Banca Popolare di Sondrio

FOUNDED IN 1871

CONSOLIDATED HALF-YEAR FINANCIAL REPORT AS AT 30 JUNE 2023

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Società per azioni (joint-stock company)
Head Office and General Management: I - 23100 Sondrio SO - Piazza Garibaldi 16
Tel. 0342 528.111 - Fax 0342 528.204
Websites: https://www.popso.it – https://istituzionale.popso.it
E-mail: info@popso.it - Certified e-mail (PEC): postacertificata@pec.popso.it
Sondrio Companies Register No. 00053810149 - Official List of Banks No. 842
Parent Company of the Banca Popolare di Sondrio Banking Group,
Official List of Banking Groups No. 5696.0 - Member of the Interbank Deposits Protection Fund
Tax code and VAT number: 00053810149
Share capital: € 1,360,157,331; Reserves: € 1,385,452,113
(Figures approved at the Shareholders' meeting of 29 April 2023)

Rating:

- Rating issued to Banca Popolare di Sondrio by Fitch Ratings on 6 July 2023:
  - Long-term Issuer Default Rating (IDR): BB+
  - Short-term Issuer Default Rating (IDR): B
  - Viability Rating: bb+
  - Government Support Rating: ns
  - Long-term Deposit Rating: BBB-
  - Short-term Deposit Rating: F3
  - Senior Preferred Debt: BB+
  - Tier 2 Subordinated Debt: BB-
  - Outlook: Stable

- Rating issued to Banca Popolare di Sondrio by DBRS Morningstar on 14 November 2022:
  - Long-Term Issuer Rating: BBB (low)
  - Short-Term Issuer Rating: R-2 (middle)
  - Intrinsic Assessment: BBB (low)
  - Support Assessment: SA3
  - Long-Term Deposit Rating: BBB
  - Short-Term Deposit Rating: R-2 (high)
  - Long-term Senior Debt: BBB (low)
  - Short-term Debt: R-2 (middle)
  - Subordinated Debt: BB
  - Trend: Stable

- Rating issued to Banca Popolare di Sondrio by Scope Ratings on 14 March 2023:
  - Issuer rating: BBB
  - Outlook: Stable

CONTENTS

BOARD OF DIRECTORS

Chair	FRANCESCO VENOSTA
Deputy Chair	LINO ENRICO STOPPANI*
Managing Director	MARIO ALBERTO PEDRANZINI**
Directors	ALESSANDRO CARRETTA
	NICOLA CORDONE
	LORETTA CREDARO*
	DONATELLA DEPPERU
	ANNA DORO
	FEDERICO* FALCK
	ATTILIO PIERO FERRARI*
	MARIA CHIARA MALAGUTI
	PIERLUIGI MOLLA
	SERENELLA ROSSI
	SILVIA STEFINI
	ROSSANA ZAMBELLI

BOARD OF STATUTORY AUDITORS

Chair	SERENELLA ROSSANO
Statutory Auditors	MASSIMO DE BUGLIO
	LAURA VITALI
Alternate Auditors	ALESSANDRO MELLARINI
	PAOLO VIDO

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 Executive Committee

** Member of the Executive Committee and Secretary of 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 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
CEDRASCO via Vittorio Veneto 15
CEPINA VALDISOTTO via Roma 13/E
CHIAVENNA via Francesco e Giovanni Dolzino 67
CHIESA IN VALMALENCO via Roma 138
CHIURO via Stelvio 8
COLORINA via Roma 84
COSIO VALTELLINO - fraz. Regoledo - via Roma 7
COSIO VALTELLINO - fraz. Cosio Stazione - piazza San Martino 14
DELEBIO piazza San Carpoforo 7/9
DUBINO - Nuova Olonio - via Spluga 83
GORDONA via Scogli 9
GROSIO via Roma 67
GROSIO - **fraz. Ravoledo** - via Pizzo Dosdè
GROSOTTO via Statale 73
ISOLACCIA VALDIDENTRO via Nazionale 31
LANZADA via Palù 388
LIVIGNO
Head Office, via Sant'Antoni 135
Branch no. 1, via Saroch 728/730
LIVIGNO via Dala Gesa 557/A
MADESIMO via Giosuè Carducci 3
MADONNA DI TIRANO piazza Basilica 55
MAZZO DI VALTELLINA via Santo Stefano 20
MELLO piazza San Fedele 1
MONTAGNA IN VALTELLINA via Stelvio 336
MONTAGNA IN VALTELLINA via Cicci 36
MORBEGNO
Head Office, piazza Caduti per la Libertà 7
Branch no. 1, via V Alpini 172
NOVATE MEZZOLA via Roma 13
PASSO DELLO STELVIO località Passo dello Stelvio
PIANTEDO via Colico 43
PONTE IN VALTELLINA piazza della Vittoria 1
SAMOLACO - fraz. Era - viale Europa 1365
SAN CASSIANO VALCHIAVENNA via Spluga 108
SAN NICOLÒ VALFURVA via San Nicolò 82
SEMOGO VALDIDENTRO via Cima Piazzi 28
SONDALO via Dr. Ausonio Zubiani 2
SONDRIO
Head Office, piazza Giuseppe Garibaldi 16
Branch no. 1, via Bernina 1
Branch no. 2, via Giacinto Sertorelli 2
Branch no. 3, Ingresso Ospedale Civile - via Stelvio 25
Branch no. 4, piazzale Giovanni Bertacchi 57
Branch no. 5, Galleria Campello 2
TALAMONA via Don Giuseppe Cusini 83/A
TEGLIO piazza Santa Eufemia 2
TEGLIO - **fraz. San Giacomo** - via Nazionale
TIRANO piazza Cavour 20
TRAONA via Valeriana 88/A
TRESENDA DI TEGLIO via Nazionale 57
TRESIVIO piazza San Pietro e Paolo 24
VALFURVA - **fraz. Madonna Dei Monti** piazza Madonna Del Carmine 6
VILLA DI CHIAVENNA via Roma 38
VILLA DI TIRANO via Foppa 12
VERCEIA via Nazionale 118/D

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

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

PROVINCE OF BERGAMO
ALBANO SANT'ALESSANDRO via Vittorio Emanuele II 6
ALMÈ via Campofiori 36
BARIANO via Umberto I 1
BERGAMO
Head Office, via Broseta 64/B
Branch no. 1, via Vittore Ghislandi 4
Branch no. 2, via Guglielmo D'Alzano 3/E
BERGAMO - Ospedale Papa Giovanni XXIII - piazza Oms 1
BONATE SOTTO via Vittorio Veneto - ang. via Antonio Locatelli
BREMBATE via Vittore Tasca 8/10
CARVICO via Giuseppe Verdi 1
CISANO BERGAMASCO via Giuseppe Mazzini 25
COSTA VOLPINO via Nazionale 92
GAZZANIGA via IV Novembre 3
GHISALBA via Roma 41/43
GRUMELLO DEL MONTE via Roma 133
MAPELLO via Giuseppe Bravi 31
MOZZANICA piazza Antonio Locatelli
NEMBRO piazza Umberto I 1
OSIO SOTTO via Monte Grappa 12
ROMANO DI LOMBARDIA via Balilla 20
SARNICO via Giuseppe Garibaldi 1/C
SCANZOROSCIATE corso Europa 9
SERIATE piazza Caduti per la Libertà 7
TRESCORE BALNEARIO piazza Cavour 6
TREVIGLIO via Cesare Battisti 8/B
TREVIGLIO - Ospedale - piazzale Ospedale 1
VERDELLINO largo Luigi Einaudi 5
VILMINORE DI SCALVE piazza Vittorio Veneto 8

PROVINCE OF BOLOGNA
BOLOGNA via Riva di Reno 58/B

PROVINCE OF BOLZANO
BOLZANO viale Amedeo Duca d'Aosta 88 / Amedeo Duca D'Aosta Allee 88
MERANO corso della Libertà 16 / Freiheitsstrasse 16

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 Antonio Gramsci 15
Branch no. 1, via Crocifissa di Rosa 1
Branch no. 2, via Solferino 61
Branch no. 3, viale Piave 61/A
Branch no. 4, via Fratelli Ugoni 2
CAPO DI PONTE via Aldo Moro 26/A
CEVO via Roma 15
CHIARI via Consorzio Agrario 1 - ang. viale Teosa 23/B
COCCAGLIO via Adelchi Negri 12
COLLEBEATO via San Francesco d'Assisi 12
CORTE FRANCA piazza di Franciacorta 7/C
CORTENO GOLGI via Brescia 2
DARFO BOARIO TERME
Branch no. 1, corso Italia 10/12
Branch no. 2, piazza Patrioti 2
DESENZANO DEL GARDA via Guglielmo Marconi 1/A
EDOLO piazza Martiri della Libertà 16
ERBUSCO via Provinciale 29
ESINE via Chiosi 79
GARDONE VAL TROMPIA via Giacomo Matteotti 300
GIANICO piazza Roma 3
ISEO via Roma 12/E
LONATO DEL GARDA corso Giuseppe Garibaldi 59
LUMEZZANE - fraz. Sant'Apollonio - via Massimo D'Azeglio 108
MALONNO via Valle Camonica - ang. via Adamello
MANERBA DEL GARDA via Valtenesi 43
MANERBIO via Dante Alighieri 8
MARONE corso Zanardelli 3
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 39
PONTE DI LEGNO - loc. Passo Del Tonale - via Case Sparse 84
REZZATO via Broli 49
SALE MARASINO via Roma 33/35
SALÒ viale Alcide De Gasperi 13
SALÒ via Giuseppe Garibaldi 21
SAREZZO via della Repubblica 99
TOSCOLANO MADERNO piazza San Marco 51
TOSCOLANO MADERNO viale Guglielmo Marconi 9
VEZZA D'OGLIO via Nazionale 116
ZONE via Orti 1

PROVINCE OF COMO
ALBIOLO via Indipendenza 10
ALTA VALLE INTELVI piazza Lanfranconi 22
APPIANO GENTILE piazza della Libertà 9
ARGEGNO piazza Conti Persini
AROSIO piazza Montello 36
BELLAGIO via Valassina 58
BINAGO via Roma 9
BREGNANO via Giuseppe Mazzini 22
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 85
CARIMATE - fraz. Montesolaro - piazza Lorenzo Spallino 6
CARLAZZO via V° Alpini 59/A
CARUGO via Luigi Cadorna 32
CASNATE CON BERNATE via Roma 7
CASTELMARTE via Dante 1
CENTRO VALLE INTELVI via Provinciale 79
COMO
Head Office, viale Innocenzo XI 71
Branch no. 1, via Giorgio Giulini 12
Branch no. 2, via Statale per Lecco 70 - fraz. Lora
Branch no. 3, via Asiago 25 - fraz. Tavernola
Branch no. 4, via Indipendenza 16
DOMASO via Statale Regina 77
DONGO piazza Virgilio Matteri 14
ERBA via Alessandro Volta 3
FINO MORNASCO via Giuseppe Garibaldi - ang. piazza Odescalchi 5
GARZENO via Roma 32
GERA LARIO via Statale Regina 18
GRAVEDONA ED UNITI piazza Giuseppe Garibaldi 11
GUANZATE via Giuseppe Garibaldi 1
LAMBRUGO piazza Papa Giovanni II 8
LURAGO D'ERBA via Roma 58
MASLIANICO via XX Settembre 47
MENAGGIO via Annetta e Celestino Lusardi 62
MERONE via San Girolamo Emiliani 5/C
MONTORFANO via Brianza 6/B
MUSSO via Statale Regina 30
OSSUCCIO via Statale 72
PARÈ piazza della Chiesa 5/6
PIANELLO DEL LARIO via Statale Regina 32
PLESIO via Grona 85
PORLEZZA lungolago Giacomo Matteotti 15
PUSIANO via Giuseppe Mazzini - Complesso Pusiano 2000
SALA COMACINA via Statale 14/A
SAN BARTOLOMEO VAL CAVARGNA via Fontana 6
SAN SIRO via Statale 223
SCHIGNANO via Roma 8
SORICO piazza Cesare Battisti 1/A
TREMEZZO via Regina 26
TURATE via Vittorio Emanuele 14
UGGIATE TREVANO piazza Vittorio Emanule 12
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 - CenterVill

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

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

PROVINCE OF GENOVA
BUSALLA via Vittorio Veneto 23
CAMOGLI via Cuneo 9
CHIAVARI piazza Nostra Signora dell'Orto 42/B - ang. via Doria
GENOVA
Head Office, via XXV Aprile 7
Branch no. 1, piazza Tommaseo 7 rosso
Branch no. 2, via Sabotino 32/34 rossi
RAPALLO via Gen. A. Lamarmora 4 - ang. via San Filippo Neri
SANTA MARGHERITA LIGURE piazza Giuseppe Mazzini 40

PROVINCE OF IMPERIA
IMPERIA - Oneglia - Branch no. 1, via Giuseppe Berio 43
IMPERIA - Porto Maurizio - Branch no. 2, viale Giacomo Matteotti 8

PROVINCE OF LA SPEZIA
LA SPEZIA via XX Settembre 17

PROVINCE OF LECCO
AIRUNO via San Giovanni 11
ABBADIA LARIANA via Nazionale 140/A
BALLABIO via Ambrogio Confalonieri 6
BARZAGO viale Rimembranze 20
BARZIO via Martiri Patrioti Barziesi 11
BELLANO via Vittorio Veneto 9
BOSISIO PARINI via San Gaetano 4
CALOLZIOCORTE corso Europa 71/A
CASATENOVO via Roma 23
CASSAGO BRIANZA via Vittorio Emanuele II 2
CASTELLO DI BRIANZA via Roma 18
COLICO via Nazionale - ang. via Sacco
COLLE BRIANZA via Cantù 1
DERVIO via Don Ambrogio Invernizzi 2
ESINO LARIO piazza Gulfi 2
IMBERSAGO via Contessa Lina Castelbarco 5
LECCO
Head Office, corso Martiri della Liberazione 65
Branch no. 1, viale Filippo Turati 59
Branch no. 2, piazza XX Settembre 11
Branch no. 3, corso Emanuele Filiberto 104
Branch no. 4, viale Montegrappa 18
LECCO - Ospedale di Lecco - via dell'Eremo 9/11
LOMAGNA via Milano 24
MANDELLO DEL LARIO via Strada Statale 85/A
MALGRATE via Gaggio 14
MERATE via Don Cesare Cazzaniga 5
MERATE piazza Giulio Prinetti 6
MERATE - **fraz. Pagnano** - via Rimembranze 3
MERATE - Ospedale di Merate - largo Leopoldo Mandic 1
MONTE MARENZO via Colombara Vecchia 2
MONTICELLO BRIANZA via Provinciale 57
NIBIONNO - fraz. Cibrone - via Montello 1
OGGIONO via Lazzaretto 50
PESCATE via Roma 98/E
PRIMALUNA via Provinciale 66
SUELLO via Roma 10/12
VALGREGHENTINO piazza Roma 2
VALMADRERA via San Rocco 31/33
VARENNA via Corrado Venini 73

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

PROVINCE OF MANTOVA
CASTIGLIONE DELLE STIVIERE piazza Ugo Dallò 25
GAZOLDO DEGLI IPPOLITI via Guglielmo Marconi 74/76
MANTOVA
Head Office, corso Vittorio Emanuele II 26
Branch no. 1, piazza Broletto 7
MARMIROLO via Tito Speri 34
SAN BENEDETTO PO via Enrico Ferri 15
SUZZARA piazza Giuseppe Garibaldi 4
VIADANA piazza Giacomo Matteotti 4/A

PROVINCE OF MILANO
ABBIATEGRASSO piazza Giuseppe Garibaldi 2
BASIGLIO piazza Monsignor Rossi 1
BUCCINASCO via Aldo Moro 9

CERNUSCO SUL NAVIGLIO viale Assunta 47/49
CINISELLO BALSAMO via Giuseppe Garibaldi 86
COLOGNO MONZESE viale Emilia 56
LEGNANO via Alcide De Gasperi 10
MELEGNANO piazza Giuseppe Garibaldi 1
MILANO
Head Office, via Santa Maria Fulcorina 1
Branch no. 1, *Porpora*, via Nicola Antonio Porpora 104
Branch no. 2, *Barona*, viale Faenza 22
Branch no. 3, *a2a*, corso di Porta Vittoria 4
Branch no. 4, *Regione Lombardia*, piazza Città di Lombardia 1 - Nucleo 1
Branch no. 5, *Bovisa*, via degli Imbriani 54
Branch no. 6, *Corvetto*, via Marco d'Agrate 11
Branch no. 7, *Caneva*, via 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 - ang. corso Sempione
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 - ang. via Pindemonte
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
Branch no. 30, *De Angeli*, piazza Ernesto De Angeli 9
Branch no. 31, *Isola*, via Carlo Farini 47 - ang. via Dina Galli
Branch no. 32, *Venezia*, viale Luigi Majno 42 - viale Piave 43
Branch no. 33, *Porta Romana*, corso di Porta Romana 120
Branch no. 34, *San Babila*, via Cino del Duca 12
Branch no. 35, *Loreto*, piazzale Loreto 1 - ang. viale Brianza
Branch no. 36, *Monti*, via Vincenzo Monti 41
Branch no. 37, *Vercelli*, corso Vercelli 38
Branch no. 38, *Università Cattolica del Sacro Cuore*, largo A. Gemelli 1
Branch no. 39, *Gruppo AZIMUT - Sportello Interno* - corso Venezia 48
Branch no. 40, *Politecnico - Bovisa*, via Raffaele Lambruschini 4
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 - I.U.L.M. - via Carlo Bo 1 Ⓣ
MILANO - Pio Albergo Trivulzio - via Antonio Tolomeo Trivulzio 15 Ⓣ
MILANO - Pirelli - via Fabio Filzi 22 Ⓣ
PERO via Mario Greppi 13
SEGRATE via Roma 96
SEGRATE via Fratelli Cervi 13 - Residenza Botteghe Ⓣ
SESTO SAN GIOVANNI
Branch no. 1, piazza IV Novembre 12
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 6 Ⓣ
BOVISIO MASCIAGO via Guglielmo Marconi 7/A
CARATE BRIANZA via Francesco Cusani 10
DESIO via Portichetto - ang. via Pio XI
GIUSSANO via Cavour 19
LISSONE
Head Office, via Dante Alighieri 43
Branch no. 1, via Trieste 33
MACHERIO via Roma 17 Ⓣ
MEDA via Yuri Gagarin - ang. corso della Resistenza
MONZA
Head Office, via Felice Cavallotti 5
Branch no. 1, via Felice Cavallotti 5
NOVA MILANESE via Antonio Locatelli
SEREGNO
Head Office, via Cavour 84
Branch no. 1, via Cesare Formenti 5
SEVESO via San Martino 20
VAREDO corso Vittorio Emanuele II 53
VILLASANTA - fraz. San Fiorano - via Amatore Antonio Sciesa 7/9
VIMERCATE piazza Papa Giovanni Paolo II 9 - ang. via Giusepep Mazzini

PROVINCE OF NAPOLI
NAPOLI *Gruppo AZIMUT - Sportello Interno* - via Gaetano Filangieri 36 - Palazzo Mannajuolo

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

PROVINCE OF PADOVA
PADOVA via Ponte Molino 4

PROVINCE OF PARMA
FIDENZA piazza Giuseppe Garibaldi 24
PARMA
Branch no. 1, via Emilia Est 3/A
Branch no. 2, via Antonio Gramsci 28/A

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 4 Ⓣ
MEDE corso Italia 2 Ⓣ
MORTARA via Roma 23
PAVIA
Head Office, piazzale Ponte Coperto Ticino 11
Branch no. 1, corso Strada Nuova 75
PAVIA - DEA - via Privata Campeggi 40 Ⓣ
PAVIA - Policlinico San Matteo - viale Camillo Golgi 19 Ⓣ
RIVANAZZANO TERME piazza Cornaggia 41 Ⓣ
ROBBIO piazza della Libertà 33 Ⓣ
STRADELLA via XXVI Aprile 56 Ⓣ
VIGEVANO piazza IV Novembre 8
VOGHERA via Emilia 49

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

PROVINCE OF ROMA
CIAMPINO viale del Lavoro 56
FRASCATI via Cairoli 1
GENZANO DI ROMA viale Giacomo Matteotti 14
GROTTAFERRATA via XXV Luglio
MONTE COMPATRI piazza Marco Mastrofini 11 Ⓣ
ROMA
Head Office, *Eur*, viale Cesare Pavese 336
Branch no. 1, *Monte Sacro*, via Val Santerno 27
Branch no. 2, *Ponte Marconi*, via Silvestro Gherardi 45
Branch no. 3, *Prati Trionfale*, via Trionfale 22
Branch no. 4, *Bravetta*, piazza Biagio Pace 1
Branch no. 5, *Portonaccio*, piazza S. Maria Consolatrice 16/B
Branch no. 6, *Appio Latino*, via Cesare Baronio 12
Branch no. 7, *Aurelio*, via Baldo degli Ubaldi 267
Branch no. 8, *Africano Vescovio*, viale Somalia 255
Branch no. 9, *Casal Palocco*, piazzale Filippo il Macedone 70/75
Branch no. 10, *Laurentina*, via Laurentina 617/619
Branch no. 11, *Esquilino*, via Carlo Alberto 6/A
Branch no. 12, *Boccea*, circonvallazione Cornelia 295
Branch no. 13, *Tuscolano*, via Foligno 51/A
Branch no. 14, *Garbatella*, largo delle Sette Chiese 6
Branch no. 15, *Farnesina*, via della Farnesina 154
Branch no. 16, *Monte Sacro Alto/Talenti*, via Nomentana 925/A
Branch no. 17, *San Lorenzo*, piazza dei Sanniti 10/11
Branch no. 18, *Infernetto*, via Ermanno Wolf Ferrari 348
Branch no. 19, *Nuovo Salario*, piazza Filattiera 24
Branch no. 20, *Tuscolano/Appio Claudio*, via Caio Canuleio 29
Branch no. 21, *Nomentano*, via Famiano Nardini 25
Branch no. 22, *WFP - Sportello Interno* -, via Cesare Giulio Viola 68/70
Branch no. 23, *Ostia*, via Carlo Del Greco 1
Branch no. 24, *San Clemente/Colosseo*, via di S. Giovanni in Laterano 51/A
Branch no. 25, *Parioli*, viale dei Parioli 39/B
Branch no. 26, *Tritone*, via del Tritone 207
Branch no. 27, *Prati*, piazza Cavour 7
Branch no. 28, *Prenestino/Torpignattara*, piazza della Marranella 9
Branch no. 29, *FAO - Sportello Interno* -, viale delle Terme di Caracalla 1
Branch no. 30, *IFAD - Sportello Interno* -, via Paolo Di Dono 44
Branch no. 31, *Campus Bio-Medico di Roma - Policlinico*, via A. del Portillo 200
Branch no. 32, *Monteverde Vecchio*, via Anton Giulio Barrili 50/H
Branch no. 33, *Trastevere*, piazza Sidney Sonnino 40
Branch no. 34, *Gregorio VII*, via Gregorio VII 348 - ang. piazza Pio XI 40
Branch no. 35, *Parione*, corso Vittorio Emanuele II 139
Branch no. 36, *CONSOB - Sportello Interno* -, via G. B. Martini 3
Branch no. 37, *Trieste/Salario*, via Tagliamento 37
Branch no. 38, *Gruppo AZIMUT - Sportello Interno* - via Flaminia 133
Branch no. 39, *Policlinico Universitario Fondazione Agostino Gemelli IRCCS, largo Agostino Gemelli 8*
Branch no. 40, *Balduina*, piazzale delle Medaglie d'Oro 65
ROMA - Biblioteca Nazionale Centrale - viale Castro Pretorio 105 Ⓣ
ROMA - Università Foro Italico - piazza Lauro De Bosis 15 Ⓣ

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ALASSIO via Giuseppe Mazzini 55
ALBISSOLA MARINA via dei Ceramisti 29 Ⓣ
SAVONA via Paleocapa 58
VARAZZE via Goffredo Mameli 19

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

PROVINCE OF TRENTO
ARCO via Santa Caterina 8/C Ⓣ
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
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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 Morazzoni 22
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 518/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 Baldo 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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OPERATING IN THE SWISS TERRITORY IT HAS 20 OFFICES IN 8 CANTONS, AS WELL AS THE REPRESENTATIVE OFFICE IN VERBIER, THE DIRECT BANKING VIRTUAL BRANCH IN LUGANO AND THE MONACO BRANCH OUTSIDE SWITZERLAND IN THE PRINCIPALITY OF THE SAME NAME.
General Management: Lugano, via Giacomo Luvini 2a
tel. +41 58 855 30 00 - fax +41 58 855 30 15
Head Office: Lugano, via Maggio 1 - tel. +41 58 855 31 00
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PrestiNuova
Agency in Financial Activities of BNT Banca
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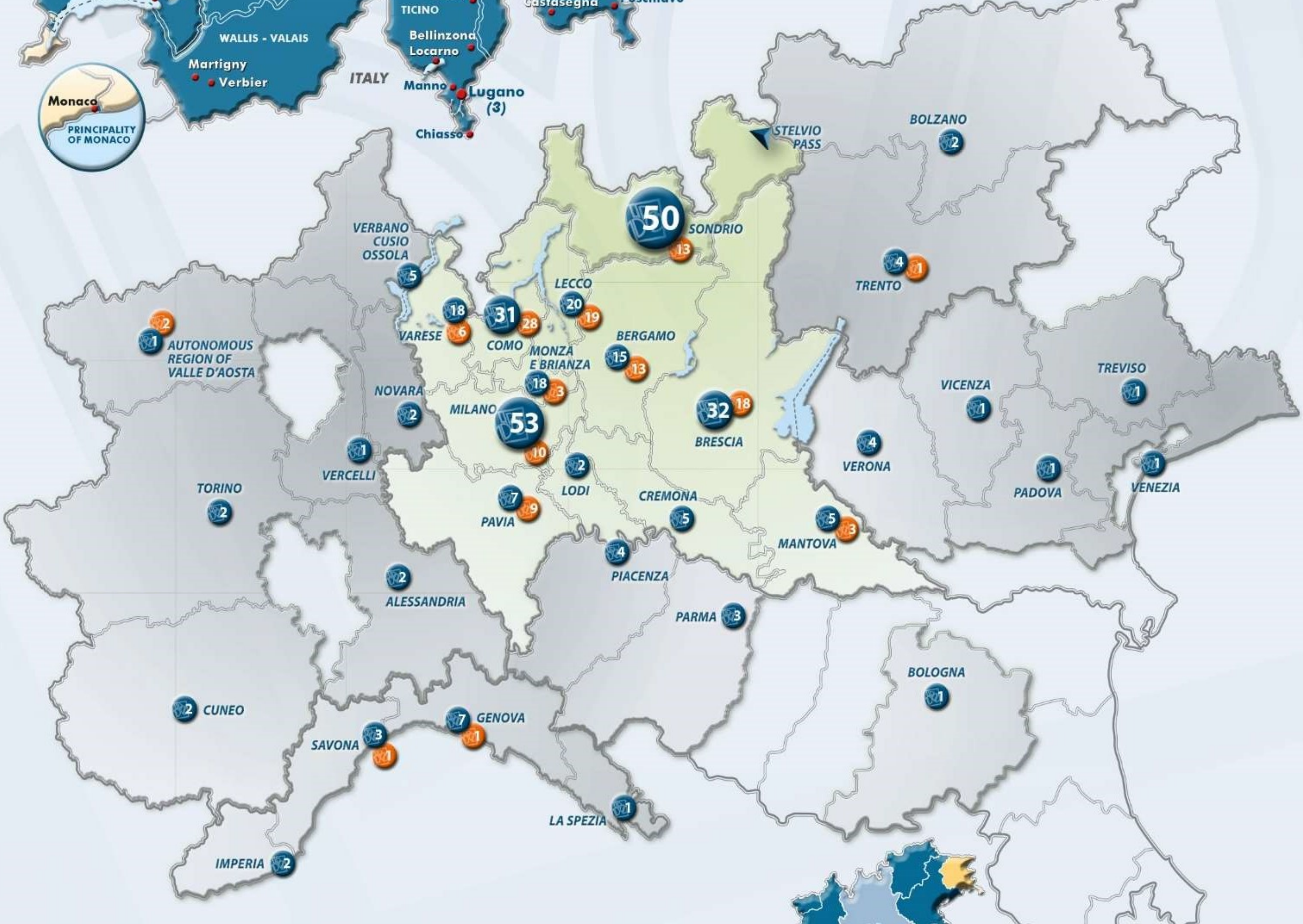
Ⓣ Treasury - Updated to 27 July 2023

THE BANKING GROUP IN

BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

OPERATING IN THE SWISS TERRITORY
IT HAS 20 OFFICES IN 8 CANTONS,
AS WELL AS THE REPRESENTATIVE OFFICE IN VERBIER,
THE DIRECT BANKING VIRTUAL BRANCH IN LUGANO
AND THE MONACO BRANCH OUTSIDE SWITZERLAND
IN THE PRINCIPALITY OF THE SAME NAME.



For more information about all our branches, visit the website:
www.popso.it/filiali-atm

Number of branches in each province

Number of treasuries

IL GRUPPO BANCARIO

INFORMATION ON OPERATIONS

Note. *The amounts contained in this interim management report are represented using the euro as the accounting currency; comparisons in percentage terms refer for the balance sheet part to the homogeneous data at the end of 2022 and for the income statement part to the homogeneous data at 30 June 2022; any exceptions are explained. Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of the same amounts expressed in different units.*

INTERIM MANAGEMENT REPORT AS AT 30 JUNE 2023

INTRODUCTION

The consolidated half-year financial report for the six months ended 30 June 2023 was prepared in compliance with article 154-ter, paragraphs 2, 3 and 4, of Legislative Decree No. 58 of 24 February 1998, in accordance with the recognition and measurement criteria set forth in the IAS/IFRS adopted by the European Community and in force today, as specified in the notes.

The condensed consolidated half-year financial statements have been prepared in accordance with IAS 34.

In implementation of the aforementioned discipline, the half-year report gives priority to information at the consolidated level. Given the importance of Banca Popolare di Sondrio s.p.a. within the Group, extensive references to its activities have been maintained.

In the reporting period, the accounting principles adopted remained unchanged from the previous year, except for the adoption of the amendments that came into force during the period.

THE BANCA POPOLARE DI SONDRIO BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

Banca Popolare di Sondrio spa - 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, amounting to 180,000,000 CHF.

Factorit spa - Milan.
The Parent Company holds the entire 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.

Banca della Nuova Terra spa - Sondrio
The Parent Company holds all the capital of Banca della Nuova Terra spa, 31,315,321 euro.

PrestiNuova srl - Agenzia in Attività Finanziaria - Rome.
Banca della Nuova Terra spa holds all the capital of PrestiNuova srl - Agenzia in Attività Finanziaria, 100,000 euro.

Popso Covered Bond srl - Conegliano (Tv).
The Parent Company holds 60% of the capital of Popso Covered Bond srl, 10,000 euro.

FULLY CONSOLIDATED EQUITY INVESTMENTS

Company Name	Head office	Share capital (in thousands)	% Held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000	100
Factorit spa	Milan	85,000	100
Sinergia Seconda srl	Milan	60,000	100
Banca della Nuova Terra spa	Sondrio	31,315	100
Pirovano Stelvio spa (1)	Sondrio	2,064	100
Servizi Internazionali e Strutture Integrate 2000 srl (1)	Milan	75	100
PrestiNuova srl - Agenzia in Attività Finanziaria	Rome	100(3)	100
Immobiliare Borgo Palazzo srl (1)	Tirano	10(2)	100
Immobiliare San Paolo srl (1)	Tirano	10(2)	100
Rent2Go srl (1)	Bolzano	12,050	100
Prima srl (1)	Milan	25(4)	100
Popso Covered Bond srl	Conegliano V.	10	60
Centro delle Alpi SME srl (1)	Conegliano V.	10	-

(1) equity investments not included in the banking group
(2) held by Sinergia Seconda srl
(3) held by Banca della Nuova Terra spa
(4) held by Immobiliare San Paolo srl

Pursuant to IFRS 10, the Centro delle Alpi Real Estate fund is also fully consolidated.

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

Company Name	Head office	Share capital (in thousands)	% Held
Alba Leasing spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Arca Holding spa	Milan	50,000	34.715
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Sofipo SA (1)	Lugano	(CHF) 2,000	30.000
Rajna Immobiliare srl (2)	Sondrio	20	50.000

(1) held by Banca Popolare di Sondrio (Suisse) SA
(2) joint control

For more details on how equity investments are presented in the financial statements, please refer to the notes under “Scope and methods of consolidation”.

SUMMARY OF RESULTS

(in millions of euro)

Balance sheet figures	30/06/2023	31/12/2022	Change %
Loans to customers	33,300	33,020	0.85
Loans and receivables with customers measured at amortised cost	32,952	32,632	0.98
Loans and receivables with customers measured at fair value through profit or loss	348	387	-10.31
Loans and receivables with banks	1,964	1,865	5.30
Financial assets that do not constitute loans	13,475	13,667	-1.41
Equity investments	360	323	11.67
Total assets	53,971	57,854	-6.71
Direct funding from customers	39,091	41,771	-6.42
Indirect funding from customers	42,720	39,059	9.38
Direct funding from insurance premiums	2,028	1,958	3.61
Customer assets under administration	83,840	82,787	1.27
Other direct and indirect funding	18,763	20,177	-7.01
Equity	3,510	3,387	3.63

Income statement	30/06/2023	30/06/2022	Change %
Net interest income	427	320	33.41
Total income*	686	485	41.57
Profit from continuing operations	302	154	96.20
Profit (Loss) for the period	207	105	97.11

Capital ratios	30/06/2023	31/12/2022
CET1 Capital ratio	15.80%	15.39%
Total Capital ratio	18.36%	17.95%

Other information on the banking group	30/06/2023	31/12/2022
Number of employees	3,504	3,456
Number of branches	373	373

* Net interest and other banking income is presented as per the reclassified income statement summary (page 44)

ALTERNATIVE PERFORMANCE INDICATORS

Key ratios	30/06/2023	31/12/2022
Equity/Direct funding from customers	8.98%	8.11%
Equity/Loans to customers	10.54%	10.26%
Equity/Financial assets	26.05%	24.78%
Equity/Total assets	6.50%	5.86%

Profitability indicators	30/06/2023	30/06/2022
Cost/Income ratio	40.61%	52.86%
Net interest income/Total income	62.28%	66.08%
Administrative expenses/Total income	40.67%	53.92%
Net interest income/Total assets	0.79%	0.59%
Net financial income/Total assets	1.13%	0.76%
Profit for the year/Total assets	0.38%	0.19%

Asset quality indicators	30/06/2023	31/12/2022
NPL ratio	4.23%	4.29%
Texas ratio	16.62%	18.16%
Net bad loans/Equity	2.48%	3.60%
Net bad loans/Loans to customers	0.26%	0.37%
Loans to customers/Direct funding from customers	85.18%	79.05%
Cost of credit	0.47%	0.51%

Notes:
- The ratios were calculated using the figures shown in the summary reclassified income statement.
- Cost/Income ratio: the ratio between operating costs and total income.
- Texas ratio: the ratio between non-performing loans and the difference between equity and intangible assets, as the denominator.
- Cost of credit: ratio of net adjustments to total loans to customers.

INTERNATIONAL ASPECTS

During the first six months of the year, global economic activity gradually slowed down. Growth lost momentum - with a significant deceleration of the manufacturing cycle - and among the main reasons were undoubtedly the continuing conflict between Russia and Ukraine, the persistence of high inflation and the related further tightening of monetary policies. International trade, after the increase in flows in the first three months of 2023, also showed signs of weakening.

In the US, GDP went from +2.6% in the last quarter of 2022 to +2% in the first three months of the new year. It then continued to decline, with a forecast for 2023 as a whole at 1.6%. In China, after a positive start to the year partly due to the easing of Covid-related restrictions, growth returned to moderate levels, affected by weak demand and difficulties in the real estate market.

Consumer inflation is estimated to have declined, positively affected by the significant reduction in energy prices, but its underlying component remained high. Hence, the continuation of restrictive monetary policies, with the Federal Reserve raising its benchmark rate by another 25 basis points in May and the ECB implementing similar increases in May and then in June.

The euro area showed substantial GDP stagnation in the first three months of 2023, only to advance by 0.3% in the second quarter. The most recent forecasts indicate GDP growth of well below 1% for the end of the year, in the presence of inflationary dynamics that, although slowing down due to falling energy prices, remain high in terms of its underlying component. The trends were quite diverse among the various countries, with Germany being particularly affected by the economic difficulties (in the first quarter of the year, GDP fell by -0.3%, after it had already fallen by 0.5% in the last quarter of 2022) and the rise in prices (+6.8% in June 2023).

As mentioned above, the ECB continued to adopt a restrictive monetary policy by raising official interest rates by a total of 4% from July 2022, while the European Commission called on member states to bring their budget deficits below 3% of GDP in the medium term and recommended those with a high public debt - including Italy - to plan and implement a credible policy to reduce it.

THE REFERENCE SCENARIO FOR OUR GROUP

Italy

After the first quarter of the year had marked a GDP growth of 0.6%, - decisively remedying the fractional decline (-0.1%) recorded in the last three months of 2022 - the spring period was marked by a sudden interruption of the expansionary phase. One of the causes was the fall in industrial production, to which the difficulties in the manufacturing cycle in Germany, our main economic partner, were certainly not unrelated. This was counterbalanced, at least partially, by the expansion of the tertiary sector, in which tourism achieved important results, definitively leaving behind the dark period of Covid.

After the drop at the end of 2022, household consumption returned to growth, benefiting, among other things, from the expansion of employment, accompanied, moreover, by a very moderate wage dynamic that was far from the rate of inflation. The latter substantially replicated the dynamics recorded at international level: a sharp drop in energy expenditure, greater stickiness for the underlying components, resulting in a figure of 6.7% as at 30 June, one of the highest in the European Union.

The rapid implementation of the PNRR (National Recovery and Resilience Plan), recommended by the European Commission, is going through a review process that will hopefully yield important results in terms of strengthening, modernising and making the structures - not just economic - of our country more efficient.

The Swiss Confederation

In 2023, the Swiss economy is expected to grow at a much lower-than-average rate of around 1.1%. The international situation, including the uncertainties generated by the conflict in Ukraine for which there is no glimmer of peace, continues to weigh heavily. The persistence of high levels of inflation, despite the sharp fall in energy prices, suggests a continuation of a restrictive monetary stance worldwide, with dampening effects on the economy. The second quarter of the year confirmed the negative trend in imports in Switzerland, while, after the drop in April, exports recovered significantly from May, driven by the watchmaking sector which set new record levels.

To cope with persistently high inflation, the Swiss National Bank raised interest rates by 25 basis points to June 2023 and experts expects a further increase by the same amount after the summer.

THE ITALIAN BANKING MARKET

In the twelve months in which the European Central Bank, operating under the tightest monetary restrictions in its 25-year history, raised the main refinancing rate from zero to 4%, the yield on Italian banks' interest-bearing assets rose by less than half, from 1.90% in June 2022 to 3.79% at the end of the six-month period under review. However, containing the tightening of the cost of funding from households and non-financial corporations even further - from 0.45 to 0.93% - resulted in a significant widening of the spread, from 1.45 to 2.86%.

However, negative variations in volumes were recorded on both sides of the balance sheet, in measures adjusted, as usual, to take account of technical phenomena such as securitisation.

The downturn in funding gradually deepened, to -2.3%, affected by the worse performance (-4.1%) of deposits, partly replaced, in search of better yields, by the revived subscription of bonds (+14.3%).

Lending to households and non-financial corporations also turned negative (-1.5%).

Loan quality indicators remain reassuring. Last May, the ratio of net bad loans to loans was even lower (from 0.92% to 0.89%) than a year earlier, albeit up from the low of 0.81% reached at the end of 2022.

The NPL ratio, itself calculated net of adjustments, closed this financial year at an all-time low of 1.5%, half the value predicted two years ago, when the explosion of the war and prices could not yet be imagined. And the ABI has further softened its estimate of a rise in 2024, now at 2.1%, well below the 3.3% recorded, in 2019, before all the aforementioned catastrophic events occurred.

On the profit and loss accounts, the illustrated acceleration of rates exerts, as is well known, positive effects on revenues and write-downs on assets, whether financial or credit in nature. Therefore, the decisive growth in net interest and other banking income, almost exclusively originated by the interest component, is expected to be countered by a resurgence in adjustments on loans, with the net result of replicating last year's profit, which, excluding extraordinary income, turned out to be even higher than first estimates, but not entirely satisfactory in terms of a ROE of around 7%.

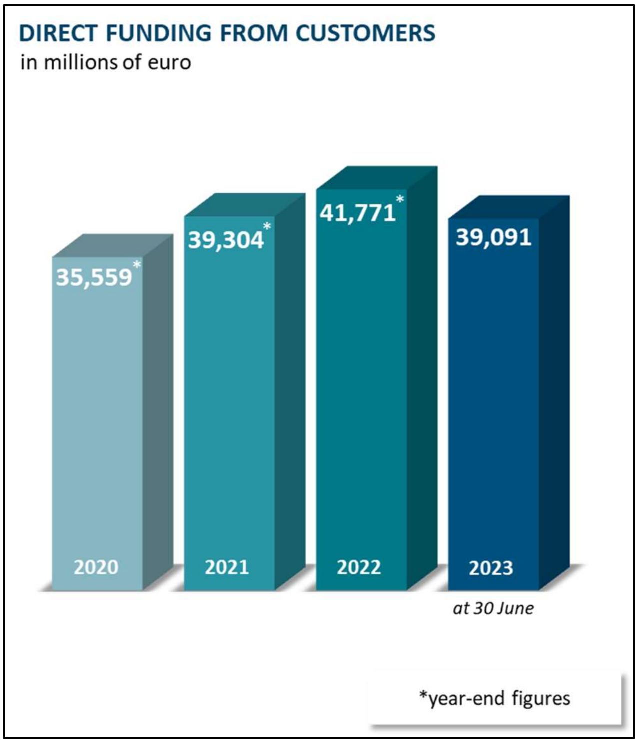
FUNDING

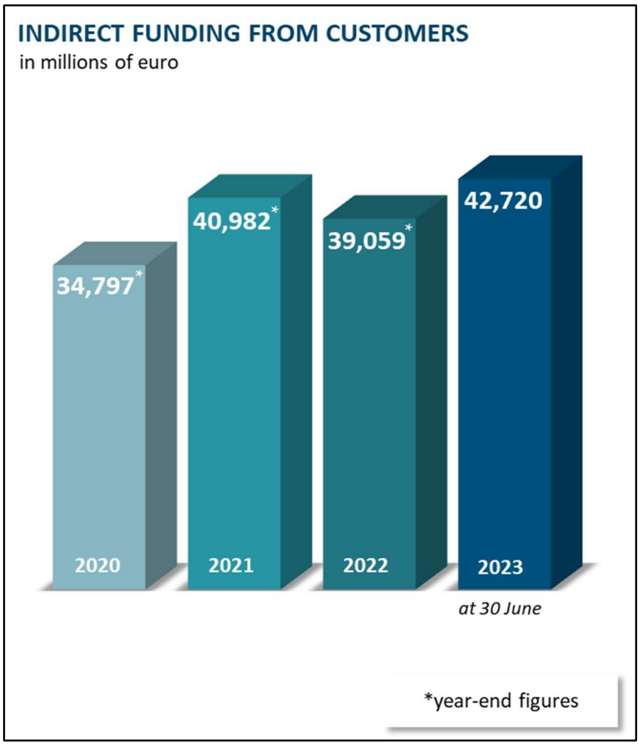
In a phase characterised by steadily rising interest rates, companies used their liquidity to reduce their recourse to bank credit, while retail customers diverted part of their liquidity from current accounts to more remunerative investment products, in particular government bonds. At the system level, direct funding declined year-on-year in the first half of the year, continuing the slowdown already witnessed at the end of 2022 and in the first quarter of 2023. The trend in indirect deposits was quite the opposite, with a significant increase attributable to the positive market performance in the first half of the year. The average interest rate on total bank customer deposits is still rising.

