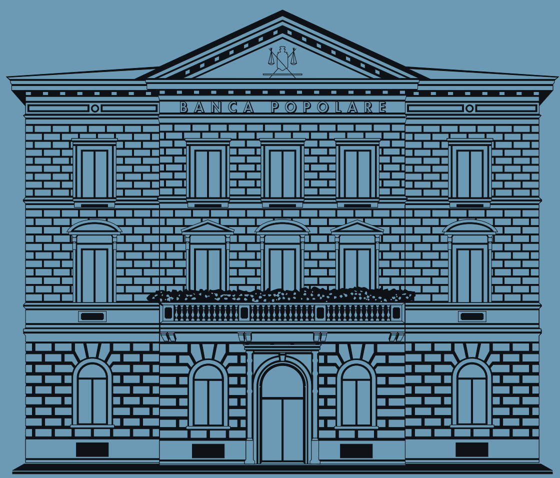
Banca Popolare di Sondrio



CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 30 SEPTEMBER 2016

Banca Popolare di Sondrio

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Banca Popolare di Sondrio

Founded in 1871

CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 30 SEPTEMBER 2016

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 Bank of the Banca Popolare di Sondrio Group,
Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331 – Reserves: € 942,519,617
(figures approved by the Shareholders' Meeting of 23 April 2016)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 24 June 2016:
  - Long-term: BBB
  - Short-term: F3
  - Viability rating: bbb
  - Outlook: Negative

- Rating given by Dagong Europe Credit Rating to Banca Popolare di Sondrio scpa on 22 February 2016
  - 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 CECILIA CORRADINI LORETTA CREDARO* FEDERICO FALCK ATTILIO PIERO FERRARI GIUSEPPE FONTANA CRISTINA GALBUSERA* ADRIANO PROPERSI ANNALISA RAINOLDI SERENELLA ROSSI RENATO SOZZANI* DOMENICO TRIACCA*

BOARD OF STATUTORY AUDITORS

Chairman	PIERGIUSEPPE FORNI
Auditors	DONATELLA DEPPERU MARIO VITALI
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

INTRODUCTION

Legislative Decree 25 of 15 February 2016 was passed to amend the Consolidated Finance Act by cancelling the disclosure requirements for the first and third quarter of the year, which issuers had to comply with, unless Consob obliged issuers to provide additional periodic financial information.

As far as our Group is concerned, we prefer full disclosure, so we have prepared this interim financial report at 30 September 2016 in accordance with the recognition and measurement criteria of the International Accounting Standards (IAS/IFRS) adopted by the European Community and currently in force.

This consolidated interim report on operations has not been audited by the independent auditors.

BASIS OF PREPARATION

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 and subsequent updates.

The accounting policies adopted for the period are consistent with those of the prior year, although the following new (EU) Regulations came into force from 1 January 2016:

– Regulation (EU) no. 28/2015 dated 17 December 2014 that adopted amendments to the following international accounting standards: IFRS 2 «Share-based payment», IFRS 3 «Business combinations», IFRS 8 «Operating segments», IAS 16 «Property, plant and equipment», IAS 24 «Related party disclosures», IAS 37 «Provisions, contingent liabilities and contingent assets», IAS 38 «Intangible assets» and IAS 39 «Financial instruments: Recognition and measurement»;
– Regulation (EU) no. 29/2015 that amends IAS 19 «Employee benefits»;
– Regulation (EU) no. 2113/2015 dated 23 November 2015 that, by modifying earlier regulations, amends IAS 16 «Property, plant and equipment» and IAS 41 «Agriculture»;
– Regulation (EU) no. 2173/2015 dated 24 November 2015 which specifies that the references to IFRS 9 in IFRS 11 «Joint arrangements», regarding the classification and measurement of financial assets, cannot be applied for the moment, as IFRS 9 has not yet been endorsed by the EU, and must be read as references to the «corresponding» IAS 39 - Financial instruments: Recognition and measurement;

- Regulation (EU) no. 2231/2015 dated 2 December 2015 that amends Regulation (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 16 and IAS 38. Clarifications are provided about the acceptable methods of depreciation and amortisation;
- Regulation (EU) no. 2343/2015 dated 15 December 2015 that amends Regulation (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IFRS 5, IFRS 7, IAS 19 and IAS 34;
- Regulation (EU) no. 2406/2015 dated 18 December 2015 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 1. The objective is to promote the use of professional judgement in the required disclosures, in order to make them more effective;
- Regulation (EU) no. 2441/2015 dated 18 December 2015 that amends Regulations (EC) no. 1126/2008, which adopted certain international accounting standards in compliance with Regulation (EC) no. 1606/2002 relating to IAS 27. The equity method can now be used in separate financial statements, in addition to the cost and fair value methods, to measure the investments held on subsidiaries, joint ventures and associates;

For full details of the accounting policies applied, reference should be made to the disclosure thereof in the consolidated financial statements for the year ended 31 December 2015.

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

Balances at 31 December 2015 have been presented as balance sheet comparatives.

Income statement comparatives are the results for the period ended 30 September 2015.

In the preparation of the consolidated interim report on operations, greater use is made of estimates when compared to year end statutory reporting practices, particularly for cases where the accounting treatment does not comply with the accrual basis. This applies to both balance sheet and income statement components.

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, 180,000,000 CHF.

Factorit spa - Milan.

The Parent Company holds 60.5% of the capital of Factorit spa, 85,000,002 euro.

Sinergia Seconda Srl – Milan

The Parent Company holds all the capital of Sinergia Seconda Srl, 60,000,000 euro.

Popso Covered Bond srl - Conegliano.

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

SCOPE AND METHODS OF CONSOLIDATION

The consolidated interim report on operations presents the financial position as at 30 September 2016 and the results for the period then ended of Banca Popolare di Sondrio Banking Group, which comprises the Parent Company, Banca Popolare di Sondrio (SUISSE) SA, Factorit spa, Sinergia Seconda Srl and Popso Covered Bond srl, as well as the entities over which the Group exercises control as defined by IFRS 10.

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

FULLY CONSOLIDATED SHAREHOLDINGS:

Name	Location	Share capital (in thousands)	% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000	100
Factorit spa	Milan	85,000	60.5
Sinergia Seconda srl	Milan	60,000	100
Pirovano Stelvio spa *	Sondrio	2,064	100
Immobiliare San Paolo srl *	Tirano	10	100
Immobiliare Borgo Palazzo srl *	Tirano	10	100
Popso Covered Bond srl	Conegliano	10	60

* equity investments not included in the banking group

In addition, Fondo Immobiliare Centro delle Alpi Real Estate, which is 100% held by the Parent Company, has been consolidated in compliance with the definition of control laid down in IFRS 10.

The joint venture shown below is valued at equity:

JOINT-VENTURES:

Name	Location	Share capital (in thousands)	% held
Rajna Immobiliare srl	Sondrio	20	50.000

The scope of consolidation also includes investees over which the Parent Company exercises a significant influence, that is, where the holding therein, directly or indirectly, is between 20% and 50% or, even in cases where the equity interest is lower, 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) it takes part in the decision-making process, including decisions regarding dividends;
c) there are significant transactions between the parent company and the affiliate;
d) there is an exchange of managers;
e) essential technical information is being provided.

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

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the company's net result for the period pertaining to the bank 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 spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Banca della Nuova Terra spa	Milan	31,315	19.609
Arca SGR spa	Milan	50,000	21.137
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Bormio Golf spa	Bormio	631	25.237
Servizi Internazionali e Strutture Integrate 2000 srl	Milan	75	33.333
Acquedotto dello Stelvio srl **	Bormio	21	27.000
Sifas spa **	Bolzano	1,209	21.614

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

With line-by-line consolidation, the book value of the investments is eliminated against the related equity and all of the assets and liabilities, guarantees, commitments and other memorandum accounts are included, as are the revenues and costs of the subsidiaries. Insignificant amounts of income and charges pertaining to transactions carried out at normal market conditions have not been eliminated. The quarterly reports of the investees have been appropriately reclassified and adjusted, where necessary, to bring them into line with the accounting policies used 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.

As regards the goodwill recorded in the financial statements, with respect to the assumptions used for the impairment test for the 2015 financial statements, no circumstances have arisen that denote the presence of indicators of impairment.

TRANSLATION OF FINANCIAL STATEMENTS IN CURRENCIES OTHER THAN THE EURO

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

SUBSEQUENT EVENTS

No events have taken place between the reporting date for this consolidated interim report and the date of its approval by the Board of Directors on 8 November 2016 that would require any adjustments thereto, and nothing of significance has occurred that would require the provision of supplementary information.

INTERNATIONAL BACKGROUND

The global economy has continued to register a limited rate of growth. While there has been an improvement in the major emerging countries, more or less stable growth in China and ongoing expansion in India, the period of slackness in advanced economies has continued, though trends have differed between the United States and the European Union. In the meantime, forecasts of the trend in global trade have become progressively less optimistic.

The geopolitical situation has of course impacted on all this, with local outbreaks of conflict being constantly fed by deeper tensions between the major global powers.

Energy prices seem destined to increase significantly, with oil back to 40-50 dollars a barrel.

SUMMARY OF RESULTS

(in millions of euro)	2016	2015*	% change
Balance sheet			
Loans and receivables with customers	24,396	23,997	1.67
Loans and receivables with banks	979	980	-0.19
Financial assets	7,940	8,401	-5.48
Equity investments	206	198	4.10
Total assets	35,418	35,538	-0.34
Direct funding from customers	28,807	29,528	-2.44
Indirect funding from customers	26,926	28,237	-4.64
Direct funding from insurance premiums	1,274	1,100	15.85
Customer assets under administration	57,007	58,865	-3.16
Other direct and indirect funding	5,684	4,762	19.36
Equity	2,608	2,563	1.74
Income statement			
Net interest income	363	413	-12.18
Total income	657	795	-17.37
Profit from continuing operations	147	206	-28.60
Profit of the period	105	135	-21.82
Key ratios (%)			
Cost/income ratio	52.14	40.92	
Net interest income/Total assets	1.02	1.14	
Net financial income/Total assets	1.35	1.46	
Net interest income/Total income	55.24	51.97	
Administrative expenses/Total income	56.35	44.77	
Profit for the period/Total assets	0.30	0.37	
Non-performing loans/Loans and receivables with customers	3.14	3.06	
Loans and receivables with customers/Direct funding from customers	84.69	81.27	
Capital ratios (%)			
CET1 Capital ratio	11.22%	10.49%	
Total Capital ratio	13.83%	13.44%	
Free capital	1,332	1,265	
Other information on the banking group			
Number of employees	3,143	3,112	
Number of branches	354	354	

* 2015 figures and capital ratios are at 31 December, while those relating to the income statement refer to 30 September.

In Eurozone countries, economic momentum has remained very moderate, with an already tenuous expansion finding resistance. The weakness of overall demand and the difficult geopolitical situation in many regions were an important brake on growth in the entire area. Outside of it, the negative consequences of Brexit are beginning to show in the UK. The prospect of long and difficult negotiations with the Union does not encourage investment, and the progressive decline in the pound is already making itself felt. While not sufficient in itself to strengthen the economic cycle, the expansive monetary policy tenaciously pursued by the ECB seems to be getting results in terms of inflation, thanks to the recovery in oil prices.

In Italy, the summer helped to revitalize the economy, which had been showing signs of a slowdown during the second quarter of the year. Industrial production showed positive signs and household confidence remained high. Alongside investments which recovered slightly, foreign trade confirmed its importance, despite the difficulties that arose in connection with the global situation. As for employment, the signs of progress that were seen cannot obscure the gravity of the situation, with young people particularly disadvantaged in the job market.

The economic situation has had a positive influence on the banking sector, particularly as regards credit quality, which has benefited from a reduction in new impaired loans. The sector is still in the spotlight, not only because of the difficult transitions that some of the players are going through, but also because of the more general issue of the ability to generate income at a time when monetary policy is hardly producing any positive impact on the economy while, on the other hand, penalising banks.

As the year progresses, Switzerland's economy has been showing some improvement. Many companies, especially the larger ones, have managed to adapt to the Swiss franc's new exchange rates, reaffirming their competitiveness on international markets, even if this means having to endure considerable pressure on profit margins. Forecasts for the current year indicate GDP growth of around 1.5%, while inflation is still expected to be slightly below zero.

FUNDING

In the third quarter of the year, funding generally confirmed the downward trend that has been in place for some time, but showing a clear gap between the trend in short-term funding, which has been positive, and that of medium/long-term funding, which has been negative. Bonds were particularly hard hit. The fall in interest rates continued, affected, among other things, by the downward trend in yields on government bonds, which are still negative on short maturities. For this reason, customers continued to prefer liquidity and assets under management.

There continued to be extremely abundant liquidity generated by the European Central Bank's expansive policy.

At 30 September 2016, customer deposits came to a total of 28,807 million, a decrease of 2.44% on the end of 2015 and of 2.62% compared with September 2015. This contraction can be considered normal, given the conditions of funding markets. Unlike the rest of the banking system, our Group saw an increase in bonds, thanks to the complete success of the Parent Company's covered bond issue at the beginning of April. Against an offer for a nominal amount of 500 million, the demand quickly rose to about three times that figure. This bears witness to the high level of solidity that national and international investors recognise in Banca Popolare di Sondrio.

Indirect funding from customers totalled 26,926 million at market values, down by 4.64% since the end of 2015. This is due to the negative performance of financial markets, partly mitigated by inflows of deposits from customers.

Direct funding from insurance premiums came to 1,274 million, +15.85%.

Total funding from customers therefore amounted to 57,007 million (-3.16%).