Our Group was no stranger to this trend and recorded a negative trend in direct deposits, which, comprising balance sheet liability items 10b "amounts due to customers" and 10c "securities issued", amounted to EUR 39,091 million, -6.42% over the comparative period, but up 2.29% year-on-year.

Indirect customer deposits, at market values, totalled EUR 42,720 million, +9.38%.

Direct funding from insurance premiums reached EUR 2,028 million, +3.61%.





Total funding from customers therefore amounted to EUR 83,840 million, +1.27%.

Deposits from banks amounted to EUR 9,097 million, down from EUR 11,382 million, a decrease partly related to the repayment of the T-LTRO III loan that expired last June. This exposure is largely linked to longer-term refinancing operations with the European Central Bank for a total of EUR 4,506 million.

Securities under administration lodged by banks have increased from EUR 8,796 million to EUR 9,666 million, +9.90%.

Total funding from customers and banks therefore amounts to EUR 102,603 million, -0.35%.

CONSOLIDATED DIRECT FUNDING FROM CUSTOMERS

(thousands of euro)	30/06/2023	Compos. %	31/12/2022	Compos. %	Change %
Current accounts and sight deposits	31,319,870	80.12	33,616,828	80.48	-6.83
Fixed-term deposits	2,842,535	7.27	2,661,831	6.37	6.79
Repo transactions	955,233	2.44	1,576,069	3.77	-39.39
Lease liabilities	169,088	0.43	171,146	0.41	-1.20
Bonds	3,563,990	9.12	3,531,946	8.46	0.91
Bank drafts and similar	129,990	0.33	116,815	0.28	11.28
Other payables	110,379	0.28	96,372	0.23	14.53
Total	**39,091,085**	**100.00**	**41,771,007**	**100.00**	**-6.42**

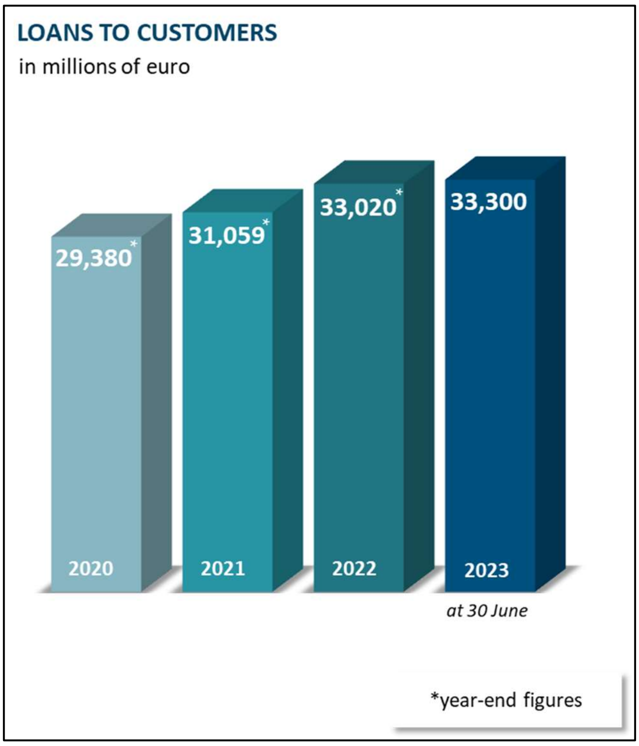
CONSOLIDATED TOTAL FUNDING

(thousands of euro)	30/06/2023	Compos. %	31/12/2022	Compos. %	Change %
Total direct funding from customers	39,091,085	38.10	41,771,007	40.57	-6.42
Total direct funding from insurance premiums	2,028,474	1.98	1,957,819	1.90	3.61
Total indirect funding from customers	42,720,377	41.64	39,058,623	37.93	9.38
- Asset management	*6,791,033*	*15.90*	*6,386,243*	*16.35*	*6.34*
- Assets under administration	*35,929,344*	*84.10*	*32,672,380*	*83.65*	*9.97*
Total	**83,839,936**	**81.71**	**82,787,449**	**80.40**	**1.27**
Due to banks	9,096,877	8.87	11,381,702	11.05	-20.07
Indirect funding from banks	9,666,349	9.42	8,795,626	8.55	9.90
Grand total	**102,603,162**	**100.00**	**102,964,777**	**100.00**	**-0.35**

As for the individual components, current accounts and sight deposits, down 6.83% to EUR 31,320 million, accounted for 80.12% of all direct funding. Bonds recorded a small increase of +0.91%, to EUR 3,564 million. Fixed-term deposits were EUR 2,843 million, +6.79%. Repos, which were EUR 1,576 million as at 31 December 2022, fell to EUR 955 million, -39.39%. Bank drafts amounted to EUR 130 million, +11.28%. Leasing liabilities (accounted for in accordance with IFRS16) amounted to EUR 169 million, -1.20%, while other funding rose from EUR 96 million to EUR 110 million, +14.53%.

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

LOANS TO CUSTOMERS



The period under review saw a tightening of credit conditions for households and businesses by banks, albeit less rapidly than in the first quarter, while net demand for credit by businesses declined, and the demand for home loans by households fell significantly. Due to the ongoing and expected rises in interest rates, businesses and households have postponed investments in anticipation of better times. Credit deterioration remained contained, while the incidence of the credit flow increased which registered payment delays.

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

Overall, loans to customers amounted to EUR 33,300 million, +0.85% compared to end-2022 and +0.08% year-on-year. The ratio of loans to direct funding from customers has thus risen to 85.18%, from 79.05%. The various types have contributed to total customer loans to a different extent. The main item is mortgages and unsecured loans, which amounted to EUR 20,198 million, up slightly, +1.05%, and accounted for 60.66% of loans. They also include transferred assets that were not derecognised because the requirements of IFRS 9 for derecognition were not met. This was followed by other financing (advances, grants, etc.), which amounted to EUR 5,109 million, +5.04%, or 15.34% of financing; current accounts amounted to EUR 3,538 million, down 1.78%.

LOANS TO CUSTOMERS

(thousands of euro)	30/06/2023	Compos. %	31/12/2022	Compos. %	Change %
Current accounts	3,537,967	10.62	3,601,999	10.91	-1.78
Mortgage loans	20,198,128	60.66	19,989,083	60.54	1.05
Personal loans and assignments of one-fifth of salary or pension	526,845	1.58	502,524	1.52	4.84
Factoring	3,182,087	9.56	3,273,352	9.91	-2.79
Other loans	5,109,421	15.34	4,864,391	14.73	5.04
Fixed-yield securities	745,133	2.24	788,830	2.39	-5.54
Total	**33,299,581**	**100.00**	**33,020,179**	**100.00**	**0.85**

Personal loans grew moderately, +4.84% to EUR 527 million, while factoring operations declined, -2.79% to EUR 3,182 million.

Fixed-yield securities amounted to EUR 745 million, -5.54%. The latter derive from customer loan securitisations carried out by the investee companies Banca della Nuova Terra spa and Alba

Leasing spa, also including the securities issued, as part of the sale of NPLs, by SPV Diana, POP NPLs 2020, POP NPLs 2021 and POP NPLs 2022.

Total net non-performing loans have fallen by 5.13% to EUR 577 million, compared with EUR 609 million at the end of 2022; in the comparative period there was a decrease of 27.27%. This aggregate comes to 1.73% (1.84%) of loans to customers; its contraction is due to the sales of NPLs, as well as to the policy to strengthen the corporate structures responsible for granting, managing and monitoring credit.

NON-PERFORMING AND PERFORMING LOANS TO CUSTOMERS

(thousands of euro)		30/06/2023	31/12/2022	Absolute changes	Changes %
Non-performing loans	Gross exposure	1,454,285	1,460,176	-5,891	-0.40
	Loan loss adjustments	876,921	851,580	25,341	2.98
	Net exposure	**577,364**	**608,596**	**-31,232**	**-5.13**
Bad loans	Gross exposure	519,445	517,931	1,514	0.29
	Loan loss adjustments	432,313	396,094	36,219	9.14
	Net exposure	**87,132**	**121,837**	**-34,705**	**-28.48**
Unlikely-to-pay loans	Gross exposure	848,881	880,694	-31,813	-3.61
	Loan loss adjustments	435,129	450,688	-15,559	-3.45
	Net exposure	**413,752**	**430,006**	**-16,254**	**-3.78**
Non-performing	Gross exposure	85,959	61,551	24,408	39.65
past due exposures	Loan loss adjustments	9,479	4,798	4,681	97.52
	Net exposure	**76,480**	**56,753**	**19,727**	**34.76**
Performing loans	Gross exposure	32,895,513	32,557,337	338,176	1.04
	Loan loss adjustments	173,296	145,754	27,542	18.90
	Net exposure	**32,722,217**	**32,411,583**	**310,634**	**0.96**
Total loans and receivables with customers	Gross exposure	34,349,798	34,017,513	332,285	0.98
	Loan loss adjustments	1,050,217	997,334	52,883	5.30
	Net exposure	**33,299,581**	**33,020,179**	**279,402**	**0.85**

The total adjustments recorded for non-performing loans was EUR 877 million, +2.98%, representing 60.30% of the gross amount compared with 58.32% last year. Adjustments for the period were higher compared with those of the previous year. Gross non-performing loans fell from EUR 1,460 million to EUR 1,454 million, -0.40%. The gross NPL ratio was 4.23%, compared to 4.29% at year-end. Net bad loans, adjusted for write-downs, amounted to EUR 87 million, -28.48% (-36.64% in the comparison period), and correspond to 0.26% of total loans to customers, compared to 0.37% at 31 December 2022. The adjustments to cover estimated losses on bad loans went from EUR 396 million to EUR 432 million (+9.14%), representing 83.23% of the gross amount of such loans compared with 76.48% in the previous year. It is one of the highest coverage percentages at banking system level. Considering the amounts written off in prior years against bad loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to over 94%.

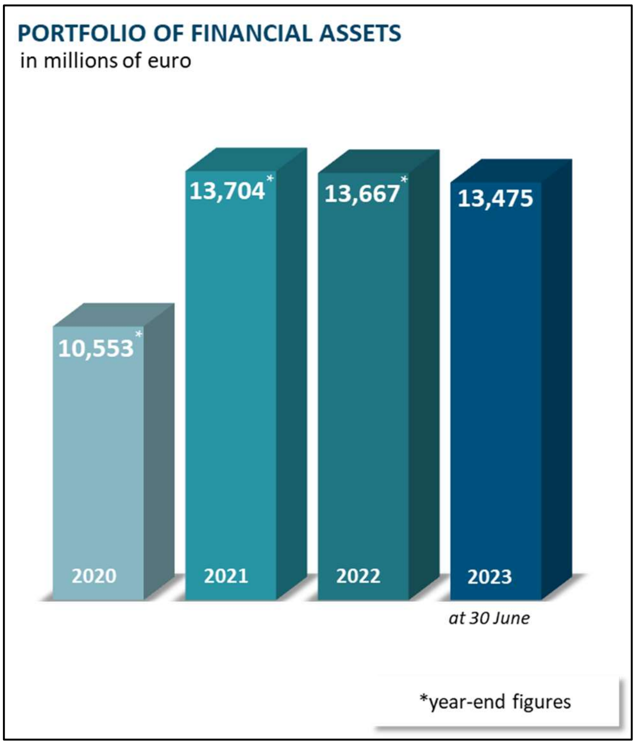
Unlikely to pay, net of write-downs, amounted to EUR 414 million (-3.78%), corresponding to 1.24% of total loans to customers, compared to 1.30% in the previous year. The related adjustments, with the current coverage ratio of 51.26%, amounted to EUR 435 million, -3.45%;

the coverage ratio was 51.17% last year.

Net impaired past-due loans amounted to EUR 76 million, +34.76%, an increase partly due to seasonal temporary situations, and represented 0.23% of total loans to customers, compared to 0.17%.

Provisions, for performing loans, added up to EUR 173 million, +18.90% amounted to 0.53% of the same compared to 0.45% at the end of 2022. This increase reflects the prudential assessments with respect to the macroeconomic and geopolitical context, the persistently high level of inflation, and the uncertainties linked to the Russian-Ukrainian conflict, but also the result of the identification of possible criticalities concerning, in particular, stage 2 positions, which are the most exposed to crisis events. Adjustments totalled EUR 1,050 million overall, +5.30%.

TREASURY AND TRADING OPERATIONS



In the second quarter of the year, stock exchanges were characterised by an upward dynamic, albeit with uneven performance across geographic areas. Traders "priced in" an environment of a better-than-expected recovery, a falling cost of living, albeit more slowly than hoped for, and central banks nearing the end of their upward cycle.

In the United States, the stock market grew in the period by around 8% (+16% since the beginning of the year), receiving support from the technology sector (also fuelled by the boom in artificial intelligence), where, however, a concentration of positive results was observed on leading stocks such as Nvidia, Tesla, Microsoft and Apple.

In the Eurozone, stock exchanges advanced by an average of 2% (+16% since the beginning of the year), benefiting from the buoyancy of the German price list, which was at an all-time high.

In Japan, the weakness of the yen, induced by the renewed ultra-accommodating policy of the Bank of Japan, led to a real market leap of around 18% (+27% in the half year). Finally, in the emerging countries (+1% in the period and +4% in 2023), the negative performance of the Chinese indices stands out, weighed down by the difficult restart after the Covid lockdowns, the continuing crisis in the real estate sector and the never-rending geopolitical tensions with the US and Taiwan; this movement was counterbalanced by the new historical record of the Indian stock exchange, in a relatively positive macroeconomic context.

In the second quarter of the year, bond markets were driven by two opposing forces, with a trend without a clear direction that consolidated the positive results of the first three months. On the one hand, downward pressure from the monetary tightening implemented by central banks continued; on the other hand, bond markets received support from the prospect that the current monetary cycle may be nearing its end, at least in the US.

Against this backdrop, US ten-year government yields ended the quarter in the 3.85% area (+35bp in the period) and two-year yields at 4.90% (+90bp); similarly, German yields rose on the ten-year maturity to the 2.40% area (+10bp) and on the two-year section to 3.10% (+50bp). As a result, the negative slope of both curves increased to record levels, reflecting aggressive monetary policies and expectations for a long-term cooling of GDP and inflation. In Italy, ten-year government yields stood at 4.05% at the end of June (down about 5 bps) and two-year yields at 3.85% (+70 bps).

As at 30 June 2023, the Parent Company had two T-LTRO transactions with the ECB outstanding totalling EUR 4,506 million after the repayment of the EUR 4,368 million tranche of 28 June taken on 24 June 2020. The first operation still in force, for the amount of EUR 806 million, is effective from 24 March 2021, with maturity on 27 March 2024 and early repayment option from 30 March 2022. The second one was entered into for EUR 3,700 million on 29 September 2021, with a maturity date of 25 September 2024 and an early repayment option from 29 June 2022. If the targets assigned by the ECB on net loans disbursed are met, all transactions provide for a funding rate indexed to the average deposit facility rate at the opening date until 22 November 2022 (for the period from 24 June 2020 to 23 June 2022, the rate has been set at -1%). As of 23 November 2022, the interest rate on outstanding transactions is indexed to the average interest rate of the Deposit Facility calculated as of that date.

Liquidity, although declining, remained abundant throughout the period under review. The exposure to this risk is monitored both in the short term, taking a 3-month view every day, and over the long term with a monthly check. The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are higher than the established minimums. In particular, the Liquidity Coverage Ratio stood at 169% (from 155% at 31 March 2023 and 137% in the first half of 2022), even against the repayment of the T-LTRO funding tranche that expired last June. The stock of high quality financial assets eligible for refinancing with the ECB, net of haircuts, amounted to EUR 17,437 million at 30 June, of which EUR 9,301 million free and EUR 8,136 million committed.

Treasury operations still favoured recourse to the Deposit Facility with the ECB remunerated at 3.50%, although to a much lesser extent after the repayment of the T-LTRO tranche. A large part of the liquidity deposited was raised on the electronic repurchase agreement market with institutional counterparties (MMF Money Market Facility), through Euronext Clearing (formerly Cassa di Compensazione e Garanzia) with underlying Italian government securities, and on the OTC market, through bilateral transactions with primary financial counterparties with underlying mainly foreign government securities (Germany, France, Spain and Holland). Repo financing was also very strong in this second quarter and at favourable rates, thanks to the high-quality collateral in the portfolio. Also on the upswing, helped by the return of interest rates to positive territory, was the activity related to interbank deposits (mainly deposits); among these, the deposits made with the MEF (Ministry of Economy and Finance) as part of the money market operation with the Treasury in which we participate as an authorised counterparty were highly significant.

At 30 June 2023, the portfolio of financial assets comprising financial instruments other than securitisations totalled EUR 13,475 million, down by 1.41% compared to 31 December 2022. The following table summarises the various amounts involved and the percentage changes.

FINANCIAL ASSETS (FIXED-YIELD SECURITIES, EQUITY SECURITIES, MUTUAL FUNDS AND DERIVATIVES) BY PORTFOLIO

(thousands of euro)	30/06/2023	31/12/2022	Change %
Financial assets held for trading	185,944	179,665	3.49
of which, derivatives	*44,002*	*63,361*	*-30.55*
Other financial assets mandatorily measured at fair value	212,580	686,768	-69.05
Financial assets measured at fair value through other comprehensive income	2,731,981	2,555,705	6.90
Financial assets measured at amortised cost	10,344,638	10,245,242	0.97
Total	**13,475,143**	**13,667,380**	**-1.41**

The portfolio as a whole recorded a slight decrease compared to 31 December 2022 (-1.41%), while it decreased by 6.76% compared to the first quarter of the current year as a result of maturities/sales of securities from the segment of financial assets measured at fair value through other comprehensive income and the sale of funds and Sicavs from the segment "Other financial assets mandatorily measured at fair value". Compared to 31 December 2022, the latter segment decreased by 69.05%, following the conclusion of the reduction of Funds and Sicavs commenced last year, while financial assets measured at fair value through other comprehensive income increased (+6.90%). There was little change in financial assets measured at amortised cost (+0.97%), while those held for trading rose by 3.49%, but there was a sharp increase in the UCIT component as a result of purchases of funds and Sicavs made in addition to ETFs and equity to improve trading activity.

Overall, although decreasing slightly, the floating-rate component of Italian government bonds was still favoured, as well as foreign government bonds of core or semi-core countries with short maturities and bank and corporate bonds, mostly ESG.

The total amount of floating-rate and inflation-indexed government bonds was around EUR 5.6 billion, down from EUR 6.3 billion at the end of 2022.

The financial duration of the government bond portfolio, down from 31 December 2022, stood at 3 years and 8 months, while the modified duration stood at 1.58%, essentially in line with the previous period. Overall, including bonds (net of securitisations), the modified duration is 1.86%, substantially unchanged from the end of 2022.

Financial assets held for trading

The trading portfolio, albeit up compared to 31 December 2022 and the last quarter, represents an insignificant part of the total securities portfolio and amounted to EUR 186 million, +3.49% from EUR 180 million at the end of 2022.

(thousands of euro)	30/06/2023	31/12/2022	Change %
Equity securities	34,859	50,856	-31.46
Mutual funds	107,083	65,448	63.62
Net book value of derivative contracts	44,002	63,361	-30.55
Total	**185,944**	**179,665**	**3.49**

Operations mainly focused on equities and units in UCITS, in addition to Italian and foreign Government bonds. The increase concerned units in UCITS, which include both ETFs and funds and Sicavs with a view to geographical, currency and sector diversification as an alternative to direct equity exposure. The balance of government bonds as at 30 June was zero as the exposures on this segment are trading-oriented and thus very short-term.

Other financial assets mandatorily measured at fair value

The financial assets mandatorily measured at fair value amounted to EUR 213 million, down 69.05% from EUR 687 million at the end of 2022.

The portfolio remains mainly concentrated on euro-denominated UCITS, which mainly refer to closed-end funds (private debt, private equity, real estate and credit funds) or open-ended funds related to specific themes (PIR - Individual Savings Plan). Overall, the exposure is significantly reduced, compared to 31 December 2022, with a view to containing volatility.

(thousands of euro)	30/06/2023	31/12/2022	Change %
Bank bonds	19,466	17,250	12.85
Other bonds	36,839	33,100	11.30
Mutual funds in euro	154,359	617,273	-74.99
Mutual funds in foreign currency (USD)	1,916	19,145	-89.99
Total	**212,580**	**686,768**	**-69.05**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income has recorded a slight increase overall since the end of 2022, to EUR 2,732 million (+6.90%). The upward shift in the yield curve has in fact favoured investment in the segment in short-maturity government bonds even from core or semi-core countries.

(thousands of euro)	30/06/2023	31/12/2022	Change %
Floating-rate Italian government securities	1,210,567	1,492,991	-18.92
Fixed-rate Italian government securities	206,428	203,978	1.20
Foreign government securities	740,010	338,768	118.44
Bank bonds	346,885	295,117	17.54
Other bonds	136,297	129,192	5.50
Equity securities	91,794	95,659	-4.04
Total	**2,731,981**	**2,555,705**	**6.90**

More in detail, the exposure to floating-rate Italian government securities decreased (-18.92%), compared to both 31 December 2022 and last quarter, and now stands at EUR 1,211 million, representing 44.31% of the segment, while the fixed-rate component remained substantially stable. Foreign government securities of core countries with short or very short maturities rose significantly (+118.44%). The overall weight of Italian government bonds on the segment stands at 51.87%, a net decrease from last year. Bank bonds (+17.54%) and corporate bonds (+5.50%) also showed positive changes, although at absolute levels, especially the latter, that were not particularly significant. Equities were unchanged (-4.04%).

Financial assets measured at amortised cost

(thousands of euro)	30/06/2023	31/12/2022	Change %
LOANS AND RECEIVABLES WITH BANKS	**1,067,641**	**872,396**	**22.38**
Italian bank bonds	818,907	662,648	23.58
Foreign bank bonds	248,734	209,748	18.59
LOANS AND RECEIVABLES WITH CUSTOMERS	**9,276,997**	**9,372,846**	**-1.02**
Floating-rate Italian government securities	3,991,050	4,413,601	-9.57
Fixed-rate Italian government securities	1,449,698	1,689,096	-14.17
Foreign government securities	2,829,409	2,329,482	21.46
Other public administration bonds	319,286	315,996	1.04
Other bonds	687,554	624,671	10.07
Total	**10,344,638**	**10,245,242**	**0.97**

Financial assets measured at amortised cost amounted to EUR 10,345 million, up 0.97% from 31 December 2022, substantially in line with the previous quarter.

With regard to the portfolio's composition, we highlight, compared to 31 December 2022, the decrease in Italian government bonds, both floating-rate (-9.57%) and fixed-rate (-14.17%), and the increase in foreign government bonds (+21.46%), partly ESG. The component of floating-rate and inflation-indexed government bonds facilitated a significant increase in the coupon flow, mitigating the effects of rising reference interest rates. In addition, investments in bank bonds (+22.38%) and corporate bonds (+10.07%) that meet ESG (Environmental, Social and Governance) criteria, especially green bonds and social bonds, were still favoured during the period.

Asset management

The first half of 2023 was characterised by a rather weak performance of the asset management industry in Italy. Indeed, due to the uncertainty surrounding the inflationary scenario and expectations of further rises in official rates, savers have consistently maintained a very cautious attitude. Therefore, based on the latest available data, the segment's net inflows were negative in the first five months of 2023, due to substantial outflows from balanced and flexible products, only partly offset by the solid performance of bonds. In terms of assets under administration, the total value increased slightly, however, due to the market effect, to around EUR 2,300 billion.

Our Group, although affected by the general dynamics, posted positive results. Total assets under management in their various forms amounted to EUR 6,791 million as at 30 June 2023, an increase of +6.34% from 31 December 2022 when they amounted to EUR 6,386 million. For EUR 4,936 million euro, -6.44%, they are related to mutual funds, including Popso (SUISSE) Investment Fund Sicav, and for EUR 1,855 million euro, +6.06%, to Group asset management.

EQUITY INVESTMENTS

As at 30 June 2023, equity investments amounted to EUR 360 million, compared to EUR 323 million at the end of 2022. The increase of EUR 37 million, +11.67%, resulted from the equity valuation.

Related-party transactions

Transactions with related parties are governed by the "Regulation for transactions with related parties" adopted with Consob resolution No. 17221 dated 12 March 2010 and subsequent amendments, pursuant to which the required information is provided below, and by circular letter No. 285/2013 of the Bank of Italy.

Related-party transactions, as identified in accordance with the provisions of IAS 24 and the aforementioned Consob Regulation, form part of the Banking Group's ordinary operations and are normally settled on market terms and, in the case of subsidiaries and associates, nonetheless on the basis of evaluations of mutual cost-effectiveness.

With reference to the disclosure obligations referred to in article 5 of the Consob Regulation, it should be noted that, in the period 1 January-30 June 2023, the following transactions of greater importance with related parties were approved by the competent bodies of the Parent Company:

- Banca della Nuova Terra spa, subsidiary; Finance Area ceiling of EUR 240,000,000 revocable; renewal of credit lines totalling EUR 11,500 revocable; resolutions of 1/06/2023;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; unsecured loan in foreign currency for EUR 1,150,000,000 maturing 01/07/2024; renewal of credit facilities for EUR 2,220,922,000 revocable and EUR 900,000,000 maturing 01/11/2023; resolutions dated 15/06/2023;
- Banca Popolare di Sondrio (SUISSE) SA, subsidiary; unsecured loan in currency of EUR 188,500,000 maturing 01/07/2028; resolution of 22/06/2023;
- Factorit spa, subsidiary; current account credit opening of EUR 750,000,000 revocable; resolution of 30/06/2023.

In the period 1 January-30 June 2023, no transactions were completed with related parties, neither of greater nor lesser significance, which had a significant impact on the financial position or economic results of the Banking Group. Furthermore, there are no changes and/or developments in the transactions with related parties completed in 2022 - none, however, atypical, unusual or at non-market conditions - that had significant effects on the financial position or results of the Banking Group in the first half of 2023.

It should be noted that transactions or positions with related parties, as classified by the aforementioned IAS 24 and Consob Regulation, have a limited impact on the equity and financial situation, on the economic result and on the cash flows of the Banking Group. In the notes, in the paragraph "Related-party transactions", there is a summary table relating to transactions with related parties.

During H1 2023 and in the current year, 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.

TRANSACTIONS WITH ASSOCIATED COMPANIES

	Associated companies of the Parent Company		Associated companies of subsidiaries	
	30/06/2023	31/12/2022	30/06/2023	31/12/2022
ASSETS	**488,106**	**701,255**	**72,270**	**72,908**
LIABILITIES	**135,232**	**92,214**	**16,109**	**11,347**
GUARANTEES AND COMMITMENTS	**214,629**	**210,634**	**1,526**	**685**
Guarantees given	20,425	20,402	380	364
Commitments	194,203	190,232	1,145	321

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets amounted to EUR 718 million compared to EUR 688 million at the end of 2022. The former added up to a total of EUR 681 million compared to EUR 651 million, +4.61%, and the latter amounted to EUR 37 million, stable. Intangible assets include EUR 17 million related to goodwill, unchanged from December 2022. For further details in this regard, please refer to the relevant section of the notes. For the goodwill already recognised in the financial statements at 31 December 2022, the decision was taken not to repeat the impairment tests performed at that date, as no indicators of impairment emerged.

OTHER PROVISIONS

These consist of the severance indemnity (TFR), which decreased from EUR 36 million to EUR 34 million, and the provisions for liabilities and charges, which added up to EUR 314 million, +6.37% from the end of 2022. In particular, there was a sharp increase in the provision for commitments and guarantees given, which rose from EUR 63 million to EUR 74 million, and substantial stability of the provision for pensions and similar obligations, amounting to EUR 167 million, while other provisions for liabilities and charges rose from EUR 64 million to EUR 73 million.

RISK MANAGEMENT

At this stage in history, the banking ecosystem is being shaken by winds of profound transformation.

The challenges are daily, reminding us how a solid risk management structure is the shield a bank has at its disposal to turn a threat into a lesson, a weakness into an opportunity for renewal.

The management of the post-pandemic period, the energy crisis and the return to the scene of inflation, unresolved geo-political conflicts, the rise of cyber risks and the acceleration of climate change problems, and the recent collapse of large institutions in the United States and Switzerland are just some of the major critical issues that have reared their heads in recent times, creating a complex web of instability and uncertainty. In an extremely volatile environment, punctuated by recurring crises, the ranking of risks to be faced is constantly changing, constantly upsetting the agenda of priorities. But it is also an unmissable opportunity to learn lessons and increase individual and collective capacity to react to negative situations.

In such a framework, it becomes essential to conduct regular stress tests to determine whether banks are able to withstand the randomness of economic scenarios and possible combinations of idiosyncratic and institutional risk factors. The European banking authorities subject the entire system to a common stress test exercise every two years with the aim of testing the resilience of the credit industry in the event of severe and prolonged economic shocks and, through this, examine the adequacy of bank capital levels in times of severe adversity. The exercise conducted this year by the European Banking Authority (EBA) and the European Central Bank, which was even more complex than the previous ones due to the quantity and analytical nature of the estimates to be produced, was characterised by particularly strict projection rules, stringent execution times and strict deadlines for data delivery; it saw us actively engaged, together with the continent's largest banking institutions, until the end of June, the time when the final results of the test were submitted.

With regard to the unique areas of risk for our bank, credit risk is confirmed to be the most significant, when considering, looking forward, that there will be a probable slowdown in the macroeconomic cycle and less sustainable financing conditions for debtors, even if the impacts on the levels of riskiness and cost of credit are still contained. But other types of innovative risks are emerging behind it, in particular those related to the digital and climate transitions, on much efforts are already being expended, but just as much is expected to be done in the future - also at the regulatory level - to ensure their proper control.

In the review that follows, emphasis is placed on each relevant risk dimension, with highlights of what has been achieved in the six months to maintain an incisive control in terms of organisation as well as analysis tools and methodologies.

Credit and counterparty risk

Although the turbulence in the prices of energy sources eased considerably in this first part of the year, favouring a calming of the outlook with respect to expectations for the end of 2022, the monitoring of the potential credit risk dimensions arising from the continuing Russian-Ukrainian conflict and the resulting inflationary spiral at a global level continued unabated. With the cooperation of the sales network, a targeted survey was completed on companies operating in the sectors with the highest consumption of energy and natural gas, and therefore considered highly exposed to fluctuations in raw material costs. The survey, carried out by filling out questionnaires, identified a shortlist of “potentially high-risk” counterparties.

In May, in response to the natural disaster that hit the districts of Emilia-Romagna and the severe damage recorded in that area, specific monitoring initiatives were also launched that led to the identification of a second watch-list of counterparties that could be defined as "potentially high-risk", represented by exposures to companies active in the flooded areas. For these, although limited in number, a prudent accounting classification in Stage 2 was also made, due to the more pronounced current and prospective risk profile.

In continuity with past quarters, work continued on strengthening the operational mechanisms aimed at recognising the cases of financial difficulty that our borrowers could fall into, as well as monitoring the risk dynamics of individual borrowers and the entire loan portfolio.

With regard to the valuation of loans, given the uncertain and presumable deterioration of general economic conditions, the prudent approach to the determination of loan loss provisions based on the application of expert-based adjustments to the results of statistical methodologies for the collective estimate of loss forecasts on the portfolio is reconfirmed. This approach has been rendered progressively more sophisticated and consistent over time through the definition of specific expert correctives ("management overlays") that have gradually refined and evolved both in their application criteria and quantification methods, due to the changing sources of vulnerability of our counterparties: first, we had to deal with the risks for the regular resumption of principal and interest payments once the moratoria on Covid-19-related loans had come to a natural end, then with the asymmetry of the impacts of systemic crises at the level of economic sectors, up to the more recent consideration of the potential effects of ESG factors - and, in particular, climatic-environmental factors - on the riskiness of the credit portfolio.

Despite the considerable objectives achieved so far in terms of improving the quality of credit assets, the core focus on derisking our portfolios never wanes, as confirmed by the update of the intervention programmes on non-performing loans still encumbering the books: the ambition of the previous medium-term targets is renewed, but with the cautiousness recommended by the new economic framework, characterised by a long series of increases in the cost of money to curb price rises.

The internal rating system is regularly subject to set-up and update initiatives in the laboratory in order to maintain its performance high despite the constantly changing environment. The evolutionary activity on the models envisaged by the plans approved by the Supervisory Authority also continued, aimed both at the gradual extension of the statistical parameters to additional portions of the portfolio not covered by the A-IRB system, and at refining the existing methodological and infrastructural set-ups with the aim of producing increasingly precise, selective and predictive estimates of probability and loss from insolvency.

The Supervisor's verification action, aimed at ascertaining the correct degree of transposition of prudential regulations on credit risk management and assessing the effectiveness of processes and procedures set up by intermediaries, remains assiduous and pressing. The inspections carried out by the Supervisory Authority, which recently focused on the corporate sector, contribute to increasing the performance of our internal models and act as a stimulus for the optimisation of management procedures and control systems: a task in which the structures are engaged "during", to provide timely feedback to the requests of the inspection teams, as well as "after", to remedy within prescriptive deadlines the areas of improvement identified as a result of the inspections.

In this regard, it should be noted that the European Central Bank conducted an on-site inspection on the Banca Popolare di Sondrio Group from October of last year to April of the current year, focusing on credit and counterparty risk with reference to the Corporate&Large and

SME portfolios. The inspection is part of the ordinary processes that the European Supervisory Authority implements with the aim of conducting an asset quality review of selected portfolios and assessing credit risk management processes and procedures, control and governance systems, including the implementation of the IFRS9 accounting standard and any other ancillary aspects related to this purpose and topic. At the date of this report, discussions are still in progress with the Supervisory Authority aimed at investigating aspects relating to the management of credit risk, as well as possible effects on regulatory requirements, and the process is expected to be completed by the end of the year with the issue of the "Final Follow-up Letter", through which the Supervisory Authority will inform the Parent Company of the results of the checks.

Market risk

Constant monitoring is conducted on the measurements of exposure to market risks, carried out on a daily basis and performed separately, taking into account the different characteristics of the investments, for the set of instruments held for short-term trading purposes (trading book) and for the remaining types of financial assets held on own account, not intended to be bought or sold on the market, falling within the banking book, which are in turn categorised according to the accounting valuation criterion (fair value or amortised cost).

Compared to the complex situation faced in the previous year, characterised by high volatility as a result of the economic and political repercussions of the Russian-Ukrainian conflict, the new inflationary wave driven by the acceleration of energy prices and the monetary countermeasures needed to cushion the impact, in the first segment of this year the financial markets showed an upward trend despite signs of economic recovery that were still hiccupping, conditioned by the effects of the monetary tightening manoeuvres in progress. The major stock exchanges showed solid growth, supported by healthy corporate results. The general price trend, still above the target levels set by the Central Banks, appears to be slowing down from last summer's peaks, partly due to the sharp decline in natural gas and oil prices. The bond market, after a significant increase at the beginning of the year, is now registering a modest strengthening but remains rather volatile, especially in the domestic sphere with a sovereign risk spread fluctuating between 180 and 200 basis points.

On the whole, the new market framework favoured a containment of the risk profile of the instruments that make up the bank's financial portfolios, which always remained within the maximum acceptable levels defined by top management through the periodic review of the risk appetite limit schemes; nor were there any particular tensions in the associated system of early warning indicators. The economic balances of the financial activities recorded in the accounts and the size of the valuation reserves have also been positive overall since the beginning of the year.

Interest-rate risk

Against the backdrop of a marked and prolonged rise in interest rates, the scrupulous control of risks related to sudden fluctuations in market rates continued in this first half-year, which is carried out through regular sensitivity analyses of the company's economic value to unexpected changes in interest rates and sensitivity analyses of the profits and interest income generated by the volumes of active and passive transactions, supplemented where necessary by targeted impact studies.

The activities related to the main behavioural models in use for determining risk exposure continued without substantial changes. The statistical parameters on which the behavioural models of "sight items" are based - models that quantify the persistence of asset and liability inventories with no maturity and their elasticity of adaptation to the movements of the market curves - will be recalibrated in the following half-year, providing for the inclusion of more extensive samples of historical data. The appropriateness of all behavioural models in the interest rate risk measurement systems ("sight" and "pre-payment" models) is verified through the usual process of backtesting the effectiveness of the statistical models. Lastly, dedicated indicators are quantified to signal the need for parameter re-estimates for reasons other than a mere time criterion of model obsolescence or the failure of backtesting.

The first half of the year was also affected by activities aimed at adapting to the new measures issued by the European Banking Authority (EBA) on the measurement and management of interest rate risk in the banking portfolio, in force as of 30 June. The main innovations, aimed at fully incorporating the new regulatory indications into our monitoring system, concerned the overall reorganisation of the structure of interest rate risk indicators and limits, in alignment with the metrics system envisaged by the aforementioned provisions, as well as the adoption of new methodological and technical specifications with important changes to the previous measurement models, to bring them into line with the updated European guidelines.

Liquidity risk

Despite the known systemic stresses and the tightening of monetary policy measures, including the need for repayment of the targeted longer-term refinancing operations (T-LTRO, "Targeted Longer-Term Refinancing Operations") made available in the past by the European Central Bank to inject financial resources to support the real economy, the Parent Company's main liquidity risk indicators remained at levels well above the internal surveillance thresholds during the half year, thanks to the results of the favourable initiatives carried out in line with the provisions of the business plan on the funding front, and to the existence of considerable potential in terms of the available liquidity reserve, consisting of the assets of securities in the portfolio - especially sovereign - readily transferable on the market or transferable, if necessary, as collateral in central refinancing programmes.

As usual, the short-term liquidity situation (so-called "operational") was monitored by means of daily measurements of the cash dynamics typical of treasury operations, as well as of the reserve holdings constituted by the daily funds deposited with central banks and the income potentially obtainable from the disposal of eligible assets to offset refinancing operations. On a monthly basis, also recorded was the state of medium- to long-term liquidity (so-called "structural"), aimed at verifying the balance between funding and lending items broken down by maturity bands through the quantification of metrics to measure the structural balance of the financial statements and the concentration profile of funding. The development of intraday liquidity was also kept under constant observation, with special summary parameters defined by the Basel Committee on Banking Supervision being recorded at the end of each month, as well as intra-group funding trends.

The Basel III regulatory indicators, the short-term (Liquidity Coverage Ratio) and the structural (Net Stable Funding Ratio), did not show any signs of tension in the first six months of 2023, and on the contrary, stood at absolutely stable values, significantly above the minimum levels envisaged and in line with European averages.

Management and regulatory measurements of the liquidity situation are supported by regular stress tests, whose assumptions are periodically reviewed to verify the effectiveness and robustness of the simulations and updated where appropriate.

Finally, during the first half of the year, the ordinary information obligations towards the Supervisory Authority were fulfilled, represented by the supply, through the compilation of dedicated monthly forms, of a broad set of data and indicators representative of the state of the company's liquidity (ALMM schemes, "Additional Liquidity Monitoring Metrics") and the production of the annual summary statement of the ILAAP process (Internal Liquidity Adequacy Assessment Process).

Operational and IT risk

In one of the latest updates to its supervisory instructions (Circular No. 285/2013), the Bank of Italy required domestic banks to have a specific internal control function with responsibility for supervising and managing risks of an IT nature by 30 June of this year at the latest.

In order to identify possible areas of intervention and outline the evolutionary guidelines to be pursued to ensure full compliance with the new provision, the competent corporate units at the Parent Company have launched, with the involvement of the corresponding structures at the subsidiaries, a dedicated planning round-table group aimed at identifying the necessary reconfigurations of the organisational structure of ICT risk controls, also resorting to comparative analyses with respect to the main comparable national intermediaries.

Following the in-depth studies carried out, the organisational model was revised, envisaging a division of responsibilities for supervision of technological risks within the existing risk control and regulatory compliance functions, each for the areas of pertinence, and the consequent divestment - in accordance with principles of independence and separation of roles - of the previous operating agreements with the ICT area structures, previously delegated to carry out verifications on the subject.

Looking at the current risk scenario, the system context is characterised - also as a result of the continuing Russian-Ukrainian conflict - by a steady increase in attempted cyber attacks, which are increasingly sophisticated in their deception techniques and perpetrated mainly through manipulation of users of instant on-line payment services.

In the face of such pitfalls, Banca Popolare di Sondrio and the other components of the Group have maintained high internal levels of vigilance in order to protect customers from financial losses, including significant ones, resulting from criminal phenomena. To this end, more restrictive rules and new limits on the use of internet banking services were introduced; new customer awareness initiatives were also addressed, aimed at the proper management of personal credentials by sharing virtuous operational suggestions to prevent fraud in on-line payment channels. Lastly, new measures were implemented to strengthen existing ICT security devices in order to continuously extend the monitoring of cyber threats, facilitating the early detection of possible intrusions into systems by cyber criminals.

Reputational and money laundering risk

In a sector such as banking and financial services, which is increasingly geared to reshaping itself to compete with the challenges of digitalisation and technological innovation, both in terms of business model and product and service offering, the constant enhancement of corporate reputation is an essential element to ensure a healthy generation of value for all stakeholders with whom the Parent Company has relations in the performance of its business activities, in order to prevent, or at least contain, the current and prospective risks of a deterioration of liquidity conditions, and therefore a possible drop in profits, that derive from a negative perception of the corporate image.

Once again in the first half of the year, the monitoring of reputational risks was ensured through the performance of well-established activities of continuous identification and examination of events potentially detrimental to the corporate image, the collection of newspaper articles and references published on the web and on digital social communication platforms having negative connotations with reference to the Group or its representatives, without neglecting evidence of complaints and appeals made by customers.

In focusing on monitoring potential reputational profiles arising from a lack of or inadequate adherence to instances of economic, social and good governance (Environmental, Social & Governance) sustainability, thanks both to the wealth of information already being probed by the risk management offices, and to the results of annual surveys conducted by the Parent Company with various stakeholders on perceived sensitivity to ESG issues, new dedicated risk indicators were identified, which will soon be included in the existing management reports including evidence of periodic control activities on the operational and reputational risk phenomena to which the Parent Company is most exposed.

As far as the fight against money laundering and terrorist financing is concerned, the competent central structure of the Parent Company continued to monitor risks and supervise the procedural control practices adopted by the bank itself and other Group entities. In the continuing Russian-Ukrainian conflict, it also carefully scrutinised the sanctions packages imposed on the Russian Federation and Belarus.

This function, as part of a process of alignment with the guidelines issued by the European Banking Authority on the subject of policies and procedures in relation to compliance management and the role of the anti-money laundering officer in banking institutions pursuant to Directive (EU) 2015/849, has recently undergone a profound organisational restructuring, seeing its perimeter extended to the entire Banking Group. In particular, the anti-money laundering structure has been reconfigured into a first-level unit, called the Group Anti-Money Laundering Service, which is in turn divided into two second-level units, one of which is directly focused on compliance and coordination at Group level.