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	30-09-2016	%	31-12-2015	%	% change
Savings deposits	545,818	1.89	571,509	1.94	-4.50
Certificates of deposit	4,359	0.02	5,395	0.02	-19.20
Bonds	3,396,458	11.79	3,111,549	10.54	9.16
Repo transactions	341,206	1.18	727,070	2.46	-53.07
Bank drafts and similar	96,119	0.33	64,242	0.22	49.62
Current accounts	21,635,771	75.12	21,277,751	72.05	1.68
Time deposit accounts	389,495	1.35	1,253,473	4.24	-68.93
Current accounts in foreign currency	2,398,124	8.32	2,517,406	8.53	-4.74
Total	**28,807,350**	**100.00**	**29,528,395**	**100.00**	**-2.44**

TOTAL FUNDING

(in thousands of euro)	30-09-2016	%	31-12-2015	%	% change
Total direct funding from customers	28,807,350	45.95	29,528,395	46.41	-2.44
Total indirect funding from customers	26,926,039	42.95	28,237,275	44.38	-4.64
Total direct funding from insurance premiums	1,274,009	2.03	1,099,735	1.73	15.85
Total	**57,007,398**	**90.93**	**58,865,405**	**92.52**	**-3.16**
Due to banks	2,548,941	4.07	2,302,136	3.62	10.72
Indirect funding from banks	3,134,979	5.00	2,460,008	3.86	27.44
Grand total	**62,691,318**	**100.00**	**63,627,549**	**100.00**	**-1.47**

Amounts due to banks totalled 2,549 million, +10.72%. They include the refinancing operations with the European Central Bank for a total of 1,100 million, as explained in the chapter on «Treasury and trading operations».

Indirect funding from banks amounted to 3,135 million, +27.44%.

Total funding from customers and banks therefore came to 62,691 million, -1.47%.

Current accounts in euro and foreign currency rose to 24,034 million, +1.00%, and make up 83.44% of all direct funding. Bonds increased by 9.16% to 3,396 million, going against the general trend of the system. Time deposit accounts have fallen to 389 million, -68.93%. Repo transactions also fell sharply to 341 million, -53.07%; savings deposits decreased at a slower pace to 546 million, -4.50%. Certificates of deposit dropped to 4 million, -19.20%, and remain entirely marginal. Bank drafts amount to 96 million, +49.62%.

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

LENDING

The improvement in the economic situation - however small - was reflected in the dynamics of bank loans. The conditions for access to credit were particularly favourable, with rates depressed to all-time lows by the monetary policy being applied. Both businesses and households were able to benefit from this situation, the latter in particular for home purchase and consumer purposes. The impaired loan situation has also improved. They continued to decline at system level as a percentage of total loans, though it is still high.

The Group has confirmed its primary role as a pillar of the local economy in the territories served.

Loans and receivables with customers come to 24,396 million, up by 1.67% since the start of the year and substantially unchanged, +0.02%, compared with 12 months earlier.

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

Mortgage loans rose to 9,333 million, +1.32%, thanks to a good demand by households, and represent the largest percentage (38.25%) of total loans and receivables with customers. This line item includes loans assigned but not derecognised of 1,233 million in relation to the issue of covered bonds. These loans have not been derecognised because the requirements of IAS 39 are not met. Current account overdrafts, which are the second largest component of loans (20.75%), have decreased by 3.79% to 5,062 million. Other unsecured loans, 4,703 million, +15.75%, recorded a good performance, as did factoring loans, granted by Factorit spa, 1,648 million, +9.45%. advances, 436 million, +1.88%; personal loans, 215 million, +7.67%. Repo transactions, representing the temporary employment of excess liquidity, have decreased, from 706 to 448 million, -36.50%. Foreign currency loans, 1,195 million, have decreased by 11.85%, while advances subject to collection decreased by 11.26% to 193 million. Debt securities amounted to 328 million, +33.36%, and relate to customer loan securitisations carried out by the affiliates Banca della Nuova Terra spa and Alba Leasing spa. The ratio of loans and receivables with customers to amounts due to customers has risen to 84.69% from 81.27% at the end of 2015.

LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	30-09-2016	%	31-12-2015	%	% change
Current accounts	5,061,822	20.75	5,261,348	21.93	-3.79
Foreign currency loans	1,194,710	4.90	1,355,350	5.65	-11.85
Advances	435,643	1.79	427,592	1.78	1.88
Advances subject to collection	193,000	0.79	217,489	0.91	-11.26
Discounted portfolio	4,868	0.02	6,459	0.03	-24.63
Artisan loans	36,900	0.15	36,047	0.15	2.37
Agricultural loans	27,877	0.11	25,867	0.11	7.77
Personal loans	215,019	0.88	199,710	0.83	7.67
Other unsecured loans	4,702,891	19.28	4,062,907	16.93	15.75
Mortgage loans	9,333,097	38.25	9,211,530	38.39	1.32
Non-performing loans	766,256	3.14	734,682	3.06	4.30
Repo transactions	448,349	1.84	706,060	2.94	-36.50
Fixed-yield securities	327,810	1.34	245,802	1.02	33.36
Factoring	1,648,051	6.76	1,505,700	6.27	9.45
Total	**24,396,293**	**100.00**	**23,996,543**	**100.00**	**1.67**

As mentioned above, the improvement in the overall economic situation reflected positively on the dynamics of impaired positions. Further significant provisions have been made against impaired loans, as in 2015.

Total impaired loans (non-performing loans, unlikely-to-pay loans and past due and/or impaired overdrawn exposures) amounted to 2,357 million, -0.22%, representing 9.66% of loans and receivables with customers, compared with 9.84% at the end of 2015. As we said previously, while these loans continue to be affected by the difficulties of the long crisis, they have benefited from the recent improvement in the economic situation. Writedowns of impaired loans come to a total of 1,997 million, representing 45.87% of the gross amount, compared with 44.47% at the end of 2015. The table gives a overview of impaired and performing loans.

Net non-performing loans, after writedowns, total 766 million, +4.30%, or 3.14% of total loans and receivables with customers, compared with 3.06% at 31 December 2015 and 2.82% at 30 September 2015.

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		30-09-2016	31-12-2015	(+/-)	% change
Impaired loans	Gross exposure	4,354,165	4,253,913	100,252	2.36
	Adjustments	1,997,097	1,891,705	105,392	5.57
	Net exposure	**2,357,068**	**2,362,208**	**-5,140**	**-0.22**
– Non-performing loans	Gross exposure	2,067,756	1,927,608	140,148	7.27
	Adjustments	1,301,500	1,192,926	108,574	9.10
	Net exposure	**766,256**	**734,682**	**31,574**	**4.30**
– Unlikely to pay loans	Gross exposure	1,993,781	1,840,192	153,589	8.35
	Adjustments	653,116	630,597	22,519	3.57
	Net exposure	**1,340,665**	**1,209,595**	**131,070**	**10.84**
– Past due and/or impaired overdrawn exposures	Gross exposure	292,628	486,113	-193,485	-39.80
	Adjustments	42,481	68,182	-25,701	-37.69
	Net exposure	**250,147**	**417,931**	**-167,784**	**-40.15**
Performing loans	Gross exposure	22,182,392	21,793,988	388,404	1.78
	Adjustments	143,167	159,653	-16,486	-10.33
	Net exposure	**22,039,225**	**21,634,335**	**404,890**	**1.87**
Total loans and receivables with customers	Gross exposure	26,536,557	26,047,901	488,656	1.88
	Adjustments	2,140,264	2,051,358	88,906	4.33
	Net exposure	**24,396,293**	**23,996,543**	**399,750**	**1.67**

The value of non-performing loans shows a further slowdown in growth already seen the previous year, and that leads to cautious optimism about the effects of the economic recovery, even if it is still weak.