Following the publication by the EBA of the "Guidelines on the use of remote onboarding solutions for the purposes referred to in Article 13(1) of Directive (EU) 20151/849", of which the Bank of Italy with its own measure in consultation proposes 2 October 2024 as the deadline for adoption in the Italian legal system, the Anti-Money Laundering Function has already started specific analyses in order to assess the extent of the actions required by the adaptation to the new provisions on remote identification and due diligence, i.e. without the physical presence, of customers.

Compliance risk

The central role played by the Compliance Function in relation to the need to promote the growth and enhancement of a corporate culture based on the basic principles of honesty, fairness and respect for the rules within a complex and constantly evolving regulatory framework is also confirmed. During the first half of the year, the structure intensified its efforts dedicated to analysing the possible operational, organisational and business impacts connected to the need to ensure full compliance with hetero- and self-regulatory standards; this, above all, in proportion to the increased dimensional characteristics, the broadening of the range of activities carried out, and the greater complexity and unique operational set-up achieved by the Group.

The Function operates with the aim of identifying and assessing potential risks of non-compliance in advance by examining and monitoring the impacts of multiple regulatory changes.

On this point, there has been continuous progress, in both quantitative and qualitative terms, in the consultancy activities promoted within the corporate organisation as in the Banking Group's perimeter, mainly referring to the adoption of procedures related to the correct transposition of regulatory changes or with a view to better define the organisational and operational profiles inherent to the regulatory perimeter under the supervision of the Function itself. The performance of preventive analysis of regulatory compliance risks of new projects was also improved (including the operation of new products or services), as well as the Function's participation in the review and validation processes of internal regulations and new company forms and contracts.

The overall compliance activity specifically benefits from the constant refinement of analysis methodologies and the support of digital technologies to make certain monitoring and risk management processes related to regulatory non-compliance more efficient, by optimising and automating the different stages of control.

ESG risks (Environmental, Social and Governance)

We know how sustainability issues, also known by the acronym Environmental, Social and Governance (ESG), have long been central on the European and international political agenda, in the priorities for action of supervisory bodies and in the day-to-day business of banking operators. The authorities' initiatives do cover the different areas of the ESG universe, but it is the issues related to environmental risks, and in particular climate risks, on which they are most active.

In the first six months of the financial year, the concise programme of integrating ESG elements into all key contexts of the Parent Company's activities continued: this included interventions in the area of strategies and risk appetite, in organisational and governance systems, in lending and financial service provision processes, in the general framework of control over relevant risks, in internal reporting mechanisms and in external communications. The guiding light of the ongoing transformations is, first and foremost, the alignment with the 13 Supervisory Expectations summarised in the Guidance on Environmental and Climate Risks issued by the ECB in November 2020.

In the area of risk management, there are several reinforcement activities. New processes and techniques were introduced for identifying, mapping and assessing the materiality of exposure to risks - both physical and transitional - related to climate change and environmental degradation, with the aim of better analysing the transmission channels of the relevant impacts on "traditional" risk profiles. The outcomes of these analyses, based on the application of prospective scenarios simulating the climate transition, as well as assumptions on the severity of the impacts of relevant physical risks, provided an opportunity to consider the effect of climatic and environmental factors in an initial quantitative translation exercise on the forecast values of credit risk parameters. The stress test, conducted as part of the Group's capital adequacy assessment processes (ICAAP), focused on a series of climate-related determinants resulting from the examination of the degree of materiality of the physical and green transition factors for the credit portfolio exposures.

The Parent Company also has a dedicated policy for the management of risks related to the environment and climate change, which regulates the guiding principles for integrating assessments related to these risk factors into ordinary banking risk control systems and describes the reference processes adopted for their identification, analysis and mitigation.

The internal scoring system developed in the latter part of last year, among the tools for assessing exposure to ESG factors prepared by the Parent Company, is increasingly being used and recognised. The new model, at the moment referring only to the climate-environmental component, represents an evolution of the previous classification system at sector level, as it is tailored to the situation of the individual debtor.

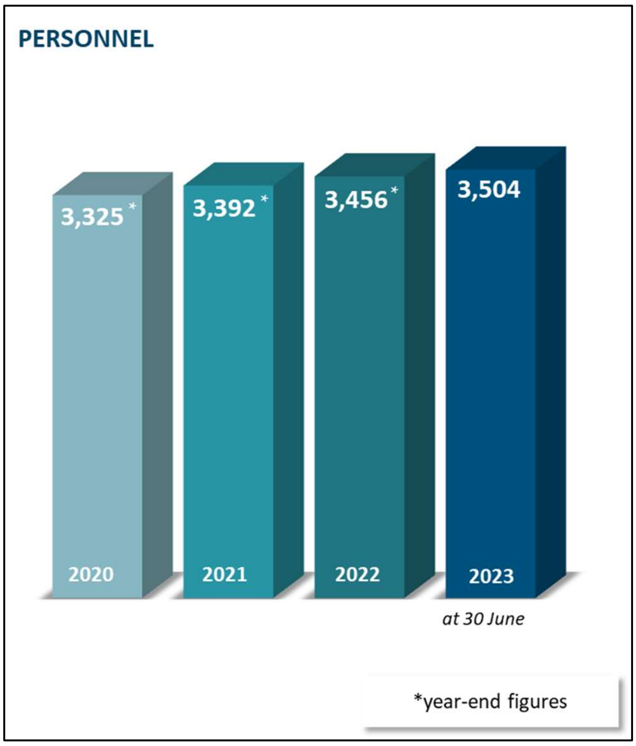
The ESG parameter, which is automatically assigned to counterparties thanks to the retrieval of information from external databases or public sources, but which can be supplemented by the retrieval of relevant data obtained through direct contact with customers, makes it possible to classify entrusted companies according to their level of vulnerability to the risk dimensions of physical risk (acute and chronic weather events) and climatic transition.

ESG risk profile assessment dimensions are also increasingly permeating the credit assessment and disbursement processes. The aforementioned scoring has been incorporated into the electronic procedures for analysing credit files as an additional element of scrutiny of a corporate counterparty with respect to the traditional analyses carried out in the credit appraisal process. The individual assessment of exposure to environmental and climatic risks also had an impact on the determination of the body empowered to make decisions on corporate credit facilities and was included among the variables contributing to the standard rate conditions applicable to credit transactions.

Lastly, the structure of the metrics into which the Parent Company's Risk Appetite Framework is articulated is gradually being enriched with a range of new specific indicators for monitoring exposures to environmental, climatic and social risk factors, also functional to supporting the adoption of correct risk-taking policies related to ESG issues.

HUMAN RESOURCES

At the end of the first half of the year, the banking Group had 3,504 employees, of which 2,956 were employed by the Parent Company, 369 by Banca Popolare di Sondrio (SUISSE) SA, 153 by Factorit spa and 26 by BNT spa. Compared to 30 June 2022, the increase was 96 employees, +2.82%. Significant data in light of the industry dynamics in the opposite direction.



As at 30 June 2023, 68% of the banking Group's personnel worked in the distribution network and the remainder were employed in the central services of the respective companies. The average age of the employees was 42 years and 3 months, with an average length of service of 17 years and 9 months.

In addition to the personnel of the banking Group, there are also those of the subsidiary Pirovano Stelvio spa, 23 staff as at 30 June 2023, 20 of which are employed on a seasonal basis, and of the subsidiary Rent2Go srl, 13 staff as at 30 June 2023.

PROMOTIONAL AND CULTURAL ACTIVITIES

As part of the cultural activity that distinguishes our Group, the Newsletter deserves primary attention, which, as always, aroused great interest. Our magazine, 'born' in 1973, although '50 years old', continues to be issued: with young and fresh content, and elegant graphics. The intention is to honour the anniversary with simplicity, with a renewed commitment to ensure that the magazine continues to be a quality, brilliant and always up-to-date communication channel.

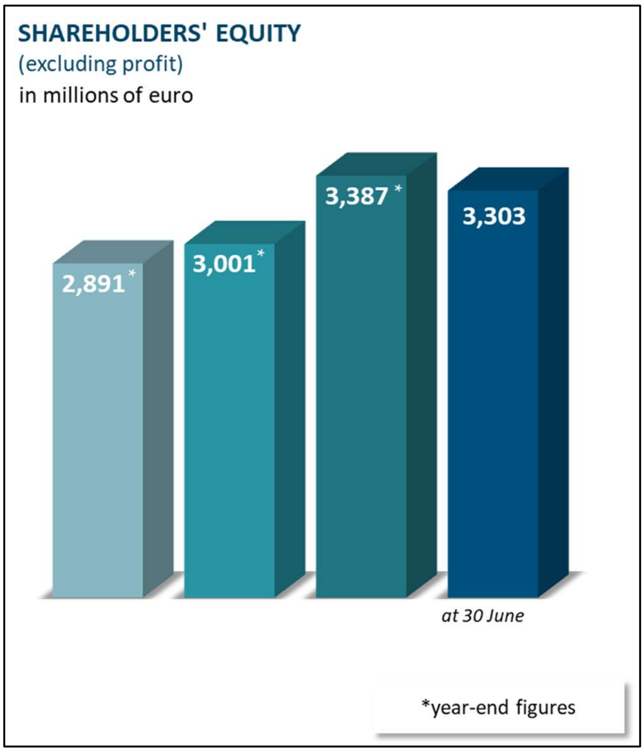
The cultural space in the Annual Report, financial year 2022, of the subsidiary Banca Popolare di Sondrio (SUISSE) SA was reserved for an accurate monograph dedicated to the Swiss figure Henry Dunant, creator of the International Red Cross and the first Nobel Peace Prize (1901) in history.

We have supported, together with the Municipality of Sondrio and other local entities, a number of cultural events in the province of Sondrio, among which we would like to mention Elisabetta Sgarbi's 'La Milanesiana', with its inauguration in Sondrio on 1 June, at the MVSA-Museo Valtellinese di Storia e Arte and Teatro Sociale, and with its presence in the Upper Valley from 20 to 27 July 2023, an event full of high-quality shows. A special aspect connected to La Milanesiana is the exhibition 'Interiors', curated by the art critic Vittorio Sgarbi, by the artist-photographer Chiara Caselli, set up in our agency no. 1 in Bormio.

It is also worth noting the Parent Company's support for the successful performance of 'The Merry Widow' on 13 April 2023 at the Teatro Sociale in Sondrio. On this occasion, participants were given an interesting introductory brochure by Giovanni Gavazzeni, which we produced, entitled 'The Merry Widow and Her Unbroken Fortune'.

Our Group's Luigi Credaro library, centrally located in Sondrio, has hosted numerous users and facilitated their research, thus contributing to literary insights and the dissemination of knowledge.

EQUITY



Shareholders' equity at 30 June 2023, inclusive of valuation reserves and the profit for the year, amounts to EUR 3,510.409 million. Compared with the total at 31 December 2022 of EUR 3,387.436 million, an increase of 122.973 million (+3.63%). The change derives from booking the profit for the year under review and from the reduction in valuation reserves. The Shareholders' Meeting of the Parent Company held on 29 April 2023, called to approve the financial statements for the year 2022 and the allocation of profit, resolved to distribute a dividend paid from 24 May 2023 of EUR 0.28 for each of the 453,385,777 shares outstanding as at 31 December 2022.

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

There was a slight change in issue premiums, amounting to EUR 78.949 million, due to negative differences between the discharge price and the corresponding book value of the shares sold.

The item reserves rose to EUR 1,930.387 million (+7.81%); the increase of EUR 139.919 million resulted mainly from the allocation of the profit for the financial year 2022.

The item valuation reserves, representing primarily the net unrealised gains and losses recorded on financial assets measured at fair value through other comprehensive income (FVOCI), on properties at fair value and the net actuarial gains and losses on the defined benefit plans arranged for employees, remained negative with a balance of EUR 40.828 million, an improvement compared to the end of 2022, when it was negative for EUR 68.086 million. Treasury shares in portfolio changed slightly to EUR 25.342 million.

With regard to capital adequacy, the harmonised legislation for banks and investment firms is contained in Regulation (EU) No. 575/2013 (CRR) and in Directive 2013/36/EU (CRD IV), which define the general limits on capital ratios, which are equal to 7% for the CET 1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio.

The European Central Bank, by virtue of its powers and on the basis of the evidence gathered within the prudential review and assessment process, sets capital and/or liquidity ratios tailored to each intermediary subject to EU supervision. On 15 December 2022, at the conclusion of the annual SREP ("Supervisory Review and Evaluation Process") conducted in 2022, notification was received from the European Central Bank of the new decision regarding the prudential requirements to be met on a consolidated basis, effective as of 1 January 2023. The minimum capital levels required of our banking Group in 2023 are:

- a minimum requirement of Common Equity Tier 1 Ratio of 8.50%, calculated as the sum of the Pillar 1 regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.50%), and an additional Pillar 2 requirement (1.50%);
- a minimum requirement of Total Capital Ratio of 10.50%, calculated as the sum of the Pillar 1 regulatory minimum requirement (6%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (2.00%);
- a minimum requirement of Total Capital Ratio of 13.16%, calculated as the sum of the Pillar 1 regulatory minimum requirement (8%), the Capital Conservation Buffer (2.50%) and an additional Pillar 2 requirement (2.66%).

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.

The additional Pillar 2 Requirement (or "P2R2") is 2.66%, down from the previous 2.77%. The new ratio, to be held in the form of primary Tier 1 capital (CET 1) for at least 56.25% and Tier 1 capital for at least 75%, includes a quota of 0.01% as an increase in the second pillar requirement for impaired exposures.

Since 2017, the ECB has been providing "Pillar 2 Guidance", which acts as a guide to the future evolution of the Group's capital. This parameter is confidential, in 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 reporting purposes, which include part of the profit as at 30 June 2023, amounted to EUR 3,874 million (phased-in) and EUR 3,851 million (fully phased), while risk-weighted assets (RWA) amounted to EUR 21,107 million.

In the interests of full disclosure, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their Tier 1 capital an additional amount aimed at "neutralising" the effects the higher accounting provisions caused by immediate adoption of IFRS 9, which came into force on 1 January 2018. With Regulation (EU) 2020/873 of 24 June 2020, changes were made to these transitional provisions, both with regard to the time frame and the computability percentages. The additional adjustments related to the entry into force of IFRS 9 will continue to be calculated on the basis of the percentages already provided (i.e. percentages of computability decreasing over time, from 95% in 2018 to 25% in 2022, up to its total zeroing in 2023), while for those related to the Covid-19 emergency, they will be applied to the value of CET1 assets taking into account a percentage of declining computability over time, from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023, 25% in 2024, until it reaches zero in 2025. The requirements referring to the Group as at 30 June 2023 are reported below:

Group's capital ratios	Phased-in	Fully phased
CET1 Ratio	15.80%	15.69%
Tier1 Capital ratio	15.80%	15.69%
Total Capital Ratio	18.36%	18.25%

The consolidated Leverage Ratio was 5.63% applying the transitional arrangements (phased-in) and 5.59% according to the criteria to be applied at the end of the transition (fully phased). The Parent Company, in compliance with the provisions of ESMA (European Securities and Markets Authority) document No. 725/2012, which originated from the observation of a market value for numerous listed companies that was lower than the book-value, carried out an impairment test on the entire business complex when preparing the financial statements as at 31 December 2022, which had shown an economic value of the Group that was higher than the consolidated shareholders' equity. This test was not considered to be repeated as at 30 June as there were no significant changes. 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 2022:

- capital/direct funding from customers 8.98% v. 8.11%
- capital/customer loans 10.54% v. 10.26%
- capital/financial assets 26.05% v. 24.78%
- capital/total assets 6.50% v. 5.86%
- net bad loans/capital 2.48% v. 3.60%

BANCA POPOLARE DI SONDRIO STOCK

The Banca Popolare di Sondrio share, traded on the Euronext Milan market of Borsa Italiana, part of the FTSE Italia All-Share index, closed H1 2023 with a positive performance of +0.95%, marking a reference price on 30 June 2023 of EUR 3.816, compared to EUR 3.78 at the end of 2022. During the half-year, the share marked an intraday low and high of EUR 3.47 on 31 May and EUR 4.922 on 7 March, respectively.

The average daily volume of securities traded on Borsa Italiana's Euronext Milan market in the first nine months of the year was EUR 0.92 million, down from EUR 1.15 million in the same period of 2022.

The shareholder structure as at 30 June 2023 consisted of 156,531 shareholders.

BANCA POPOLARE DI SONDRIO stock - Euronext Milan Market of Borsa Italiana

Source REFINITIV EIKON

With regard to treasury shares, whose operations are carried out in compliance with the specific shareholders' resolution, it should be noted that as at 30 June 2023, the Parent Company held 3,632,633 shares in its portfolio, a decrease of 9,085 shares compared to the end of 2022 as a result of the activities carried out to implement the remuneration policies of the Banca Popolare di Sondrio Banking Group. In addition are the 36,730 shares held by Banca Popolare di Sondrio (SUISSE) SA, as part of the share-based compensation plan provided for in the Group's Remuneration Policies. The book value is EUR 25.342 million, of which EUR 25.201 million constitutes utilisation of the Parent Company's treasury share purchase provision of EUR 30 million.

RATINGS

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

The ratings shown here refer to Fitch Ratings' decision of 27 July 2022, as well as the assessments expressed by DBRS Morningstar and Scope Ratings on 14 November 2022 and 14 March 2023, respectively.

FITCH RATINGS – issued on 27/07/2022

	RATING
LONG-TERM ISSUER DEFAULT RATING It is a measure of the probability of default and expresses the bank's ability to repay medium to long-term loans. It is expressed on a scale from AAA to D, for a total of 11 levels.	**BB+**
SHORT-TERM ISSUER DEFAULT RATING It measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within 13 months. The measurement scale includes seven levels (F1, F2, F3, B, C, RD and D).	**B**
VIABILITY RATING It aims to assess the bank's intrinsic soundness based on fundamentals and in the absence of external support. It is expressed on a scale from AAA to D, for a total of 11 levels.	**bb+**
GOVERNMENT SUPPORT It expresses Fitch's assessment of the possibility of state intervention to support the issuer in a state of crisis. In the case of eurozone banks, the EU Directive on Bank Recovery and Resolution and the Single Resolution Mechanism provide a framework for resolution that envisages, if necessary, the participation of senior creditors in losses instead of/before a bank receives state support.	**No Support**
LONG-TERM DEPOSIT RATING It is a measure that expresses the vulnerability to default of uninsured deposits. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB-**
SHORT-TERM DEPOSIT RATING It is a measure that expresses the vulnerability to default of uninsured deposits maturing in the short term. It is expressed on a scale similar to that used for the short-term rating (F1, F2, F3, B, C, RD and D).	**F3**
SENIOR PREFERRED DEBT It is a measure of the probability of default of Senior Preferred bonds which is expressed using a scale from AAA to D.	**BB+**
SUBORDINATED DEBT It is a measure of the probability of default of subordinated bonds that is expressed using a scale from AAA to D.	**BB-**
OUTLOOK It is a prospective assessment of the possible evolution of the issuer's ratings over a period of 1 to 2 years.	**Stable**

DBRS Morningstar – issued on 14/11/2022

	RATING
LONG-TERM ISSUER RATING It is a measure of the probability of default and expresses the bank's ability to repay medium to long-term loans. It is expressed on a scale from AAA to D.	**BBB (low)**
SHORT-TERM ISSUER RATING It measures the ability of the organisation to which the rating is assigned to meet payments due in the short term. The measurement scale includes six levels (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (middle)**
INTRINSIC ASSESSMENT It reflects the opinion of DBRS on the intrinsic fundamentals of the bank assessed on the basis of quantitative and qualitative elements. It is expressed on a scale from AAA to CCC.	**BBB (low)**
SUPPORT ASSESSMENT It reflects DBRS's view on the likelihood and predictability of timely external support for the bank in case of need. The measurement scale includes four levels from SA1 (best) to SA4 (worst).	**SA3**
LONG-TERM DEPOSIT RATING It is a measure that expresses the vulnerability to default of medium/long-term uninsured deposits. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	**BBB**
SHORT-TERM DEPOSIT RATING It is a measure that expresses the vulnerability to default of short-term uninsured deposits. It is expressed on a scale similar to that used for the short-term rating (R-1; R-2; R-3; R-4; R-5 and D).	**R-2 (high)**
LONG-TERM SENIOR DEBT It is a measure of the probability of default of Senior Preferred bonds which is expressed using a scale from AAA to D.	**BBB (low)**
SHORT-TERM DEBT It is a measure of the probability of default of short-dated bonds that is expressed using a scale from R-1 to D.	**R-2 (middle)**
SUBORDINATED DEBT It is a measure of the probability of default of subordinated bonds that is expressed using a scale from AAA to D.	**BB**
TREND (outlook) It is a prospective assessment of the possible evolution of the long-term rating assigned over a period of 1-2 years.	**Stable**

Scope Ratings – issued on 14/03/2023

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

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

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

(thousands of euro)	Equity	of which: Profit for the period
Equity of the Parent Company at 30.06.2023	2,949,379	193,485
Consolidation adjustments	-34,664	-34,664
Difference with respect to the carrying amounts of equity investments in:		
- companies consolidated on a line-by-line basis	447,614	32,743
- companies valued using the equity method	148,080	15,522
Balance at 30.06.2023, as reported in the Group's consolidated financial statements	**3,510,409**	**207,086**

INCOME STATEMENT

Against a general economic backdrop of a progressive slowdown, our Group was able to improve on its already brilliant performance in the first quarter of the year, to almost double the profit of the comparative period. Profit for the period amounted to EUR 207.086 million, +97.11% compared to EUR 105.061 million in the first six months of 2022. This result was linked to the solid performance of all revenue components, in particular net interest income and the result from securities transactions, even though adjustments to loans to customers increased, mainly due to prudential factors.

The comments below refer to the data shown in the "Summary consolidated income statement", which constitutes a reclassification of the schemes provided for by the Bank of Italy provision No. 262/2005. The notes to the table show the reclassifications. A table showing quarterly changes in the reclassified consolidated income statement is also provided, highlighting changes in the income statement during the half-year.

The persistence of inflationary pressures, as mentioned above, prompted the ECB to persist in raising rates, resulting in higher bond yields. The Group's net interest income showed a positive trend (+33.41%) in the half-year, a further percentage increase with respect to first three months alone (+22.96%), and that of the comparison period (21.31%), and amounted to EUR 427.337 million, compared to EUR 320.309 million. The increase stemmed from a substantial improvement in the customer component, which was accompanied by an increase in the coupon flow of securities due to the rise in rates, particularly of inflation-indexed government bonds, despite the increase in rates paid to customers and the recognition of interest expenses of more than EUR 131 million on the longer-term refinancing operations outstanding with the ECB. Also significant was the increase in net income from acquired tax credits of over EUR 33 million.

Net fee and commission income showed a moderate trend, amounting to EUR 194.540 million, +5.43%. Commissions related to loans and current accounts, collections and payments, guarantees issued, order collection, treasury, and foreign exchange were positive; those related to the placement of financial products were substantially stable, while those related to credit cards were negative.

Dividends totalling EUR 2.308 million were collected, compared with EUR 5.686 million.

The overall result of the securities, foreign exchange and derivatives business (which is the sum of items 80, 90, 100 of the income statement reclassified as shown in the table on the margin) was a positive EUR 58.117 million, compared to a positive result of EUR 41.785 million, +39.09%. The net result from trading activities, item 80, was a positive EUR 54.928 million, whereas it had amounted to EUR 2.726 million in the comparative half-year. During the period, it recorded a positive balance between revaluations and write-downs of securities, compared to a negative balance in the comparative year.

The result from foreign exchange and currency business increased. Gains on disposal or repurchase, item 100, amounted to EUR 4.330 million, a net decrease of -88.83%. The result for the comparison period was a positive EUR 38.761 million. This includes profits of EUR 4.113 million from financial assets measured at amortised cost and EUR 0.131 million from assets measured at fair value through other comprehensive income and EUR 0.086 million from financial liabilities. The result of the hedging activity was negative for EUR 0.032 million.

The result from other financial assets mandatorily measured at fair value, item 110b), was a positive EUR 3.885 million, of which EUR 1.082 million related to loans to customers, compared to a negative EUR 67.585 million recorded in the first half of 2022.

The total income therefore rose to EUR 686.187 million, compared to EUR 484.714 million, +41.57%. In its composition, the contribution of net interest income was 62.28%, compared to 66.08%.

Despite a framework full of uncertainties and more restrictive and burdensome financing conditions, which can lead to a worsening of credit quality, our Group recorded decelerating impaired loans, a decreasing default rate, and regularity in payments by companies that had taken advantage of moratoria. Exposure to customers continued to be assessed on the basis of the strict policies in force, while trying to meet the needs of businesses and households in these difficult times. The complex of activities and processes activated in the area of monitoring and controlling loans to customers in the various stages of disbursement and management led to a strengthening of the structure designated for this purpose, which contributes to the containment of NPL loans, while derisking activities continue. The latter activity takes place along the lines of the NPL strategy set forth in the 2022-2025 Business Plan, approved in June 2022, which provides for the combined use of ordinary and extraordinary initiatives, including disposals and settlement agreements. Credit for which a sale or settlement is contemplated are valued on the basis of the quantified recoverable value, taking into account recent transactions concluded by the Group, as well as the particularities of the market and the type of asset. With specific reference to the credit subject to potential disposal, in the absence of internal transactions concluded by the Group on portfolios with similar characteristics, the recoverable value is estimated considering the main transactions concluded on the market by comparable intermediaries. Credit assumed to be sold are valued accordingly, and the associated adjustments are recognised in the income statement. For the positions falling within this perimeter, a valuation is conducted on the basis of models capable of estimating the potential recovery value of said credit and, therefore, of formulating a transfer price, also taking into account the unique characteristics of the market in which these assets should be sold.

KEY FIGURES OF THE CONSOLIDATED INCOME STATEMENT

(thousands of euro)	30/06/2023	30/06/2022	Absolute changes	Changes %
Net interest income	427,337	320,309	107,028	33.41
Dividends	2,308	5,686	-3,378	-59.41
Net fee and commission income	194,540	184,519	10,021	5.43
Result of financial activities [a]	58,117	41,785	16,332	39.09
Result of other financial assets and liabilities measured at FVTPL [b]	3,885	-67,585	71,470	n.s.
of which LOANS	*1,082*	*-17,244*	*18,326*	n.s.
of which OTHER	*2,803*	*-50,341*	*53,144*	n.s.
Total income	**686,187**	**484,714**	**201,473**	**41.57**
Net adjustments [c]	-78,935	-43,830	-35,105	80.09
Net financial income	**607,252**	**440,884**	**166,368**	37.74
Personnel expenses [d]	-141,874	-130,724	-11,150	8.53
Other administrative expenses [e]	-137,183	-130,656	-6,527	5.00
Other operating income/expense [d]	44,875	38,950	5,925	15.21
Net accruals to provisions for risks and charges [f]	-12,576	-6,248	-6,328	101.28
Adjustments to property, equipment and investment property and intangible assets	-31,910	-27,522	-4,388	15.94
Operating costs	**-278,668**	**-256,200**	**-22,468**	**8.77**
Operating profit (loss)	**328,584**	**184,684**	**143,900**	**77.92**
Charges for stabilising the banking system [e]	-40,857	-40,040	-817	2.04
Net gains (losses) on equity investments and other investments	14,190	9,238	4,952	53.60
Profit (loss) before tax	**301,917**	**153,882**	**148,035**	**96.20**
Income taxes	-94,831	-48,821	-46,010	94.24
Profit (loss)	**207,086**	**105,061**	**102,025**	**97.11**
Profit (loss) attributable to the Parent Company	**207,086**	**105,061**	**102,025**	**97.11**

Notes:
[a] The result of financial activities is made up of the sum of items 80 - 90 - 100 in the income statement.
[b] The result of other financial assets measured at FVTPL is comprised in item 110 of the income statement.
[c] Net adjustments consist of the sum of items 130 - 140 - 200 a) in the income statement including the losses on disposals of EUR 1.109 million.
[d] Personnel expenses and other operating income have been stated net of the income generated by the post-employment benefits fund of EUR 3.946 million.
[e] Charges for stabilising the banking system have been separated from other administrative expenses and presented separately.
[f] Net allocations to provisions for risks and charges refer to item 200 b).
The results as at 30/06/2022 have been made consistent.

Net adjustments on loans and financial assets totalled EUR 78.935 million, compared to EUR 43.830 million, +80.09%. Of the total adjustments mentioned above, item 130 of the income statement, which relates to exposure to customers and banks in the form of both loans and securities, is the largest and amounted to EUR 73.706 million, compared to EUR 31.018 million. This item consisted of EUR 73.208 million in adjustments relating to financial assets measured at amortised cost, compared to EUR 31.444 million in the comparative year, while net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income recorded allocations of EUR 0.498 million on fixed-yield securities, compared to reversals of EUR 0.426 million in the comparative year. The estimate of expected losses on performing loans is determined in accordance with the requirements of IFRS 9, using modelling that adopts different macro-scenarios for calculation purposes. In light of the uncertainties arising from the macroeconomic and geopolitical environment, the decision was taken to proceed with the introduction of management overlays on a conservative basis to supplement the outcomes of the ECL estimation models, continuing with the approach already adopted in the 2022 financial statements.

The aggregate also includes item 140, which records the profits/losses from contractual changes without cancellations deriving from the changes made to the contractual cash flows, and which in the reference period was an inflow of EUR 4.509 million, compared to outflows of EUR 0.760 million. Finally, provisions for commitments and guarantees issued showed an allocation of provisions of EUR 10.847 million, compared to EUR 11.620 million in the comparative period.

The ratio of net adjustments on loans to customers/loans to customers, which is also referred to as the cost of credit, showed an improvement, going from 0.47% to 0.51% at 31 December 2022.

This resulted in a net income from financial operations of EUR 607.252 million, compared to EUR 440.884 million, +37.74%.

Operating costs, to which the utmost attention is paid, rose from EUR 256.200 million to EUR 278.668 million, +8.77%. They were also affected by the now customary strong regulatory pressures, which have major impacts in terms of adjusting operational structures, competencies and staffing levels.

The ratio of operating expenses, excluding system stabilisation charges, to net interest and other banking income ("cost income ratio") decreased from 52.86% to 40.61%. The annualised operating expenses/total assets ratio stood at 1.03%, up from 0.94%. Analysing the individual components, administrative expenses totalled EUR 279.057 million, +6.76%, of which personnel expenses amounted to EUR 141.874 million, compared to EUR 130.724 million, +8.53%; the increase is tied to both the rise in provisions related to the contractual renewal in progress for the Parent Company. Other administrative expenses rose from EUR 130.656 million to EUR 137.183 million, +5%. Of note are increases in expenditure for electricity, water and heating, rental and maintenance of hardware and software, consultancy fees, fees for searches and information, and outsourcing costs.

The item "Net provisions for risks and charges" reflects releases of EUR 12.576 million compared with EUR 6.248 million. There was still a significant incidence of charges for contributions incurred or planned for the Resolution Funds and FITD, which rose from EUR 40.040 million to EUR 40.857 million, +2.04%.

The depreciation of property, equipment and investment property and the amortisation of software amounted to EUR 31.910 million, +15.94%.

Other income, net of other operating expenses, amounted to EUR 44.875 million, +15.21%. The aggregate profits/losses on equity and other investments shows a positive balance of EUR 14.190 million, compared with EUR 9.238 million.

The overall result before taxes therefore marked an increase from EUR 153.882 million to EUR 301.917 million. Finally, after deducting income taxes of EUR 94.831 million, compared to EUR 48.821 million, the net profit for the period was EUR 207.086 million, compared to EUR 105.061 million, +97.11%.

The effective tax rate, i.e. the ratio between income taxes and the gross result of current operations, is 31.41% compared with 31.73% in the comparative period.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT QUARTER BY QUARTER

(thousands of euro)	2023		2022			
	II Quarter	I Quarter	IV Quarter	III Quarter	II Quarter	I Quarter
Net interest income	235,290	192,047	203,815	156,943	164,119	156,190
Dividends	1,645	663	365	413	5,448	238
Net fee and commission income	98,058	96,482	104,231	91,840	93,057	91,462
Result of financial activities [a]	28,306	29,811	24,183	3,597	24,692	17,093
Result of other financial assets and liabilities measured at FVTPL [b]	-8,792	12,677	6,563	-6,566	-33,999	-33,586
of which LOANS	*-1,836*	*2,918*	4,708	*2,076*	*-4,279*	*-12,965*
of which OTHER	*-6,956*	*9,759*	1,855	*-8,642*	*-29,720*	*-20,621*
Total income	**354,507**	**331,680**	**339,157**	**246,227**	**253,317**	**231,397**
Net adjustments [c]	-39,116	-39,819	-65,873	-60,051	-16,528	-27,302
Net financial income	**315,391**	**291,861**	**273,284**	**186,176**	**236,789**	**204,095**
Personnel expenses [d]	-72,920	-68,954	-69,096	-69,326	-64,247	-66,477
Other administrative expenses [e]	-69,210	-67,973	-71,288	-60,059	-68,154	-62,502
Other operating income/expense [d]	22,875	22,000	20,357	22,887	22,053	16,897
Net accruals to provisions for risks and charges [f]	-7,193	-5,383	-6,545	-1,495	-6,653	405
Adjustments to property, equipment and investment property and intangible assets	-16,499	-15,411	-18,180	-16,778	-15,547	-11,975
Operating costs	**-142,947**	**-135,721**	**-144,752**	**-124,771**	**-132,548**	**-123,652**
Operating profit (loss)	**172,444**	**156,140**	**128,532**	**61,405**	**104,241**	**80,443**
Charges for stabilising the banking system [e]	-5,852	-35,005	-2,865	-3,004	-10,040	-30,000
Net gains (losses) on equity investments and other investments	1,204	12,986	10,609	5,331	2,578	6,660
Profit (loss) before tax	**167,796**	**134,121**	**136,276**	**63,732**	**96,779**	**57,103**
Income taxes	-55,117	-39,714	-36,241	-17,507	-32,018	-16,803
Profit (loss)	**112,679**	**94,407**	**100,035**	**46,225**	**64,761**	**40,300**
Profit (loss) attributable to the Parent Company	**112,679**	**94,407**	**100,035**	**46,225**	**64,761**	**40,300**

Notes:
[a] The result of financial activities is made up of the sum of items 80 - 90 - 100 in the income statement.
[b] The result of other financial assets measured at FVTPL is comprised in item 110 of the income statement.
[c] Net adjustments consist of the sum of items 130 - 140 - 200 a) of the income statement.
[d], [e] and [f] The figures are shown in accordance with the reclassifications presented in the summary of the reclassified consolidated income statement.

SIGNIFICANT EVENTS AFTER 30 JUNE 2023

The Banca Popolare di Sondrio Group was subjected, along with 41 other Eurozone banks, to the 2023 stress test conducted by the ECB according to a methodology similar to that of the exercise carried out at the same time by the EBA on a sample of the 57 most significant institutions. The macroeconomic scenarios used for the baseline and adverse simulation cover a 3-year time horizon (2023-25). While the former assumes the normal development of business, the latter is characterised by a significant worsening of international geo-political tensions and a serious deterioration of the economic environment, with forecasts of high and persistent inflation and vigorous interest rate hikes over a prolonged period of time.

Based on the results published by the authorities on 28 July, the following can be stated. Under the basic assumption, our Group would not show any criticality as it would continue to generate significant profits capable of both replenishing its assets through self-financing and remunerating the risk capital contributed by shareholders. In the adverse scenario, our Group records an erosion of Tier 1 capital at the end of the three-year period 2023-25 of a magnitude that would place it in the median values of the impact range between 300 and 599 basis points, in line with the average reduction recorded for ECB-regulated banks, with the CET1 ratio at the end of the period standing at the upper end of the range between 8% and 11%. Without prejudice to the fact that, even in this case, we would remain well above the minimum capital requirements of the Supervisory Authority, it is worth emphasising that the stress exercise did not, by definition, take into account corporate strategies and/or future management initiatives, and therefore does not in any way constitute a forecast of either future profitability or the Group's expected capital ratios.

In the domestic comparison, our banking group is among the entities that would best emerge from the represented adverse environment, thanks also to better starting conditions than in the past, retaining a primary capital ratio “in double figures” even at the end of the tough three-year stress period, as proof of full capital adequacy conditions.

In relation to the measure of the Council of Ministers concerning the taxation of the “extra-profits” of banks (which did not affect this consolidated half-year financial report as at 30 June 2023), the Bank is waiting for the publication of the Decree, in order to assess its effects on the balance sheet.

On 6 July 2023, the rating agency Fitch Ratings, at the end of its annual credit rating review process, confirmed the ratings assigned to Banca Popolare di Sondrio. Below are the details of the ratings assigned to the bank:

- Long-term Issuer Default Rating (IDR): BB+
- Short-term Issuer Default Rating (IDR): B
- Viability Rating: bb+
- Government Support Rating: ns
- Long-term Deposit Rating: BBB-
- Short-term Deposit Rating: F3
- Senior Preferred Debt: BB+
- Tier 2 Subordinated Debt: BB-
- Outlook: Stable.

OUTLOOK

As for the outlook for operations, the latest evidence from the macroeconomic context projects a slowdown in economic activity in Italy, which is expected to register modest growth rates for the rest of the year. Inflationary pressures, although lower than previous peaks, and uncertainty linked to the evolution of the geopolitical framework, with reference for Europe in particular to the Russian-Ukrainian war, will continue to condition the choices of businesses and households.

In this context, our Group, thanks to its solid equity position, diversified business model and prudent management choices, expects to achieve positive results, in line with those achieved in the first part of the year.

Sondrio, 8 August 2023

THE BOARD OF DIRECTORS

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS AS AT 30 JUNE 2023

CONSOLIDATED BALANCE SHEET

(thousands of euro)

	ASSET ITEMS	30/06/2023	31/12/2022
10.	**Cash and cash equivalents**	**2,702,629**	**6,990,689**
20.	**Financial assets measured at fair value through profit or loss**	**746,212**	**1,254,070**
	a) financial assets held for trading	185,944	179,665
	c) other financial assets mandatorily measured at fair value	560,268	1,074,405
30.	**Financial assets measured at fair value through other comprehensive income**	**2,731,981**	**2,555,705**
40.	**Financial assets measured at amortised cost**	**44,192,950**	**43,870,637**
	a) loans and receivables with banks	1,964,060	1,865,249
	b) loans and receivables with customers	42,228,890	42,005,388
50.	**Hedging derivatives**	**541**	**248**
60.	**Change in value of macro-hedged financial assets (+/-)**	**(395)**	**(198)**
70.	**Equity investments**	**360,273**	**322,632**
90.	**Property, equipment and investment property**	**680,894**	**650,908**
100.	**Intangible assets**	**36,995**	**36,669**
	of which:		
	- goodwill	16,997	16,997
110.	**Tax assets**	**304,017**	**342,647**
	a) current	1,903	17,654
	b) prepaid	302,114	324,993
130.	**Other assets**	**2,214,823**	**1,830,354**
	TOTAL ASSETS	**53,970,920**	**57,854,361**

	LIABILITIES AND EQUITY	30/06/2023	31/12/2022
10.	**Financial liabilities measured at amortised cost**	**48,187,962**	**53,152,710**
	a) due to banks	9,096,877	11,381,703
	b) customer deposits	35,397,105	38,122,246
	c) securities issued	3,693,980	3,648,761
20.	**Financial liabilities held for trading**	**41,449**	**115,871**
40.	**Hedging derivatives**	**179**	**227**
60.	**Tax liabilities**	**54,585**	**32,359**
	a) current	28,784	3,160
	b) deferred	25,801	29,199
80.	**Other liabilities**	**1,828,445**	**834,629**
90.	**Provision for employee severance pay**	**33,510**	**35,597**
100.	**Provisions for risks and charges**	**314,367**	**295,528**
	a) commitments and guarantees given	74,058	63,204
	b) pension and similar obligations	167,125	167,827
	c) other provisions for risks and charges	73,184	64,497
120.	**Valuation reserves**	**(40,828)**	**(68,086)**
150.	**Reserves**	**1,930,387**	**1,790,468**
160.	**Share premium reserve**	**78,949**	**78,978**
170.	**Share capital**	**1,360,157**	**1,360,157**
180.	**Treasury shares (-)**	**(25,342)**	**(25,402)**
190.	**Non-controlling interests (+/-)**	**14**	**4**
200.	**Profit (loss) for the period (+/-)**	**207,086**	**251,321**
	TOTAL LIABILITIES AND EQUITY	**53,970,920**	**57,854,361**

CONSOLIDATED INCOME STATEMENT

(thousands of euro)

ITEMS		30/06/2023	30/06/2022
10.	INTEREST AND SIMILAR INCOME	812,689	375,593
	of which: interest income calculated using the effective interest method	*804,986*	*371,096*
20.	INTEREST AND SIMILAR EXPENSES	(385,352)	(55,284)
30.	**NET INTEREST INCOME**	**427,337**	**320,309**
40.	FEE AND COMMISSION INCOME	205,428	193,454
50.	FEE AND COMMISSION EXPENSE	(10,888)	(8,935)
60.	**NET FEE AND COMMISSION INCOME**	**194,540**	**184,519**
70.	DIVIDENDS AND SIMILAR INCOME	2,308	5,686
80.	NET TRADING INCOME	54,928	2,726
90.	NET HEDGING GAIN (LOSS)	(32)	(134)
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF:	4,330	38,761
	a) financial assets measured at amortised cost	*4,113*	*27,746*
	b) financial assets measured at fair value through other comprehensive income	*131*	*11,013*
	c) financial liabilities	*86*	*2*
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	3,885	(67,585)
	b) other financial assets mandatorily measured at fair value	*3,885*	*(67,585)*
120.	**TOTAL INCOME**	**687,296**	**484,282**
130.	NET ADJUSTMENTS/WRITE-BACKS FOR CREDIT RISK RELATED TO:	(73,706)	(31,018)
	a) financial assets measured at amortised cost	*(73,208)*	*(31,444)*
	b) financial assets measured at fair value through other comprehensive income	*(498)*	*426*
140.	GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION	4,509	(760)
150.	**NET FINANCIAL INCOME**	**618,099**	**452,504**
180.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**	**618,099**	**452,504**
190.	ADMINISTRATIVE EXPENSES:	(323,860)	(301,916)
	a) personnel expenses	*(145,820)*	*(131,220)*
	b) other administrative expenses	*(178,040)*	*(170,696)*
200.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	(23,423)	(17,868)
	a) commitments for guarantees given	*(10,847)*	*(11,620)*
	b) other net provisions	*(12,576)*	*(6,248)*
210.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(24,265)	(20,556)
220.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	(7,645)	(6,966)
230.	OTHER OPERATING INCOME/EXPENSE	48,821	39,446
240.	**OPERATING COSTS**	**(330,372)**	**(307,860)**
250.	GAINS (LOSSES) ON EQUITY INVESTMENTS	15,522	8,897
260.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS	(1,490)	(1,430)
280.	GAINS (LOSSES) ON SALES OF INVESTMENTS	158	1,771
290.	**PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**301,917**	**153,882**
300.	INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS	(94,831)	(48,821)
310.	**POST-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**207,086**	**105,061**
330.	**PROFIT (LOSS) FOR THE PERIOD**	**207,086**	**105,061**
340.	(PROFIT) LOSS FOR THE PERIOD ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	-	-
350.	**PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY**	**207,086**	**105,061**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(thousands of euro)

ITEMS		2023	2022
10.	**Profit (loss) for the period**	**207,086**	**105,061**
	Other income items net of income taxes that will not be reclassified to profit or loss		
20.	Equity securities measured at fair value through other comprehensive income	(159)	(1,565)
70.	Defined-benefit plans	2,909	23,288
90.	Share of valuation reserves of equity investments measured at equity	80	26
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
120.	Exchange differences	(249)	(728)
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	513	(67,815)
170.	Share of valuation reserves of equity investments measured at equity	24,164	(2,516)
200.	**Total other income items net of income taxes**	**27,258**	**(49,310)**
210.	**Other comprehensive income (Item 10+200)**	**234,344**	**55,751**
220.	Consolidated other comprehensive income attributable to non-controlling interests	-	161
230.	**Consolidated other comprehensive income attributable to the parent company**	**234,344**	**55,590**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(thousands of euro)

				Allocation of prior year result		Changes during the year										
							Equity transactions									
	Balance at 31.12.2022	Changes in opening balances	Balance at 1.1.2023	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in interests held	Other comprehensive income at 30.06.2023	**Equity attributable to the Group at 30.06.2023**	**Equity attributable to non-controlling interests at 30.06.2023**
Share capital																
a) ordinary shares	1,360,161	-	1,360,161	-	-	-	10	-	-	-	-	-	-	-	1,360,157	14
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**78,978**	**-**	**78,978**	**-**	**-**	**-**	**(29)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**78,949**	**-**
Reserves																
a) from earnings	1,754,574	-	1,754,574	125,093	-	14,826	-	-	-	-	-	-	-	-	1,894,493	-
b) other	35,894	-	35,894	-	-	-	-	-	-	-	-	-	-	-	35,894	-
Valuation reserves	**(68,086)**	**-**	**(68,086)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27,258**	**(40,828)**	**-**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**(25,402)**	**-**	**(25,402)**	**-**	**-**	**-**	**63**	**(3)**	**-**	**-**	**-**	**-**	**-**	**-**	**(25,342)**	**-**
Profit for the year	**251,321**	**-**	**251,321**	**(125,093)**	**(126,228)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**207,086**	**207,086**	**-**
Equity attributable to the Group	**3,387,436**	**-**	**3,387,436**	**-**	**(126,228)**	**14,826**	**34**	**(3)**	**-**	**-**	**-**	**-**	**-**	**234,344**	**3,510,409**	**-**
Equity attributable to non-controlling interests	**4**	**-**	**4**	**-**	**-**	**-**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of euro)

				Allocation of prior year result		Changes during the year										
							Equity transactions									
	Balance at 31.12.2021	Changes in opening balances	Balance at 1.1.2022	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in interests held	Other comprehensive income at 30.06.2022	**Equity attributable to the Group at 30.06.2022**	**Equity attributable to non-controlling interests at 30.06.2022**
Share capital																
a) ordinary shares	1,393,736	-	1,393,736	-	-	-	-	-	-	-	-	-	(33,575)	-	1,360,157	4
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**83,363**	**-**	**83,363**	**-**	**-**	**-**	**(27)**	**-**	**-**	**-**	**-**	**-**	**(4,358)**	**-**	**78,978**	**-**
Reserves																
a) from earnings	1,578,288	-	1,578,288	184,773	-	57,673	-	-	-	-	-	-	(64,850)	-	1,755,884	-
b) other	37,851	-	37,851	-	-	-	-	-	-	-	-	-	(1,957)	-	35,894	-
Valuation reserves	**32,276**	**-**	**32,276**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(49,310)**	**(17,034)**	**-**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**(25,457)**	**-**	**(25,457)**	**-**	**-**	**-**	**73**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(25,384)**	**-**
Profit for the year	**275,020**	**-**	**275,020**	**(184,773)**	**(90,247)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**105,061**	**105,061**	**-**
Equity attributable to the Group	**3,270,494**	**-**	**3,270,494**	**-**	**(90,247)**	**57,673**	**46**	**-**	**-**	**-**	**-**	**-**	**-**	**55,590**	**3,293,556**	**-**
Equity attributable to non-controlling interests	**104,583**	**-**	**104,583**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(104,740)**	**161**	**-**	**4**

CONSOLIDATED CASH FLOW STATEMENT (indirect method)

(thousands of euro)

	30/06/2023	30/06/2022
A. **OPERATING ACTIVITIES**		
1. Operations	**456,944**	**414,318**
- result for the period (+/-)	207,086	105,061
- gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)	(25,352)	75,985
- gains (losses) on hedging (-/+)	32	134
- net adjustments/write-backs for credit risk (+/-)	83,261	39,334
- net adjustments/write-backs for property, equipment and investment property and intangible assets (+/-)	33,402	28,946
- provisions for risks and charges and other costs/revenues (+/-)	64,436	45,232
- unpaid taxes, duties and tax credits (+)	94,831	48,821
- other adjustments (+/-)	(752)	70,805
2. Cash generated/absorbed by financial assets	**(333,577)**	**(2,599,664)**
- financial assets held for trading	26,083	315
- financial assets designated at fair value	-	-
- financial assets mandatorily measured at fair value	514,697	23,343
- financial assets measured at fair value through other comprehensive income	(154,824)	405,890
- financial assets measured at amortised cost	(243,339)	(2,289,010)
- other assets	(476,194)	(740,202)
3. Cash generated/absorbed by financial liabilities	**(4,241,086)**	**(514,202)**
- financial liabilities measured at amortised cost	(5,115,494)	(1,459,318)
- financial liabilities held for trading	(79,351)	50,217
- financial liabilities measured at fair value	-	-
- Other liabilities	953,759	894,899
4. Cash generated/absorbed by insurance contracts issued and outwards reinsurance	-	-
- insurance contracts issued that constitute liabilities/assets (+/-)	-	-
- outwards reinsurance constituting assets/liabilities (+/-)	-	-
Net cash generated/absorbed by operating activities	**(4,117,719)**	**(2,699,548)**
B. **INVESTING ACTIVITIES**		
1. Cash generated by	**16,487**	**15,842**
- sales of equity investments	-	2,500
- dividends collected from equity investments	15,664	12,765
- sales of property, equipment and investment property	823	577
- sales of intangible assets	-	-
- sales of subsidiaries and business units	-	-
2. Cash absorbed by	**(65,463)**	**(167,224)**
- purchases of equity investments	-	(84,491)
- purchases of property, equipment and investment property	(57,501)	(74,645)
- purchases of intangible assets	(7,962)	(8,088)
- purchase of subsidiaries and business units	-	-
Net cash generated/absorbed by investing activities	**(48,976)**	**(151,382)**
C. **FUNDING ACTIVITIES**		
- issues/purchases of treasury shares	(50)	(72)
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	(126,948)	(90,463)
- sale/purchase of third party control	-	-
Net cash generated/absorbed by financing activities	**(126,998)**	**(90,535)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**(4,293,693)**	**(2,941,465)**

Key:
(+) generated (-) absorbed

RECONCILIATION
(thousands of euro)

Items	30/06/2023	30/06/2022
Cash and cash equivalents - opening balance	6,990,688	5,652,733
Total net cash generated/absorbed in the period	(4,293,693)	(2,941,465)
Cash and cash equivalents: effect of exchange rate fluctuations	5,634	35,706
Cash and cash equivalents - closing balance	**2,702,629**	**2,746,974**

CONSOLIDATED EXPLANATORY NOTES

Accounting Policies

Structure and content of the report for the first half of 2023

The report for the first half of 2023 was prepared pursuant to article 154-ter of Legislative Decree No. 58 of 24 February 1998 "Consolidated Law on Financial Intermediation pursuant to articles 8 and 21 of Law No. 52 of 6/2/1996" and the provisions issued by Consob on the subject. Account was also taken of the provisions of Consob Resolution No. 15520 of 27/7/2006, Communication No. DEM/6064293 of 28/7/2006 and Communication No. DEM/11070007 of 5/8/2011.

The condensed consolidated half-year report as at 30 June 2023 has been prepared in accordance with International Accounting Standard No. 34 and consists of:

- the directors' half-year report on operations;
- balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement;
- notes, whose function is to comment on the figures in the consolidated half-year report and to contain the information required by the regulations in force.

General information
Declaration of compliance with international accounting standards

Banca Popolare di Sondrio, società per azioni (joint-stock company) declares that these condensed consolidated half-year financial statements have been prepared in accordance with IAS 34.

Basis of preparation

The condensed consolidated half-year financial statements have been prepared in accordance with the following general criteria described in IAS 1:

1) Going concern. The condensed consolidated half-year financial statements have been prepared on a going concern basis: assets, liabilities and off-balance sheet transactions have therefore been valued according to their operating values. In this regard, it should be noted that the boards of directors and auditors have carefully assessed the prospect of the company's continuation as a going concern and have not detected any symptoms in the balance sheet and financial structure or in the operating performance that could lead to uncertainties regarding business continuity, even taking into account the difficulties highlighted in the past by the so-called "sovereign debt securities" as well as the macroeconomic context created by the pandemic and the Russian-Ukrainian conflict. It is believed, in this regard that the Group, despite possible negative repercussions concerning the trend of some types of revenues and the cost of credit, and the presence of the risk and risk elements referred to in the paragraph "Risk management" can continue to operate as a going concern in the foreseeable future in accordance with the provisions of the 2022-2025 Business Plan.

2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the transactions are settled.

3) Consistency of presentation. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of

information.

If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the reasons for it. The financial statements, and, where compatible, the tables of the Notes have been prepared in compliance with the provisions of the Bank of Italy's Provision of 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. Explanatory and descriptive information is included when this helps to provide a better understanding of the consolidated financial statements.

The financial statements are prepared in accordance with Italian regulations to the extent that they are compatible with IAS. Accordingly, the financial statements incorporate the requirements of Legislative Decree 136/2015, the articles of the Italian Civil Code and the corresponding provisions of the Consolidated Finance Act ("TUF"). All figures reported in the financial statements and notes are stated in thousands of euro, unless specified otherwise.

Consolidation scope and methodology

Holdings in wholly-owned subsidiaries

Investments in wholly-owned subsidiaries are listed in the following table.
The following companies have been consolidated on a line-by-line basis:

Company Name	Operative office	Registered Office	Type of relationship(1)	Share capital (in thousands)	Investment relationship		% of votes (2)
					Parent company	% share	
Banca Popolare di Sondrio (SUISSE) SA	Lugano	Lugano	1	(CHF) 180,000	Banca Popolare di Sondrio S.p.a.	100	
Factorit S.p.a.	Milan	Milan	1	85,000	Banca Popolare di Sondrio S.p.a.	100	
Sinergia Seconda S.r.l.	Milan	Milan	1	60,000	Banca Popolare di Sondrio S.p.a.	100	
Banca della Nuova Terra S.p.a.	Sondrio	Sondrio	1	31,315	Banca Popolare di Sondrio S.p.a.	100	
Pirovano Stelvio S.p.a. (3)	Sondrio	Sondrio	1	2,064	Banca Popolare di Sondrio S.p.a.	100	
Servizi Internazionali e Strutture Integrate 2000 S.r.l. (3)	Milan	Milan	1	75	Banca Popolare di Sondrio S.p.a.	100	
PrestiNuova S.r.l. - Agenzia in Attività Finanziaria	Rome	Rome	1	100	Banca della Nuova Terra S.p.a.	100	
Immobiliare Borgo Palazzo S.r.l. (3)	Tirano	Tirano	1	10	Sinergia Seconda S.r.l.	100	
Immobiliare San Paolo S.r.l. (3)	Tirano	Tirano	1	10	Sinergia Seconda S.r.l.	100	
Rent2Go S.r.l. (3)	Bolzano	Bolzano	1	12,050	Banca Popolare di Sondrio S.p.a.	100	
Prima S.r.l. (3)	Milan	Milan	1	25	Immobiliare San Paolo S.r.l.	100	
Popso Covered Bond S.r.l.	Conegliano V.	Conegliano V.	1	10	Banca Popolare di Sondrio S.p.a.	60	
Centro delle Alpi SME S.r.l. (4)	Conegliano V.	Conegliano V.	4	10	-	0	
Centro delle Alpi RE (3)	Milan	Milan	4	69,913	Banca Popolare di Sondrio S.p.a.	100	

(1) 1= majority of voting rights at ordinary shareholders' meeting. 4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, only if different from the shareholding, distinguishing between actual and potential votes.
(3) Equity investments not included in the Banking Group for supervisory purposes.
(4) Special purpose vehicle for securitisations originated by the Group.

The perimeter of the fully consolidated companies expanded compared to 31 December 2022 following the entry of the special purpose vehicle Centro delle Alpi SME S.r.l. established in June 2023 for the purpose of a self-securitisation transaction. For further details, reference should be made to Section "Other aspects" of these Notes.

Ratings and significant assumptions to determine the scope of consolidation

The condensed consolidated half-year financial statements of the Banca Popolare di Sondrio Group include the balance sheet and profit and loss account results of the Parent Company and the directly and indirectly controlled entities; they also include subsidiaries operating in business sectors dissimilar to that of the Parent Company and special purpose entities (SPE/SPV), when the requirements of effective control are met, even regardless of the existence of an equity interest.

Control, as defined by IFRS 10, is the power over the investee entity (i.e. holding valid rights that give the current capacity to direct the activities of the investee entity) and exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control can therefore be obtained in various ways, including via exposure to risks and rewards, and not just as a consequence of the power to influence financial and operating policies.

The assets, liabilities, revenues and costs of the subsidiary acquired or sold during the year are included in the consolidated financial statements from the date on which the Group obtains control until the date on which the Group no longer exercises control over the company.

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

All of the assets and liabilities, equity, revenues, costs and intercompany financial flows relating to transactions between group entities are completely eliminated on consolidation, except for any income and charges of insignificant amount. The financial statements of these group companies are reclassified appropriately and, where necessary, restated in accordance with the accounting policies adopted by the Group.

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

Changes in interests held in a subsidiary that do not result in a loss of control are recognised in equity.

If the Group loses control of a subsidiary, it must derecognise the related assets (including goodwill), liabilities, minority interests and other components of equity, while any profit or loss is recognised in the income statement. If an interest is maintained, it has to be shown at fair value.

The reference standard for the accounting treatment of joint control arrangements in the Group's consolidated financial statements is IFRS 11 "Joint arrangements". The arrangement entered into constitutes a joint venture, whereby the parties that have joint control thereof have rights to the net assets of the arrangement. Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control. In accordance with this standard, the correct accounting treatment for such an arrangement requires the interest in the joint venture to be recognised as an investment and to be accounted for using the equity method in accordance with IAS 28 "Investments in associates and joint ventures".

The joint ventures indicated below are valued at equity:

Company Name	Head office	Type of relationship[(1)]	Share capital (in thousands)	% holding	% of votes
Rajna Immobiliare S.r.l.	Sondrio	7	20	50	50

[(1)] 7 = joint control.

The scope of consolidation also includes the equity investments where the Parent Company exercises a significant influence since 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 subsidiary;

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 subsidiary;

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 subsidiary's net result for the year attributable to the bank is shown in a specific item in the income statement.

Any change in the other components of comprehensive income relating to these subsidiaries is presented as part of the Group's comprehensive income.

In the event that an associate or joint venture recognises a change with direct allocation to equity, the Group recognises its share, where applicable, in the statement of changes in equity. Unrealised profits and losses deriving from transactions between the Group and associates or joint ventures are eliminated in proportion to the shareholding in the associates or joint ventures.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not subject to a separate impairment test. At each reporting date, the Group assesses whether there is objective evidence that the investments in associates or joint ventures have suffered impairment. In this case, the Group calculates the amount of the impairment as the difference between the recoverable value of the investment in the associate or joint venture and its carrying amount in its financial statements, recognising this difference in the profit or loss for the year under the heading "portion pertaining to the result of associates and joint ventures".

Any subsequent write-backs cannot exceed the impairment losses recorded previously.

Upon loss of significant influence over an associated company or joint control over a joint venture, the Group assesses and recognizes the residual shareholding at fair value.

The difference between the carrying amount of the investment at the date of the loss of significant influence or of the joint control and the fair value of the residual investment and the amount received is recognised in the income statement.

The percentage stakes in associates are specified in the following table:

Company Name	Head office	Share capital (in thousands)	% holding
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Arca Holding S.p.a.	Milan	50,000	34.715
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi S.g.r.p.a.	Milan	5,200	19.600
Bormio Golf S.p.a.	Bormio	317	25.237
Lago di Como GAL S.c.r.l.	Canzo	22	28.953
Sofipo SA (1)	Lugano	(CHF) 2,000	30.000
Acquedotto dello Stelvio S.r.l. (2)	Bormio	21	27.000
Sifas S.p.a. (2)	Bolzano	1,209	21.614

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

Equity investments in wholly-owned subsidiaries with significant non-controlling interests

As at 30 June 2023, there were no wholly-owned subsidiaries with significant non-controlling interests considered significant for the Group.

Significant restrictions

Within the scope of the Banks and Companies forming the Banca Popolare di Sondrio Group's consolidation area, there are no significant restrictions as set forth in paragraph 13 of IFRS 12.

Special purpose vehicle for the securitisation of non-performing loans

Based on the provisions of IFRS 10, the Vehicle Companies Diana S.P.V. S.r.l., Pop Npls 2020

S.r.l., Pop Npls 2021 S.r.l. and Pop Npls 2022 S.r.l. specifically established pursuant to Law 130/1999, do not fall within the scope of consolidation of Banca Popolare di Sondrio. In this regard, please refer to the relevant section of the notes to the financial statements as at 31 December 2022.

Translation of financial statements in currencies other than the euro

The financial statements of Banca Popolare di Sondrio (SUISSE) SA are translated into euro at the official year-end exchange rate for balance sheet assets and liabilities, while costs and revenues are translated into euro at average exchange rate. Differences arising on translation are booked in the statement of comprehensive income.

Subsequent events of the consolidated half-year report

No events have taken place between the reference date for these condensed consolidated half-year financial statements and the date of their approval by the Board of Directors on 8 August 2023 that would require the adjustment of such approved information, and nothing of significance has occurred that would require additional disclosures. In relation to the measure of the Council of Ministers concerning the taxation of the "extra-profits" of banks (which did not affect this consolidated half-year financial report as at 30 June 2023), the Bank is waiting for the publication of the Decree, in order to assess its effects on the balance sheet.

Other aspects

New International Accounting Standards endorsed and applied in the preparation of the condensed consolidated half-year financial statements as at 30 June 2023

Below is an illustration of the new accounting standards or amendments to existing standards approved by the IASB, as well as the new interpretations or amendments to existing ones published by the IFRIC, with separate indication of those applicable in the financial year 2023 and those applicable in subsequent financial years.

There are no relevant effects from their application.

New accounting standards, amendments and interpretations, whose application has become mandatory as of 2023:

- Regulation (EU) No. 2021/2036 of 19 November 2021, amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council with regard to International Financial Reporting Standard 17. IFRS 17 – Insurance contracts published on 18 May 2017 and the amendments to IFRS 17 published on 25 June 2020. This applies from 1 January 2023. It should be noted that this standard had an indirect impact on the consolidated financial statements related to the equity valuation of investments.
- Regulation (EU) No. 357 of 2 March 2022, amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council with regard to IAS 1 (presentation of the financial statements) and IAS 8 (accounting standards, changes of accounting estimates and errors). These amendments clarify the differences between accounting principles and accounting estimates in order to ensure the consistent application of accounting principles and the comparability of financial statements. With reference to IAS 1, the IASB introduced amendments with the aim of developing guidelines and examples in the application of materiality and relevance judgments to accounting policy disclosures. In particular, information about accounting policies is material if, taken together with other information included in the entity's financial statements, it is reasonable to expect that it will influence the decisions of users of the financial statements. With regard to the amendments to IAS 8, the IASB introduced the definition of an accounting estimate. Accounting estimates are to be understood as the "monetary amounts in the financial statements subject to valuation uncertainty". The amendments are applicable from 1 January 2023, with the possibility of earlier application.
- Regulation (EU) 2022/1392 of 11 August 2022 amending Regulation (EC) No. 1126/2008 as regards International Accounting Standard IAS 12. These amendments clarify how companies should account for deferred taxes on transactions such as leases and decommissioning obligations and aim to reduce diversity in the recognition of deferred tax assets and liabilities on leases and decommissioning obligations. The amendments are applicable on or after 1 January 2023.
- Regulation (EU) 2022/1491 of 8 September 2022 amending Regulation (EC) No. 1126/2008 as regards International Financial Reporting Standard 17. This amendment relates to financial assets for which comparative information is required to be disclosed at the date of transition of IFRS 17 and IFRS 9, which, however, is not restated under IFRS 9, with the aim of avoiding temporary accounting mismatches between the valuation of financial assets and those of insurance contracts, thereby contributing to improving the relevance of comparative

information for users of financial statements. The amendments are applicable from 1 January 2023.

IAS/IFRS and SIC/IFRIC interpretations issued by the IASB/IFRIC, pending endorsement

- Amendments to IAS 1 – Presentation of Financial Statements: classification of liabilities as current or non-current. On 23 January 2020, the IASB published an amendment to IAS 1, which seeks to clarify one of the IAS 1 criteria for the classification of a liability as non-current, namely the requirement that the entity must have the right to defer settlement of the liability for at least 12 months after the end of the reporting period.
  The amendment includes:
  - clarification that the right to defer settlement must exist at the end of the reporting period;
  - clarification that classification is unaffected by management intentions or expectations about possible exercise of the deferral right;
  - clarification about how loan conditions influence classification;
  - clarification of the requirements for classifying a liability that the entity intends to settle or might settle by the transfer of its own equity instruments.

TLTRO III

The TLTRO III refinancing operation consists of a programme of ten refinancing operations, each with a three-year maturity, starting in September 2019 with a quarterly frequency, at an interest rate set at a level equal to the average interbank refinancing cost. In 2020, with the aim of further supporting lending to households and businesses, some of the parameters of existing operations were revised, with particular reference to the maximum amount that can be financed and the related remuneration. TLTRO III operations are indexed to the average interest rate on the main refinancing operations (MRO – Main Refinancing Operation rate), or alternatively, depending on the achievement of certain benchmarks, at the average interest rate on deposits at the central bank's Deposit Facility (DF).

As of 27 July 2022, the ECB ended the negative rate season in order to counter rising inflation and started a series of rate increases at a steady pace to reach levels sufficiently restrictive to ensure a timely return of inflation to the 2% target in the medium term.

The ECB also intervened by changing the way the final rate applicable to transactions is calculated, in order to normalise the cost of funding for the banking sector. In detail, the previous rate calculation methodology was applied for the period until 22 November 2022, and from 23 November 2022 the applicable interest rate was indexed to the average interbank rates applicable from that date onwards (essentially raising the applicable rate over the entire life).

With regard to the way in which these transactions are recognised in the accounts, they present such unique characteristics that they cannot be immediately attributed to a specific accounting principle.

Ordinary interest is recorded taking into account the refinancing conditions defined by the ECB as floating market rates defined within the framework of monetary policy measures, which the Governing Council may change prospectively at any time. Interest is then recognised on each occasion on the basis of the interest rate of the instrument defined as the average of the rate on outstanding deposits in each of the reference periods. This interest expense component in the first six months of 2023 amounted to EUR 131 million.

Self-securitisation - Centro delle Alpi SME s.r.l.

Credit self-securitisations are transactions carried out with the objective of achieving an improvement in liquidity risk management by optimising the amount of assets immediately available to meet liquidity needs. The Bank's direct and full underwriting of the securities issued by the vehicles, while not allowing it to obtain direct liquidity from the market, nevertheless provides securities that can be used for refinancing operations with the ECB and for repurchase agreements on the market, improving the safety margin against the liquidity risk of the parent company. These disposals did not have any economic impact on the balance sheet: receivables continue to be shown under assets, while subscribed securities are not represented.

On 16 June 2023, a securitisation transaction was finalised by the parent company as part of the management of medium- and long-term interbank funding. The transaction consisted in the non-recourse assignment of a granular portfolio of performing loans granted to SMEs, guaranteed or unsecured, amounting to EUR 1,554 million, pursuant to Law 130/1999, to the vehicle company, named Centro delle Alpi SME S.r.l., which was set up for this purpose. The transaction involved the issuance by the SPV, on 16 June 2023, of three tranches of securities for EUR 1,576 million:

- a senior tranche of EUR 1,127 million, broken down as follows:
    - Class A1 - Nominal Value = EUR 941 million
    - Class A2 - Nominal Value = EUR 73 million
    - Class A3 - Nominal Value = EUR 105 million
    - Class A4 - Nominal Value = EUR 8 million

    The above securities are rated A by the Standard & Poor's and DBRS Morningstar rating agencies. On 30 June 2023, the classes also became ECB-eligible.
- a mezzanine tranche - rated BB (high) by Standard & Poor's and BBB by DBRS Morningstar - amounting to EUR 142 million.
- a junior tranche, amounting to EUR 307 million, unrated.

The senior, mezzanine and junior securities were underwritten by Banca Popolare di Sondrio, so no derecognition was made from the balance sheet of the loans. In fact, the Group retained the credit risk associated with the securitised portfolio and the related benefits; consequently, in the separate financial statements of the originator bank, the loans continue to be recognised as "Assets sold and not derecognised"; the consideration received from the sale is recognised as a balancing entry to a payable to the vehicle company, net of the securities subscribed by the bank itself.

The transaction envisages, for a predefined period, the possibility for the bank to sell further loan portfolios to the special purpose vehicle (revolving period), which would be financed through the collections of the loans included in the purchased portfolios, or through the further drawdowns of the ABS securities issued and fully subscribed for at the time (partly paid structure).

Among the main strategic objectives pursued is that of equipping the Parent Company with an instrument capable of extending the maturities of funding and thus strengthening the correlation between the latter and the mass of medium/long-term loans, as well as that of potentially using part of these securities to diversify the sources of long-term funding.

A complex and well-structured process has been set up to meet the regulatory requirements, allowing, in particular, the calculation and monitoring of the tests required by law and contracts, verification of compliance with the requirements governing the suitability of the assets assigned, the drafting of the reports required by the regulations and the rating agencies, and performance of all the related control activities. Among the various counterparties involved for various reasons, BDO Italia Spa, the independent auditing firm and "asset monitor", is responsible for verifying the tests. The bank performs on behalf of the special purpose vehicle Centro delle Alpi SME srl the activity of "servicer", i.e. the service of management, administration and collection of mortgages; it acts on behalf of the special purpose vehicle but is the sole counterparty of the customers and, in return for this service, servicing fees are collected.

As at 30 June 2023, the value of outstanding securities subscribed by the Group was unchanged at EUR 1,127 million for senior securities, EUR 142 million for mezzanine securities and EUR 307 million for junior securities.

Risks and uncertainties related to the use of estimates

The preparation of the consolidated financial statements requires the use of estimates and judgements that may have a significant impact on the values recorded in the balance sheet and profit and loss account concerning in particular

- the quantification of impairment losses on loans and financial assets in general;
- the use of valuation models for the fair value measurement of instruments not listed in active markets;
- assessing the fairness of the value of goodwill and other intangible assets;
- the quantification of the fair value of investment properties;
- the quantification of personnel provisions and provisions for risks and charges;
- estimates of the recoverability of deferred tax assets.

The Parent Company and other Group companies defined the estimation processes to support of the carrying amount of the more significant items requiring valuation in the condensed consolidated half-year financial statements at 30 June 2023, as required by prevailing accounting standards and relevant regulation.

These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale. Specifically, with reference to the estimates that could potentially be most impacted by the current post-pandemic, geopolitical and macroeconomic context, please refer to the subsequent sections of these notes.

The outcome of this work supports the carrying amount of these items at 30 June 2023. It should be stated, however, that this valuation process was particularly complex in view of the current macroeconomic and market context, characterised by high levels of uncertainty about the prospects, and the consequent difficulty in making even short-term forecasts for these financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the macroeconomic and market environment which could experience rapid changes that are currently unforeseeable, with effects - even significant effects - on the amounts reported in the financial statements at 30 June 2023.

Statutory audit

The condensed consolidated half-year financial statements as at 30 June 2023 are subject to audit by EY S.p.A. in accordance with the shareholders' resolution of 29 April 2017, pursuant to Legislative Decree No. 39 of 27 January 2010, which appointed them as auditors for the nine-year period from 2017 to 2025.

Part relating to the main items in the financial statements

Below are the accounting policies, detailed by item, that have been adopted for the preparation of the consolidated half-year financial statements as of 30 June 2023, with reference to the classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods for recognising revenues and costs introduced by certain general elements inherent to the classification of financial assets.

Classification of financial assets

The classification of financial assets is guided, on the one hand, by the contractual characteristics of the cash flows of the instrument itself linked to the generation of cash flows represented solely by payments of principal and interest on the principal to be repaid (i.e. which involve passing the so-called “SPPI test” – “Solely Payment of Principal and Interest test”). The other factor guiding the classification of financial assets is the business model adopted, which determines whether cash flows will arise from the collection of contractual cash flows, the sale of financial assets, or both.

Held to Collect (HTC)

The objective of this business model is to hold financial assets to collect the contractual cash flows during the instrument's life. Sales are only deemed to be eligible if they are frequent but not significant, or significant but not frequent, or if due to an increase in credit risk, or if close to the maturity date of the financial asset. Frequency is measured based on the number of sales made in the period, while significance is measured based on the total amount of sales compared to the portfolio at the beginning of the period. The criteria used to determine these requisites have been included by the Group in specific internal regulations.

Banca Popolare di Sondrio Group holds the following within an HTC business model:

- Almost the entire portfolio of loans to customers and Banks, given that the Group mainly undertakes traditional banking activities and holds a loan portfolio that originates from finance granted to households, individuals and businesses;
- Fixed-yield securities that may be subjected to this business model's management logic.

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets. The Group decided not to use the HTC&S business model for receivables, but decided to use it for securities.

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 dispose of the latter or when the objective of the business model does not fall within the one 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 with management on a fair value basis.

For the securities area, the Group provides for ex-post monitoring to verify the consistency of the securities portfolio with the HTC and HTC&S business model.

SPPI Test - Solely Payment Principal Interest 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 with the aim of collecting 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 with the aim of collecting 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-wide guidelines, the Test is performed before a loan is disbursed or a security purchased (origination). Test procedures make use of the so-called 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 security from an external info provider. For amounts for which the results of the SPPI test and/or benchmark test obtained from an external info provider are not available and/or complete, the tests are performed within the Group, using the aforementioned tool.

1. Financial assets measured at fair value through profit or loss

Classification

Financial assets held for trading (fixed-yield securities, equity securities, loans, mutual funds) have been allocated to this item. It also includes the derivative contracts with a positive fair value, except those offset pursuant to IAS 32. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index, is settled on maturity and requires a limited initial net investment. If the derivative qualifies as a hedging derivative, it is recognised in the item "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 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 does not 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, equity securities, units in UCITS and loans), i.e. financial assets 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 equity securities 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). 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 (RMM);
- ABS model

The above models are used to measure performing exposures.

In the case of loans on demand or maturing in the short term, the carrying value is considered a good approximation of fair value.

Recognition of components affecting the income statement

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

Derecognition

Financial assets measured at fair value through profit or loss are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

2. Financial assets measured at fair value through other comprehensive income

Classification

This item includes all financial assets (fixed-yield securities, equity securities and loans) classified in the portfolio measured at fair value through other comprehensive income, distinguishing between those that will subsequently be reclassified to the income statement (fixed-yield securities and loans) and the ones that will not (equity securities). The following are classified in the portfolio measured at fair value through other comprehensive income:

- fixed-yield securities and loans held within an HTC&S business model and that pass the SPPI test;
- equity securities for which the FVOCI option has been irrevocably exercised upon recognition.

Recognition

Assets included in this item are recognised at the settlement date at fair value, which normally corresponds to the consideration paid to acquire them.

With regard to fixed-yield securities and loans, the Group requires any changes in the business model due to inconsistency between the way that the portfolio is managed and the business model that was chosen, or to significant changes in the strategic decisions made, to be decided by the Boards of Directors regarding each Group member, which will determine if, in rare circumstances, reclassification is needed.

No possibility exists for the reclassification of equity 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, determined in the same manner as financial assets measured at fair value through profit or loss. The 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 the areas where the Group operates (these instruments represent the majority of equities classified in this portfolio). For these investments and in consideration of the fact that the application of valuation techniques would use significant discretionary factors, valuation at cost is considered the best expression of their fair value. At each year-end or interim reporting date, fixed-yield securities classified in this item are subject to impairment testing based on a calculation framework similar to the one used for financial instruments measured at “amortised cost”. Any subsequent write-backs cannot exceed the impairment losses recorded previously.

Equities classified under this heading are not subject to impairment. Changes in value, including those related to the deterioration of creditworthiness, are recognised in a specific equity reserve.

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the difference between cost, including transaction costs, and redemption value, is recorded in the income statement.

Changes in fair value of assets, net of the related deferred tax effect, are recorded in specific equity reserve, the "Valuation reserve", consisting of "Valuation reserves: Equity securities measured at fair value through other comprehensive income" and "Valuation reserves: Financial assets (other than equity securities) measured at fair value through other comprehensive income". An exception is made for fixed-yield securities, value adjustments and reversals related to changes in credit risk, which are recognised in the income statement under item 130(b) "Net adjustments/write-backs for credit risk".

If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the write-backs relating to fixed-yield securities are reflected in the income statement, while those relating to equity securities are recorded in a specific "Valuation reserve" within equity.

Upon derecognition, the cumulative gain or loss on fixed-yield securities are recorded in the income statement while on equity securities, they are recorded in the equity reserve (item 150).

Dividends are shown under "dividends and similar income".

Derecognition

Financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

3. Financial assets measured at amortised cost

Classification

This item includes financial assets, fixed-yield securities and loans, managed through an HTC business model that have passed the SPPI Test. The following are recognised in this item:

a) amounts due from banks (current accounts, guarantee deposits, fixed-yield securities, etc.), other than those "on demand" included under "Cash and cash equivalents". 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 (e.g. distribution of financial products) and loans with central banks (e.g. reserve requirements);

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 (e.g. servicing activities).

There are also included:

- advances in respect of the assignment of receivables with recourse or without recourse without the substantial transfer of risks and rewards, and receivables acquired by the company recognised against the assigned debtor for which the substantial transfer of risks and rewards to the assignee has been recognised;
- 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. 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. The Group requires any changes in the business model due to inconsistency between the way that the portfolio is managed and the business model that was chosen, or to significant changes in the strategic decisions made, to be decided by the Boards of Directors of each Group member, which will determine if, in rare circumstances, reclassification is needed.

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value, including transaction costs, net of any repayments of principal, as increased or decreased by adjustments or write-backs 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 cost, as the calculation of the amortised cost does not produce significant differences. 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 followed by loan forbearance measures that have led to a change in the contractual rate.

At each reporting date, financial assets measured at amortised cost are subject to impairment according to the rules set forth in IFRS 9; the value adjustments made are recognised in the income statement under item "130. Net adjustments/write-backs for credit risk: a) financial assets measured at amortised cost". For the definition of value adjustments, financial assets measured at amortised cost are classified into different stages:

- Stage 1: includes performing positions for which there has been no significant increase in credit risk since the date of initial recognition;
- Stage 2: includes performing positions for which there has been a significant increase in credit risk since the date of initial recognition;
- Stage 3: non-performing positions (non-performing past-due positions, unlikely to pay, bad loans) are included.

Classification in one of the stage 3 credit-impaired categories complies with the definition of "Non-performing exposures" provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between bad loans, unlikely to pay and non-performing past due exposures. Specifically:

- Bad loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.

- Exposures classified as unlikely-to-pay loans are exposures, other than bad loans, for which the bank deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.
- Non-performing past due exposures are exposures other than bad or unlikely to pay loans, which, at the reference date, are past due and/or overdrawn continuously for more than 90 days and which exceed set absolute materiality thresholds (EUR 100 for retail exposures or EUR 500 for non-retail exposures) and relative materiality (set at one percent (1%) for both retail and non-retail exposures). Non-performing past due exposures are determined by reference to the individual debtor.

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 multi-annual 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, loans purchased or originated credit-impaired and use of the low credit risk exemption for limited and particular types of counterparties and technical forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric ("Probability of Default"), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard.

If there has been a significant change in credit risk, there will be a transfer between stages: this model is symmetrical, and assets can move between stages. In the case of positions subject to forbearance measures, it should be noted that in accordance with prudential principles, an observation period of at least two years is envisaged before the position is returned to a better stage.

The measurement of financial assets carried at amortised cost is based on a computation of expected credit loss, which is defined as an estimate of the weighted probability of credit losses over the expected life of the financial instrument weighted for the probability of occurrence and is calculated based on the classification in stages as indicated above.

In particular:

- 12-month expected credit losses, for assets classified in stage 1. 12-month expected credit losses are those that result from default events that are possible within 12 months (or within a shorter period if the expected life is less than 12 months), weighted for the probability of occurrence of the default event.
- Lifetime expected credit losses, for assets classified in stage 2 and 3. Lifetime expected credit losses are those that result from all possible default events over the expected life of the financial instrument, weighted for the probability of occurrence of the default event.

For stage 2 positions, the provisions relating to each counterparty may be increased to a level considered appropriate by the competent business functions, based on the results of applying the statistical methodology defined by the Group and specific operational information, if the theoretical expected loss does not accurately reflect the level of risk identified.

As regards performing positions, the measurement is performed on a collective 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, the measurement may be performed on a collective or detailed basis.

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 collaterals or personal guarantees assisting the loan;
- expected timing of recoveries, considering the progress made by recovery procedures;
- internal rate of return.

The specific analysis of non-performing financial assets 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.

Collective 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 a collective 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.

Collective write-downs are made using similar methodology to that applied in relation to the overall write-down of bad loans for which no specific estimate of the loss attributable to each individual relationship has been made.

These financial assets are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past. Non-performing past due 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 adjustments to be applied on a collective 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 losses arising from the established work-out process. Measurement is also performed based on the availability of appropriate information of a macroeconomic and prospective nature that is deemed significant for the estimation of the adjustments.

It should be noted that the impairment model relating to non-performing loans (Stage 3) envisaged by IFRS 9 is based on an estimate of the difference between the original contractual flows and expected cash flows. So, in determining the expected flows, it is necessary to include estimates at the reporting date of the various expected scenarios, including any loan disposal programmes and/or settlement agreements. If the entity expects to recover a portion of the cash flow of the exposures through sales procedures or settlement agreements, these can be included in the calculation of the Expected Credit Losses verified under certain conditions.

The Group incorporates the various recovery strategies considering the different probabilities that they will take place.

In the context of calculating the ECL, internal regulations require the expected loss and the recoverable value of non-performing loans to be estimated in disposal scenarios in accordance with a specific procedure, comprising several phases, that starts with identification of the scenarios.

In general, the accounting rules require the estimate of the loss on non-performing loans to reflect a range of possible outcomes for different scenarios, each associated with a specific probability of occurrence.

Currently, the following possible scenarios have been identified, each with different models and estimated outcomes:

- internal management of credit recovery activities;
- adoption of settlement agreements for a selected number of impaired positions;
- disposal to third parties of impaired exposures.

The next phase consists in identifying the portfolio to be sold, based on knowledge of its characteristics, the existence of any internal and/or external constraints, the monitoring of market conditions and any more complex strategic and operational objectives. The aggregate is defined with reference to the specific factors attributed to each position, such as their contractual characteristics (e.g. type of guarantee, ageing, size of the exposure etc.) and relevant operational information, including the type of recovery procedures already in progress, the geographical location of the counterparty, any impediments or obstacles to disposal, the strategic orientation of the group, the conditions existing from time to time in the market for the disposal of loans, the strategies adopted by competitors, and any other internal and/or external factors that can be explained appropriately.

Each operational scenario identified is assigned a specific probability of occurrence. This probability is determined on both qualitative and quantitative bases, the latter taking into account the correlation between the target and extended portfolios selected for each scenario.

The next phase involves estimating the expected loss for each scenario. The estimate of losses on non-performing loans must reflect reasonable and well-founded information, available without excessive cost or effort, including details of past events, current conditions and the economic situation expected in future. In line with the internal regulations for quantifying the loss expected on non-performing exposures, an estimate is made of the cash flows expected from each operational scenario identified. Without prejudice to specific regulatory instructions, the estimate of cash flows from internal credit management scenarios takes account of macroeconomic and sector information, the situation faced by the debtor, the cash flows expected from the debt restructuring to “unlikely-to-pay exposures”, any collaterals or personal guarantees, the period for which the position has been impaired and the expected time to obtain recovery.

The estimate of cash flow from loan disposal scenarios takes account of similar transactions carried out in the past by the group, as well as specific information available about the "underlying" (situation faced by the borrower and any loan guarantees obtained) and the market for the disposal of non-performing loans (e.g. prices of similar transactions carried out by other intermediaries and historical and forecast market curves).

The expected loss on each impaired position is therefore determined using the following formula:

Expected Loss - Individual position	=	Expected Loss Assignment Scenario * Probability of Assignment Occurrence	+	Expected loss Internal Management Scenario * Probability of occurrence of Internal Management

Recognition of components affecting the income statement

Interest income on financial assets measured at amortised cost is classified in the item "interest and similar income". As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the item "interest and similar income". Adjustments and reversals for changes in credit risk, calculated as specified above, are recognised in the income statement. Any write-backs do not exceed the (specific and general or "portfolio") impairment adjustments recorded previously.

Derecognition

Financial assets measured at amortised cost are derecognised when the contractual rights over the cash flows deriving from them expire or are closed out, or when they are sold with the transfer of substantially all the related risks and benefits, or when no control is retained over them even though substantially all the related risks and benefits are neither transferred nor retained.

IFRS 9 also includes the following provisions on:

- Write-off 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 write-down constitutes partial or total derecognition of the asset.
- Change in contractual cash flows: when a change in contractual cash flows occurs, the entity must assess whether the original asset should continue to be recognised in the financial statements or whether the original instrument should be derecognised and a new financial instrument recognised. When the modification of contractual cash flows of a financial asset is substantial, the 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 is not substantial, an entity should redetermine whether there has been a significant increase in credit risk and/or whether the financial asset should be reclassified to stage 3. At the time of a modification that does not lead to derecognition, the Group adjusts the carrying amount to the present value of the modified cash flows determined using the original effective interest rate, with a matching entry to the income statement.

3.1 Commitments and guarantees given

Classification

These comprise all the collaterals and personal guarantees given for third-party obligations and commitments to grant loans.

Recognition and measurement

Endorsement loans are valued on the basis of the riskiness of this particular form of loan, taking into account the creditworthiness of the borrower. The impairment model envisaged for this category of financial assets is the same as that for financial assets measured at amortised cost (see paragraph 3 above).

Recognition of components affecting the income statement

The commissions accrued are shown in the income statement under "fee and commission income". Impairment losses, and subsequent write-backs, are booked to the income statement under "net provisions for risks and charges" with a contra-entry to "Provisions for risks and charges - a) Commitments and guarantees given".

4. Hedging transactions

Classification and recognition

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

The portfolio of hedging derivatives comprises the derivative instruments used by the Group to neutralise or minimise the losses arising in relation to hedged assets and liabilities.

The hedging of market risks can take two different forms:

- fair value hedges, to hedge the exposure to changes in the fair value of a balance sheet item attributable to a particular risk; this also includes generic fair value hedges ("macro hedges") whose objective is to reduce fair value fluctuations, attributable to interest rate risk, of a monetary amount, arising from a portfolio of financial assets and liabilities;
- cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

If the test reveals that the hedge is not sufficiently effective, the instrument is reclassified to the trading portfolio. Hedging instruments are recorded using the "contract date" method.