To cover estimated losses on non-performing loans in the portfolio, value adjustments rose to 1,301 million, +12.22% compared with 30 September 2015 and +9.10% on December of the same year, with a degree of coverage of 62.94%, compared with 61.89% at the end of 2015. 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 73.09%.

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 1,341 million, +10.84%, or 5.50% of total loans and receivables with customers compared with 5.04% at the end of 2015, while the related adjustments amount to 653 million, +3.57%, with a level of coverage of 32.76% compared with 34.27% at the end of 2015.

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 250 million, -40.15%, and represent 1.03% of the total compared with 1.74% at the end of 2015.

The performing loans amounted to 22,039 million, +1.87%, and writedowns came to 143 million, corresponding to 0.65% of them.

Total adjustments come to 2,140 million (+4.33%).

In accordance with the terms established by Consob Communication no. DEM/RM11070007 of 5 August 2011, the amount of loans and receivables with customers included loans made to central and local government for 86 million, local and state-owned enterprises for 672 million and various other entities for 71 million.

TREASURY AND TRADING OPERATIONS

Whereas the first six months saw considerable uncertainty and high volatility on financial markets, with a hefty correction in equity markets, especially in Europe, the third quarter saw an improvement in the overall environment and lower volatility.

Liquidity in the system remained very high as a result of the ECB's expansionary measures, either through long-term refinancing auctions (T-LTRO) and continuing purchases of government bonds.

At 30 September 2016, the Group's net interbank borrowing amounts to 1,570 million, up by 248 million from 1,322 million at the end of 2015.

Net of Targeted Longer-Term Refinancing Operation (T-LTROs), which the Parent Company has entered into with the ECB and which amount to 1,100 million, the balance would have been a net negative interbank position of 470 million. The Group has benefited from good liquidity throughout the period. Treasury activity during the quarter was intensive, with a preference for lending transactions over funding transactions.

On 23 June we decided to take part in the first of the second series of targeted longer term refinancing operations (T-LTRO) by the ECB for an amount of 1,100 million and the simultaneous repayment of the operations carried out in September and December 2014 for a total of 1,098 million, which would have expired in September 2018. The new operation will expire on 24 June 2020, with an early redemption option from 27 June 2018.

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, amounts to 7,571 million, down by 9.49% on the end of 2015.

The total of all portfolios of financial assets amounts to 7,940 million at 30 September 2016, a decrease of 5.48% compared with the end of 2015 when it came to 8,401 million, and a decrease of 9.48% compared with 12 months ago (8,771 million).

There were no transfers of financial assets between portfolios during the period. The following table summarises the various amounts.

FINANCIAL ASSETS

(in thousands of euro)	30-09-2016	31-12-2015	% change
Financial assets held for trading (HFT)	1,331,902	1,859,435	-28.37
of which, derivatives	57,162	64,058	-10.77
Financial assets at fair value through profit or loss (CFV)	92,920	94,495	-1.67
Available-for-sale financial assets (AFS)	6,405,570	6,321,023	1.34
Held-to-maturity investments (HTM)	109,808	125,777	-12.70
Total	**7,940,200**	**8,400,730**	**-5.48**

The decrease in the portfolios is attributable essentially to the HFT and AFS portfolios, which showed considerable movements both in and out, with an opposite trend at the end of the period. Management policies reflect long-standing guidelines and, as always, have given preference to Government bonds, which represent the bulk of the portfolio. We sold securities, mainly government bonds, resulting in the recognition of substantial trading/disposal gains and the subsequent purchase of newly issued securities. New investments mainly involved BTPs and CTZs, which are securities with a relatively short duration. The composition of the portfolio remains dominated by government securities, with a duration of just over 4 years and 6 months, slightly up on the end of 2015.

In accordance with the requirements of Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that these portfolios include bonds that form part of the sovereign debt (i.e. issued by local and central governments) totalling 6,866 million, almost entirely relating to issues made by the Italian Government.

Financial assets held for trading

Held-for-trading financial assets (HFT), details of which are shown in the following table, amount to 1,332 million, down by 28.37% as a result of sales of government securities close to maturity and the criteria used in the allocation to various portfolios of similar securities, but with longer maturities, which replaced the previous ones.

(in thousands of euro)	30-09-2016	31-12-2015	% change
Floating-rate Italian government securities	604,191	810,126	-25.42
Fixed-rate Italian government securities	145,849	492,905	-70.41
Bank bonds	228,876	222,632	2.80
Bonds of other issuers	33,638	55,260	-39.13
Bonds of other issuers in foreign currency (USD)	27,084	–	–
Securitisations	27,346	31,265	-12.53
Variable-yield securities and mutual funds	207,756	183,189	13.41
Net book value of derivative contracts	57,162	64,058	-10.77
Total	**1,331,902**	**1,859,435**	**-28.37**

There have not been any substantial changes in the structure of the HFT portfolio, which has remained quite straightforward. Preference has again been given to Italian government securities: despite the fact that they have decreased as a result of sales, at the end of the period they amounted to 750 million, making up 56.31% of the portfolio. Of these securities, 604 million were floating rate, down by 25.42%, and 146 were fixed rate (BOTs, BTPs and CTZs) which were also down by 70.41%, given that sales were higher than the replacements of newly issued securities. The former account for 45.36% of the portfolio, while the latter account for 10.95%.

The derivatives component has declined from 64 to 57 million, -10.77%.

The corporate bonds held are all of high standing, comprising bank bonds of 229 million, +2.80%, bonds of other issuers of 34 million, -39.13%, and bonds in foreign currency of 27 million. Securities deriving from securitisations have decreased by 12.53% to 27 million and are all classified as senior. The component represented by equities and mutual funds remains marginal with respect to the portfolio as a whole, and increased to 208 million, +13.41%.

Financial assets at fair value through profit or loss

Financial assets carried at fair value through profit or loss (CFV), which entirely consist of units in mutual funds, amount to 93 million, -1.67%, with a slight decrease being mainly attributable to period end measurement.

Available-for-sale financial assets

The portfolio of available-for-sale financial assets (AFS) - in which certain securities are classified with the objective of containing, at least in part, the impact on the income statement of any volatility affecting the securities portfolio as a result of turbulence in financial markets - rose slightly from 6,321 million to 6,406 million, +1.34%. The increase stems from intense movements both in and out. This made it possible to realise substantial capital gains, even though they were less than in the comparison period.