For a transaction to be accounted for as a "hedging transaction", the following conditions must be met: a) the hedging must be formally documented, b) the hedge must be effective at the time it starts and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end.

Derivative hedging instruments are initially recorded at fair value on the date the contract is entered into and are classified, depending on their positive or negative value, respectively, in assets under item "50. Hedging derivatives" or on the liabilities side of the balance sheet under item "40. Hedging derivatives".

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 income statement item "90. Net hedging gain (loss)";
- hedged positions are measured by including changes in fair value attributable to the hedged risk. These changes in value are also recognised in the income statement under item "90. Net hedging gain (loss)" as balancing entry against the change in book value of the hedged item.

With regard to interest-earning financial instruments, if the hedge transaction ceases to satisfy the recognition criteria of the standard, 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; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

In the case of generic fair value hedges ("macro hedges"), changes in fair value with reference to the hedged risk of the hedged assets and liabilities are recognised in the balance sheet respectively, under item "60. Change in value of macro-hedged financial assets" or "50. Change in value of macro-hedged financial liabilities". The offsetting entry for changes in value referring to both the hedged item and the hedging instrument, like specific fair value hedges, is item "90. Net hedging gain (loss)" in the income statement. In the event of the discontinuation of a generic fair value hedging relationship, the cumulative revaluations/write-downs recognised in the balance sheet items above are recognised in the income statement under interest income or expense over the remaining term of the original hedging relationships, subject to verification that the underlying conditions are met.

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 or if the hedge is ineffective;
- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

If the hedging instrument expires or is sold, cancelled or exercised without replacement (as part of the hedging strategy), or if it ceases to be designated as a hedging instrument, or if the hedge no longer satisfies hedge accounting criteria, any gains or losses previously recognised as components of other comprehensive income remain classified separately within equity until the expected transaction takes place or the commitment made in relation to foreign currency is called upon.

Derecognition

Risk hedges cease to generate accounting effects when they expire, when they are closed out or terminated early, or when they cease to satisfy the recognition criteria.

5. Equity investments

Classification

The portfolio of equity investments comprises holdings in subsidiary companies, companies under joint control and associated companies, other than those included in the item "financial assets measured at fair value through profit or loss" in accordance with IAS 28 and IFRS 11.

Recognition, measurement criteria - recognition and measurement of components affecting the income statement and derecognition

For these aspects, reference should be made to Section "Scope and methods of consolidation".

6. Property, equipment and investment property

Classification

This item includes buildings, land, installations, furniture, equipment, furnishings and machinery. The rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

This item includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation and follow the rules laid down by IAS 40.

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

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.

Investment properties, at the time of purchase, are recorded under assets in the balance sheet at cost. In the presence of a change of use of the property from property for business use to investment property, the initial book value is equal to the fair value, deduced from a specific appraisal. The difference between the fair value and the book value of the property at the date of change in use is treated on the basis of IAS 16, i.e. if there is a negative difference between fair value and book value, the decrease is recognised in the income statement, whereas if there is a positive difference between fair value and book value, the increase in value is recognised in the income statement as income for the amount that adjusts any previously recognised decrease in value; any excess must be credited to a revaluation reserve included in equity.

According to IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset for the duration of the lease.

The start of the lease term is the date from which the lessee is authorised to exercise his right to use the leased asset, it corresponds to the date of initial recognition of the lease and also includes the so-called rent-free period, or those contractual periods in which the lessee makes use of the asset free of charge. When the asset is made available to the lessee for its use (initial date), the lessee recognises:

- an asset consisting of the right to use the asset underlying the lease contract. The asset is recognised at cost, determined by the sum of:
  - the financial liability for the lease;
  - payments for the lease paid before or on the date on which the lease takes effect (net of the lease incentives already received);
  - initial direct costs;
  - any (estimated) costs for the dismantling or restoration of the underlying leased asset.
- a financial liability deriving from the lease agreement corresponding to the present value of the payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise the lessee's incremental borrowing rate is used.

If a lease contract contains “non-lease components” (for example services, such as routine maintenance, to be recorded according to the provisions of IFRS 15) the lessee has to account for “lease components” and “non-lease components” separately and split the contract consideration between the various components based on the relative prices.

The lease term is determined by taking into account:

- periods covered by a lease extension option, if it is reasonably certain to be exercised;
- periods covered by a lease termination option, if it is reasonably certain to be exercised.

Accounting policies

Subsequent to initial recognition, property, equipment and investment property used for business purposes are measured at cost, net of depreciation and any impairment.

Depreciation is effected 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 write-backs do not exceed the impairment losses recorded previously.

Property, equipment and investment property (inventories) to which IAS 2 applies are valued at the lower of cost and net realisable value. This case is not subject to periodic depreciation.

For investment properties, falling within the scope of IAS 40, the Group adopts the fair value measurement method, whereby, following initial recognition, all investment properties are measured at fair value. Consequently, these properties are not subject to depreciation, nor are they subject to impairment testing.

With regard to lease contracts, the lessee must:

- assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36 “Impairment of assets”, adjusted to take into account any restatements of the lease liability;
- increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the

incremental borrowing rate and reduce it for payments of principal and interest. In the event of changes in payments due for leases, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

Recognition of components affecting the income statement

Periodic depreciation, impairment losses and write-backs are recorded in the "depreciation and net impairment losses on property, equipment and investment property" item of the income statement. The fair value model for investment properties requires changes in value deriving from the periodic recalculation of fair value to be recognised in the income statement as income or expenses under "Net result of fair value measurement of property, equipment and investment property and intangible assets". For the methods used to determine the fair value and the periodicity of restatement, reference should be made to the criteria illustrated in "Information on fair value" below. With regard to leasing contracts, the amortisation of the Right of Use of the asset is recognised under the item "Depreciation and net impairment losses on property, equipment and investment property", while the interest expense recognised on the financial liability related to the contract is included under the item "Interest and similar expense".

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. On disposal of an investment property, the difference between the sale consideration and the carrying amount must be recognised in the income statement, as "Gains (losses) on sale of investments". The right of use deriving from lease contracts is eliminated from the financial statements at the end of the lease term.

7. Intangible assets

Classification

This item comprises identifiable, intangible, non-monetary assets that will benefit future years. Existing intangible assets consist of software, goodwill and other intangible assets recognised in the case of business combinations as part of the acquisition cost allocation process (e.g. customer lists).

Recognition

Intangible assets are recorded at purchase cost plus any related charges, only if it is probable that the future economic benefits attributable to such assets will be realised and their cost can be measured reliably. In the absence of these conditions, the cost of the intangible asset is expensed in the period incurred; any costs incurred subsequently are only capitalised if they increase the value of or the economic benefits expected from the assets concerned. Goodwill is booked to assets when it derives from a business combination according to the criteria laid down in IFRS 3 as the residual surplus between the overall cost incurred for the operation and the net fair value of the acquired assets and liabilities that constitute businesses or business units.

Accounting policies

Subsequent to initial recognition, intangible assets except for goodwill are stated at cost, net of accumulated amortisation and any impairment. Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned. At the end of each annual or interim reporting period, if there is evidence of impairment, the recoverable value of the asset is estimated: the amount of the loss is equal to the difference between the book value and the recoverable value and is posted 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 write-backs are recorded in the "Amortisation and net impairment losses on intangible assets" or "Goodwill adjustments" item of the income statement. For goodwill, it is not permitted to book any subsequent write-backs.

Derecognition

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

8. Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally from sale rather than from continuous use. Non-current assets are only classified in this item when disposal is considered highly probable, and the asset or disposal group is available for immediate sale in its current condition, given that Management is committed to making the sale, which should be scheduled for completion within one year of the classification date. They are measured at the lower of book value and fair value, net of selling costs. The results of the valuation are posted in the relevant items of the income statement or in the item "Profit (Loss) from discontinued operations after tax" if these are discontinued operations.

9. Current and deferred taxation

Tax receivables and payables are reported in the balance sheet as "Tax assets" and "Tax liabilities". Current taxes include advance payments (current assets) and amounts due (current liabilities) in relation to income taxes for the year, if these amounts are likely to be recovered from or paid to the tax authorities. Tax liabilities are determined by applying the current tax rates and regulations.

The estimate of tax assets and liabilities takes into account any charges deriving from disputes notified by the Tax Authorities and not yet settled or whose outcome is uncertain, as well as any doubts about the tax treatment adopted by the Company and other Group companies, given the complexity of tax legislation.

If there are deductible or taxable temporary differences between the value of assets and liabilities for tax purposes and the related book values, the corresponding deferred tax assets and liabilities are recognised using the liability method. Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions:

- deferred tax liabilities deriving from the initial recognition of goodwill, or an asset or liability, in a transaction that does not represent a business combination and that, at the time, does not influence the results reported for statutory and tax purposes;
- the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future.

Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions:

- the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that does not represent a business combination and that, at the time, does not influence the results reported for statutory and tax purposes;
- in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them.

Law No. 214/2011 allows, under certain situations, certain types of deferred tax assets recognised in the financial statements to be transformed into tax credits, such as those related to adjustments/reversals of impairment losses on receivables.

No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply. Deferred tax assets are only recognised when their recovery in future years is reasonably certain.

Deferred tax assets determined on the basis of deductible temporary differences are recognised in the financial statements to the extent that there is a probability of their recovery; this probability is assessed, through the performance of the so-called "Probability test", based on the ability to continuously generate positive taxable income for the Group or, as a result of the "Tax Consolidation" option, for the group of participating companies. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal.

Deferred tax assets/liabilities are calculated using the tax rates expected to be in force when they reverse or expire, considering the rates currently in force or those already communicated or substantially in force at the reporting date.

Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This item includes the following provisions:

- The sub-item "commitments and guarantees given" includes provisions for credit risk in connection with commitments to grant loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.
- Sub-item "Pensions and similar obligations" only includes the supplementary defined

benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other "external" supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed. These include:

- The 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.

- The sub-item "Other provisions for risks and charges" includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
  - the company has a present obligation (legal or constructive) as a result of a past event at the reporting date;
  - it is likely that settlement of the obligation will involve the use of economic resources;
  - a reliable estimate can be made of the amount necessary to settle the obligation.

These provisions are stated at their present value if recognition of the time value of money has a significant effect (settlements to be made more than 12 months after the date of recognition).

11. Financial liabilities measured at amortised cost

Classification

This 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 items 20. "Financial liabilities held for trading" and 30 "Financial liabilities designated at fair value". It also includes operating payables linked to the financial services and activities defined in the Consolidated Banking Act and the Consolidated Finance Act, variation margins with clearing houses arising from derivative transactions and other operating payables associated with the provision of financial services. Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the Group's activities by customers and other banks, or by the issue of securities. They also include payables recorded by the company as a lessee in the context of lease transactions.

Recognition

These financial liabilities are recorded using the settlement date method. They are initially recognised at their fair value, which is usually represented by the amount collected. The initial recognition value includes transaction costs, while all charges that are recovered from the creditor counterparty or that are attributable to internal administrative costs are not included. 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 from those of the host financial liability and that the derivatives can be configured as autonomous derivative contracts.

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Amortised cost is calculated after identifying the acquisition discount or premium and the fees or costs that are an integral part of the effective interest rate. Short-term liabilities are stated at the amount collected. Liabilities covered by effective hedges are measured in accordance with the regulations applying to such transactions.

Lease payables are revalued when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

Recognition of components affecting the income statement

Interest expense linked to funding instruments, calculated with the internal rate of return method, 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".

Interest expense on the financial liability under the lease contract is recorded in "Interest and similar expense".

Derecognition

Financial liabilities are derecognised when the underlying obligations expire or are settled, cancelled or satisfied. Funding liabilities that are subsequently repurchased are derecognised from the financial statements.

12. Financial liabilities held for trading

This item 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, derecognition, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

13. Financial liabilities measured at fair value

Currently, the Group does not classify liabilities in the balance sheet as financial liabilities measured at fair value.

14. Currency transactions

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

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

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

Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the valuation reserves.

Derecognition

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

15. Termination indemnities

Termination indemnities are considered a defined benefit obligation and, therefore, as required by IAS 19, the value of the obligation is determined using the projected unit credit method.

Under this method, each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses of 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 Legislative Decree No. 252 of 5 December 2005, the termination indemnities accrued up to 31/12/2006 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.

The termination indemnities earned after 31 December 2006 are part of defined contributions plans. The Group recognises the contributions payable to these plans as a liability on an accruals basis, after deducting any contributions already paid to supplementary pension funds and to the INPS treasury fund in relation to the work performed by employees, with a matching entry to the income statement.

It is also noted that, 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.

16. Other information

Share-based payments – Transactions settled using equity instruments

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives. The cost of transactions settled using equity instruments is represented by their fair value at the grant date, as determined using an appropriate method of measurement. This cost and the corresponding increase in equity is recognised as a payroll cost over the period in which the conditions for achieving the objectives and/or providing the service are satisfied. The transaction costs already accumulated at each reporting date prior to the vesting date are projected forward to the vesting date, together with the best estimate of the number of equity instruments that will actually vest. The cost or income recognised in the income statement represents the change in accumulated cost between the start and the end of the year. The service or performance conditions are ignored when the fair value of the plan is determined at the grant date. However, the probability that these conditions will be satisfied is considered when estimating the number of equity instruments that will actually vest. Market conditions are reflected in the fair value determined at the grant date. All other plan conditions that do not involve a service obligation are not considered to be vesting conditions. Non-vesting conditions are reflected in the fair value of the plan and result in immediate recognition of the cost of the plan, unless service or performance conditions must also be satisfied.

Revenue Recognition

In compliance with the provisions of IFRS 15, revenue arises from the transfer of goods or services to the customer and is recognised at an amount that reflects the consideration that the Group deems it is entitled to in exchange for the above goods or services using a five-step model (identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue when the entity satisfies a performance obligation).

Revenue from contracts with customers is recognised in profit or loss when it is probable that an entity will receive the consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. The consideration is allocated to individual performance obligations in the contract and is recognised in profit or loss based on the timing of the satisfaction of performance obligations. More specifically, revenue is recognised in profit or loss either at a point in time or over time as and when the entity satisfies its performance obligations. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both. The contractual consideration may vary as a result of price concessions, discounts, rebates, incentives or other similar items and may be contingent on the occurrence or non-occurrence of a future event. In the presence of variable consideration, revenue is recognised in profit or loss if it is possible to reliably estimate the revenue and only if it is highly probable that the entire consideration, or a significant part thereof, will not be subsequently reversed from profit or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements. The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to. The amount of commission recognised on the placement of products is adjusted to take account of any variable revenues that might have to be returned in future. The revenues earned on current accounts are recognised after allocation to the individual products or services comprising the stand-alone package.

Recognition of costs

Costs are recognised in the income statement in the period in which they are incurred on an accrual basis. Costs related to obtaining and fulfilling contracts with customers are recognised in the Income Statement in the periods in which the relevant revenues are recognised. If costs cannot be associated with revenues, they are immediately recognised in the income statement.

Revenues and costs related to financial instruments

With reference to income and expenses related to financial assets/liabilities, it should be noted that:

- interest is recognised pro rata temporis based on the contractual interest rate or the effective interest rate if amortised cost is applied. Interest income and interest expense also include differentials or margins, positive or negative, accrued up to the reporting date, relating to:
    - financial derivative contracts to hedge interest-bearing assets and liabilities;
    - derivative contracts classified in the balance sheet as trading instruments, but managerially linked to financial assets and/or liabilities designated at fair value, in accordance with IFRS 9;
    - derivative contracts operationally related to financial assets and liabilities classified in the balance sheet as trading instruments or operationally related to "other financial assets mandatorily measured at fair value" and which provide for the settlement of differentials or margins at multiple maturities;
- default interest on bad loans is recognised in the profit and loss account at the time of actual collection;
- fees for revenues from services are recognised, based on the existence of contractual agreements, in the period in which the services were rendered, with the exception of fees considered in amortised cost for the purpose of determining the effective interest rate;
- dividends are recognised in the Income Statement when paid;
- gains and losses arising from the trading of financial instruments are recognised in the Income Statement, or in equity in the case of equity instruments for which designation at fair value with impact on comprehensive income, when the sale is completed, based on the difference between the consideration paid or received and the carrying value of the instruments.

Accounting treatment of tax credits connected with the "*Cura Italia*" ("Cure Italy") and "*Rilancio*" ("Relaunch") Decrees.

Laws Decrees No. 18/2020 ("Cure Italy Decree") and No. 34/2020 (so-called "Relaunch Decree") have provided for a series of measures aimed at supporting Italian individuals and businesses in their relaunch following the Covid-19 emergency, including tax incentives related to expenses incurred for specific interventions that can be used in the form of tax deductions or tax credits. These tax incentives are applied to households or businesses, they are commensurate with a percentage of the expenditure incurred (which in some cases even reaches 110%) and are disbursed in the form of tax credits or tax deductions (with an option to convert them into tax credits). With a view to helping to support families and businesses, the Group launched a specific project aimed at acquiring these tax credits in the second half of 2020.

The main features of these tax credits are:

- the possibility of offsetting taxes and contributions according to the same rules as for use by the original Beneficiary;
- transferability to third-party purchasers;
- non-refundability by the Treasury in the event of non-use within the prescribed time-frame.

The accounting was done in accordance with international accounting standards and in line with the provisions of Bank of Italy/ Consob/ Ivass Document No. 9 ("Accounting treatment of tax credits related to the "Cure Italy" and "Relaunch" Law Decrees acquired following disposal by direct beneficiaries or previous purchasers") issued on 5 January 2021.

Based on the document issued, the purchased tax credits do not represent tax assets, government grants, intangible assets or financial assets, so the most appropriate classification in the balance sheet is "other assets".

At the time of initial recognition, the tax credit is recognised at the price of the transaction (value corresponding to its fair value). For subsequent valuations, the provisions of IFRS 9 are expected to be applied.

In view of the expanded business possibility (purchase of tax credits for possible later disposal), the group opted to complement the HTC business model with the HTCS model.

The HTC business model envisages that the measurement subsequent to initial recognition of the loan takes place at amortised cost using the effective interest rate determined at the time of initial recognition, while the HTCS business model envisages that the measurement subsequent to initial recognition of the loan takes place at fair value with a balancing entry in comprehensive income.

No expected loss is calculated on these receivables because there is no counterparty credit risk considering that the realisation of the receivable takes place by offsetting or in cash in the case of assignment.

Treasury shares

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

Cash and cash equivalents

The item Cash and cash equivalents includes cash and all receivables "on demand", in the technical forms of current accounts and deposits, from banks and central banks (with the exception of the reserve requirement). In the income statement, net credit risk adjustments/write-backs related to the above-mentioned loans to banks and central banks 'on demand' are recognised under item 130. "Net adjustments/write-backs for credit risk".

Repurchase agreements, securities lending and carry-overs

Repurchase agreements or contangos, whereby the Group sells securities to third parties with the obligation to repurchase them at the maturity date of the transactions at a predetermined price, are recorded under liabilities to banks or to customers depending on the counterparty. Similarly, repurchase agreements or contangos, whereby the Group purchases securities from third parties with the obligation to resell them at the maturity date of the transactions at a predetermined price, are accounted for as loans to banks or customers (accounting category of "Financial assets measured at amortised cost"), depending on the counterparty. The difference between the spot and forward prices of these transactions is accounted for as interest and recorded on an accrual basis over the life of the transaction. Securities lending transactions in which the collateral is cash that is fully available to the lender are recognised in the financial statements in the same way as the aforementioned repurchase agreements. In the case of securities lending transactions with collateral in the form of other securities, or without collateral, the lender and borrower continue to recognise in the assets side of the balance sheet, respectively, the security lent and the security given as collateral. The remuneration for such operations is recognised by the lender under item "40. Fee and commission income" and by the borrower under item "50. Fee and commission expense".

Business combinations

Business combinations are accounted for using the purchase method. The total cost of an acquisition is the sum of the consideration paid, measured at fair value at the acquisition date, and the non-controlling interest in the company acquired. For each business combination, the Group defines whether to measure the non-controlling interest at fair value or in proportion to the non-controlling interest in the identifiable net assets of the company acquired. Acquisition costs are written off during the year and classified under administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets acquired or the liabilities assumed in accordance with the contractual terms, the economic conditions and other pertinent conditions that exist at the acquisition date.

Any contingent consideration is recognised by the purchaser at fair value at the acquisition date. The contingent amount classified as equity is not remeasured and its subsequent payment is accounted for with a balancing entry in the income statement. The change in the fair value of the contingent amount classified as an asset or liability, as a financial instrument covered by IFRS 9 Financial instruments must be recognised in the income statement in accordance with IFRS 9. The contingent amount that does not fall within the scope of IFRS 9 is measured at fair value at the reporting date and changes in fair value are recognised in the income statement.

Goodwill is initially recognised at cost represented by the excess of the sum paid and the amount recorded for non-controlling interests with respect to the identifiable net assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the sum paid, the Group checks again whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to determine the amount to be recognised at the acquisition date. If the new valuation still shows a fair value of the net assets acquired that is higher than the consideration, the difference (a gain) is recognised in the income statement.

After initial recognition, goodwill is valued at cost net of accumulated impairment losses. For the purpose of the impairment test, the goodwill acquired in a business combination is allocated, from the acquisition date, to each cash generating unit (CGU) of the Group which is expected to benefit from the synergies of the combination, regardless of the fact that other assets or liabilities of the acquired entity may be assigned to these units.

If goodwill has been allocated to a CGU and the company disposes of part of its assets, the goodwill associated with the asset disposed of is included in the carrying amount of the asset when determining the gain or loss on disposal. The goodwill associated with the operation disposed of is determined on the basis of the relative values of the disposed operation and the portion of the cash-generating unit retained.

Impairment testing is carried out annually by determining the value in use or the fair value of the assets and verifying that the value at which the intangible asset or investment is recorded in the financial statements is lower than the value in use or the fair value, whichever is the higher, less costs to sell.

At 30 June 2023, the goodwill recorded relating to Factorit S.p.A., whose acquisition took place in 2010, Prestinuova S.p.a. acquired on 23 July 2018 and Rent2Go whose acquisition was completed on 1 April 2022, amount to a total of EUR 17 million. The last impairment test of these assets was carried out on 31 December 2022 and did not highlight the need to carry out any write-down of the carrying amounts. With reference to 30 June 2023, the need for a new impairment test did not arise as no signs of impairment were identified. Please refer to these notes under the section "Information on the consolidated balance sheet", subsection "intangible assets" for more details.

Significant accounting standards and uncertainties in the use of estimates in the preparation of consolidated financial statements (pursuant to IAS 1 and the recommendations in Bank of Italy/Consob/Isvap Document No. 2 of 6 February 2009 and No. 4 of 3 March 2010)

As stated previously, the adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the financial statements and the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Group considers all available information at the reporting date, as well as any reasonable assumptions based on external evidence and its own historical experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the Group. The results reported in future might, in fact, also differ from the estimates made when preparing the interim financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities might become necessary that are currently unforeseeable and cannot be estimated.

The principal uncertainties at this time, with a potential impact on the future operating scenarios that unfold for the Group, include the direct and indirect adverse consequences for the Italian and global economies linked to the evolution of the geopolitical and macroeconomic context.

In relation to the Russian invasion of Ukraine, which took place at the end of February 2022, it should be noted that it led to a drastic worsening of the macroeconomic environment and recovery forecasts. In particular, the conflict had a negative impact on the global economy through rising commodity and energy prices. This added inflationary pressures, imposing a difficult balancing act on central banks in their attempt to keep inflation under control without triggering a recession. In this context, characterised by continued uncertainty over the macroeconomic outlook, the Group maintained the controls already in place in previous quarters, reinforcing them with additional specific credit risk monitoring activities.

In this respect, in addition to the safeguards already in place, a specific monitoring activity of companies operating in the sectors with the highest consumption of energy and natural gas was activated in order to identify those with potential elements of increased credit risk.

There were no regulatory changes in 2023, so the classifications and valuations were made in continuity with the 2022 Financial Statements, to which reference should be made for detailed information on the regulatory changes and how they were applied by the Group.

- **ECL – Expected credit losses**

With reference to the methodological framework used by the Group to quantify the expected losses on performing loans during 2023, we note the usual updating of the macroeconomic scenario parameters and the weight factors associated with them based on the latest forecasts available, including the changed macroeconomic and geopolitical context resulting from the explosion of the Russian-Ukrainian conflict.

With specific reference to the explicit modelling of the prospective and scenario-dependency components postulated by the accounting standard, it is specified that a plurality of macroeconomic scenarios were adopted for the calculation of the write-downs of June 2023:

- a baseline scenario, corresponding to the equivalent scenario released by the official supplier at the time of the last available forecast report at the time of the write-down calculation;
- a (slightly) adverse scenario, corresponding to the same scenario released by the official supplier on the occasion of the last forecast report available at the time of calculation of the write-down;
- an extremely adverse scenario, corresponding to the same scenario released by the official supplier on the occasion of the last forecast report available at the time of calculation of the write-downs.

On the other hand, as regards the probabilistic coefficients assigned to the individual scenarios when weighting the scenario-dependent ECL, the baseline scenario is assigned, by reason of its nature, the prevailing weight factor (equal to 65%), where the alternative scenarios enter with weight factors respectively equal to 25% and 10%.

With reference to the methodological approach used by the Group for the quantification of expected losses on performing loans, a number of changes are to be reported in the modelling of expected loss estimation. They concerned the stage allocation framework, in which the introduction of an additional absolute criterion and the reshaping of the threshold level of the absolute PD-backstop criterion and the ECL override criterion are worth mentioning.

During the first half of the year, the specific modelling of forward-looking information (FLI) was updated and fine-tuned. Worthy of mention in this context is the definition of the in-model adjustment for the suite of statistical-econometric models, developed according to a data-driven methodology, aimed at modelling the evolutionary dynamics of risk parameters for all macroeconomic scenarios in an explicitly prospective manner.

The lists of counterparties considered to be “high risk” positions for which a prudential reclassification to Stage 2 was temporarily assessed were updated, with particular reference both to the updating of the positions pertaining to the cases already present therein and to the addition to the latter of the positions affected by the recent events in Emilia-Romagna.

Lastly, specific activities were carried out to recalibrate and refine the management overlays, with particular reference to updating the geo-sector multipliers in light of the new macroeconomic forecasts published, to the definition and quantification of a specific “ESG add-on” to incorporate new risk factors such as climate and environment risk, and to the recalibration and refinement of the prudential add-on and its contextual remapping into a plurality of specific add-ons (model-related overlays), aimed at addressing all specific areas in a precise manner. These activities will also continue in order to take into account the recommendations of the Supervisory Authority.

Overall, these revisions resulted in a level of collective write-downs regarding loans with customers on-balance sheet of EUR 173 million at 30 June 2023 compared to EUR 146 million at 31 December 2022.

In any case, it cannot be excluded that the introduction of different methodologies, parameters and assumptions in determining the recoverable value of the Group's performing credit exposures – also influenced by the evolution of the economic-financial and regulatory context of reference – could lead to valuations that are different from those carried out for the purpose of the drafting of the financial statements at 30 June 2023. For further details, please refer to the section “Information on risks and related hedging policies” subsection “Methods for measuring expected losses” in these notes.

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

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

Refer to as outlined in these notes to the financial statements for qualitative and quantitative information on the methods adopted to determine the carrying amounts of instruments measured at fair value and those measured at amortised cost.

With regard to equity investments consolidated using the equity method, the Group did not identify any signs of impairment. The draft financial statements and updated business plans of the companies concerned might not be available, which would increase the uncertainties involved in measuring their value. In such cases, the carrying amounts assigned to the equity investments concerned, based on the available information, might differ from subsequent measurements made on the basis of different information that becomes available.

- **Deferred tax assets and valuation of liabilities associated with employee benefits**

The assets shown in the Group's balance sheet include deferred tax assets, which principally derive from temporary differences between the date of recognition of costs in the income statement and the date on which they become tax deductible and, to a lesser extent, from tax losses carried forward. Taking into account the updated macroeconomic projections with respect to the provisions of the business plan approved in June 2022, the conclusions of the probability test performed as at 31 December 2022, which did not reveal any critical issues concerning the recoverability of DTA, can be considered confirmed. The measurement of the liability for employee benefits involves a certain degree of complexity, especially with regard to defined benefit plans and other long-term benefits, given that this involves making actuarial assumptions of a demographic (e.g. mortality rate, employee turnover) and financial (e.g. discount rates and inflation rates) nature. In these Notes, an analysis of the sensitivity to changes in the main actuarial assumptions included in the calculation model was carried out for company defined benefit pensions.

Transfer of financial assets held for trading

As in the previous year, the Group did not carry out any reclassifications of financial assets. In the first half of 2023, as in the previous year, there were no changes to the Banca Popolare di Sondrio Group's “business model”, i.e. the way in which the Group manages financial instruments.

INFORMATION ON FAIR VALUE

Qualitative information

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

IFRS 13 requires the measurement of default risk in determining the fair value of OTC derivatives. This risk relates to changes in the credit rating of both the counterparty and the issuer. Accordingly, a model for the measurement of this component of risk has been devised and is used to adjust the simple market value of the instrument.

With regard to derivatives with positive mark-to-market adjustments, the risk component is known as the Credit Value Adjustment (CVA) and represents the potential loss associated with the counterparty credit risk, while the Debit Value Adjustment (DVA) quantifies the issuer risk in relation to instruments with negative mark-to-market adjustments.

These price adjustments are obtained according to a model-based approach derived from the possibility of default by both the counterparties and the bank itself, as well as additional representative cost/cost components associated with the transaction. The Credit Valuation Adjustment represents the fair value adjustment due to the risk that the counterparty will default at a time when the Group has a positive exposure to it. It therefore takes on a negative sign and represents a valuation component that therefore decreases the positive fair value of the instrument. The Debt Valuation Adjustment represents the fair value adjustment that considers the consequences on counterparties of a possible bankruptcy of the Group. In contrast to the CVA, it represents a positive adjustment that therefore decreases the negative fair value of the instrument.

If a specific CSA (Credit Support Annex) agreement has been concluded with the counterparty and a cash deposit has therefore been given or taken as security, the value of the instrument is not adjusted for the CVA/DVA component. The accounting CVA/DVA for derivative instruments is then calculated as the product of the fair value of the position, the cumulative probability of default and the 1's complement of the recovery rate (RR). These adjustments are calculated daily directly in the applications that manage the derivative positions held by the Group.

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

Inputs for determining level 2 fair value include: prices quoted for similar assets or liabilities listed in active markets, prices quoted 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 fair value inputs are unobservable market values for the asset or liability and must be used to measure fair value to the extent that relevant 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 on the market derive from internal estimates and valuations based on pricing models that privilege the examination 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.

Derivatives

OTC derivative instruments, for which there are no publicly formulated quotations by independent third parties and which are typically contracts signed bilaterally between the bank and another financial counterparty, are valued by means of appropriate pricing models and classified in Level 2 or Level 3 (if significant assumptions and/or unobservable market parameters are to be used) of the fair value hierarchy. In particular, all derivative instruments can be reduced to two categories:

- Derivative instruments with a symmetric profile, which have as their underlying a transaction that is certain to occur on a specified maturity date (or dates) and which provide for simultaneous actions and identical positions (in terms of value and risk) for both counterparties. This category includes plain vanilla futures, forwards and swaps on all types of traded underlyings. Such instruments are typically valued using a Discounted Cash Flow model, which discounts, at a risk-free rate, the cash flows implicit in the contract.
- Derivative instruments with an asymmetric profile, which have as their underlying a transaction that may occur (or not occur) at the discretion of one of the counterparties. Specifically, there is one counterparty, which buys the right and which will have the discretion to activate the underlying transaction on the specified maturity date(s), while the other counterparty, which sells the right, will be subject to the buyer's decision.

This category of derivative instruments, to which all types of options belong, requires calculation models based on the volatility of the underlying, with the possible use of models based on numerical methods in the case of the presence of path-dependent elements with respect to the expected evolution of the value of the underlying or exotic elements in the determination of the payoff.

Loans and receivables

The method of measuring loans and receivables at fair value, where parameters relating to credit risk that can be inferred from market prices cannot be used, results in the instrument being classified in Level 3 of the fair value hierarchy. In general, the calculation of the fair value for these loans is carried out by means of a DCF model, whereby the individual cash flows associated with the individual maturities, stripped of the unrecoverable component related to the counterparty's credit risk, are discounted at a risk-free rate plus a premium for the illiquidity of the instrument itself. The cash flows at the individual payment date are determined from the contractual flows and take into account, where relevant, both anticipatory early redemption dynamics and the modelling of any optional components linked to the indexation of the flows. For receivables on demand or without contractual maturity, the net book value is considered the best approximation of fair value. Due to their particular contractual structure and risk profile, Mortgage Life Loans (PIV) have a specific valuation model that is more focused on the value of the property being financed.

With regard to tax receivables classified under Other Assets in the balance sheet, pending the consolidation of a market practice in terms of valuation, the fair value estimate is calculated using a 'basic' method, which replicates the DCF model previously set out. Possible refinements of the valuation model may depend on the observation of comparable transactions in the market, e.g. size, activity levels, time proximity to the assets being valued.

UCI funds

Undertakings for Collective Investment (UCI) are financial intermediaries that collect private savings and invest them on the basis of specific management rules, structured with reference to specific limits in terms of risk, asset allocation, concentration and exposure.

UCI generally have segregated assets that are usually dynamically managed and their composition is usually only partially known to investors. The Management Entity shall publish an estimate of the overall net value of the assets of the UCI (denominated Net Asset Value or NAV) with a frequency established by the internal regulations of the UCI, from which the theoretical value of each unit is calculated.

The risk and return profile of an investment in UCI is highly variable, depending on the characteristics and form of the UCI itself, the type of legislation to which it is subject, the type of investments it makes, and the possibilities for disposing of the units held. Most of the factors related to the risk and return profile of the units of a UCI are reflected in the valuation of the assets and, consequently, in the NAV value produced and disclosed by the Management Entity, which is the basis for determining the fair value of the units themselves. However, there may be elements of risk that are not perfectly or fully reflected in the NAV and therefore require appropriate adjustments to be made to the NAV to identify fair value. This is particularly the case for UCI with the following characteristics:

- Closed-ended UCI - unlike open-ended UCI, do not allow investors to obtain (at any time) the immediate disposal of their units. Therefore, such disinvestment is only possible by reselling one's shares to a third party, which normally entails long lead times and high transaction costs.
- UCI whose NAV does not represent the fair value of the underlying assets - certain types of UCI, based on the relevant legislation, may adopt NAV valuation criteria that do not correspond to the valuation criteria that would be used to determine the fair value of the underlying investments. This category includes, for example, funds investing in private equity (whose investments are often valued at the lower of cost or market), those investing in private debt (normally valued at cost subject to impairment), and funds of NPEs, which sometimes value the underlying loans by discounting expected recoveries against rates that are far from market rates. In all these situations, it may be appropriate to make an adjustment to the NAV to realign it to the potential fair value.
- UCIs with infrequent NAV publication - some types of UCIs, especially closed-end UCIs and UCIs with illiquid underlying assets provide NAV calculation with limited frequency. Consequently, the value expressed by the latest available NAV could also be significantly different (as it is not up-to-date) from the actual value at current prices of the assets of the UCI itself. Again, it may be appropriate to make adjustments to the NAV to determine fair value.

Equity investments and other equity securities

If Level 1 and Level 2 price sources are not available, fair value is determined using an ad-hoc valuation model, specifically defined with respect to the characteristics of the instrument in question and the financial information available at the time of valuation. In that case, the instrument will be classified as Level 3 in the fair value hierarchy. In such circumstances, specific valuation approaches and methodologies are used, developed ad-hoc by the Pricing and Valuation Models Office in accordance with best practices and industry literature in the field of valuation and financial modelling, which can be categorised into the following two macro-typologies of analytical and empirical valuation methods. The analytical methods are usually used as the main valuation approach, if no direct transactions on the company being valued can be detected, referring to the transfer of a significant portion of the share capital between independent market counterparties in a reasonably close time span. These methodologies estimate the value of a company by analysing its fundamentals to determine the inputs (such as cash flows, income, assets, etc.) on which the valuation is based. Analytical methods differ from empirical methods (described below), which estimate the value of a company by relying on the prices of comparable companies on the market.

For unlisted equities with observable inputs, but for which the most recent information available to measure their fair value is insufficient, the best estimate was made considering their adjusted equity value.

Non-financial assets measured at fair value on a recurring basis:

For the Banca Popolare di Sondrio Group, non-financial assets measured at fair value on a recurring basis are represented by real estate assets held for investment purposes measured at fair value on the basis of the provisions of IAS 40.

The fair value of properties held for investment purposes is determined through the use of special appraisals prepared by independent companies, professionally qualified and operating in the specific sector, capable of providing property valuations based on RICS Valuation standards.

These standards ensure that:

- the fair value is determined in accordance with the indications of the international accounting standard IFRS 13, i.e. it represents the estimated amount for which an asset would be sold and purchased, at the date of valuation, by a seller and a buyer with no special ties, both interested in the purchase and sale, at competitive conditions, after adequate marketing in which the parties have both acted in an informed, conscious and non-coerced manner;
- experts have professional, ethical and independence requirements in line with international and European standards.

For properties of a significant amount, i.e. properties with a value of more than EUR 5 million, a "full" appraisal is envisaged, i.e. conducted by means of an inspection of the property, as well as a detailed analysis of the available documentation. For the remaining properties, however, it is possible to have recourse to a "drive-by" type appraisal, that is, based on the examination of the documentation as well as through an external inspection of the unit being appraised.

Taking into account that for real estate held for investment purposes the measurement criterion is fair value, the value is determined on the basis of annual appraisals.

Processes and sensitivity of the measurements

The Group determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs that can be used, financial instruments are classified as Level 1, Level 2, Level 3. Financial instruments that are quoted in active markets for which the fair value is assumed based on official market quotations are classified in Level 1. 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 are different from 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 income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

a) the future cash flows deriving from the asset or liability to be measured;

b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;

c) the rate applicable to risk-free monetary assets of similar duration;

d) the risk premium;

e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

Level 3 financial instruments are those whose inputs are not observable. In this case, the best information available in the specific circumstances is used, including all reasonably available information about the assumptions adopted by market operators.

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful. With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the Group's portfolio of financial assets and considering that the Level 3 instruments contained in the portfolio of financial assets largely comprise securities carried according to models whose inputs are specific to the entity being valued (for example, the assets of the company) or through prices of previous transactions, without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

As regards the Asset Backed Securities (ABS) present in the portfolio, deriving from the securitisations of bad loan portfolios, the analyses and assessments were carried out on the basis of the most recent information available and following the waterfall structure for modelling the cash flows of the securitisations. From our analyses, no elements emerged that would justify a change in the fair value of the tranches with respect to the values currently recorded in the financial statements.

There are also in portfolio units of funds deriving from corporate loan restructuring, whose measurement at fair value is carried out on the basis of the NAV, corrected if necessary to take into account the investment's poor liquidity.

The instruments classified at level 3, for which non-observable quantitative inputs are used in the determination of the fair value, are largely attributable to financial instruments that did not pass the SPPI test envisaged for the classification of financial assets by IFRS 9. The fair value of most of these financial instruments is determined through a Discounted Cash Flow model or, for revocable products, set equal to the gross exposure adjusted for the credit risk loss component. The economic results do not fluctuate significantly on changes in the unobservable risk parameters. In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.10% under the adverse scenario and lower by 0.27% under the extremal scenario). The changes were very limited because the credit risk associated with most of these instruments is low;

b) analysis of the sensitivity to changes in the LGD (Loss Given default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (fair value lower by 0.17% under the adverse scenario and higher by 0.09% under the favourable scenario). Here too, the changes were very limited because the credit risk associated with most of these instruments is low;

c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by -1.88% following an increase in the rate curves and, conversely, increased by +2.58% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The fair value, with and without the application of the shock, may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low;

d) sensitivity analysis to quantify the effect of modelling explicitly the illiquidity and funding spread component. If this component is not modelled explicitly, the change in fair value is +1.03%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is -2.32% if the rate curves are shifted up, and +2.41% if they are shifted down.

Fair value hierarchy

For the measurement of fair value, IFRS 13 makes use of the hierarchy of criteria concept introduced in an amendment to IFRS 7, adopted by Regulation 1165 of 27/11/2009, which required the classification of measurements using a hierarchy of levels that reflect the meaningfulness of the inputs used. These levels are:

a) prices (without adjustments) on active markets for the assets and liabilities being measured (level 1);

b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);

c) inputs not based on 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, its previous classification is no longer consistent with the inputs used.

Fair value hierarchy of real estate assets

The fair value of real estate held for investment purposes is classified at level 3 in the fair value hierarchy under IFRS 13, as it is determined using valuation techniques for which one of the significant inputs is not based on observable market data.

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 designated at fair value on a recurring basis: breakdown by fair value levels

	30/06/2023			31/12/2022		
Financial assets/liabilities measured at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	**130,548**	**146,196**	**469,468**	**151,249**	**600,327**	**502,492**
a) financial assets held for trading	75,498	109,866	580	102,157	77,507	-
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	55,050	36,330	468,888	49,092	522,820	502,492
2. Financial assets measured at fair value through other comprehensive income	**2,625,474**	**-**	**106,507**	**2,462,529**	**-**	**93,175**
3. Hedging derivatives	**-**	**541**	**-**	**-**	**248**	**-**
4. Property, equipment and investment property	**-**	**-**	**82,986**	**-**	**-**	**84,476**
5. Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,756,022**	**146,737**	**658,961**	**2,613,778**	**600,575**	**680,143**
1. Financial liabilities held for trading	**499**	**40,950**	**-**	**9**	**115,862**	**-**
2. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**
3. Hedging derivatives	**-**	**179**	**-**	**-**	**227**	**-**
Total	**499**	**41,129**	**-**	**9**	**116,089**	**-**

There were limited transfers of financial instruments between the three fair value levels during the year.

The impact of the CVA (Credit value adjustment) and DVA (Debit value adjustment) on the determination of the fair value of derivative products is not significant, not least because most of the exposures are covered by credit support annexes (CSA).

Annual changes in assets carried at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. Opening balance	**502,492**	**-**	**-**	**502,492**	**93,175**	**-**	**84,476**	**-**
2. Increases	**47,453**	**5,700**	**-**	**41,753**	**19,180**	**-**	**-**	**-**
2.1. Purchases	29,850	5,097	-	24,753	362	-	-	-
2.2. Profits recognised in:	7,748	31	-	7,717	1,338	-	-	-
2.2.1. Income Statement	7,748	31	-	7,717	-	-	-	-
- of which gains	6,942	31	-	6,911	-	-	-	-
2.2.2. Equity	-	-	-	-	1,338	-	-	-
2.3. Transfers from other levels	572	572	-	-	17,353	-	-	-
2.4. Other increases	9,283	-	-	9,283	127	-	-	-
3. Decreases	**80,477**	**5,120**	**-**	**75,357**	**5,848**	**-**	**1,490**	**-**
3.1. Disposals	5,103	5,103	-	-	-	-	-	-
3.2. Reimbursements	34,691	-	-	34,691	51	-	-	-
3.3. Losses booked to:	14,348	17	-	14,331	5,733	-	1,490	-
3.3.1. Income Statement	14,348	17	-	14,331	-	-	1,490	-
- of which losses	14,338	17	-	14,321	-	-	1,490	-
3.3.2. Equity	-	-	-	-	5,733	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	26,335	-	-	26,335	64	-	-	-
4. Closing balance	**469,468**	**580**	**-**	**468,888**	**106,507**	**-**	**82,986**	**-**

The decrease during the year in financial assets mandatorily measured at fair value was largely attributable to the financial instruments (UCITS in particular) that did not pass the SPPI test and that, accordingly, were classified in this line item. This item also includes the units in UCITS not held for trading that were previously classified as "financial assets measured at fair value" and "financial assets available for sale".