Available-for-sale financial assets were also comprised of Italian Government securities amounting to 5,725 million, -4.84%; foreign government securities, not present at the end of 2015, 304 million; funds and sicavs, 232 million, +18.09%; bonds of other issuers, 22 million, +313.63%; bank bonds, 21 million, not present at the end of 2015; equities, 102 million, -1.70%. The portfolio includes amounts paid into the Atlante fund for 30.31 million, set up to stabilise the Italian credit system, and in which the Parent Company took on an overall commitment of 50 million. On 15 June 2016 the Interbank Deposit Protection Fund's Voluntary Scheme resolved to intervene in support of the Cassa di Risparmio di Cesena through a reserved capital increase, which was approved by the ECB on 15 September 2016. On 16 September, the Voluntary Scheme asked the member banks to make the relevant payment. For the Parent Company the outlay amounted to 4.096 million, accounted for as a financial asset comparable to an equity instrument and included in the portfolio in question.

Impairment writedowns were recognised for 4.177 million, of which 3.600 million on listed and unlisted securities and 0.577 million on mutual funds.

(in thousands of euro)	30-09-2016	31-12-2015	% change
Floating-rate Italian government securities	1,563,582	1,513,876	3.28
Fixed-rate Italian government securities	4,160,916	4,501,533	-7.57
Foreign government securities	303,418	–	–
Bank bonds	21,393	–	–
Other bonds	22,179	5,362	313.63
Variable-yield securities	101,691	103,454	-1.70
Mutual funds in euro	232,391	196,798	18.09
Total	**6,405,570**	**6,321,023**	**1.34**

Held-to-maturity investments

The HTM portfolio, comprising solely fixed-yield securities, has decreased to 110 million, -12.70%, as a result of redemptions. Unrealised gains at the end of September amount to 20.4 million.

Asset management

During the summer quarter the favourable trend in the asset management industry continued, favoured by the persistence of very low interest rates that make customers want to look for potentially more profitable forms of investment. As for our Group, in late September the various types of asset management amounted to 4,702 million, an increase of 2.12% on December 2015.

EQUITY INVESTMENTS

Equity investments were up by 8 million to 206 million. The increase was attributable to the measurement under the equity method.

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets total 347 million, +0.13%. The former totalled 323 million, -0.37%, the second category amounted to 24 million, +7.37% and includes goodwill of 8 million. Goodwill is subjected to annual impairment testing to check for any loss of value. The most recent test was performed when preparing the consolidated financial statements at 31 December 2015. It was not deemed necessary to repeat the procedure at 30 September 2016.

PROVISIONS

These comprise post-employment benefits of 46 million, +7.06%, and provisions for risks and charges totalling 176 million, +6.44%.

HUMAN RESOURCES

At 30 September 2016 the Banking group had 3,143 employees with an increase of 31 on the 2015 figure of 3,112, to which should be added 27 employees of the subsidiary Pirovano Stelvio spa, of which 24 are hired as seasonal workers, for a total of 3,170 persons.

CAPITAL AND RESERVES

Consolidated shareholders' equity at 30 September 2016, inclusive of valuation reserves and the profit for the period, amounts to 2,607.500 million, being an increase of 44.671 million, +1.74%.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares with a par value of 3 euro, amounts to 1,360.157 million, which amount has remained 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 25.349 million, +0.11%.

Reserves increased to 1,029.697 million +10.69%, primarily due to the allocation of a significant amount of profit for 2015. The Ordinary Shareholders' Meeting of 23 April 2016 approved the distribution of a dividend of 0.07 euro for each of the 453,385,777 shares outstanding at 31 December 2015.

The valuation reserves, representing the net unrealised gains and losses recorded on AFS financial assets and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a net positive balance of 58.738 million, down 34.31% from the positive balance of 89.416 million reported at the end of 2015. The decrease is mainly to do with reversals to the income statement on the sale of securities in the AFS portfolio.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force as implemented by Regulation (EU) no. 575/2013 (CRR) and by EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios of 7% for CET1 Ratio, of 8.50% for Tier 1 Capital Ratio and of 10.50% for Total Capital Ratio. Based on the outcome of the SREP process, on 20 November 2015 the European Central Bank raised the level of capital required to guarantee appropriate coverage of the Group's risks. In particular, the minimum Common Equity Tier 1 ratio was raised to 9.25%, but no increases were made to the general regulatory requirements for the Tier 1 Capital Ratio and the Total Capital Ratio.

On 30 September 2016, at the end of the 2016 SREP process, the ECB notified its draft decision concerning the new capital ratios to be maintained on a consolidated basis. In accordance with the appropriate guidelines issued by the EBA, from January 2017, the new minimum level of capital adequacy requires a CET 1 Ratio of 7.25% and a Total Capital Ratio of 10.75%. As part of this decision, the ECB has also provided a Pillar 2 Guidance, which is a recommendation that is meant to act as a reference guide for the prospective evolution of the Group's Tier 1 common equity in a conservative sense. Under the prudential rules, failure to meet the required minimum levels for the CET 1 and Total Capital Ratios leads to constraints on capital distribution, while any violation or the mere expectation of a violation of the Pillar 2 Guidance has to be notified to the ECB.

Consolidated own funds for supervisory purposes, including the share of profit at 30 September 2016, amount to 3,160 million. Risk-weighted assets totalled 22,846 million.

Set out below are the Group's adequacy requirements at 30 September 2016 and the minimum requirements for the current year:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	11.22%	9.25%
Tier 1 Capital Ratio	11.25%	8.50%*
Total Capital Ratio	13.83%	10.50%*

* Minimum requirements

The leverage ratio at 30 September 2016 came to 6.47%, applying the Phased In transitional criteria in force for 2016 and 6.43% based on the Fully Phased criteria. These figures rank among the best when compared with those of the main Italian and European banking groups.

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2015:

– *capital/direct funding from customers*
  9.05% v. 8.68%

– *capital/customer loans*
  10.69% v. 10.68%

– *capital/financial assets*
  32.84% v. 30.51%

– *capital/total assets*
  7.36% v. 7.21%

– *net non-performing loans/capital*
  29.39% v. 28.67%

BPS STOCK

At 30 September 2016, Banca Popolare di Sondrio stock stood at 2.49 euro, a decrease of 40.03% from the end of 2015. The decline follows the worsening of the crisis that has long affected the banking sector, though the BPS stock has stood out as one of those that were best able to cushion the downward trend. In fact, the FTSE Italia All Share Banks index closed the nine months with a even more negative decline: -50.26%.