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

There are no financial liabilities measured at fair value on a recurring basis of level 3.

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/06/2023				31/12/2022			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	44,192,950	9,765,517	-	33,716,113	43,870,637	9,529,803	-	33,414,057
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets and groups of assets held for sale	-	-	-	-	-	-	-	-
Total	**44,192,950**	**9,765,517**	**-**	**33,716,113**	**43,870,637**	**9,529,803**	**-**	**33,414,057**
1. Financial liabilities measured at amortised cost	48,187,962	3,160,996	242,297	44,646,988	53,152,710	3,262,887	222,630	49,503,947
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**48,187,962**	**3,160,996**	**242,297**	**44,646,988**	**53,152,710**	**3,262,887**	**222,630**	**49,503,947**

INFORMATION ON THE "DAY ONE PROFIT/LOSS"

The "day one profit/loss" provided for in IFRS 7 and IFRS 9 para. B5.1.2A derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned. The Group does not have any transactions outstanding which could generate significant income that could be defined as "day one profit/loss".

Information on the consolidated balance sheet

Assets

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

Financial assets held for trading: breakdown

Items/Amounts	Total 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Fixed-yield securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	-	-	-	-	-	-
2. Equity securities	34,279	-	580	50,856	-	-
3. Mutual funds	39,882	67,201	-	50,678	14,770	-
4. Loans	-	-	-	-	-	-
4.1 Repo transactions	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**74,161**	**67,201**	**580**	**101,534**	**14,770**	**-**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	1,337	42,665	-	623	62,738	-
1.1 for trading	1,337	42,665	-	623	62,738	-
1.2 associated with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 associated with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**1,337**	**42,665**	**-**	**623**	**62,738**	**-**
Total (A+B)	**75,498**	**109,866**	**580**	**102,157**	**77,508**	**-**

Other financial assets mandatorily measured at fair value: breakdown

Items/Amounts	Total 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	**55,050**	**-**	**18,688**	**49,093**	**-**	**26,517**
1.1 Structured securities	6,130	-	18,688	6,246	-	26,517
1.2 Other fixed-yield securities	48,920	-	-	42,847	-	-
2. Equity securities	**-**	**-**	**-**	**-**	**-**	**-**
3. Mutual funds	**-**	**36,330**	**119,946**	**-**	**522,820**	**113,599**
4. Loans	**-**	**-**	**330,254**	**-**	**-**	**362,376**
4.1 Repo transactions	-	-	-	-	-	-
4.2 Other	-	-	330,254	-	-	362,376
Total	**55,050**	**36,330**	**468,888**	**49,093**	**522,820**	**502,492**

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.

Units in UCITS are made up of: equity funds and sicavs for EUR 44.498 million, bond funds for EUR 90.777 million, balanced and flexible funds for EUR 18.644 million and real estate funds for EUR 2.357 million. The decrease is related to disposals during the period.

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

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

Items/Amounts	Total 30/06/2023			Total 31/12/2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	**2,622,448**	**-**	**17,740**	**2,459,705**	**-**	**341**
1.1 Structured securities	277,135	-	2,910	234,855	-	-
1.2 Other fixed-yield securities	2,345,313	-	14,830	2,224,850	-	341
2. Equity securities	**3,027**	**-**	**88,767**	**2,825**	**-**	**92,834**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,625,475**	**-**	**106,507**	**2,462,530**	**-**	**93,175**

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. Equity securities also include equity investments held with a view to supporting the typical business and supporting the development of the areas in which the Group operates.

Financial assets measured at amortised cost - item 40

Financial assets measured at amortised cost: breakdown of loans to banks

Type of transaction/Amounts	Total 30/06/2023					
	Book value			Fair value		
	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
A. Loans with Central Banks	**306,109**	**-**	**-**	**-**	**-**	**306,103**
1. Fixed-term deposits	-	-	-	-	-	-
2. Compulsory reserve	306,109	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
B. Loans and receivables with banks	**1,657,957**	**-**	**-**	**975,887**	**-**	**619,906**
1. Loans	590,322	-	-	-	-	591,816
1.1 Current accounts	-	-	-	-	-	-
1.2. Fixed-term deposits	513,091	-	-	-	-	-
1.3. Other loans:	77,231	-	-	-	-	-
- Repo transactions	-	-	-	-	-	-
- Lease financing	-	-	-	-	-	-
- Others	77,231	-	-	-	-	-
2. Fixed-yield securities	1,067,635	-	-	975,887	-	28,090
2.1 Structured securities	646,763	-	-	614,594	-	8,307
2.2 Other fixed-yield securities	420,872	-	-	361,293	-	19,783
Total	**1,964,060**	**-**	**-**	**975,887**	**-**	**926,009**

Type of transaction/Amounts	Total 31/12/2022					
	Book value			Fair value		
	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
A. Loans with Central Banks	**352,511**	**-**	**-**	**-**	**-**	**352,512**
1. Fixed-term deposits	5,011	-	-	-	-	-
2. Compulsory reserve	347,500	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
B. Loans and receivables with banks	**1,512,738**	**-**	**-**	**741,697**	**-**	**690,583**
1. Loans	640,337	-	-	-	-	640,627
1.1 Current accounts	-	-	-	-	-	-
1.2. Fixed-term deposits	568,627	-	-	-	-	-
1.3. Other loans:	71,710	-	-	-	-	-
- Repo transactions	-	-	-	-	-	-
- Lease financing	-	-	-	-	-	-
- Others	71,710	-	-	-	-	-
2. Fixed-yield securities	872,401	-	-	741,697	-	49,956
2.1 Structured securities	494,300	-	-	424,809	-	32,538
2.2 Other fixed-yield securities	378,101	-	-	316,888	-	17,418
Total	**1,865,249**	**-**	**-**	**741,697**	**-**	**1,043,095**

These receivables are not subject to micro hedging.

The fair value of short-term loans or loans that are repayable on demand is assumed to be the same as their carrying amount.

Financial assets measured at amortised cost: breakdown of loans to customers

Type of transaction/Amounts	Total 30/06/2023					
	Book value			Fair value		
	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
1. Loans	**31,599,962**	**528,625**	**95,605**	**-**	**-**	**32,023,756**
1. Current accounts	3,323,484	157,560	22,532	-	-	-
2. Repo transactions	-	-	-	-	-	-
3. Mortgage loans	19,538,584	316,308	68,761	-	-	-
4. Credit cards, personal loans and salary-backed loans	517,673	6,541	565	-	-	-
5. Lease financing	-	-	-	-	-	-
6. Factoring	3,179,479	2,609	-	-	-	-
7. Other loans	5,040,742	45,607	3,747	-	-	-
2. Fixed-yield securities	**10,004,698**	**-**	**-**	**8,789,630**	**-**	**766,348**
1. Structured securities	1,566,072	-	-	781,608	-	746,339
2. Other fixed-yield securities	8,438,626	-	-	8,008,022	-	20,009
Total	**41,604,660**	**528,625**	**95,605**	**8,789,630**	**-**	**32,790,104**

Type of transaction/Amounts	Total 31/12/2022					
	Book value			Fair value		
	First and second stage	Third stage	Impaired purchased or originated	Level 1	Level 2	Level 3
1. Loans	**31,211,348**	**550,253**	**107,368**	**-**	**-**	**31,595,135**
1. Current accounts	3,358,799	172,838	22,942	-	-	-
2. Repo transactions	8,293	-	-	-	-	-
3. Mortgage loans	19,298,777	324,035	78,097	-	-	-
4. Credit cards, personal loans and salary-backed loans	493,676	6,503	572	-	-	-
5. Lease financing	-	-	-	-	-	-
6. Factoring	3,272,354	998	-	-	-	-
7. Other loans	4,779,448	45,879	5,757	-	-	-
2. Fixed-yield securities	**10,136,419**	**-**	**-**	**8,788,106**	**-**	**775,827**
1. Structured securities	1,573,173	-	-	739,237	-	775,827
2. Other fixed-yield securities	8,563,246	-	-	8,048,869	-	-
Total	**41,347,767**	**550,253**	**107,368**	**8,788,106**	**-**	**32,370,962**

Receivables for an insignificant portion are subject to micro and macro hedging.

Mortgage loans include EUR 1,136 million of residential mortgages, which were the subject of covered bond transactions by the Parent Company. The securities issued under the covered bond programme were placed with institutional customers. Given that the Parent Company maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet.

Following the self-securitisation transaction put in place by the Bank in June 2023, loans include EUR 1,448 million of performing loans granted to SMEs, secured or unsecured, which formed the object of the transaction. Similar to the covered bond transaction, the Parent Company retained all risks and rewards of the securitised loans, so they were not derecognised.

Item 2. Fixed-yield securities, included in the amount of EUR 274.766 million are senior securities issued by the vehicle company Diana S.p.V., POP NPLs 2020 S.p.V., Luzzatti POP NPLs 2021 S.p.V. and Luzzatti POP NPLs 2022 S.p.V..

Financial assets measured at amortised cost: gross value and total value adjustments

	Gross value				
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired purchased or originated
Fixed-yield securities	10,698,657	1,526,634	386,038	-	-
Loans	29,641,422	-	3,022,144	1,328,226	163,074
Total 30/06/2023	**40,340,079**	**1,526,634**	**3,408,182**	**1,328,226**	**163,074**
Total 31/12/2022	**40,305,052**	**2,558,502**	**3,061,467**	**1,322,041**	**172,821**

	Total value adjustments				
	First stage	Second stage	Third stage	Impaired purchased or originated	Partial total write-off
Fixed-yield securities	4,572	7,783	-	-	-
Loans	52,817	114,368	799,602	67,468	99,018
Total 30/06/2023	**57,389**	**122,151**	**799,602**	**67,468**	**99,018**
Total 31/12/2022	**50,720**	**102,782**	**771,789**	**65,453**	**114,265**

Hedging derivatives - item 50

	Fair Value 30/06/2023			NV	Fair Value 31/12/2022			NV
	Level 1	Level 2	Level 3	30/06/2023	Level 1	Level 2	Level 3	31/12/2022
A. Financial derivatives								
1) Fair value	-	541	-	26,739	-	248	-	11,359
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**541**	**-**	**26,739**	**-**	**248**	**-**	**11,359**

The table shows the positive fair value of hedging derivatives, broken down in relation to the asset or liability hedged and the type of hedge realised. As at 30 June 2023, the Group had five macro-hedging transactions in place against interest rate risk on an amount of loans classified in the amortised cost portfolio.

Change in value of macro-hedged financial assets - item 60.

Value Adjustment of Hedged Assets/Group Components	**30/06/2023**	**31/12/2022**
1. Positive adjustment	**97**	**47**
1.1 of specific portfolios:	97	47
a) financial assets measured at amortised cost	97	47
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative adjustment	**(492)**	**(245)**
2.1 of specific portfolios:	(492)	(245)
a) financial assets measured at amortised cost	(492)	(245)
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	**(395)**	**(198)**

The balance of changes in the value of assets subject to macro-hedging against interest rate risk is recognised in this item, for which the bank avails itself of the option, provided for by IFRS 9, to continue to apply the provisions permitted by IAS 39 in the "Carve-out" version.

Investments – item 70

Investments: changes in the year

	30/06/2023	31/12/2022
A. Opening balance	**322,632**	**339,333**
B. Increases	**38,312**	**16,563**
B.1 Purchases	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	87
B.4 Other changes	38,312	16,476
C. Decreases	**671**	**32,264**
C.1 Disposals	-	3,581
C.2 Adjustments	-	-
C.3 Write-downs	-	-
C.4 Other changes	671	29,683
D. Closing balance	**360,273**	**322,632**
E. Total revaluations	**-**	**-**
F. Total write-downs	**(447)**	**(447)**

Other increases derive from the measurement of investees under the equity method. Other decreases derive from the measurement of equity investments under the equity method.

Property, equipment and investment property - item 90

Property, equipment and investment property used for business purposes: composition

Assets/Amounts	30/06/2023	31/12/2022
1. Owned assets	**333,831**	**317,406**
a) land	76,994	75,453
b) buildings	180,782	173,198
c) furniture	6,336	5,852
d) IT equipment	4,390	3,220
e) other	65,329	59,683
2. Rights of use acquired through leases	**165,106**	**167,522**
a) land	-	-
b) buildings	164,885	167,258
c) furniture	-	-
d) IT equipment	114	144
e) other	107	120
Total	**498,937**	**484,928**
of which: obtained through enforcement of guarantees received	-	-

Property, equipment and investment property held for investment purposes: breakdown of assets measured at fair value

	30/06/2023			31/12/2022		
Assets/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Owned assets	**-**	**-**	**82,986**	**-**	**-**	**84,476**
a) land	-	-	-	-	-	-
b) buildings	-	-	82,986	-	-	84,476
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**82,986**	**-**	**-**	**84,476**
of which: obtained through enforcement of guarantees received	-	-	-	-	-	-

Inventories of property, equipment and investment property governed by IAS 2: breakdown

Assets/Amounts	30/06/2023	31/12/2022
1. Inventories of property, equipment and investment property obtained through enforcement of guarantees received	**61,372**	**69,569**
a) land	2,239	2,388
b) buildings	59,133	67,181
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
2. Other inventories of property, equipment and investment property	**37,599**	**11,935**
Total	**98,971**	**81,504**
of which: measured at fair value less costs to sell	-	-

Intangible assets - item 100

Intangible assets: breakdown by type of asset

	30/06/2023		31/12/2022	
Assets/Amounts	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	-	**16,997**	-	**16,997**
A.1.1 attributable to the Group	-	16,997	-	16,997
A.1.2 attributable to minorities	-	-	-	-
A.2 Other intangible assets	**19,998**	**-**	**19,672**	**-**
of which: software	19,105	**-**	**18,511**	**-**
A.2.1 Assets measured at cost:	19,998	-	19,672	-
a) Intangible assets generated internally	16	-	34	-
b) Other assets	19,982	-	19,638	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**19,998**	**16,997**	**19,672**	**16,997**

Intangible assets with an indefinite useful life recognised in the consolidated financial statements are represented by goodwill recognised in the context of business combinations following the completion of the acquisition cost allocation process carried out in accordance with IFRS 3. In particular, the goodwill recognised concerns:

- Factorit S.p.a for an amount of EUR 7.847 million, the company operates in the sector of advances, guarantees and management of trade receivables of companies. The acquisition of control took place in 2010, on 1 March 2022 the purchase of the minority shares was finalised and the interest held by the Parent Company thus increased from 60.5% to 100%;
- Prestinuova S.p.a. for an amount of EUR 4.785 million, the company was acquired on 23 July 2018. This company operated in the granting of loans repayable by assigning a fifth of one's salary or pension. On 24 June 2019, the merger by incorporation of PrestiNuova S.p.A. into Banca della Nuova Terra S.p.A. ("BNT") was finalised, which now carries out this activity, the latter company also being wholly-owned by Banca Popolare di Sondrio;
- Rent2Go S.r.l., of which the Parent Company acquired the entire share capital on 1 April 2022. The acquisition cost allocation process ended in the financial year 2022 with the recognition of goodwill in the amount of EUR 4.365 million. The company operates in the long-term car rental sector for professionals, VAT holders and small businesses.

In addition, the item also includes a component of about EUR 0.9 million related to the customer lists of Rent2Go S.r.l..

According to IAS 36, intangible assets with an indefinite useful life must be tested for impairment at least annually in order to verify their recoverability. The test is performed on 31 December of each year and, in any case, whenever indicators of impairment are detected. A careful examination did not reveal any indicators of impairment such as to require an impairment test.

Other assets - item 130

Other assets: breakdown

	30/06/2023	31/12/2022
Advances paid to tax authorities	63,923	58,772
Tax credits "Cure Italy" and "Relaunch" Law Decrees	1,776,538	1,451,634
Tax credits and related interest	15,615	9,255
Current account cheques drawn on third parties	22,237	15,237
Current account cheques drawn on Group banks	902	685
Transactions in customers' securities	56,598	23,463
Advances to suppliers	1,704	1,248
Advances to customers awaiting collections	19,330	27,222
Miscellaneous debits in transit	30,259	29,512
Liquid assets serving pension and similar obligations	11,113	19,310
Accrued income not allocated	35,056	52,271
Prepayments not allocated	41,751	27,893
Differences on elimination	7,628	5,025
Residual items	132,169	108,827
Total	**2,214,823**	**1,830,354**

The increase in item 130 "Other assets" is due to the tax credits connected with the "Cure Italy" and "Relaunch" Law Decrees, amounting to EUR 1,776.538 million. On the basis of "Bank of Italy/Consob/IVASS Document No. 9 of 5 January 2021" in the presence of tax credits introduced by Decrees No. 18/2020 (so-called "Cure Italy") and No. 34/2020 (so-called "Relaunch"), these receivables have been classified under the residual item "other assets" in the balance sheet, in line with paragraphs 54 and 55 of IAS 1 "Presentation of Financial Statements". For further details, reference should be made to Section 16 of these Notes. Other information.

Liabilities

Financial liabilities measured at amortised cost - item 10

Financial liabilities measured at amortised cost: breakdown of due to banks

Type of transaction/Amounts	30/06/2023				31/12/2022			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**4,548,845**	-	-	-	**9,053,525**	-	-	-
2. Due to banks	**4,548,032**	-	-	-	**2,328,178**	-	-	-
2.1 Current accounts and sight deposits	290,441	-	-	-	464,716	-	-	-
2.2 Fixed-term deposits	972,364	-	-	-	858,682	-	-	-
2.3 Loans	3,262,880	-	-	-	983,304	-	-	-
2.3.1 Repurchase agreements	3,118,779	-	-	-	627,940	-	-	-
2.3.2 Others	144,101	-	-	-	355,364	-	-	-
2.4 Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
2.5 Payables for leases	18	-	-	-	34	-	-	-
2.6 Other payables	22,329	-	-	-	21,442	-	-	-
Total	**9,096,877**	**-**	**-**	**9,096,877**	**11,381,703**	**-**	**-**	**11,381,703**

These payables are not subject to micro hedging. Amounts due to central banks comprise two loans from the ECB totalling EUR 4,506 million as part of its "Targeted Longer-Term refinancing operations" (TLTRO III).

The first was contracted in Q1 2021 for EUR 806 million maturing on 27 March 2024 and the second on 29 September 2021 for EUR 3,700 million maturing on 25 September 2024. These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable. On 28 June 2023, the loan of EUR 4,368 million taken out in June 2020 was repaid.

"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.

Since these payables are predominantly on demand or short-term, the book value is considered a good approximation of fair value.

Financial liabilities measured at amortised cost: breakdown of due to customers

Type of transaction/Amounts	Total 30/06/2023				Total 31/12/2022			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and sight deposits	**31,319,871**	**-**	**-**	**-**	**33,616,828**	**-**	**-**	**-**
2. Fixed-term deposits	**2,842,535**	**-**	**-**	**-**	**2,661,831**	**-**	**-**	**-**
3. Loans	**955,233**	**-**	**-**	**-**	**1,576,069**	**-**	**-**	**-**
3.1 Repurchase agreements	955,233	-	-	-	1,576,069	-	-	-
3.2 Other	-	-	-	-	-	-	-	-
4. Payables for commitments to repurchase own equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Payables for leases	**169,088**	**-**	**-**	**-**	**171,145**	**-**	**-**	**-**
6. Other payables	**110,378**	**-**	**-**	**-**	**96,373**	**-**	**-**	**-**
Total	**35,397,105**	**-**	**-**	**35,397,105**	**38,122,246**	**-**	**-**	**38,122,246**

These payables are not subject to micro hedging. The fair value is assumed to be the same as the carrying amount as the amounts are short-term or due on demand.

Financial liabilities measured at amortised cost: breakdown of issued securities

Type of securities/Amounts	Total 30/06/2023				Total 31/12/2022			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	3,563,990	3,160,996	112,307	153,005	3,531,946	3,262,887	105,816	-
1.1 structured	1,732,771	1,414,489	60,408	153,005	1,588,521	1,387,208	65,101	-
1.2 others	1,831,219	1,746,507	51,899	-	1,943,425	1,875,679	40,715	-
2. other securities	129,990	-	129,990	-	116,815	-	116,815	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	129,990	-	129,990	-	116,815	-	116,815	-
Total	**3,693,980**	**3,160,996**	**242,297**	**153,005**	**3,648,761**	**3,262,887**	**222,631**	**-**

The fair value of the sub-item other securities is equal to the book value as this item includes short-term bankers' drafts and similar documents.

The level 1 securities relate to covered bonds and subordinated bonds listed on the HI-MTF market (Multilateral Trading Facility).

Financial liabilities held for trading - item 20

Financial liabilities held for trading: breakdown

Type of transaction/Amounts	Total 30/06/2023					Total 31/12/2022				
	NV	Fair Value			FV *	NV	Fair Value			FV *
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
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 Others	-	-	-	-	-	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	-	499	40,950	-	-	-	9	115,862	-	-
1.1 For trading	-	499	40,950	-	-	-	9	115,862	-	-
1.2 Associated with the fair value option	-	-	-	-	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 For trading	-	-	-	-	-	-	-	-	-	-
2.2 Associated with the fair value option	-	-	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-	-	-
Total (B)	**-**	**499**	**40,950**	**-**	**-**	**-**	**9**	**115,862**	**-**	**-**
Total (A+B)	**-**	**499**	**40,950**	**-**	**-**	**-**	**9**	**115,862**	**-**	**-**

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 - item 40

Hedge derivatives: breakdown by hedge type and levels

	Fair value 30/06/2023			NV 30/06/2023	Fair value 31/12/2022			NV 31/12/2022
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**179**	**-**	**39,415**	**-**	**227**	-	**91,358**
1) Fair value	-	179	-	39,415	-	227	-	91,358
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**179**	**-**	**39,415**	**-**	**227**	-	**91,358**

Other liabilities - item 80

Other liabilities: breakdown

	30/06/2023	31/12/2022
Amounts at the disposal of third parties	501,739	441,597
Taxes to be paid on behalf of third parties	368,402	84,762
Taxes to be paid to the tax authorities	1,830	2,565
Employee salaries and contributions	22,798	17,900
Suppliers	34,676	30,840
Transit accounts for sundry entities	22,119	3,299
Invoices to be received	20,598	18,589
Credits in transit for financial transactions	68	5
Value date differentials on portfolio transactions	534,919	31,132
Directors' and statutory auditors' emoluments	188	1,286
Loans granted to customers to be finalised	6,758	12,351
Miscellaneous credit items being settled	90,733	49,110
Accrued expenses not allocated	52,584	26,882
Deferred income not allocated	17,320	14,867
Differences on elimination	25,373	21,410
Residual items	128,340	78,034
Total	**1,828,445**	**834,629**

The “value date differentials on portfolio transactions” relate to the notes received and sent for collection with recourse or for crediting after collection, which are only recognised in the balance sheet on settlement.

Provision for employee severance pay - item 90

Provision for employee severance pay: changes in the year

	Total 30/06/2023	Total 31/12/2022
A. Opening balance	**35,597**	**40,190**
B. Increases	**4,735**	**8,714**
B.1 Provisions for the year	4,728	8,596
B.2 Other changes	7	118
- of which business combinations	-	-
C. Decreases	**6,822**	**13,307**
C.1 Payments made	921	1,963
C.2 Other changes	5,901	11,344
- of which business combinations	-	-
D. Closing balance	**33,510**	**35,597**
Total	**33,510**	**35,597**

Provisions for risks and charges - item 100

Provisions for risks and charges: breakdown

Items/Components	Total 30/06/2023	Total 31/12/2022
1. Provisions for credit risk related to commitments and financial guarantees given	**40,862**	**32,583**
2. Provisions on other commitments and other guarantees given	**33,196**	**30,621**
3. Pension and similar obligations	**167,125**	**167,827**
4. Other provisions for risks and charges	**73,184**	**64,497**
4.1 legal disputes	53,491	42,818
4.2 personnel expenses	16,276	18,742
4.3 other	3,417	2,937
Total	**314,367**	**295,528**

The pension funds at 30 June 2023 of EUR 167.125 million consists of the pension fund for the Parent Company's personnel of EUR 151.910 million and the actuarial liabilities linked to the supplementary pension plan for employees of BPS Suisse SA of EUR 15.215 million.

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

The amount of the fund is adjusted taking into account the closed group of members referred to 28/04/1993. This closed group consists of 298 employees and 333 pensioners. Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen.

BPS Suisse SA is a member of the BVG collective foundation of Rentenanstalt, which guarantees a professional pension to its employees through Swiss Life.

The adequacy of the fund with respect to the present value of the obligations at the reference date is verified periodically using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in earnings and payments. The technical assessments are based on dynamic economic and financial assumptions. The discounting rate reflects the yield on prime bonds.

Sensitivity analysis

Banca Popolare di Sondrio Spa

- +0.25% change in the discount rate, the liability amounted to EUR 115.193 million;
- -0.25% change in the discount rate, the liability amounted to EUR 133.184 million;
- +0.25% change in the inflation rate, the liability amounted to EUR 130.853 million;
- -0.25% change in the inflation rate, the liability amounted to EUR 117.348 million.

Banca Popolare di Sondrio (Suisse) SA

- +0.50% change in the discount rate, liability of EUR 8.866 million;
- -0.50% change in the discount rate, liability of EUR 22.254 million;
- +0.50% change in rate of salary increase, liability of EUR 15.629 million;
- +0.50% change in rate of salary increase, liability of EUR 14.663 million.

Provisions for risks and charges – other provisions

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as bad loans or which have already been written off, and other disputes that have arisen in the ordinary course of business. The provision also includes an allocation for the period for pending legal actions in connection with tax credits acquired.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice. The item increased by EUR 10.673 million due to the difference between the provisions of the period and the release of provisions set aside in prior years.

At 30 June 2023, for the Parent Company alone, about 150 disputes, other than tax-related ones, were pending, with total claims of about EUR 498 million. This amount includes all existing disputes regardless of the estimate of the risk of disbursement of economic resources deriving from the potential loss. It therefore also includes disputes with a remote risk.

The following paragraphs provide brief information on the disputes considered significant - mainly those with higher claims and with the risk of disbursement deemed "possible" - as well as on cases considered significant.

- *Claims for "indemnification" relating to loans sold as part of the securitisation transactions called "Diana", "Pop NPLs 2020", "Pop NPLs 2021" and "Pop NPLs 2022".* The assignee companies have the contractual right to make claims for compensation for alleged breaches of the guarantees given by the bank on the portfolio of assigned receivables. As regards the "Diana" transaction, 143 requests for a potential amount of EUR 44.06 million are pending, for which a provision of EUR 9.51 million has been made. Instead, with regard to the "PopSo NPLS 2020" transaction, 42 requests are pending for a potential amount of EUR 5.45 million, against which a provision of EUR 3.02 million has been set aside, while for the "PopSo NPLS 2021" transaction, 55 requests are pending for a potential amount of EUR 4.10 million, against which a provision of EUR 1.93 million has been set aside.

- *Disputes relating to compound interest and usury.* The disputes falling within this line of litigation for years represented a significant part of the litigation brought against the Italian banking system. For disputes relating to compound interest, the claim is equal to approximately EUR 5.20 million, with provisions for EUR 0.43 million, while for those relating to usury, the claim is equal to EUR 4.38 million, with provisions for EUR 0.48 million.
- *Clawback actions in insolvency proceedings.* 13 disputes were pending for a *claim* of EUR 10.426 million, with a provision of EUR 2.876 million. None with a request for a refund of a particularly significant amount.
- *AMA – Azienda Municipale Ambiente s.p.a.* In December 2020, the Bank was notified of the summons before the Court of Rome, concerning the requests for assessment and declaration of the nullity or cancellation of the transaction in financial instruments called "Interest Rate Swap" stipulated on 30 September 2010 and the repayment of amounts unduly received by the Bank for EUR 20.67 million. The bank entered an appearance and the case is called to a hearing on 29 November 2024 for closing arguments. The risk of losing appears "possible".
- *Bankruptcy of Interservice s.r.l. in liquidation.* In February 2015, the bankruptcy procedure sued the Bank before the Court of Milan with a request for compensation for the damage caused to the company by the illegal conduct of its director, quantified at EUR 14.65 million. With a sentence published on 26 May 2020, the Court rejected the plaintiff's request, but the plaintiff has filed an appeal. The Court of Appeal of Milan ordered the bank to repay more than EUR 7 million. An appeal has been filed with the Court of Cassation. The risk of losing appears "possible".
- *Ginevra s.r.l.* In January 2019, the company and the shareholders Giuliana Piovan and Gianpiero De Luca sued the Bank before the Court of Genoa with a request for compensation, quantified at EUR 11.40 million, for contractual liability for failure to grant credit, compound interest and usury. At the hearing on 13 June 2023, deadlines were set for the filing of final pleadings. The risk of losing appears "possible".
- *Società Italiana per le Condotte d'Acqua s.p.a.* In December 2022, a summons was notified concerning the damage caused to the Company by the bank for having granted credit despite the alleged state of crisis and the lack of concrete prospects of overcoming the crisis. The amount of the application, carried out jointly with other credit institutions, is EUR 389 million. The bank filed an appearance to reject the charge as unfounded and lacking evidentiary support. The risk of losing appears "possible".

The provision for personnel expenses essentially relates to the cost of untaken holidays and the potential cost of employee long-service bonuses. It decreased by EUR 2.466 million, -13.16 %.

Other provisions include the Parent Company's provision for charitable donations consisting of net profits authorised by the shareholders of EUR 1.086 million used to make approved payments. It was increased by EUR 0.300 million when allocating the 2022 profit.

Group equity - Items 120, 130, 140, 150, 160, 170, 190 and 200

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without nominal value, totalling EUR 1,360.157 million. Shares in circulation have dividend and voting rights from 1 January 2023.

At period-end, the Group held treasury shares with a carrying value of EUR 25.342 million. As at 30 June 2023, shareholders' equity, including minority interests and profit for the period, amounted to EUR 3,510 million, compared to EUR 3,387 million as at 31 December 2022, an overall net increase of EUR 123 million. The change derives from booking the profit for the year under review, as well as from the change in reserves.

Other information

Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given					
	First stage	Second stage	Third stage	Impaired purchased or originated	**Total 30/06/2023**	**Total 31/12/2022**
1. Commitments to grant loans	**13,818,806**	**1,215,876**	**91,737**	**7,605**	**15,134,024**	**14,410,298**
a) Central banks	-	-	-	-	-	-
b) Public administrations	510,070	51,633	-	-	561,703	608,862
c) Banks	337,660	5,508	-	-	343,168	223,761
d) Other financial companies	1,480,010	7,016	256	1	1,487,283	1,609,523
e) Non-financial companies	10,035,263	1,043,542	85,721	7,387	11,171,913	10,498,974
f) Households	1,455,803	108,177	5,760	217	1,569,957	1,469,178
2. Financial guarantees issued	**794,803**	**78,407**	**15,808**	**-**	**889,018**	**907,367**
a) Central banks	-	-	-	-	-	-
b) Public administrations	1,878	51	-	-	1,929	6,441
c) Banks	12,129	2,446	-	-	14,575	13,031
d) Other financial companies	126,024	4,675	156	-	130,855	128,849
e) Non-financial companies	593,974	66,901	14,816	-	675,691	687,608
f) Households	60,798	4,334	836	-	65,968	71,438

Other commitments and other guarantees given

	Nominal value Total 30/06/2023	Nominal value Total 31/12/2022
Other guarantees given	**3,950,747**	**3,968,248**
of which: non-performing exposures	67,885	57,083
a) Central banks	-	-
b) Public administrations	48,818	68,753
c) Banks	161,901	158,050
d) Other financial companies	108,840	108,696
e) Non-financial companies	3,452,073	3,451,290
f) Households	179,115	181,459
Other commitments	**4,146,627**	**4,108,955**
of which: non-performing exposures	27,301	33,890
a) Central banks	50,000	50,000
b) Public administrations	65,113	64,496
c) Banks	408,129	517,098
d) Other financial companies	61,429	69,681
e) Non-financial companies	3,477,317	3,320,684
f) Households	84,639	86,996

Management and intermediation for third parties

Type of service	**30/06/2023**
1. Execution of orders on behalf of customers	**582,749**
a) purchases	350,691
1. settled	348,958
2. not settled	1,733
b) sales	232,058
1. settled	231,079
2. not settled	979
2. Portfolio management	**1,840,141**
a) individual	1,840,141
b) collective	-
3. Custody and administration of securities	**70,821,438**
A) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	5,249,932
1. securities issued by companies included in the consolidation	1,500
2. other securities	5,248,432
b) third-party securities on deposit (excluding portfolio management): other	22,511,986
1. securities issued by companies included in the consolidation	2,331,652
2. other securities	20,180,334
c) third-party securities on deposit with third parties	27,270,655
d) own securities held by other custodians	15,788,865
4. Other transactions	**-**

Information on the consolidated Income statement

Interest - items 10 and 20

Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 30/06/2023**	**Total 30/06/2022**
1. Financial assets measured at fair value through profit or loss:	**1,437**	**6,239**	**-**	**7,676**	**4,500**
1.1 Financial assets held for trading	75	-	-	75	230
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	1,362	6,239	-	7,601	4,270
2. Financial assets measured at fair value through other comprehensive income	**33,167**	**-**	**-**	**33,167**	**6,749**
3. Financial assets measured at amortised cost:	**113,502**	**622,685**	**-**	**736,187**	**297,971**
3.1 Loans and receivables with banks	11,445	96,717	-	108,162	7,315
3.2 Loans and receivables with customers	102,057	525,968	-	628,025	290,656
4. Hedging derivatives	**-**	**-**	**28**	**28**	**-**
5. Other assets	**-**	**-**	**35,590**	**35,590**	**14,430**
6. Financial liabilities	**-**	**-**	**-**	**41**	**51,943**
Total	**148,106**	**628,924**	**35,618**	**812,689**	**375,593**
of which: interest income on impaired financial assets	-	22,660	-	22,660	13,524
of which: interest income on financial lease	-	-	-	-	-

Interest income from loans and investments increased to EUR 812.689 million, +116.37%. The increase is mainly attributable to the rise in interest rates, which affected both loans and the securities portfolio, as well as to the increase in income on tax credits related to the "Cure Italy" and "Relaunch" Law Decrees purchased (EUR 35.590 million compared to EUR 14.430 million in the first half of 2022). Following the rate increase by the ECB, there is no longer any interest on the outstanding T-LTRO refinancing operations with the ECB, following the end of the negative interest rate season.

Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	Total 30/06/2023	Total 30/06/2022
1. Financial liabilities measured at amortised cost	**(332,539)**	**(52,583)**	**-**	**(385,122)**	**(45,168)**
1.1 Due to central banks	(131,573)	-	-	(131,573)	(25)
1.2 Due to banks	(47,944)	-	-	(47,944)	(2,220)
1.3 Due to customers	(153,022)	-	-	(153,022)	(5,385)
1.4 Securities issued	-	(52,583)	-	(52,583)	(37,538)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and funds	**-**	**-**	**-**	**-**	**-**
5. Hedging derivatives	**-**	**-**	**(168)**	**(168)**	**(1,193)**
6. Financial assets	**-**	**-**	**-**	**(62)**	**(8,923)**
Total	**(332,539)**	**(52,583)**	**(168)**	**(385,352)**	**(55,284)**
of which: interest expense on lease payables	(1,495)	-	-	(1,495)	(1,503)

Interest expenses on financial liabilities to banks mainly relate to longer-term refinancing operations (T-LTRO); interest expenses of Euro 131 million accrued on these operations in the half-year.

Differentials relating to hedging transactions

Items	Total 30/06/2023	Total 30/06/2022
A. Positive differentials relating to hedging transactions	28	-
B. Negative differentials relating to hedging transactions	(169)	(1,193)
C. Balance (A-B)	**(141)**	**(1,193)**

Commissions - items 40 and 50

Fee and commission income: breakdown

Type of service/Amounts	Total 30/06/2023	Total 30/06/2022
a) Financial instruments	**34,638**	**33,884**
1. Placement of securities	19,698	19,671
1.1 On a firm and/or irrevocable commitment basis	-	-
1.2 Without irrevocable commitment	19,698	19,671
2. Receiving and sending orders and execution of orders on behalf of customers	7,525	6,666
2.1 Receiving and sending orders for one or more financial instruments	7,525	6,666
2.2 Execution of orders on behalf of customers	-	-
3. Other commissions related to activities linked to financial instruments	7,415	7,547
of which: trading on own account	186	-
of which: individual portfolio management	5,580	5,922
b) Corporate Finance	**-**	**-**
1. Mergers and acquisitions advisory services	-	-
2. Treasury services	-	-
3. Other commissions related to corporate finance services	-	-
c) Investment advisory activities	**30**	**-**
d) Compensation and settlement	**-**	**-**
e) Collective portfolio management	**-**	**-**
f) Custody and administration	**8,549**	**8,351**
1. Custodian bank	3,059	2,971
2. Other commissions related to custody and administration activities	5,490	5,380
g) Central administrative services for collective portfolio management	**-**	**-**
h) Fiduciary business	**-**	**-**
i) Payment services	**71,408**	**69,277**
1. Current accounts	23,201	21,624
2. Credit cards	7,475	9,150
3. Debit cards and other payment cards	9,839	9,512
4. Bank transfers and other payment orders	24,812	23,195
5. Other fees related to payment services	6,081	5,796
j) Distribution of third-party services	**13,454**	**12,884**
1. Collective portfolio management	-	-
2. Insurance products	11,943	11,428
3. Other products	1,511	1,456
of which: individual portfolio management	-	-
k) Structured finance	**-**	**-**
l) Servicing for securitisation transactions	**-**	**-**
m) Commitments to make loans	**-**	**-**
n) Financial guarantees given	**17,661**	**14,785**
of which: credit derivatives	-	-
o) Financing transactions	**47,133**	**41,898**
of which: for factoring transactions	16,021	12,931
p) Trading in foreign currencies	**-**	**-**
q) Goods	**-**	**-**
r) Other commission income	**12,555**	**12,375**
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading systems	-	-
Total	**205,428**	**193,454**

Commission income increased by 6.19% from EUR 193.454 million to EUR 205.428 million. In contrast to the substantial stability of commissions related to securities business, financial products, commissions related to the granting of financial guarantees and loans and commissions on collection and payment services are on the rise.

Fee and commission expense: breakdown

Type of service/amounts	Total 30/06/2023	Total 30/06/2022
a) Financial instruments	**(1,555)**	**(1,795)**
of which: trading of financial instruments	(1,555)	(1,795)
of which: placement of financial instruments	-	-
of which: individual portfolio management	-	-
– Own	-	-
– Delegated to third parties	-	-
b) Compensation and settlement	**-**	**-**
c) Collective portfolio management	**-**	**-**
1. Own	-	-
2. Delegated to third parties	-	-
d) Custody and administration	**(1,623)**	**(1,679)**
e) Collection and payment services	**(2,806)**	**(3,012)**
of which: credit cards, debit cards and other payment cards	(1,510)	(1,487)
f) Servicing for securitisation transactions	**-**	**-**
g) Commitments to receive funds	**-**	**-**
h) Financial guarantees received	**(2,823)**	**(540)**
of which: credit derivatives	-	-
i) Door-to-door distribution of financial instruments, products and services	**-**	**-**
j) Trading in foreign currencies	**-**	**-**
k) Other commission expenses	**(2,081)**	**(1,909)**
Total	**(10,888)**	**(8,935)**

Fee and commission expenses increased mainly due to the component related to collateral transactions and, in particular, to that related to a synthetic securitisation transaction structured in the second half of 2022.

Dividends and similar income - item 70

Dividends and similar income: breakdown

	30/06/2023		30/06/2022	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,072	49	2,183	114
B. Other financial assets mandatorily measured at fair value	-	286	-	924
C. Financial assets measured at fair value through other comprehensive income	857	44	2,378	38
D. Equity investments	-	-	49	-
Total	**1,929**	**379**	**4,610**	**1,076**

Net trading income - item 80

Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit (loss) [(A+B)-(C+D)]
1. Financial assets held for trading	**32,661**	**23,645**	**(2,095)**	**(294)**	**53,917**
1.1 Fixed-yield securities	-	341	-	(121)	220
1.2 Equity securities	1,110	5,161	(1,410)	(173)	4,688
1.3 Mutual funds	3,964	4,126	(302)	-	7,788
1.4 Loans	-	-	-	-	-
1.5 Other	27,587	14,017	(383)	-	41,221
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	**-**	**-**	**-**	**-**	**(325)**
4. Derivatives	**4,452**	**9,693**	**(4,533)**	**(8,385)**	**1,336**
4.1 Financial derivatives:	4,452	9,693	(4,533)	(8,385)	1,336
- On fixed-yield securities and interest rates	3,567	4,254	(3,855)	(3,974)	(8)
- On equity securities and stock indices	706	949	(490)	-	1,165
- On currency and gold	-	-	-	-	109
- Other	179	4,490	(188)	(4,411)	70
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges related to the fair value option	-	-	-	-	-
Total	**37,113**	**33,338**	**(6,628)**	**(8,679)**	**54,298**

Net trading income amounted to EUR 54.928 million, up from EUR 2.726 million in the first half of 2022. In particular, the overall imbalance between capital gains and losses on securities and Mutual funds was positive and equal to Euro 3.362, compared to the negative imbalance in the comparative period of Euro 26.417 million.

Net hedging gain (loss) - item 90

Net hedging gain (loss): breakdown

Income items/Amounts	Total 30/06/2023	Total 30/06/2022
A. Income related to:		
A.1 Fair value hedging derivatives	301	1,786
A.2 Hedged financial assets (fair value)	89	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Financial derivatives - Cash-flow hedges	-	-
A.5 Assets and liabilities denominated in foreign currencies	-	-
Total income from hedging activities (A)	**390**	**1,786**
B. Charges relating to:		
B.1 Fair value hedging derivatives	(76)	(1)
B.2 Hedged financial assets (fair value)	(346)	(1,919)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Financial derivatives - Cash-flow hedges	-	-
B.5 Assets and liabilities denominated in foreign currencies	-	-
Total hedging charges (B)	**(422)**	**(1,920)**
C. Net hedging gain (loss) (A – B)	**(32)**	**(134)**
of which: result of hedging on net positions	-	-

Gains (losses) from sales/repurchases - item 100

Gains (losses) from sales/repurchases: breakdown

	30/06/2023			30/06/2022		
Items/Income items	Gains	Losses	Profit (loss)	Gains	Losses	Profit (loss)
A. Financial assets						
1. Financial assets measured at amortised cost	**4,323**	**(210)**	**4,113**	**28,239**	**(493)**	**27,746**
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	4,323	(210)	4,113	28,239	(493)	27,746
2. Financial assets measured at fair value through other comprehensive income	**1,735**	**(1,604)**	**131**	**11,013**	**-**	**11,013**
2.1 Fixed-yield securities	1,735	-	1,735	11,013	-	11,013
2.2 Loans	-	(1,604)	(1,604)	-	-	-
Total assets (A)	**6,058**	**(1,814)**	**4,244**	**39,252**	**(493)**	**38,759**
B. Financial liabilities measured at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	105	(19)	86	2	-	2
Total liabilities (B)	**105**	**(19)**	**86**	**2**	**-**	**2**

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

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

Transactions/Income items	Gains (A)	Gains on disposals (B)	Losses (C)	Losses on disposals (D)	Profit (loss) [(A+B)-(C+D)]
1. Financial assets	**11,758**	**8,859**	**(16,003)**	**(57)**	**4,557**
1.1 Fixed-yield securities	43	1,227	(7,698)	(21)	(6,449)
1.2 Equity securities	-	-	(7)	(11)	(18)
1.3 Mutual funds	4,340	7,632	(2,004)	(25)	9,943
1.4 Loans	7,375	-	(6,294)	-	1,081
2. Financial assets: exchange differences	**-**	**-**	**-**	**-**	**(672)**
Total	**11,758**	**8,859**	**(16,003)**	**(57)**	**3,885**

Net adjustments/write-backs for credit risk - item 130

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

	Adjustments (1)					
			Third stage		Impaired purchased or originated	
Transactions/Income items	First stage	Second stage	Write-off	Other	Write-off	Other
A. Loans and receivables with banks	**(1,393)**	**(2,898)**	**-**	**-**	**-**	**-**
- Loans	(774)	(115)	-	-	-	-
- Fixed-yield securities	(619)	(2,783)	-	-	-	-
B. Loans and receivables with customers	**(23,128)**	**(75,711)**	**(2,192)**	**(139,012)**	**-**	**(14,561)**
- Loans	(22,359)	(74,379)	(2,192)	(139,012)	-	(14,561)
- Fixed-yield securities	(769)	(1,332)	-	-	-	-
Total	**(24,521)**	**(78,609)**	**(2,192)**	**(139,012)**	**-**	**(14,561)**

	Write-backs (2)					
Transactions/Income items	First stage	Second stage	Third stage	Impaired purchased or originated	**Total 30/06/2023**	**Total 30/06/2022**
A. Loans and receivables with banks	**1,038**	**86**	**-**	**-**	**(3,167)**	**1,433**
- Loans	709	86	-	-	(94)	(219)
- Fixed-yield securities	329	-	-	-	(3,073)	1,652
B. Loans and receivables with customers	**60,288**	**23,988**	**91,385**	**8,904**	**(70,039)**	**(32,877)**
- Loans	57,171	23,988	91,385	8,904	(71,055)	(33,365)
- Fixed-yield securities	3,117	-	-	-	1,016	488
Total	**61,326**	**24,074**	**91,385**	**8,904**	**(73,206)**	**(31,444)**

Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income items	Adjustments (1)					
	First stage	Second stage	Third stage		Impaired purchased or originated	
			Write-off	Other	Write-off	Other
A. Fixed-yield securities	**(505)**	**(582)**	**-**	**-**	**-**	**-**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**
- Customers	-	-	-	-	-	-
- Banks	-	-	-	-	-	-
Total	**(505)**	**(582)**	**-**	**-**	**-**	**-**

Transactions/Income items	Write-backs (2)				**Total 30/06/2023**	**Total 30/06/2022**
	First stage	Second stage	Third stage	Impaired purchased or originated		
A. Fixed-yield securities	**589**	**-**	**-**	**-**	**(498)**	**426**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**
- Customers	-	-	-	-	**-**	**-**
- Banks	-	-	-	-	**-**	**-**
Total	**589**	**-**	**-**	**-**	**(498)**	**426**

Gains/losses from contractual amendments not resulting in derecognition - item 140

Gains (losses) on contractual amendments: breakdown

Profits from contractual changes without cancellations amounted to EUR 4.509 million.

Administrative expenses - item 190

Personnel expenses: breakdown

Type of expense/Amounts	Total 30/06/2023	Total 30/06/2022
1) Employees	**(143,928)**	**(129,485)**
a) wages and salaries	(90,007)	(86,329)
b) social security contributions	(22,572)	(21,688)
c) termination indemnities	-	(19)
d) pension expenses	(3,651)	(3,322)
e) provision for employee termination indemnities	(4,754)	(3,988)
f) provision for pension fund and similar obligations:	(4,745)	(1,308)
- defined contribution	-	-
- defined benefits	(4,745)	(1,308)
g) payments to external supplementary pension funds:	(2,108)	(2,035)
- defined contribution	(2,092)	(2,023)
- defined benefits	(16)	(12)
h) costs deriving from payment agreements based on own capital instruments	-	-
i) other personnel benefits	(16,091)	(10,796)
2) Other working personnel	**(279)**	**(249)**
3) Directors and Statutory Auditors	**(1,613)**	**(1,486)**
4) Retired personnel	**-**	**-**
Total	**(145,820)**	**(131,220)**

Average number of employees by category

	Total 30/06/2023	Total 31/12/2022
1) Employees	**3,500**	**3,427**
a) managers	36	34
b) officials	883	842
c) other employees	2,581	2,551
2) Other personnel	**10**	**10**

	Total 30/06/2023	Total 31/12/2022
- Number of employees at year-end	3,540	3,474
- Other personnel	14	9

Other administrative expenses: breakdown

Type of service/Amounts	30/06/2023	30/06/2022
Telephone, post and data transmission	(7,658)	(7,032)
Maintenance of property, equipment and investment property	(5,607)	(5,001)
Rent of buildings	(238)	(265)
Security	(2,490)	(2,324)
Transportation	(1,663)	(1,639)
Professional fees	(23,436)	(23,372)
Office materials	(1,192)	(1,036)
Electricity, heating and water	(5,396)	(2,156)
Advertising and entertainment	(1,818)	(1,838)
Legal	(5,201)	(6,041)
Insurance	(1,056)	(1,708)
Company searches and information	(4,522)	(4,326)
Indirect taxes and duties	(32,250)	(31,074)
Software and hardware rental and maintenance	(15,592)	(13,430)
Data entry by third parties	(1,303)	(2,139)
Cleaning	(3,287)	(3,322)
Membership fees	(1,068)	(1,025)
Services received from third parties	(3,637)	(3,822)
Outsourced activities	(13,898)	(13,135)
Deferred charges	(293)	(434)
Goods and services for employees	(558)	(473)
Contributions to resolution and guarantee funds	(40,857)	(40,040)
Other	(5,020)	(5,064)
Total	**(178,040)**	**(170,696)**

Net accruals to provisions for risks and charges - item 200

Net accruals to provisions for risks and charges: breakdown

This item is negative for EUR 23.423 million, made up of the difference between provisions for the year and reallocations. It includes net accruals for commitments and guarantees given of EUR 10.847 million and other net provisions of EUR 12.576 million.

Net gains (losses) on equity investments - item 250

Net gains (losses) on equity investments: breakdown

Income elements/Sectors	Total 30/06/2023	Total 30/06/2022
1) Jointly controlled companies		
A. Income	13	6
1. Revaluations	13	6
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	-	(1,600)
1. Write-downs	-	(1,600)
2. Impairment value adjustments	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Profit (loss)	**13**	**(1,594)**
2) Associated companies (subject to significant influence)		
A. Income	15,651	11,189
1. Revaluations	15,651	11,153
2. Gains on disposal	-	36
3. Write-backs	-	-
4. Other income	-	-
B. Charges	(142)	(698)
1. Write-downs	(142)	(698)
2. Impairment value adjustments	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Profit (loss)	**15,509**	**10,491**
Total	**15,522**	**8,897**

Gains (losses) on disposal of investments - item 280

Gains (losses) on disposal of investments: breakdown

Income elements/Sectors	Total 30/06/2023	Total 30/06/2022
A. Property	**142**	**122**
- Gains on disposal	142	122
- Losses on disposal	-	-
B. Other assets	**16**	**1,649**
- Gains on disposal	16	1,649
- Losses on disposal	-	-
Profit (loss)	**158**	**1,771**

Earnings per share

Average number of diluted capital ordinary shares

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 EUR 453,385,777.

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

	30/06/2023	30/06/2022
Number of shares	453,385,777	453,385,777

Other information

IAS 33 requires that earnings per share (EPS) be reported in accordance with the following definitions:

"Basic EPS", determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

"Diluted EPS", determined by taking account of the dilutive effect of all potential ordinary shares.

There are no instruments in place with a potential dilutive effect. There are no discontinued operations in the financial statements for which basic and diluted earnings per share must be disclosed separately.

	30/06/2023	30/06/2022
Basic EPS – €	0.457	0.232
Diluted EPS – €	0.457	0.232

Information on risks and related hedging policy

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

Risks of the Banking Group

ESG risks (Environmental, Social & Governance)

The orientation towards increasingly sustainable and responsible activities and the related need to properly identify, measure and manage ESG *(Environmental, Social, Governance*) risks emphasise the relevance of these factors in a healthy prudent banking management perspective. To this end, the bank is proceeding with its time-line of actions aimed at: i) incorporating ESG risk assessment into the formulation and implementation of strategies, lending, financial and investment policies as well as customer service offerings; ii) understanding the potential impacts in the short and longer term through the identification and integration of ESG elements into standard risk management practices. Although there is an all-round focus on sustainability issues, it is, however, above all the issues related to the control of environmental risks, and in particular those related to climate change, on which development activity is most intense.

During the first half of the year, further significant progress was observed in the development and implementation of a series of organisational, procedural and methodological solutions aimed at ensuring full alignment with the content of the Expectations of the "Guidance on Climate and Environmental Risks" issued by the ECB in November 2020, also taking into account specific requests received from the same Authority as part of its supervisory action.

The following is a summary of the main activities conducted during the period, grouping them, for the sake of brevity, into the five areas under supervisory review.

A. *Materiality Analysis of Climatic and Environmental Factors*: in this regard, new processes and methodologies were introduced to identify, map and assess the material extent of exposure to physical and climatic transition risks, which are likely to affect the business environment; the analysis, aimed at assessing the potential impact of environmental and climatic factors on the extent of the main banking risk profiles (credit, operational, liquidity, market), was accompanied by a description of the transmission channels through which these factors could propagate within the traditional risk categories.

B. *Business context and strategy*: in this area, we would like to highlight the enrichment of the set of environmental sustainability objectives and metrics linked to the carbon neutrality path undertaken at a strategic level by the bank, expressed by means of indicators for the reduction of direct and indirect greenhouse gas (GHG) emissions into the atmosphere; in particular, within the TCFD Report 2022, in addition to the objectives of reducing the levels of pollutant gas emissions known as Scope I and Scope II previously established, initial *targets* were published for the containment of carbon emissions generated by asset portfolios (GHG Scope III), constructed for the economic sectors identified as carbon-intensive priorities. An exercise was also carried out to measure the sensitivity of the Banking Group's medium-term economic and financial projections to a series of climate trend scenarios, by analysing the macroeconomic effects of different transition assumptions towards a *greener* and more environmentally sustainable economy.

C. *Corporate governance, risk appetite, reporting and data governance*: in relation to the *Risk Appetite Frameworks*, we note the consolidation of the systems for monitoring the parameter for measuring climate and environmental risks introduced at the end of 2022 in the context of the credit risk exposure of the 'corporate' portfolio, based on the use of a new internal *scoring* system for the ESG profile at counterparty level. We also highlight the definition of additional, more granular environmental and social sustainability risk indicators, which aim to ensure operational-level monitoring of trends in the exposure of credit portfolios to ESG risk dimensions, with a focus on the climate-environmental profiles of borrowers. In terms of data management infrastructures and processes, dedicated IT architectures were designed and implemented for the collection and historicisation of ESG information assets from various sources, supported by a detailed census of reference data models. On the subject of internal reporting, there was the standardisation and further integration of the report on the evolution of environmental, social and governance risk variables, with which the Board of Directors is regularly informed about the status of ESG risks - and, in particular those of a climate and environmental nature - by means of metrics on the trend of the riskiness of banking portfolios (credit assets and investments in proprietary securities) in terms of the incidence of exposure to these factors, measured on the individual counterparty/issuer and aggregated according to different dimensions of analysis (sector, territorial, by sub-portfolios, etc.). With regard to internal organisation, the bank promoted a series of activities aimed at an overall redefinition of its structures in order to distribute the responsibilities related to the integration of ESG risks among the organisational areas, by updating the function charts of the structures most impacted. Finally, the corporate governance procedures on sustainability have been strengthened by the recent establishment of a new board committee dedicated to it.

D. *Risk management system*: the commitment to fully integrate sustainability risks into the corporate risk management system continues. In addition to the introduction of new processes and techniques for identifying, mapping and assessing the materiality of exposure to climate-environmental risks, the bank has adopted a policy for the governance of such risks, which regulates the guiding principles for integrating assessments related to these factors into typical banking risk control systems and describes the processes for their management. In addition, a proprietary methodology for assigning a climate and environmental risk *score* to credit customers in the corporate portfolio was developed, using calibrated data at the individual counterparty level, including a review of current and projected greenhouse gas emissions. The metric, processed automatically, allows each entrusted company to be ranked with respect to its level of vulnerability to climate and physical transition risk factors; in addition to being a tool for monitoring environmental riskiness on an individual and aggregated basis, it has been adopted in the key decision-making processes of loan acceptance and pricing. During the last capital adequacy assessment process (ICAAP), the bank produced first quantification results of ESG impacts on credit risk parameters based on the application of prospective climate transition simulation scenarios and/or assumptions on the severity of the effects of relevant physical risks. The internal stress test, in providing first robust adjustment estimates of PDs and LGDs related to exposure to risks that depend on climate change and environmental degradation, also provided indications for the integration of an additional credit cost component to the statistical provisioning models, with the aim of taking into account, through experiential adjustments, the potential effects of ESG factors - and, in particular, climate-environmental factors - on the loss projections of the loan portfolio.

E. *Credit risk*: the deepening of ESG risk profiles is increasingly permeating the company's credit assessment and disbursement processes. The aforementioned scoring system has been incorporated into the electronic procedures for analysing credit files as an additional element of scrutiny of a corporate counterparty compared to the traditional analyses carried out during the credit appraisal. The individual assessment of exposure to environmental and climate risks has also taken its place in the determination of the bodies empowered to make decisions on corporate credit facilities and has been included among the variables contributing to the standard rate conditions applicable to credit transactions. Aware that the granting phase of a loan represents a privileged opportunity to acquire from the client a valuable set of missing information related to new risk factors, a specific due diligence process is then being launched for the main counterparties, aimed at investigating, by means of a specific qualitative-quantitative questionnaire, the management policies adopted by the debtor companies under the climate & environmental profile, whose evidence will complement the risk indication provided by the score.

Credit risk

QUALITATIVE INFORMATION

For qualitative information on credit risk, please refer in general to the financial statements as at 31/12/2022. With regard to information on impaired financial assets, please refer to the Report on Operations, section "Loans", and the Notes, section "Financial assets measured at amortised cost". Below is a summary of the most important aspects referring to the first half of 2023.

Methods for measuring expected losses

With reference to the methodological approach used by the Group for the quantification of expected losses on performing loans in the first half of 2023, a number of changes are to be reported in the modelling of expected loss estimation. They concerned the stage allocation framework - in which the introduction of an additional absolute criterion aimed at maximising consistency between the evolutionary dynamics of the rating and those of the staging carried out on the basis of the PD-based metric, and the remodulation of the threshold level of the PD-backstop criterion, which entails the prudential classification as Stage 02 of positions for which a significant increase in the annualised value of the PD lifetime is observed between the date of origination and the reporting date - and that of ECL override, with particular reference to both the minimum levels of coverage (the coverage floor) to be considered in the process of devaluing individual positions and the level of granularity with respect to which the latter are differentiated.

In addition, in order to continue to adequately incorporate in the quantification of its provisions the current and prospective effects of both the continuing crisis triggered by the outbreak of the pandemic and the current geopolitical context, with particular reference to the continuation of the Russian-Ukrainian conflict and its consequences at a geopolitical and economic level - specifically energy crisis, tensions on the supply chains of various production chains and the consequent inflationary and interest rate dynamics -, the Group has provided for both the usual maintenance and fine-tuning of a series of evolutionary specifications within its methodological and procedural architecture for the calculation of collective write-downs.

More precisely, during the half-year, steps were taken to:

- update and fine-tune the specific modelling of forward-looking information (FLI) and update the macroeconomic forecasts for a plurality of scenarios used as input to the models, as well as the weighting coefficients associated with them for the calculation of write-downs; in this regard, worthy of mention are the definition of the in-model adjustment for the suite of statistical-econometric models, developed according to a data-driven methodology, aimed at modelling, in an explicitly prospective manner, the evolutionary dynamics of the risk parameters for all the macroeconomic scenarios that contribute to the calculation of collective write-downs;

- guarantee the periodic performance of a set of quantitative and, more generally, data-driven analyses aimed at certifying the soundness, plausibility and accuracy of the macroeconomic forecasts periodically provided to the Bank by the appointed provider, prior to their use in the procedures for determining the accounting adjustments with the purpose of "conditioning" the factors for estimating the collective impairment to the performance of alternative macroeconomic scenarios; it is also worth noting, in this context, the further extension of the analysis and reporting structure aimed at reporting the results of the analyses carried out during the periodic meetings of the dedicated management committee (Scenarios Committee), supported by a periodic and systematic activity of monitoring, analysis and reporting (third party data analysis) of the publications of the most authoritative national and international research bodies and institutions, such as, by way of example but not limited to, the Bank of Italy, the European Central Bank, the European Commission, the International Monetary Fund, Confindustria, the Italian Banking Association (ABI), Oxford Economics, the National Institute of Statistics (ISTAT) and the Ministry of Economy and Finance (MEF);
- continue the usual activity of updating and reviewing the lists of counterparties considered to be "high risk" positions for which a prudential reclassification to Stage 2 has been temporarily assessed, with particular reference to both the updating of the positions relating to the types of cases already present in it - e.g. "energy- and gas-intensive" counterparties with particular business interests with the areas directly affected by the Russian-Ukrainian conflict - and to the addition to the latter of the locations affected by the recent weather events in Emilia-Romagna. As of June 2023, more than 3,500 positions were tagged to high risk, with a total exposure of around EUR 920 million;
- carry out specific activities to recalibrate and refine the management overlays, with particular reference to:
  (i) the updating of the geo-sectoral multipliers in the light of the newly published macroeconomic forecasts;
  (ii) the definition and quantification of a specific "ESG add-on" to include in the calculation of the provision new risk factors such as climate and environment risk, which are becoming increasingly important and the subject of general attention;
  (iii) to the recalibration and refinement of the prudential add-on and its contextual re-mapping, in accordance with the most recent expectations of the supervisory authorities, in a plurality of specific add-ons (model-related overlay), aimed at addressing in a precise manner all the specific areas - e.g. risk parameters, residual life attributed to certain types of technical forms without a contractual maturity - of temporary sub-optimality identified within the methodological framework in use and currently subject to review;

  which contribute, to the extent of approximately EUR 122 million (87 million in the financial year 2022), to the determination/quantification of the collective impairment provision;
- ensure the direct and constant involvement of senior management in relation to the parameter setting of the scenario-dependency components and their effects in the quantification of the collective write-downs, as well as in the calibration activities of the previously mentioned managerial overlays in order to obtain a level of overall collective

write-downs deemed by the same to be consistent with the current context and representative of the actual risk profile - current and prospective - of the portfolio.

Concerning the management of non-performing loans, the Group updated the NPL strategy in the 2023-2025 horizon. The document, approved by the Parent Company's Board of Directors in March 2023 for submission to the Supervisory Authority, envisages the combined use of ordinary and extraordinary initiatives, including disposals and settlement agreements, aimed at achieving the NPL ratio target values. Credits for which a sale or out-of-court agreements is contemplated are valued on the basis of the quantified recoverable value, taking into account recent transactions concluded by the Group, market and remuneration forecasts (i.e. discount factor) as well as the type of asset. With specific reference to the credit subject to potential disposal, in the absence of internal transactions concluded by the Group on portfolios with similar characteristics, the recoverable value is estimated considering the main transactions concluded on the market by comparable intermediaries.

Geo-political context

The military aggression of Ukraine by Russia is having a major impact in political, economic and financial terms, as a result of which uncertainties about the economic outlook have gradually increased. In particular, there were specific risk factors related to the energy crisis, rising inflation and corporate costs as well as rising interest rates. Since the first weeks following the outbreak of the conflict, the Group has closely monitored the development of its fallout by adopting a prudential approach also in the valuation of receivables (staging allocation and calculation of expected losses).

This approach, which continued in the first half of 2023, was characterised by a number of developments related, in particular, to the criteria for determining watchlist positions and the methodologies for estimating management overlays.

The following updates were made to the watchlist positions:

- revision of the list of counterparties potentially exposed to risk factors related to the geo-political environment and in particular to rising energy and natural gas costs. In fact, with the cooperation of the sales network, a collection of qualitative-quantitative information was conducted on a selected pool of potentially energy-intensive companies in order to better investigate their exposure profile to the factors indicated. The survey, which confirms the good quality of the portfolio, made it possible to classify the companies into three risk bands: high, medium and low. For the purposes of staging allocation the Group has classified in stage 2 companies with a high risk band and companies for which it was not possible to complete the collection of information mainly due to their size in the watchlist. These positions replace those on the watchlist as at 31 December 2022 and identified on the basis of statistical criteria;
- confirmation of the small number of counterparties exposed to direct and indirect risk with Russia, Belarus and Ukraine;
- introduction to the watchlist, following the climate events that occurred in Emilia-Romagna, of the exposures that the Group has taken on in relation to companies operating in the flooded provinces.

Also with regard to the valuation of receivables, the Group continued to adopt a prudent approach with regard to the adjustment of ECL results deriving from the IFRS 9 models in use, confirming the adoption of the prudential add-on already accounted for at 31 December 2022 and further increasing it. The increase in hedges, adopted to reflect the increase in credit risk, although still considered adequate to cope with the risks arising from the economic environment, was characterised by a revision of the estimation methods. In particular, the analyses conducted in alignment with the most recent recommendations formulated by the Supervisory Authority on the subject of estimating management overlays, allowed for a refinement of the quantification methodology and a greater openness of the prudential add-on in its various components (model-related overlay). Please refer to the previous paragraph for details.

In addition to the above, the Group introduced a new ESG prudential add-on aimed at covering the increased risks arising from climate-environmental factors to which the entrusted companies are potentially exposed.

Again with reference to the evolution of the reference context, addition, in view of the aspects of uncertainty that still characterise the context, the Group continues to carefully monitor the macroeconomic outlook by continuing, as it did during the previous periods, to analyse the forecast data made available by independent suppliers and renewing these projections on an almost monthly basis. As part of the risk governance processes, specific scenario and stress analyses are also conducted to assess potential impacts in terms of profitability and capital adequacy. Although the picture is constantly evolving, excluding extreme scenarios of conflict escalation that could lead to outcomes that are difficult to assess today, the analyses show that the Group would still be able to guarantee compliance with the regulatory constraints and the more stringent limits set out in the Group's Risk Appetite Statement.

With reference to all of the above, specific briefings have been produced for top management, committees and the Board of Directors, which are shared with the ECB's Joint Supervisory Team (JST) as necessary.

Methods for measuring expected losses - ECL sensitivity analysis

Generally speaking, macro-economic scenarios contain forecasts for the evolutionary dynamics of dozens of macro-economic variables, developed over multi-year time horizons and updated on a generally quarterly basis in market conditions considered standard[1] and form the object of specific analysis, discussion and approval in dedicated management committees. The scenarios examined address different degrees of adverse/favourable conditions affecting the overall macro-economic situation.

The estimation of write-downs generally considers a baseline scenario that applies “central” trends to the macroeconomic variables, with respect to their initial values at the time of the estimate, in order to derive an overall most likely outcome; in addition, two “alternative” scenarios are considered – “adverse” and “favourable” – that address outcomes deemed somewhat plausible and not extreme in the macroeconomic context identified. The importance of the above scenarios in the final determination of the write-downs is defined using an appropriate set of weighting coefficients that, in general, reflect the estimated severity assigned to each scenario by the external provider, as adjusted after specific internal analysis and processing.
However, the significant and pervasive repercussions of the Russian-Ukrainian conflict on the international macro-economic and financial context, which became apparent from the early months of last year, have resulted in the Group's recent need to revise, from a prudential perspective, the parameters of the scenarios used to calculate the IFRS 9 accounting write-downs of its loan portfolio. Following these events, the “favourable” scenario was replaced by the “extreme adverse” scenario.

Although Italy's economic activity showed signs of recovery in the first few months of the year, materialising in better-than-expected final results for the first quarter, the month of May dramatically witnessed the occurrence of weather events characterised by a high degree of

[1] These estimates are, however, subject to *ad-hoc* updates should the provider identify elements of atypicality and/or particular turbulence in the general macroeconomic context.

unpredictability, with particular reference to the flooding that hit some provinces of Emilia Romagna, thus significantly compromising productivity, profitability and financial stability of numerous companies operating in the affected areas. The growing concern that phenomena of such a nature can no longer be considered unique to the Italian climate context but, on the contrary, will be increasingly present in our peninsula as well, together with the awareness that the modelling of such phenomena is currently not explicitly considered in the process of estimating the risk parameters adopted by the Bank, has suggested a prudential approach that takes the form of maintaining the "extreme adverse" scenario among those used to calculate write-downs.

Consequently, the Parent Company adopted the following three different macro-scenarios and their respective weightings for calculating write-downs for June 2023:

- a **baseline scenario**, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 65% is attributed;
- a **(slightly) adverse scenario**, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 25% is attributed;
- an **extreme adverse scenario**, being the same as the one issued by the official supplier on the occasion of the last forecast report available at the date of calculating collective write-downs, to which a probability of 10% is attributed;

Finally, with regard to the weighting with which the above-mentioned scenarios contribute to the final calculation of the write-downs, the baseline scenario - which, in accordance with its name, represents the evolution of the macro-economic context considered most plausible and likely at the time of formulating the forecasts - is assigned the highest probability coefficient, while the alternative scenarios, due to their "residual" nature, are assigned lower weighting factors.

Table 1 shows the evolutionary dynamics of the main macro-economic variables for each of the above scenarios with reference to a three-year forecast horizon.

Table 1 – Annual forecasts for the main macro-economic variables

	Baseline Scenario June 2023			Adverse scenario June 2023			Extreme scenario June 2023		
Macro-economic variable	2023	2024	2025	2023	2024	2025	2023	2024	2025
Italy's GDP (% on an annual basis)	0.7%	0.6%	0.9%	0.2%	0.0%	0.3%	-0.3%	-1.5%	-0.1%
Italy's unemployment	7.8%	7.7%	7.8%	7.8%	8.2%	9.0%	7.9%	9.0%	11.0%
Italy's inflation (% on an annual basis)	5.1%	2.2%	2.0%	5.6%	3.0%	2.4%	7.3%	4.9%	1.4%
Italy's equity index (% on an annual basis)	16.3%	16.7%	10.7%	9.6%	7.0%	6.7%	0.7%	-6.5%	1.8%
10-year BTP interest rate (%)	4.6%	5.6%	5.4%	4.7%	6.0%	5.8%	5.0%	6.9%	6.5%
Italian residential property price index (% on annual basis)	1.2%	1.5%	1.9%	0.9%	0.5%	1.4%	1.2%	0.9%	-0.5%
Euro/dollar exchange rate	1.09	1.08	1.08	1.09	1.08	1.08	1.09	1.08	1.08
Brent oil: $ per barrel	85	85	84	92	95	95	125	140	110
Euribor 3 months	3.3%	3.4%	3.2%	3.6%	3.9%	3.7%	3.6%	3.9%	3.4%

For more information on the inclusion of forward-looking information (FLI) in the impairment model, please refer to paragraph 2.3 of Section 1 Credit risk of Part E of the Notes to the Financial Statements as at 31/12/2022.

In order to quantify the variability to which the final write-downs are subject, given all the scenario-dependent factors considered explicitly in its methodological framework, the Bank has also carried out specific sensitivity analyses in accordance with sector best practices and the most recent recommendations of the Supervisory Authorities[2] regarding the level of impairment of its performing exposures. The results of these analyses are presented in the following tables.

In particular, **Table 2** analyses by operational macro-segment and stage the different levels of write-down corresponding to the three scenarios identified – baseline, adverse and extreme – used to calculate the official amount, as well as the weighted outcome determined after applying the probabilities indicated above.

Table 2 - Write-downs [in €/million] at 30 June 2023 of the performing positions of the Parent Company's loan portfolio associated with different macroeconomic scenarios

Operational macro-segment	Stage	Base scen.	Adv. scen.	Extr. scen.	Weight. scen.
Corporate & Large Corporate	Stage 01	12.8	14.2	18.3	13.7
	Stage 02	64.5	69.3	83.7	67.6
	Total	**77.2**	**83.5**	**102.1**	**81.3**
Small Business	Stage 01	4.5	4.9	6.1	4.8
	Stage 02	16.4	17.5	19.8	17.0
	Total	**20.9**	**22.4**	**26.0**	**21.8**
Small Economic Operators	Stage 01	4.4	4.7	5.4	4.6
	Stage 02	15.5	16.6	18.9	16.1
	Total	**19.9**	**21.3**	**24.4**	**20.7**
Individuals	Stage 01	6.1	6.9	8.7	6.6
	Stage 02	28.8	31.9	37.8	30.5
	Total	**34.9**	**38.8**	**46.5**	**37.0**
Other	Stage 01	20.0	22.1	27.0	21.2
	Stage 02	6.5	7.6	10.1	7.1
	Total	**26.4**	**29.6**	**37.1**	**28.3**
Total	Stage 01	47.9	52.8	65.6	50.9
	Stage 02	131.6	142.8	170.4	138.3
	Total	**179.4**	**195.6**	**235.9**	**189.1**

[2] See for example the *paper* ESMA32 -63 - 791 of 22 October 2019.

Dually, **Table 3** provides a representation of the value of write-downs that would be obtained in correspondence with the four different choices of probabilistic coefficients[3] regarding the official one adopted.

Table 3 – Write-downs [in €/million] at 30 June 2023 of the performing positions of the Parent Company's loan portfolio associated with different weightings of the macro-economic scenarios

Operational macro-segment	Stage	Weighted scenario 1	Weighted scenario 2	Weighted scenario 3	Weighted scenario 4
Corporate & Large Corporate	Stage 01	14.0	14.4	13.6	13.2
	Stage 02	68.8	70.0	67.1	65.9
	Total	**82.8**	**84.4**	**80.7**	**79.1**
Small Business	Stage 01	4.9	5.0	4.7	4.6
	Stage 02	17.2	17.5	16.9	16.7
	Total	**22.1**	**22.4**	**21.7**	**21.3**
Small Economic Operators	Stage 01	4.7	4.7	4.6	4.5
	Stage 02	16.3	16.5	16.0	15.8
	Total	**21.0**	**21.3**	**20.6**	**20.3**
Individuals	Stage 01	6.7	6.9	6.5	6.4
	Stage 02	31.1	31.7	30.3	29.7
	Total	**37.8**	**38.6**	**36.8**	**36.1**
Other	Stage 01	21.7	22.1	21.1	20.6
	Stage 02	7.3	7.6	7.0	6.8
	Total	**29.0**	**29.7**	**28.1**	**27.4**
Total	Stage 01	52.0	53.1	50.5	49.3
	Stage 02	140.8	143.3	137.4	134.9
	Total	**192.8**	**196.4**	**187.9**	**184.3**

Lastly, **Table 4, Table 5** and **Table 6** show the different levels of collective write-downs corresponding to the baseline, adverse and favourable scenarios respectively, in the event that their parameters were used not only to calculate the ECL, but also in the stage allocation.

[3] The values of the weighting factors for the baseline, adverse, and extreme scenarios are 55%-30%-15% (alternative weighted scenario 1), 45%-35%-20% (alternative weighted scenario 2), 60%-35%-5% (alternative weighted scenario 3), and 70%-30%-0% (alternative weighted scenario 4), respectively.

Table 4 – Write-downs [in €/million] at 30 June 2023 for the performing positions of the Parent Company's loan portfolio if the parameters of the baseline scenario were used both to calculate the ECL and for the stage allocation

Operational macro-segment	Stage_base	No. Pos	EAD	No. Pos%	EAD%	Baseline ECL
Corporate & Large Corporate	Stage 01	45,555	15,257.4	90.1%	87.8%	12.9
	Stage 02	5,019	2,113.5	9.9%	12.2%	64.0
	Total	**50,574**	**17,370.9**	**20.0%**	**56.6%**	**76.9**
Small Business	Stage 01	46,503	2,069.2	88.7%	82.2%	4.6
	Stage 02	5,901	447.9	11.3%	17.8%	15.9
	Total	**52,404**	**2,517.1**	**20.7%**	**8.2%**	**20.5**
Small Economic Operators	Stage 01	54,338	2,063.3	89.2%	90.1%	4.5
	Stage 02	6,576	225.6	10.8%	9.9%	15.1
	Total	**60,914**	**2,288.9**	**24.1%**	**7.5%**	**19.6**
Individuals	Stage 01	79,564	4,222.4	91.9%	90.9%	6.3
	Stage 02	7,049	424.5	8.1%	9.1%	27.4
	Total	**86,613**	**4,646.9**	**34.3%**	**15.1%**	**33.7**
Other	Stage 01	2,104	3,689.1	89.5%	94.8%	20.0
	Stage 02	248	202.0	10.5%	5.2%	6.5
	Total	**2,352**	**3,891.1**	**0.9%**	**12.7%**	**26.4**
Total	Stage 01	228,064	27,301.5	90.2%	88.9%	48.3
	Stage 02	24,793	3,413.4	9.8%	11.1%	128.9
	Total	**252,857**	**30,714.9**	**100.0%**	**100.0%**	**177.2**

Table 5 – Write-downs [in €/million] at 30 June 2023 for the performing positions of the Parent Company's loan portfolio if the parameters of the adverse scenario were used both to calculate the ECL and for the stage allocation

Operational macro-segment	Stage_adv	No. Pos	EAD	No. Pos%	EAD%	ECL adv.
Corporate & Large Corporate	Stage 01	45,014	14,975.6	89.0%	86.2%	14.0
	Stage 02	5,560	2,395.3	11.0%	13.8%	69.8
	Total	**50,574**	**17,370.9**	**20.0%**	**56.6%**	**83.8**
Small Business	Stage 01	45,715	2,009.4	87.2%	79.8%	4.8
	Stage 02	6,689	507.7	12.8%	20.2%	17.8
	Total	**52,404**	**2,517.1**	**20.7%**	**8.2%**	**22.6**
Small Economic Operators	Stage 01	54,023	2,038.2	88.7%	89.0%	4.7
	Stage 02	6,891	250.7	11.3%	11.0%	17.0
	Total	**60,914**	**2,288.9**	**24.1%**	**7.5%**	**21.7**
Individuals	Stage 01	79,071	4,158.1	91.3%	89.5%	6.8
	Stage 02	7,542	488.8	8.7%	10.5%	33.0
	Total	**86,613**	**4,646.9**	**34.3%**	**15.1%**	**39.8**
Other	Stage 01	2,104	3,689.1	89.5%	94.8%	22.1
	Stage 02	248	202.0	10.5%	5.2%	7.6
	Total	**2,352**	**3,891.1**	**0.9%**	**12.7%**	**29.6**
Total	Stage 01	225,927	26,870.3	89.3%	87.5%	52.3
	Stage 02	26,930	3,844.6	10.7%	12.5%	145.2
	Total	**252,857**	**30,714.9**	**100.0%**	**100.0%**	**197.5**

Table 6 – Write-downs [in €/million] at 30 June 2023 for the performing positions of the Parent Company's loan portfolio if the parameters of the extreme scenario were used both to calculate the ECL and for the stage allocation

Operational macro-segment	Stage_extr.	No. Pos	EAD	No. Pos%	EAD%	ECL extr.
Corporate & Large Corporate	Stage 01	43,154	14,285.5	85.3%	82.2%	15.3
	Stage 02	7,420	3,085.4	14.7%	17.8%	97.5
	Total	**50,574**	**17,370.9**	**20.0%**	**56.6%**	**112.8**
Small Business	Stage 01	43,035	1,886.4	82.1%	74.9%	5.5
	Stage 02	9,369	630.7	17.9%	25.1%	21.7
	Total	**52,404**	**2,517.1**	**20.7%**	**8.2%**	**27.2**
Small Economic Operators	Stage 01	50,392	1,897.4	82.7%	82.9%	4.9
	Stage 02	10,522	391.5	17.3%	17.1%	22.1
	Total	**60,914**	**2,288.9**	**24.1%**	**7.5%**	**26.9**
Individuals	Stage 01	60,118	3,191.5	69.4%	68.7%	6.7
	Stage 02	26,495	1,455.4	30.6%	31.3%	62.4
	Total	**86,613**	**4,646.9**	**34.3%**	**15.1%**	**69.1**
Other	Stage 01	2,101	3,689.1	89.3%	94.8%	27.0
	Stage 02	251	202.0	10.7%	5.2%	10.1
	Total	**2,352**	**3,891.1**	**0.9%**	**12.7%**	**37.1**
Total	Stage 01	198,800	24,949.9	78.6%	81.2%	59.4
	Stage 02	54,057	5,765.0	21.4%	18.8%	213.8
	Total	**252,857**	**30,714.9**	**100.0%**	**100.0%**	**273.2**

Moratoria and new funding following the COVID 19 pandemic

During the first half of 2023, there was a substantial elimination of exposures with Covid-19-related moratoria; as at 30 June 2023, the exposures still outstanding amounted to a net EUR 4 million. During the first half of the year, the Group nevertheless continued with the systematic monitoring of the risk profiles of exposures that had already matured or were still maturing, without detecting any particular signs of criticality or deterioration.

The following table shows the volume of loans subject to government guarantees originated by the Group at 30 June 2023.

	Gross carrying amount (millions of euro)	Net carrying amount (millions of euro)
Loans subject to government guarantees	2,114	2,097

QUANTITATIVE INFORMATION

Asset quality targets

Non-performing and performing exposures: balance and value adjustment

Distribution of financial assets by portfolio and asset quality (carrying amounts)

Portfolio/quality	Bad loans	Unlikely-to-pay loans	Non-performing past due exposures	Performing past due exposures	Other performing exposures	**Total**
1. Financial assets measured at amortised cost	87,133	397,979	74,793	511,669	43,121,377	44,192,951
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	2,640,188	2,640,188
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	17,030	1,687	4,049	381,226	403,992
5. Financial assets held for sale	-	-	-	-	-	-
Total 30/06/2023	**87,133**	**415,010**	**76,479**	**515,718**	**46,142,791**	**47,237,131**
Total 31/12/2022	**121,838**	**431,267**	**56,755**	**496,125**	**45,662,684**	**46,768,669**

The word exposures is understood as excluding equity securities and mutual funds.

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

Portfolio/quality	Non-performing				Performing			
	Gross exposure	Total value adjustment	Net exposure	Total partial write-offs	Gross exposure	Total value adjustment	Net exposure	**Total net exposure**
1. Financial assets measured at amortised cost	1,420,897	(860,992)	559,905	99,018	43,818,662	(185,616)	43,633,046	44,192,951
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	2,642,005	(1,817)	2,640,188	2,640,188
3. Financial assets designated at fair value	-	-	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	34,646	(15,929)	18,717	-	-	-	385,275	403,992
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 30/06/2023	**1,455,543**	**(876,921)**	**578,622**	**99,018**	**46,460,667**	**(187,433)**	**46,658,509**	**47,237,131**
Total 31/12/2022	**1,461,442**	**(851,582)**	**609,860**	**114,265**	**45,900,615**	**(157,155)**	**46,158,809**	**46,768,669**

For financial assets held for trading, those valued at fair value and hedging derivatives, the gross exposure is presented at the value resulting from the period-end valuation.

Prudential consolidation - Cash credit exposures and off-balance-sheet exposures to banks: gross and net values

Type of exposure/amounts		Gross exposure			
		First stage	Second stage	Third stage	Impaired purchased or originated
A. Cash credit exposures					
A.1 Sight	**2,538,384**	**2,527,971**	**10,413**	**-**	**-**
a) Non-performing	-	-	-	-	-
b) Performing	2,538,384	2,527,971	10,413	-	-
A.2 Others	**2,335,342**	**2,008,357**	**326,985**	**-**	**-**
a) Bad loans	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-
b) Unlikely-to-pay	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-
c) Non-performing past due exposures	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-
d) Performing past due exposures	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-
e) Other performing exposures	2,335,342	2,008,357	326,985	-	-
- of which: exposures subject to forbearance	-	-	-	-	-
Total (A)	**4,873,726**	**4,536,328**	**337,398**	**-**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	-	-	-	-
b) Performing	987,158	836,018	151,140	-	-
Total (B)	**987,158**	**836,018**	**151,140**	**-**	**-**
Total (A+B)	**5,860,884**	**5,372,346**	**488,538**	**-**	**-**

Type of exposure/amounts		Total adjustments and provisions				**Net exposure**	**Total partial write-offs**
		First stage	Second stage	Third stage	Impaired purchased or originated		
A. Cash credit exposures							
A.1 Sight	**344**	**195**	**149**	**-**	**-**	**2,538,040**	
a) Non-performing	-	-	-	-	-	-	
b) Performing	344	195	149	-	-	2,538,040	
A.2 Others	**4,929**	**1,694**	**3,235**	**-**	**-**	**2,330,413**	
a) Bad loans	-	-	-	-	-	-	
- of which: exposures subject to forbearance	-	-	-	-	-	-	
b) Unlikely-to-pay	-	-	-	-	-	-	
- of which: exposures subject to forbearance	-	-	-	-	-	-	
c) Non-performing past due exposures	-	-	-	-	-	-	
- of which: exposures subject to forbearance	-	-	-	-	-	-	
d) Performing past due exposures	-	-	-	-	-	-	
- of which: exposures subject to forbearance	-	-	-	-	-	-	
e) Other performing exposures	4,929	1,694	3,235	-	-	2,330,413	
- of which: exposures subject to forbearance	-	-	-	-	-	-	
Total (A)	**5,273**	**1,889**	**3,384**	**-**	**-**	**4,868,453**	
B. Off-balance sheet credit exposures							
a) Non-performing	-	-	-	-	-	-	
b) Performing	113	99	14	-	-	987,045	
Total (B)	**113**	**99**	**14**	**-**	**-**	**987,045**	
Total (A+B)	**5,386**	**1,988**	**3,398**	**-**	**-**	**5,855,498**	

Cash credit exposures include loans and receivables with banks shown in item 40 a) and item 10, as well as other financial assets represented by bank securities included in items 20 c), 30 and 40 of the assets side of the balance sheet, excluding equities. The off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to equity securities).