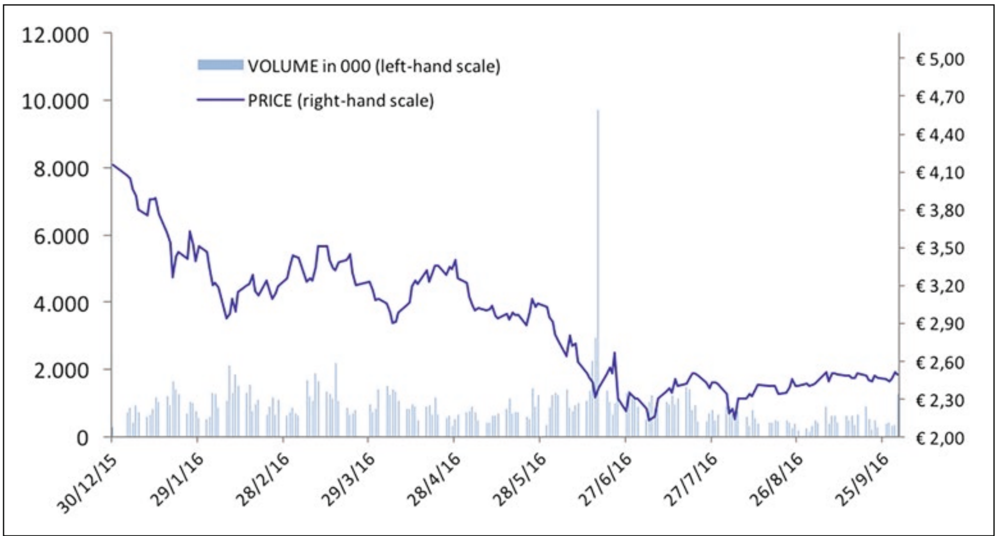
As shown in the graph below, the dynamics of the period shows an almost constant downward trend, with the high of the year posted on 4 January (4.14 euro) and the low on 6 July (2.086 euro).

Trading volumes marked a peak on 20 June, when the stock left the Stoxx Europe 600 index, a circumstance which required several institutional investors to close their positions.

BPS stock - MTA segment

Prices recovered in the third quarter of the year, coming close to 2.50 euro right at the end of the period.

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



RATINGS

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

These ratings refer to the date of update of the assessments by Dagong Europe Credit Rating on 22 February 2016 and to the periodic review by Fitch Ratings on 24 June 2016.

FITCH RATINGS – issued on 24 June 2016

	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».	**Negative**

DAGONG EUROPE CREDIT RATING - issued on 22 February 2016

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

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

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

(in thousands of euro)

	Equity	of which: Profit of the period
Equity of the Parent Company as of 30.9.2016	2,366,737	95,608
Consolidation adjustments	(13,340)	(13,340)
Difference with respect to carrying values of equity investments in:		
– companies consolidated on a line-by-line basis	228,744	13,085
– companies valued using the equity method	25,359	9,899
Balance as of 30.9.2016, as reported in the consolidated financial statements	**2,607,500**	**105,252**

INCOME STATEMENT

Modest growth in the Eurozone, with Italy taking up the rear; inflation still far from the levels that monetary policy would like; high market volatility, also conditioned by the uncertain effects of Brexit; a very complex geopolitical situation with numerous trouble spots. These factors, combined with the vulnerability of emerging economies to the rise in the dollar and the trend in commodities, were already present in September 2015 and are still there in the first nine months of 2016.

In this difficult context, our Banking Group achieved a profit of 105.252 million, which, although 21.82% down on the figure of 134.628 million achieved in the same period last year, can still be filed away with a moderate degree of satisfaction. The result was driven in particular by the following components: net interest income, the results of trading operations and loan adjustments. A further decline in net interest income was in fact offset by the results of trading operations and by the significant drop in net loan adjustments.

Net interest income came in at 362.887 million, compared with 413.217 million, -12.18%. The negative trend shown in previous quarters worsened, with spreads falling even further. The ECB's expansionary monetary policy has inevitably affected the net interest margin. The compression of interest rates weighed both on debt securities, with yields on government bonds negative in the case of short-term maturities, and on spreads between interest rates on loans and deposits, now at an all-time low. The decline in the overall cost of funding, while significant, was not enough to offset the reduction in the interest received.

Net fee and commission income has declined from 223.264 million to 213.717 million, -4.28%. It is worth emphasising the reduction in commissions for order collection and loans granted, while commissions related to asset management and insurance products showed a positive dynamic.

Dividends collected amounted to 6.329 million, compared with 2.663 million.

Income from financial activities, including that from the securities portfolio, foreign exchange and derivatives, which in the first half of the year was penalised by high market volatility, benefited from a better climate in the third quarter and came to 74.042 million, -52.52% compared with 155.930 million in the comparison period. Even if the decline, in both absolute and percentage terms, is substantial, it is still quite a respectable result. In fact, the comparison period was characterised by a particularly favourable situation in financial markets, which made it possible to achieve significant profits from trading/sales and posted a positive difference between capital gains and losses, unlike the period under review which turned in a negative balance. There was also a contraction in exchange gains.

Analysing the individual portfolios, the trading one showed a result of 8.009 million, compared with 60.696 million. The contribution made by available-for-sale financial assets and financial liabilities amounted to 66.964 million, as against 93.095 million. Lastly, the result from assets carried at fair value through profit or loss was 1.171 million, compared with 2.277 million, and the net hedging gain was 0.240 million, compared with a loss of 0.138 million in the comparative period.

Total income fell to 656.975 million, -17.37%, a decrease also attributable to the decline in income from financial assets and commissions, in addition to the drop in net interest income. Within this aggregate, the weighting of net interest income increased from 51.97 to 55.24%.

The economic recovery, albeit weak, is having a favourable impact on credit quality, a glimpse of the beginning of a downward trend in impaired loans, which results in lower adjustments. Our Group has also benefited from this, although we have continued with an extremely rigorous assessment of customer loans, taking into account the Supervisory Authority's instructions. The improvement in the quality of loans granted is also attributable to constant refinement of our lending and customer loan management procedures. Net adjustments to loans, available-for-sale financial assets, held-to-maturity investments and other financial transactions came to 177.167 million compared with 269.418 million (-34.24%). In particular, the loans element fell from 250.034 million to 173.441 million, -30.63%.

The ratio of net adjustments to loans and receivables with customers to loans and receivables with customers (the so-called «annualised cost of lending») showed a marked contraction both on 1.37% at 30 September 2015 and on 1.63% at the end of the year, coming in at 0.95%.

The impairment adjustments on securities in the portfolio of available-for-sale financial assets dropped from 8.111 million to 4.177 million, of which 3.600 million relating to certain equities and 0.577 million relating to mutual funds.

Adjustments to other financial transactions amounted to 0.451 million, reporting an excess of releases of provisions made in previous years compared with the provision for the period.

Net financial income therefore came to 479.808 million, compared with 525.656 million, -8.72%.

The question of rationalisation and cost containment, something the Group has always been well aware of, is even more true at this stage, featuring very low margins. Operating costs, which are subject to continuous monitoring and control, rose from 325.326 million to 342.570 million, +5.30%. The incidence of operating costs on total income, the «cost/income ratio», came in at 52.14% from 40.92% in the comparative period and 44.11% at the end of 2015. The significant increase is largely due to the contraction in the unrepeatable results of financial operations in the comparative period. It remains considerably lower than the average for the Eurozone (65%), while coinciding more or less with the figure for Italy in general.

Considering the individual components, administrative expenses, for which we proceeded to a reclassification regarding the allocation of the income of the pension fund, passed from 353.651 million to 367.402 million, +3.89%, and consist of personnel expenses, -0.07%, to 172.228 million, and other administrative expenses, which rose by 7.65% to 195.174 million. These include the ordinary contribution to the Resolution Fund of 11.170 million foreseen for the whole of the current year and an estimate for the contribution to the Interbank Deposit Protection Fund of 4.200 million, resulting in a marked rise in legal and advisory expenses, as well as IT costs, which were necessary to keep the bank up-to-date with the constantly evolving rules. A charge of 0.015 million was also accounted for, as the difference between the charge for the IDPF's Voluntary Scheme intervention to support Tercas, and the amount that was reimbursed by it for the previous intervention in favour of Tercas, which was considered not in line with EU legislation.

Net accruals to provisions for risks and charges, which presented a balance of 4.608 million in the comparative period, now have a balance of 0.796 million.

The depreciation of property, equipment and investment property and amortisation of software amounted to 23.925 million, +3.06%.

The net imbalance between other operating income and other operating expenses was positive for 49.553 million, -11.75%.

The operating profit therefore came to 137.238 million, -31.49%.

Profits (losses) from equity investments and other investments amounted to 10.091 million, +68.10%.

Profit before income taxes totalled 147.329 million, -28.60%. Income taxes amounted to 41.306 million, with a decrease of 38.00%. The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 28.04% compared with 32.29% in the comparative period. After deducting the profit of minority interest of 0.771 million, the net profit (loss) for the period amounted to 105.252 million, compared with 134.628 million in the prior period, -21.82%.

SUMMARY CONSOLIDATED INCOME STATEMENT

(thousands of euro)	30/09/2016	30/09/2015	(+/-)	% change
Net interest income	362,887	413,217	-50,330	-12.18
Dividends	6,329	2,663	3,666	137.66
Net fee and commission income	213,717	223,264	-9,547	-4.28
Result of financial activities	74,042	155,930	-81,888	-52.52
Total income	**656,975**	**795,074**	**-138,099**	**-17.37**
Net adjustments to loans and financial assets	-177,167	-269,418	92,251	-34.24
Net financial income	**479,808**	**525,656**	**-45,848**	**-8.72**
Personnel costs	-172,228	-172,342	114	-0.07
Other administrative expenses	-195,174	-181,309	-13,865	7.65
Other operating income/expense	49,553	56,148	-6,595	-11.75
Net accruals to provisions for risks and charges	-796	-4,608	3,812	-82.73
Adjustments to property, equipment and investment property and intangible assets	-23,925	-23,215	-710	3.06
Operating costs	**-342,570**	**-325,326**	**-17,244**	**5.30**
Operating profit (loss)	**137,238**	**200,330**	**-63,092**	**-31.49**
Net gains (losses) on equity investments and other investments	10,091	6,003	4,088	68.10
Profit (loss) before tax	**147,329**	**206,333**	**-59,004**	**-28.60**
Income taxes	-41,306	-66,626	25,320	-38.00
Profit (loss)	**106,023**	**139,707**	**-33,684**	**-24.11**
Profit pertaining to minority interests	-771	-5,079	4,308	-84.82
Profit pertaining to the Parent Bank	**105,252**	**134,628**	**-29,376**	**-21.82**

Note: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement. The allocation of revenues from investments in Pension and similar obligations has been reclassified from «Personnel costs» to «Other operating income/expense».

DISTRIBUTION BY GEOGRAPHICAL AREA

The Group is active in Italy and in Switzerland, through Banca Popolare di Sondrio (SUISSE) SA.

The contribution made to the Group by this subsidiary is summarised by the following statistics: the «Suisse» holds 9.99% of direct funding from customers and 13.99% of loans and receivables with customers, generating 8.03% of net fee and commission income and 11.46% of net interest income.

SUBSEQUENT EVENTS AND OUTLOOK FOR OPERATIONS

There are no subsequent events worth reporting.

As regards the outlook for operations, it is possible that the ECB's monetary policy will continue, which suggests that interest rates will remain at current levels, if not even lower.

It is not hard to guess the negative impact that this will have on net interest income, but which could be offset by the expected further improvement in credit quality. Financial market transactions could produce a positive contribution to operating profit, in the absence of further unforeseen upsets.

Overall, it is reasonable for our Group to expect a trend in the latter part of the year in line with that seen at 30 September, as long as the difficulties involved in disposing of the four banks saved by the National Resolution Fund's intervention do not result in another onerous extraordinary intervention.

Sondrio, 8 November 2016

THE BOARD OF DIRECTORS

Certification of the Financial Reporting Officer

The Financial Reporting Officer, Maurizio Bertoletti, certifies pursuant to art. 154 bis, para. 2, of the Consolidated Finance Law, that the accounting information contained in this consolidated interim report for the period ended 30 September 2016 agrees with the underlying documents, registers and accounting entries.

The Financial Reporting Officer
Maurizio Bertoletti

CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT AT 30 SEPTEMBER 2016

CONSOLIDATED BALANCE SHEET

(thousands of euro)

	ASSET ITEMS		30-09-2016		31-12-2015
10.	CASH AND CASH EQUIVALENTS		**739,679**		**766,097**
20.	HELD-FOR-TRADING FINANCIAL ASSETS		**1,331,902**		**1,859,435**
30.	FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS		**92,920**		**94,495**
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**6,405,570**		**6,321,023**
50.	HELD-TO-MATURITY INVESTMENTS		**109,808**		**125,777**
60.	LOANS AND RECEIVABLES WITH BANKS		**978,525**		**980,339**
70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**24,396,293**		**23,996,543**
100.	EQUITY INVESTMENTS		**206,297**		**198,176**
120.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**322,995**		**324,180**
130.	INTANGIBLE ASSETS		**23,886**		**22,246**
	of which:				
	- goodwill	7,847		7,847	
140.	TAX ASSETS		**418,895**		**491,938**
	a) current	3,988		64,592	
	b) deferred	414,907		427,346	
	b1) of which as per Law 214/2011	366,232		379,570	
160.	OTHER ASSETS		**391,292**		**357,399**
	TOTAL ASSETS		**35,418,062**		**35,537,648**

THE CHAIRMAN
Francesco Venosta

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

	EQUITY AND LIABILITY ITEMS		30-09-2016		31-12-2015
10.	DUE TO BANKS		**2,548,941**		**2,302,136**
20.	DUE TO CUSTOMERS		**25,310,414**		**26,347,209**
30.	SECURITIES ISSUED		**3,496,936**		**3,181,186**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**58,598**		**48,709**
60.	HEDGING DERIVATIVES		**46,975**		**53,483**
80.	TAX LIABILITIES		**56,359**		**68,208**
	a) current	3,850		4,059	
	b) deferred	52,509		64,149	
100.	OTHER LIABILITIES		**985,394**		**678,166**
110.	POST-EMPLOYMENT BENEFITS		**46,435**		**43,374**
120.	PROVISIONS FOR RISKS AND CHARGES:		**176,396**		**165,725**
	a) pension and similar obligations	131,415		117,912	
	b) other provisions	44,981		47,813	
140.	VALUATION RESERVES		**58,738**		**89,416**
170.	RESERVES		**1,029,697**		**930,273**
180.	SHARE PREMIUM RESERVE		**79,005**		**79,005**
190.	SHARE CAPITAL		**1,360,157**		**1,360,157**
200.	TREASURY SHARES (-)		**(25,349)**		**(25,322)**
210.	MINORITY INTERESTS		**84,114**		**86,623**
220.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**105,252**		**129,300**
	TOTAL LIABILITIES AND EQUITY		**35,418,062**		**35,537,648**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

CONSOLIDATED INCOME STATEMENT

(thousands of euro)

ITEMS			30-09-2016		30-09-2015
10.	INTEREST AND SIMILAR INCOME		500,617		610,612
20.	INTEREST AND SIMILAR EXPENSE		(137,730)		(197,395)
30.	**NET INTEREST INCOME**		**362,887**		**413,217**
40.	FEE AND COMMISSION INCOME		227,613		239,155
50.	FEE AND COMMISSION EXPENSE		(13,896)		(15,891)
60.	**NET FEE AND COMMISSION INCOME**		**213,717**		**223,264**
70.	DIVIDENDS AND SIMILAR INCOME		6,329		2,663
80.	NET TRADING INCOME		8,009		60,696
90.	NET HEDGING GAINS (LOSSES)		240		(138)
100.	GAINS/LOSSES FROM SALES OR REPURCHASES OF:		66,964		93,095
	b) available-for-sale financial assets	67,625		94,052	
	d) financial liabilities	(661)		(957)	
110.	NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		(1,171)		2,277
120.	**TOTAL INCOME**		**656,975**		**795,074**
130.	NET IMPAIRMENT LOSSES ON:		(177,167)		(269,418)
	a) loans and receivables	(173,441)		(250,034)	
	b) available-for-sale financial assets	(4,177)		(8,111)	
	c) held-to-maturity investments	–		(7,665)	
	d) other financial transactions	451		(3,608)	
140.	**NET FINANCIAL INCOME**		**479,808**		**525,656**
170.	**NET FINANCIAL AND INSURANCE INCOME**		**479,808**		**525,656**
180.	ADMINISTRATIVE EXPENSES:		(370,204)		(355,973)
	a) personnel expenses	(175,030)		(174,664)	
	b) other administrative expenses	(195,174)		(181,309)	
190.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(796)		(4,608)
200.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(13,743)		(13,382)
210.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(10,182)		(9,833)
220.	OTHER OPERATING INCOME/EXPENSE		52,355		58,470
230.	**OPERATING COSTS**		**(342,570)**		**(325,326)**
240.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		9,898		6,455
250.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS		160		(458)
270.	NET GAINS ON SALES OF INVESTMENTS		33		6
280.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**147,329**		**206,333**
290.	INCOME TAXES		(41,306)		(66,626)
300.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**106,023**		**139,707**
320.	**PROFIT (LOSS) FOR THE PERIOD**		**106,023**		**139,707**
330.	PROFIT (LOSS) FOR THE PERIOD OF MINORITY INTERESTS		(771)		(5,079)
340.	**PROFIT (LOSS) FOR THE PERIOD OF THE PARENT BANK**		**105,252**		**134,628**
	BASIC EPS		**0.232**		**0.297**
	DILUTED EPS		**0.232**		**0.297**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items		30/09/2016	30/09/2015
10.	**Profit (loss) for the period**	**106,023**	**139,707**
	Other income items net of income taxes that will not be reclassified to profit or loss		
40.	Defined-benefit plans	(9,950)	–
60.	Share of valuation reserves of equity investments valued at net equity	52	(30)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
100.	Available-for-sale financial assets	(21,669)	77,859
120.	Share of valuation reserves of equity investments valued at net equity	832	80
130.	**Total other income items net of income taxes**	**(30,735)**	**77,909**
140.	**Comprehensive income (Item 10+130)**	**75,288**	**217,616**
150.	Consolidated comprehensive income pertaining to minority interests	(714)	(5,079)
160.	**Consolidated comprehensive income pertaining to the Parent Bank**	**74,574**	**212,537**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2015	Change in opening balances	Opening balance at 1.1.2016	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	–
c) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	965,679	–	965,679	102,696	–	1,705	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**89,310**	**–**	**89,310**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,322)**	**–**	**(25,322)**	**–**	**–**	**–**	**–**
Profit for the period	**137,500**	**–**	**137,500**	**(102,696)**	**(34,804)**	**–**	**–**
Equity attributable to the group	**2,562,829**	**–**	**2,562,829**	**–**	**(31,581)**	**1,705**	**–**
Equity attributable to minority interests	**86,623**	**–**	**86,623**	**–**	**(3,223)**	**–**	**–**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2014	Change in opening balances	Opening balance at 1.1.2015	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	1,393,746	–	1,393,746	–	–	–	–
c) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,365**	**–**	**83,365**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	859,315	–	859,315	94,169	–	22,615	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**47,834**	**–**	**47,834**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,031)**	**–**	**(25,031)**	**–**	**–**	**–**	**–**
Profit for the period	**125,282**	**–**	**125,282**	**(94,169)**	**(31,113)**	**–**	**–**
Equity attributable to the group	**2,407,234**	**–**	**2,407,234**	**–**	**(27,084)**	**22,615**	**–**
Equity attributable to minority interests	**82,463**	**–**	**82,463**	**–**	**(4,029)**	**–**	**–**

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 30.09.2016**	**Equity attributable to minority interests 30.09.2016**
–	–	–	–	–	–	–	1,360,157	33,579
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	1,026,468	43,612
–	–	–	–	–	–	–	3,229	1,957
–	**–**	**–**	**–**	**–**	**–**	**(30,735)**	**58,738**	**(163)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(27)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,349)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**106,023**	**105,252**	**771**
(27)	**–**	**–**	**–**	**–**	**–**	**74,574**	**2,607,500**	**–**
–	**–**	**–**	**–**	**–**	**–**	**714**	**–**	**84,114**

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 30.09.2015**	**Equity attributable to minority interests 30.09.2015**
–	–	–	–	–	–	–	**1,360,157**	**33,589**
–								
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,360**
–	–	–	–	–	–	–	**937,464**	**38,635**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**77,909**	**125,850**	**(107)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(291)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,322)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**139,707**	**134,628**	**5,079**
(291)	**–**	**–**	**–**	**–**	**–**	**212,537**	**2,615,011**	**–**
–	**–**	**–**	**–**	**–**	**–**	**5,079**	**–**	**83,513**