Prudential consolidation - Cash credit exposures and off-balance-sheet exposures to customers: gross and net values

		Gross exposure			
Type of exposure/amounts		First stage	Second stage	Third stage	Impaired purchased or originated
A. Cash credit exposures					
a) Bad loans	519,445	-	-	494,878	24,567
- of which: exposures subject to forbearance	176,720	-	-	169,741	6,979
b) Unlikely-to-pay	850,138	-	-	782,176	67,962
- of which: exposures subject to forbearance	468,370	-	-	422,368	46,002
c) Non-performing past due exposures	85,960	-	-	85,818	142
- of which: exposures subject to forbearance	12,096	-	-	12,096	-
d) Performing past due exposures	527,380	359,882	164,533	-	2,965
- of which: exposures subject to forbearance	19,514	-	19,386	-	128
e) Other performing exposures	43,983,219	40,847,816	3,067,826	-	67,577
- of which: exposures subject to forbearance	339,318	375	309,475	-	29,468
Total (A)	**45,966,142**	**41,207,698**	**3,232,359**	**1,362,872**	**163,213**
B. Off-balance sheet credit exposures					
a) Non-performing	207,332	-	-	202,731	4,601
b) Performing	23,098,190	20,861,444	2,233,743	-	3,003
Total (B)	**23,305,522**	**20,861,444**	**2,233,743**	**202,731**	**7,604**
Total (A+B)	**69,271,664**	**62,069,142**	**5,466,102**	**1,565,603**	**170,817**

		Total adjustments and provisions					
Type of exposure/amounts		First stage	Second stage	Third stage	Impaired purchased or originated	**Net exposure**	**Total partial write-offs**
A. Cash credit exposures							
a) Bad loans	432,313	-	-	411,628	20,685	87,132	96,153
- of which: exposures subject to forbearance	144,434	-	-	139,092	5,342	32,286	9,957
b) Unlikely-to-pay	435,128	-	-	394,460	40,668	415,010	2,865
- of which: exposures subject to forbearance	248,127	-	-	223,068	25,059	220,243	-
c) Non-performing past due exposures	9,480	-	-	9,442	38	76,480	-
- of which: exposures subject to forbearance	537	-	-	537	-	11,559	-
d) Performing past due exposures	11,664	1,620	9,836	-	208	515,716	-
- of which: exposures subject to forbearance	1,691	-	1,685	-	6	17,823	-
e) Other performing exposures	170,840	55,246	109,725	-	5,869	43,812,379	2
- of which: exposures subject to forbearance	19,130	1	17,546	-	1,583	320,188	-
Total (A)	**1,059,425**	**56,866**	**119,561**	**815,530**	**67,468**	**44,906,717**	**99,020**
B. Off-balance sheet credit exposures							
a) Non-performing	40,038	-	-	40,038	-	167,295	-
b) Performing	33,909	12,846	21,059	-	3	23,064,280	-
Total (B)	**73,947**	**12,846**	**21,059**	**40,038**	**3**	**23,231,575**	**-**
Total (A+B)	**1,133,372**	**69,712**	**140,620**	**855,568**	**67,471**	**68,138,292**	**99,020**

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

Large exposures

	30/06/2023	31/12/2022
Number of positions	26	25
Exposure	29,065,986	32,484,084
Risk position	7,679,938	8,283,330

The exposure limit of 10% of own funds – the threshold for inclusion of a counterparty in the category of "Large exposure" – has to be measured in terms of the "nominal amount" of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the "risk position", on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

It should be noted that the positions shown above include the Italian Republic (nominal exposure, EUR 11,891 million; risk position, EUR 15 million), purely on the basis of sovereign securities held in proprietary portfolios, and the Bank of Italy (nominal exposure, EUR 1,706 million; zero risk position), as well as exposures to Spain, Germany and France for a nominal amount of EUR 3,422 million with a zero risk position.

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

For qualitative information on interest rate, price and exchange rate risks, please refer to the financial statements as at 31/12/2022.

Derivative instruments and related hedging policy

Since June 2022, the group has been using the Macro Fair Value Hedge (MFVH) methodology applied to interest rate risk with the objective of neutralising the change in fair value of assets and liabilities recognised in the financial statements or portions thereof as a result of changes in interest rates.

To this end, the Group has promoted the formalisation of operational processes and procedures to enable:

- the structuring of transactions to hedge the interest rate risk assumed through the provision of fixed-rate loans and other fixed-rate assets;
- the recognition and subsequent management of these transactions within the Macro Fair Value Hedge framework, thus limiting the volatility elements that would otherwise be caused by the different valuation criteria of hedging transactions (shown at fair value) and hedged instruments (recognised at amortised cost);
- the inclusion of such operations in the risk management and monitoring processes.

On first-time application of IFRS 9, the Group exercised the option provided by the standard to continue to fully apply the rules of IAS 39 for all types of hedges (micro and macro). Therefore, the provisions of IFRS 9 on hedging do not apply.

In the hypothesis of "fair value hedges", the sources of ineffectiveness of a hedging relationship, during its period of validity, can be traced back to:

- mismatch between the notional amount of the derivative and the underlying hedged item recognised at the time of the initial designation or generated thereafter, such as in the case of partial loan repayments;
- inclusion in the effectiveness test of the value of the variable part of the hedging derivative.

During the period under analysis, no elements were found that might have caused the hedges to be ineffective, giving the possibility of continuing to apply the hedge accounting rules.

Financial derivatives

Trading financial derivatives: period-end notional amounts

Underlying assets/ Types of derivatives	Total 30/06/2023				Total 31/12/2022			
	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	**-**	**-**	**560,352**	**-**	**-**	**-**	**1,465,683**	**-**
a) Options	-	-	39,287	-	-	-	46,345	-
b) Swaps	-	-	521,065	-	-	-	1,419,338	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	**-**	**-**	**98,573**	**-**	**-**	**-**	**108,818**	**-**
a) Options	-	-	98,573	-	-	-	108,818	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	**-**	**-**	**4,206,112**	**-**	**-**	**-**	**4,615,949**	**-**
a) Options	-	-	215,254	-	-	-	155,572	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	3,990,858	-	-	-	4,460,377	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**54,897**	**-**	**-**	**-**	**54,242**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**4,919,934**	**-**	**-**	**-**	**6,244,692**	**-**

Trading financial derivatives: positive and negative gross fair value – analysis by type of product

Underlying assets/ Types of derivatives	Total 30/06/2023				Total 31/12/2022			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties: With settlement agreements	Without central counterparties: Without settlement agreements		Central counterparties	Without central counterparties: With settlement agreements	Without central counterparties: Without settlement agreements	
1. Positive fair value								
a) Options	-	-	3,996	-	-	-	4,116	-
b) Interest rate swaps	-	-	12,416	-	-	-	15,291	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	25,639	-	-	-	42,182	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	1,951	-	-	-	1,772	-
Total	**-**	**-**	**44,002**	**-**	**-**	**-**	**63,361**	**-**
2. Negative fair value								
a) Options	-	-	3,114	-	-	-	3,446	-
b) Interest rate swaps	-	-	10,581	-	-	-	13,282	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	25,838	-	-	-	97,416	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	1,916	-	-	-	1,727	-
Total	**-**	**-**	**41,449**	**-**	**-**	**-**	**115,871**	**-**

Hedging financial derivatives

Hedging financial derivatives: period-end notional amounts

Underlying assets/ Types of derivatives	Total 30/06/2023 Over the counter Central counterparties	Total 30/06/2023 Over the counter Without central counterparties With settlement agreements	Total 30/06/2023 Over the counter Without central counterparties Without settlement agreements	Total 30/06/2023 Organised markets	Total 31/12/2022 Over the counter Central counterparties	Total 31/12/2022 Over the counter Without central counterparties With settlement agreements	Total 31/12/2022 Over the counter Without central counterparties Without settlement agreements	Total 31/12/2022 Organised markets
1. Fixed-yield securities and interest rates	**-**	**-**	**66,154**	**-**	**-**	**-**	**102,717**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	66,154	-	-	-	102,717	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity 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	**-**	**-**	**66,154**	**-**	**-**	**-**	**102,717**	**-**

Hedging financial derivatives: positive and negative gross fair value – analysis by type of product

	Total 30/06/2023				Total 31/12/2022			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
Underlying assets/ Types of derivatives	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	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	541	-	-	-	248	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**541**	**-**	**-**	**-**	**248**	**-**
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	179	-	-	-	227	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**179**	**-**	**-**	**-**	**179**	**-**

Banking group - Liquidity risk

For qualitative information on liquidity risk, please refer to the financial statements as at 31/12/2022.

Securitisation transactions and sale of assets

Covered Bond

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

On 1 June 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling EUR 802 million was sold without recourse to "POPSO Covered Bond s.r.l.", the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for EUR 500 million.

Over the years, various disposal transactions have been carried out, in particular on 1 February 2016, a portfolio of a total of EUR 576 million of performing loans was sold in connection with the issuance of the second series of covered bonds totalling EUR 500 million on 4 April 2016.

These securitisations carried out over the year involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, 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 articulated process has been set up to meet the regulatory requirements, allowing, 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 counterparties 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.

Please note that the last outstanding bond issued on 4 April 2016, with ISIN code IT0005175242, matured and was fully redeemed on 4 April 2023. The first series of bonds, with ISIN Code IT0005039711, was repaid in full on 5 August 2019.

Credit Transfer

As at 30 June 2023, the Group's exposure in Asset Backed Securities (ABS) from securitisation transactions amounted to EUR 745.133 million.

The composition of ABS securities is as follows:

- EUR 86.904 million relative to securities issued by the vehicle company Diana SPV, which the Group holds following the securitisation backed by GACS of bad loans, called "Diana

Project", completed in June 2020 (senior tranche of EUR 86.236 million; mezzanine and junior tranches of EUR 0.668 million);

- EUR 58.876 million relative to securities issued by the vehicle POP NPLs 2020 Srl, which the Group holds as a result of the GACS securitisation transaction of bad loans, called "Luzzatti", completed in December 2020 (senior tranche of EUR 58.775 million; mezzanine tranche of EUR 0.101 million);
- EUR 72.843 million relative to securities issued by the vehicle Luzzatti POP NPLs 2021 Srl, which the Group holds as a result of the securitisation backed by GACS of bad loans, called "Luzzatti II", completed in December 2021 (senior tranche of EUR 72.749 million; mezzanine tranche of EUR 0.094 million);
- EUR 57.137 million relative to securities issued by the vehicle Luzzatti POP NPLs 2022 Srl, which the Group holds as a result of the securitisation of bad loans, called "Luzzatti III", completed in December 2022 (senior tranche of EUR 57.006 million; mezzanine tranche of EUR 0.131 million);
- EUR 469.373 million relating to securities of third-party securitisation transactions, issued by the special purpose vehicle "BNT Portfolio SPV", established in 2014 in order to finalise the securitisation of Banca della Nuova Terra's agricultural loans, and by the special purpose vehicle "Alba 6 Spv".

For further details, see "Part E - Section 2 - C. Securitisation Transactions", of the Consolidated Financial Statements as at 31 December 2022.

The group also holds structured credit securities in the amount of EUR 56.328 million (of which approximately 6 million was acquired in the current year) relating to mutual fund units subscribed as a result of multi-originator sales of impaired loan portfolios. For a discussion of mutual funds resulting from multi-originator disposals, please refer to "Part E - Section 2 - D.3 Disposals - Financial assets sold and fully derecognised" of the Consolidated Financial Statements as at 31 December 2022.

Synthetic securitisation

In 2022 June, the Group signed a synthetic securitisation transaction with the EIB Group on a portfolio of loans granted to "corporate" counterparties (Small-business, SME and Large Business segments) for a countervalue of EUR 958 million.

By means of synthetic securitisation, the bank acquires, in synthetic and thus aggregate form, a hedge against "first losses" that may occur in an identified portfolio of loans. For further details, see "Part E - Section 2 - C. Securitisation Transactions", of the Consolidated Financial Statements as at 31 December 2022.

Banking group - Operational risks

For qualitative information on operational risks, please refer to the consolidated financial statements as at 31/12/2022.

Information on exposure to sovereign debt

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

In this regard, the overall exposure of the banking group at 30 June 2023 amounted to EUR 11,321 million and was structured as follows:

a) Italian government securities: 6,858 million;

b) Securities of other issuers: 3,929 million;

c) Loans to government departments: 143 million;

d*)* Loans to other public administrations and miscellaneous entities: 391 million.

The table below shows the balance sheet value of the Bank's total fixed-yield securities exposure to sovereign states as at 30 June 2023, by portfolio.

Issuer	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Book value
Government Securities				
Italy	-	1,416,995	5,440,749	6,857,744
France	-	148,505	738,224	886,729
Spain	-	341,593	1,277,680	1,619,273
Germany	-	99,789	762,875	862,664
Austria	-	49,722	-	49,722
Holland	-	100,400	50,631	151,031
Other Securities Due from Governments				
- Italy	-	4,813	182,462	187,276
- Others	35,583	-	136,824	172,407
Total	**35,583**	**2,161,818**	**8,589,444**	**10,786,846**

The table does not include GACS-backed securitisation securities.

With regard to government bond exposures, the following table provides information on maturity, by portfolio:

	Within 1 year	1 to 5 years	Over 5 years	Total
Financial assets measured at fair value through other comprehensive income (Item 30)	237,792	1,367,761	551,452	2,157,005
Financial assets measured at amortised cost (Item 40)	310,524	4,043,956	3,915,678	8,270,158

Information on consolidated equity

Consolidated equity

QUALITATIVE INFORMATION

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

Banca Popolare di Sondrio as parent company carries out the activity of coordination and guidance on the companies belonging to the group, worrying about the adequacy of the capital of each subsidiary and setting any lines to be adopted. The Group's asset size is constantly monitored and periodically brought to the attention of the Directors and Supervisory Bodies.

The need for adequate capital was made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis.

The economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets, an even more pressing need due to the ongoing tensions linked to the growth in inflation, the Russian-Ukrainian conflict and the energy crisis. Without forgetting, at the same time, the need to support the economy in order to stimulate a recovery. Recent events that have affected the banking system are evidence of this. Supervisory Bodies are focusing more and more on the capital adequacy of banks.

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy of the Parent Company has been identified as the instrument that, by creating the role of shareholder/customer, has made it possible to pursue the strategy of autonomous growth decided by management.

By resolution of the shareholders' meeting of 29 December 2021, the Bank, in accordance with the provisions of Law No. 33 of 24 March 2015, converted from a cooperative company limited by shares to a joint-stock company. The transformation into a joint-stock company has not undermined the founding principles that underpin the Bank's activities.

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

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

It should be emphasised that the critical situation in the financial markets, especially in the area of loans to customers, has had a negative impact on banks' profitability and consequently on self-financing, which in the past has always contributed substantially to banks' capitalisation. The tensions experienced in recent years in the banking system that have affected various banks have not, in the last analysis, facilitated the projects to strengthen the capital adequacy of the bank, despite the growth in operations designed to add specialist instruments in support of the real economy. In this context, we have acquired Factorit Spa, Banca della Nuova Terra spa and Prestinuova spa in recent years, while also increasing the equity interests held in companies with complementary activities. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of EUR 343 million.

The Ordinary Shareholders' Meeting of 29 April 2023, called to approve the 2022 financial statements and the appropriation of profit, resolved to pay a total dividend of EUR 126.948 million.

QUANTITATIVE INFORMATION

Analysis of consolidated equity by type of company

Items/Amounts	Consolidation for supervisory purposes	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	**1,360,161**	**-**	**10**	**-**	**1,360,171**
2. Share premium reserve	**78,949**	**-**	**-**	**-**	**78,949**
3. Reserves	**1,809,972**	**-**	**(2,969)**	**123,384**	**1,930,387**
4. Equity instruments	**-**	**-**	**-**	**-**	**-**
5. (Treasury shares)	**(25,342)**	**-**	**-**	**-**	**(25,342)**
6. Valuation reserves	**(41,356)**	**-**	**195**	**333**	**(40,828)**
- Equity securities measured at fair value through other comprehensive income	68,690	-	-	-	68,690
- Hedge of equity securities measured at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	(70,511)	-	-	-	(70,511)
- Property, equipment and investment property	11,850	-	-	-	11,850
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash-flow hedges	-	-	-	-	-
- Hedging instruments (non-designated elements)	-	-	-	-	-
- Exchange differences	-	-	-	(3)	(3)
- Non-current assets and groups of assets held for sale	-	-	-	-	-
- Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)	-	-	-	-	-
- Actuarial profits (losses) related to defined-benefit pension plans	(51,385)	-	3	-	(51,382)
- Portions of valuation reserves related to subsidiaries carried at equity	-	-	-	336	336
- Special revaluation regulations	-	-	192	-	192
7. Profit (Loss)	**206,167**	**-**	**(869)**	**1,788**	**207,086**
Total	**3,388,551**	**-**	**(3,633)**	**125,505**	**3,510,423**

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

Assets/Amounts	Consolidation for supervisory purposes		Insurance companies		Other companies		Eliminations and adjustments from consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	2,575	(57,125)	-	-	-	-	-	-	2,575	(57,125)
2. Equity securities	72,809	(4,119)	-	-	-	-	-	-	72,809	(4,119)
3. Loans	-	(15,961)	-	-	-	-	-	-	-	(15,961)
Total 30/06/2023	**75,384**	**(77,205)**	**-**	**-**	**-**	**-**	**-**	**-**	**75,384**	**(77,205)**
Total 31/12/2022	**72,804**	**(74,979)**	**-**	**-**	**-**	**-**	**-**	**-**	**72,804**	**(74,979)**

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

	Fixed-yield securities	Equity securities	Loans
1. Opening balance	**(71,024)**	**68,849**	**-**
2. Positive changes	**17,127**	**1,611**	**-**
2.1 Increases in fair value	14,573	1,611	-
2.2 Adjustments for credit risk	1,151	-	-
2.3 Transfer to income statement of negative reserves from disposals	1,403	-	-
2.4 Transfer to other components of equity (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Negative changes	**(653)**	**(1,770)**	**(15,961)**
3.1 Reductions in fair value	-	(1,770)	(15,961)
3.2 Write-backs for credit risk	(653)	-	-
3.3 Transfer to income statement from positive reserves: from disposal	-	-	-
3.4 Transfer to other components of equity (equity securities)	-	-	-
3.5 Other changes	-	-	-
4. Closing balance	**(54,550)**	**68,690**	**(15,961)**

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

The valuation reserve relating to the defined-benefit plans is negative by EUR 51.382 million. This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

Capital and capital adequacy ratios

The disclosure on own funds and capital adequacy is represented in the document "Disclosure to the Public - Pillar 3 at 30 June 2023" prepared on the basis of the regulatory provisions established by Circular No. 285 of 17 December 2013 and subsequent updates, issued by the Bank of Italy, and by Regulation (EU) No. 575/2013 of the European Parliament and Council of 26 June 2013 (CRR), as amended.

Related-party transactions

Related-party disclosures

In accordance with Consob Resolution No. 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010, the Bank adopted its own Internal Regulation on related party transactions.

This regulation was last updated by resolution of the Board of Directors on 31 March 2023 and is published on the company website at www.institutional.popso.it.

A related party is understood as being a person in a certain position who could exercise an influence over the Bank such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

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

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies and their subsidiaries.
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 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.

A situation of significant influence is presumed to exist if one holds, directly or indirectly, 20% or more of the votes exercisable at the shareholders' meeting of the investee, or 10% in the case of companies with shares listed on regulated markets, unless the contrary can be clearly demonstrated.

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 regulated from a Group perspective and are normally in line with the conditions applied to the Parent Company in the reference markets and may differ from those that the subsidiary could see applied to it acting autonomously.

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.

For related parties with administration, management and control functions for the granting of bank credit facilities, there is a special approval procedure 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.

Below are the balance sheet and profit and loss account figures as at 30 June 2023 referring to related parties as defined above on the basis of IAS 24:

(thousands of euro)	Assets	Liabilities	Income	Charges	Guarantees given and commitments	Guarantees received
Directors	575	8,709	6	113	105	488
Statutory auditors	597	647	6	0	372	2,190
Management	2	760	0	14	618	0
Family members	1,361	4,205	26	48	210	6,568
Associated companies	560,376	151,341	4,265	176	216,154	612
Other	552	790	13	0	1,034	1,275
Totals	**563,463**	**166,452**	**4,315**	**351**	**218,493**	**11,133**

Assets and liabilities mainly refer to item 40 “Financial assets measured at amortised cost - b) loans to customers” and item 10 “Financial liabilities measured at amortised cost - b) loans to customers” and have a percentage weight of 1.33% and 0.47%, respectively. Income and expenses mainly refer to the items interest and commission and account for 0.42% and 0.09% respectively.

The exposure to associated companies is attributable for EUR 136 million to Arca Holding spa and EUR 301 million to Alba Leasing spa.

Segment reporting

The segment reporting was prepared in accordance with IFRS 8 - Operating segments. Each sub-segment has been identified based on the nature of the products and services offered and on the type of customer concerned, so that adequately homogeneous characteristics are presented therein from a risk and profitability profile.

Even though this classification reflects the lines of business envisaged under the Standardised Approach for calculating the minimum capital requirement for operational risk, it is based substantially on internal practice for the subdivision of activities used to apply corporate policies and to evaluate their results.

Geographical information is based on the distribution of branches throughout Italy and Switzerland.

Distribution by business sectors

Distribution by business sectors: economic data

The following sub-segments are discussed:

- *Corporate*: these comprise "non-financial companies" and "family"; the figures shown here relate to credit and loans, deposits, leasing and payment services. Revenues from currency transactions with resident and non-resident customers are also significant to this sub-segment.
- *Individuals and other customers*: these comprise "consumer households", "public administrations", "finance companies" and "non-profit organisations"; the results reported derive from routine transactions with these customers, including the taking of deposits, intermediation in savings transactions, the granting of long-term loans and consumer credit, the provision of collection and payment services, the issue of credit and debit cards and other ancillary functions.
- *Securities*: this sub-segment comprises the results of transactions with customers involving direct trading in, the acceptance of instructions, the placement of financial instruments, insurance and pension productions, and the management of portfolios.
- *Central functions*: this sub-segment reports the results deriving from the management of portfolio own securities and equity investments, currency transactions on own account, and treasury management activities. In addition, it includes certain residual activities not classified elsewhere since the revenues earned are not significant.

The following tables show the pre-tax results of each individual segment for 2023 and 2022. Interest income and expense include a notional element to reflect the contribution to the financial margin made by each sub-segment. This aspect is managed by using a multiple internal transfer rate ("treasury pool"), considering both currency and duration, which keeps assets and liabilities in balance and which is settled within the "central functions" sub-segment.

Administrative expenses are allocated directly to the various sub-segments, wherever possible; in other cases, they are allocated using suitable drivers that essentially reflect the scale of the activities concerned.

The "reconciliation" column is used for the tie-in to the financial statements.

Items	Corporate	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 30/06/2023**
Interest income	398,683	426,193	-	615,363	1,440,239	-627,550	812,689
Interest expense	-282,385	-324,109	-	-406,408	-1,012,902	627,550	-385,352
Net interest income	**116,298**	**102,084**	**-**	**208,955**	**427,337**	**-**	**427,337**
Fee and commission income	93,524	43,802	57,869	10,245	205,440	-12	205,428
Fee and commission expense	-3,216	-4,987	-3,016	540	-10,679	-209	-10,888
Dividends and similar income	30	-	-	2,278	2,308	-	2,308
Net trading income	-	-	-	54,926	54,926	2	54,928
Net hedging gains (losses)	-	-	-	-32	-32	-	-32
Gains/losses from sales or repurchases	1,203	-	-	3,127	4,330	-	4,330
Net gains/losses on financial assets and liabilities measured at fair value	1,128	-47	-	2,804	3,885	-	3,885
Total income	**208,967**	**140,852**	**54,853**	**282,843**	**687,515**	**-219**	**687,296**
Net adjustments to financial assets	-50,517	-20,609	-	1,929	-69,197	-	-69,197
Net financial income	**158,450**	**120,243**	**54,853**	**284,772**	**618,318**	**-219**	**618,099**
Administrative expenses	-65,356	-94,111	-30,449	-102,125	-292,041	-31,819	-323,860
Net accruals to provisions for risks and charges	-11,004	-11,077	-	-1,342	-23,423	-	-23,423
Net value adjustments on property, equipment and investment property	-5,157	-7,485	-2,489	-9,134	-24,265	-	-24,265
Net value adjustments on intangible assets	-1,980	-2,807	-922	-1,936	-7,645	-	-7,645
Other operating income/expense	2,328	1,156	-35	13,334	16,783	32,038	48,821
Net gains (losses) on equity investments	-	-	-	15,522	15,522	-	15,522
Net result of fair value measurement of property, equipment and investment property and intangible assets	-	-	-	-1,490	-1,490	-	-1,490
Gains/losses on sale of investments	-	-	-	158	158	-	158
Gross profit	**77,281**	**5,919**	**20,958**	**197,759**	**301,917**	**-**	**301,917**

Items	Corporate	Individuals and other customers	Securities	Central functions	Total	Reconciliation	**Total 30/06/2022**
Interest income	158,372	138,357	-	136,616	433,345	-57,752	375,593
Interest expense	-15,498	-56,009	-	-41,529	-113,036	57,752	-55,284
Net interest income	**142,874**	**82,348**	**-**	**95,087**	**320,309**	**-**	**320,309**
Fee and commission income	84,647	42,005	57,586	9,171	193,409	45	193,454
Fee and commission expense	-2,993	-2,971	-3,264	461	-8,767	-168	-8,935
Dividends and similar income	29	-	-	5,657	5,686	-	5,686
Net trading income	-	-	-	2,726	2,726	-	2,726
Net hedging gains (losses)	-	-51	-	-83	-134	-	-134
Gains/losses from sales or repurchases	-432	-	-	39,193	38,761	-	38,761
Net gains/losses on financial assets and liabilities measured at fair value	-10,933	-6,311	-	-50,341	-67,585	-	-67,585
Total income	**213,192**	**115,020**	**54,322**	**101,871**	**484,405**	**-123**	**484,282**
Net adjustments to financial assets	-34,022	344	-	1,900	-31,778	-	-31,778
Net financial income	**179,170**	**115,364**	**54,322**	**103,771**	**452,627**	**-123**	**452,504**
Administrative expenses	-63,048	-88,482	-27,914	-95,954	-275,398	-26,518	-301,916
Net accruals to provisions for risks and charges	-4,362	-11,686	-	-1,820	-17,868	-	-17,868
Net value adjustments on property, equipment and investment property	-4,806	-7,010	-2,349	-6,391	-20,556	-	-20,556
Net value adjustments on intangible assets	-1,881	-2,675	-881	-1,529	-6,966	-	-6,966
Other operating income/expense	1,533	1,265	-204	10,211	12,805	26,641	39,446
Net gains (losses) on equity investments	-	-	-	8,897	8,897	-	8,897
Net result of fair value measurement of property, equipment and investment property and intangible assets	-	-	-	-1,430	-1,430	-	-1,430
Gains/losses on sale of investments	-	-	-	1,771	1,771	-	1,771
Gross profit	**106,606**	**6,776**	**22,974**	**17,526**	**153,882**	**-**	**153,882**

Below is a breakdown of commission income by services rendered, defined from a management perspective, and by IFRS 8 operating segment, in line with the disclosure requirements introduced by IFRS 15.

Type of services	Corporate	Individuals and other customers	Securities	Central functions	Reconciliation	30/06/2023	30/06/2022
FEE AND COMMISSION INCOME	**93,524**	**43,802**	**57,869**	**10,245**	**(12)**	**205,428**	**193,454**
Guarantees given	**14,999**	**3,182**	**-**	**-**		**18,181**	**15,519**
Management, Brokerage and Consulting	**-**	**-**	**57,869**	**-**		**57,869**	**57,586**
of which assets under administration	-	-	*18,680*	-		*18,680*	*17,771*
of which asset management	-	-	*27,245*	-		*27,245*	*28,387*
of which insurance collection	-	-	*11,944*	-		*11,944*	*11,428*
Collection and payment services	**22,616**	**17,588**	**-**	**7,837**		**48,041**	**47,661**
Keeping and management of current accounts	**15,004**	**6,288**	**-**	**-**		**21,292**	**19,989**
Other commissions	**40,905**	**16,744**	**-**	**2,408**	**(12)**	**60,045**	**52,699**
of which loans	*37,837*	*9,469*	-	-		*47,306*	*41,982*
of which third-party products	*1,486*	*1,087*	-	-		*2,573*	*2,189*
of which foreign services and products	*1,378*	*3,050*	-	-		*4,428*	*3,711*
of which other	*204*	*3,138*	-	*2,408*	*(12)*	*5,738*	*4,817*
FEE AND COMMISSION EXPENSE	**(3,216)**	**(4,987)**	**(3,016)**	**540**	**(209)**	**(10,888)**	**(8,935)**
NET FEE AND COMMISSION INCOME	**90,308**	**38,815**	**54,853**	**10,785**	**(221)**	**194,540**	**184,519**

It should be noted that the breakdown by services is made according to management logic and therefore the breakdown differs from the individual balance sheet items required by Schedule 262/2005 for the composition of commission income.

Distribution by business sector: financial data

Items	Corporate	Individuals and other customers	Securities	Central functions	**Total 30/06/2023**
Financial assets	19,946,833	16,280,635	-	11,804,094	48,031,562
Other assets	-	-	-	5,221,469	5,221,469
Property, equipment and investment property	120,050	168,589	55,114	337,141	680,894
Intangible assets	4,976	7,301	2,439	22,279	36,995
Financial liabilities	11,474,133	27,668,892	-	9,086,565	48,229,590
Other liabilities	12,640	5,593	-	1,864,797	1,883,030
Provisions	145,681	117,255	23,971	60,970	347,877
Guarantees given	4,162,480	510,639	-	166,645	4,839,764
Commitments	15,035,567	3,471,896	47,570	725,617	19,280,650

Items	Corporate	Individuals and other customers	Securities	Central functions	**Total 31/12/2022**
Financial assets	19,621,423	16,042,907	-	12,338,764	48,003,094
Other assets	-	-	-	9,163,690	9,163,690
Property, equipment and investment property	119,152	168,887	54,851	308,018	650,908
Intangible assets	4,784	7,073	2,358	22,454	36,669
Financial liabilities	11,818,328	30,002,023	-	11,448,457	53,268,808
Other liabilities	14,730	5,512	-	846,746	866,988
Provisions	135,086	115,546	25,272	55,221	331,125
Guarantees given	4,148,632	566,414	-	160,569	4,875,615
Commitments	14,258,167	3,526,854	46,449	687,783	18,519,253

Distribution by geographical areas

The geographical distribution was made on the basis of the location of the branches; the representation according to the alternative criterion, based on the residence of the counterparties, does not lead to significant differences.

For the Parent Company, branches are aggregated into two geographical areas, "Northern Italy" and "Central Italy", since there is a significance difference in the respective customer profiles, while products, services, commercial and management policies are all the same.

In fact, in terms of intermediated volumes, in Northern Italy the most significant market shares pertain to "non-financial companies" and "consumer and producer households" while in Central Italy the "public administration" sector assumes particular importance.

The differences between the Parent Company and the Swiss subsidiary regarding the types of customer served, the products and services provided, and commercial and operational policies adopted make the separate representation of the "Swiss" operations area significant.

Distribution by geographical areas: economic data

Items	Northern Italy	Central-Southern Italy	Switzerland	Total	Reconciliation	**Total 30/06/2023**
Interest income	1,298,410	135,047	59,528	1,492,985	-680,296	812,689
Interest expense	-914,856	-114,681	-36,277	-1,065,814	680,462	-385,352
Net interest income	**383,554**	**20,366**	**23,251**	**427,171**	**166**	**427,337**
Fee and commission income	165,430	28,165	13,741	207,336	-1,908	205,428
Fee and commission expense	-9,393	-1,460	-1,322	-12,175	1,287	-10,888
Dividends and similar income	38,119	-	44	38,163	-35,855	2,308
Net trading income	27,723	-	27,216	54,939	-11	54,928
Net hedging gains (losses)	-8	-	-8	-16	-16	-32
Gains/losses from sales or repurchases	4,330	-	-	4,330	-	4,330
Net gains/losses on financial assets and liabilities measured at fair value	4,369	-138	-346	3,885	-	3,885
Total income	**614,124**	**46,933**	**62,576**	**723,633**	**-36,337**	**687,296**
Net adjustments to financial assets	-49,302	-17,996	-2,984	-70,282	1,085	-69,197
Net financial income	**564,822**	**28,937**	**59,592**	**653,351**	**-35,252**	**618,099**
Administrative expenses	-236,822	-20,125	-36,166	-293,113	-30,747	-323,860
Net accruals to provisions for risks and charges	-24,385	545	18	-23,822	399	-23,423
Net value adjustments on property, equipment and investment property	-21,856	-1,484	-2,755	-26,095	1,830	-24,265
Net value adjustments on intangible assets	-6,003	-577	-815	-7,395	-250	-7,645
Other operating income/expense	18,483	658	407	19,548	29,273	48,821
Net gains (losses) on equity investments	-	-	-	-	15,522	15,522
Net result of fair value measurement of property, equipment and investment property and intangible assets	-1,490	-	-	-1,490	-	-1,490
Gains/losses on sale of investments	158	-	-	158	-	158
Gross profit	**292,906**	**7,955**	**20,281**	**321,142**	**-19,225**	**301,917**

Items	Northern Italy	Central-Southern Italy	Switzerland	Total	Reconciliation	**Total 30/06/2022**
Interest income	370,609	27,854	34,220	432,683	-57,090	375,593
Interest expense	-105,328	-3,742	-3,927	-112,997	57,713	-55,284
Net interest income	**265,281**	**24,112**	**30,293**	**319,686**	**623**	**320,309**
Fee and commission income	156,240	25,590	13,332	195,162	-1,708	193,454
Fee and commission expense	-6,715	-1,781	-1,473	-9,969	1,034	-8,935
Dividends and similar income	34,394	29	38	34,461	-28,775	5,686
Net trading income	-3,535	-	6,486	2,951	-225	2,726
Net hedging gains (losses)	-1	-	-51	-52	-82	-134
Gains/losses from sales or repurchases	38,761	-	-	38,761	-	38,761
Net gains/losses on financial assets and liabilities measured at fair value	-64,406	-1,986	-1,208	-67,600	15	-67,585
Total income	**420,019**	**45,964**	**47,417**	**513,400**	**-29,118**	**484,282**
Net adjustments to financial assets	-26,879	-8,475	3,566	-31,788	10	-31,778
Net financial income	**393,140**	**37,489**	**50,983**	**481,612**	**-29,108**	**452,504**
Administrative expenses	-223,948	-18,885	-33,169	-276,002	-25,914	-301,916
Net accruals to provisions for risks and charges	-13,585	-3,366	-861	-17,812	-56	-17,868
Net value adjustments on property, equipment and investment property	-18,266	-1,401	-2,512	-22,179	1,623	-20,556
Net value adjustments on intangible assets	-5,679	-555	-732	-6,966	-	-6,966
Other operating income/expense	14,730	406	11	15,147	24,299	39,446
Net gains (losses) on equity investments	1,401	-	-	1,401	7,496	8,897
Net result of fair value measurement of property, equipment and investment property and intangible assets	-1,430	-	-	-1,430	-	-1,430
Gains/losses on sale of investments	1,771	-	-	1,771	-	1,771
Gross profit	**148,134**	**13,688**	**13,720**	**175,542**	**-21,660**	**153,882**

Distribution by geographical area: balance sheet

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 30/06/2023**
Financial assets	38,743,726	3,627,691	5,660,145	48,031,562
Other assets	4,148,012	-	1,073,457	5,221,469
Property, equipment and investment property	601,929	35,126	43,839	680,894
Intangible assets	32,635	1,424	2,936	36,995
Financial liabilities	33,532,866	8,417,074	6,279,650	48,229,590
Other liabilities	1,844,078	5,022	33,930	1,883,030
Provisions	291,943	38,681	17,253	347,877
Guarantees given	3,833,861	731,226	274,677	4,839,764
Commitments	15,803,659	3,128,822	348,169	19,280,650

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 31/12/2022**
Financial assets	39,020,849	3,428,554	5,553,691	48,003,094
Other assets	8,151,871	-	1,011,819	9,163,690
Property, equipment and investment property	570,927	35,346	44,635	650,908
Intangible assets	32,410	1,389	2,870	36,669
Financial liabilities	37,736,905	9,406,554	6,125,349	53,268,808
Other liabilities	825,453	5,945	35,590	866,988
Provisions	279,010	41,164	10,951	331,125
Guarantees given	3,842,674	763,838	269,103	4,875,615
Commitments	14,979,362	3,204,445	335,446	18,519,253

CERTIFICATES AND OTHER REPORTS

Certification of the Condensed Consolidated Half-Year Financial Statements as at 30 June 2023 pursuant to Article 81-ter of Consob Regulation No. 11971 of 14 May 1999 and subsequent amendments and additions.

1. The undersigned Mario Alberto Pedranzini in his capacity as Chief Executive Officer and Maurizio Bertoletti in his capacity as manager in charge of preparing the corporate accounting documents of Banca Popolare di Sondrio S.p.A., attest, also taking into account the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998:
    - adequacy, in relation to the characteristics of the enterprise,
    - the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements for the period 1 January 2023 to 30 June 2023.

2. The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the condensed consolidated half-year financial statements as at 30 June 2023 are based on a model, defined by Banca Popolare di Sondrio Società 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.

3. It is also certified that
    3.1 The condensed consolidated half-year financial statements as at 30 June 2023:
    a) 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;
    b) agree with the balances on the books of account and the accounting entries;
    c) provide a true and fair view of the equity, economic and financial situation of the Issuer and the whole of the companies included in the scope of consolidation.

    3.2 The interim management report includes a reliable analysis of references to important events that occurred in the first six months of the financial year and their impact on the condensed consolidated half-year financial statements, together with a description of the main risks and uncertainties for the remaining six months of the financial year. The interim management report also includes a reliable analysis of information on material transactions with related parties.

Sondrio, 8 August 2023

The Managing Director

Mario Alberto Pedranzini

The Manager responsible for preparing the Company's accounting documents

Maurizio Bertoletti

INDEPENDENT AUDITORS' REPORT

Banca Popolare di Sondrio S.p.A.

Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

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

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

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the related explanatory notes of Banca Popolare di Sondrio S.p.A. and its subsidiaries (the "Banca Popolare di Sondrio Group") as of June 30, 2023. The Directors of Banca Popolare di Sondrio S.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 31 July 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca Popolare di Sondrio Group as of June 30, 2023 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, August 11, 2023

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

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

Annex 1

FINANCIAL STATEMENTS OF THE PARENT COMPANY AS AT 30 JUNE 2023

BALANCE SHEET

(in euro)

	ASSET ITEMS	30/06/2023	31/12/2022
10.	**Cash and cash equivalents**	**1,651,963,247**	**5,988,587,809**
20.	**Financial assets measured at fair value through profit or loss**	**753,770,461**	**1,265,271,071**
	a) financial assets held for trading	175,943,536	167,091,231
	c) other financial assets mandatorily measured at fair value	577,826,925	1,098,179,840
30.	**Financial assets measured at fair value through other comprehensive income**	**2,728,517,486**	**2,552,450,859**
40.	**Financial assets measured at amortised cost**	**40,042,951,027**	**39,519,378,873**
	a) loans and receivables with banks	4,011,995,916	3,842,174,996
	b) loans and receivables with customers	36,030,955,111	35,677,203,877
50.	**Hedging derivatives**	**540,769**	**247,973**
60.	**Change in value of macro-hedged financial assets (+/-)**	**(395,164)**	**(197,821)**
70.	**Equity investments**	**696,150,699**	**695,768,070**
90.	**Property, equipment and investment property**	**391,855,416**	**387,794,652**
100.	**Intangible assets**	**15,882,590**	**15,241,789**
110.	**Tax assets**	**270,227,442**	**307,977,292**
	a) current	-	15,588,448
	b) prepaid	270,227,442	292,388,844
120.	**Other assets**	**2,143,675,435**	**1,786,775,650**
	TOTAL ASSETS	**48,695,139,408**	**52,519,296,217**

	LIABILITIES AND EQUITY	30/06/2023	31/12/2022
10.	**Financial liabilities measured at amortised cost**	**43,615,891,063**	**48,509,904,000**
	a) due to banks	8,237,975,557	10,350,930,945
	b) customer deposits	31,725,912,003	34,541,008,874
	c) securities issued	3,652,003,503	3,617,964,181
20.	**Financial liabilities held for trading**	**30,879,472**	**47,579,043**
40.	**Hedging derivatives**	**163,004**	**115,899**
60.	**Tax liabilities**	**43,562,929**	**19,948,705**
	a) current	27,509,808	-
	b) deferred	16,053,121	19,948,705
80.	**Other liabilities**	**1,732,422,937**	**755,194,523**
90.	**Provision for employee severance pay**	**31,258,817**	**33,238,555**
100.	**Provisions for risks and charges**	**291,580,990**	**280,458,030**
	a) commitments and guarantees given	72,858,151	62,771,976
	b) pension and similar obligations	151,910,212	158,507,633
	c) other provisions for risks and charges	66,812,627	59,178,421
110.	**Valuation reserves**	**(20,856,853)**	**(30,086,242)**
140.	**Reserves**	**1,362,846,778**	**1,276,171,128**
150.	**Share premium reserve**	**78,949,045**	**78,977,670**
160.	**Share capital**	**1,360,157,331**	**1,360,157,331**
170.	**Treasury shares (-)**	**(25,201,067)**	**(25,264,093)**
180.	**Profit (loss) for the period (+/-)**	**193,484,962**	**212,901,668**
	TOTAL LIABILITIES AND EQUITY	**48,695,139,408**	**52,519,296,217**

INCOME STATEMENT

(in euro)

ITEMS		30/06/2023	30/06/2022
10.	INTEREST AND SIMILAR INCOME	748,007,947	328,531,687
	of which: interest income calculated using the effective interest method	*740,441,873*	*324,191,211*
20.	INTEREST AND SIMILAR EXPENSES	(368,698,764)	(52,140,984)
30.	**NET INTEREST INCOME**	**379,309,183**	**276,390,703**
40.	FEE AND COMMISSION INCOME	175,304,970	167,671,812
50.	FEE AND COMMISSION EXPENSE	(8,568,344)	(6,558,380)
60.	**NET FEE AND COMMISSION INCOME**	**166,736,626**	**161,113,432**
70.	DIVIDENDS AND SIMILAR INCOME	38,088,544	34,346,472
80.	NET TRADING INCOME	27,740,019	(3,574,451)
90.	NET HEDGING GAIN (LOSS)	(7,767)	(1,297)
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF:	4,329,679	38,761,039
	a) financial assets measured at amortised cost	*4,112,977*	*27,745,638*
	b) financial assets measured at fair value through other comprehensive income	*130,802*	*11,013,324*
	c) financial liabilities	*85,900*	*2,077*
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	4,230,847	(66,391,803)
	b) other financial assets mandatorily measured at fair value	*4,230,847*	*(66,391,803)*
120.	**TOTAL INCOME**	**620,427,131**	**440,644,095**
130.	NET ADJUSTMENTS/WRITE-BACKS FOR CREDIT RISK RELATED TO:	(68,933,158)	(37,635,263)
	a) financial assets measured at amortised cost	*(68,435,086)*	*(38,061,677)*
	b) financial assets measured at fair value through other comprehensive income	*(498,072)*	*426,414*
140.	GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION	4,509,193	(759,726)
150.	**NET FINANCIAL INCOME**	**556,003,166**	**402,249,106**
160.	ADMINISTRATIVE EXPENSES:	(273,713,816)	(252,035,182)
	a) personnel expenses	*(111,895,974)*	*(99,225,457)*
	b) other administrative expenses	*(161,817,842)*	*(152,809,725)*
170.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	(20,898,442)	(16,263,306)
	a) commitments for guarantees given	*(10,086,175)*	*(11,752,353)*
	b) other net provisions	*(10,812,267)*	*(4,510,953)*
180.	NET ADJUSTMENTS/REVERSAL ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(16,550,449)	(15,390,368)
190.	NET ADJUSTMENTS/REVERSAL ON INTANGIBLE ASSETS	(6,433,173)	(6,099,639)
200.	OTHER OPERATING INCOME/EXPENSE	37,154,772	30,899,169
210.	**OPERATING COSTS**	**(280,441,108)**	**(258,889,326)**
220.	GAINS (LOSSES) ON EQUITY INVESTMENTS	-	1,401,202
250.	GAINS (LOSSES) ON SALES OF INVESTMENTS	15,809	1,538
260.	**PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**275,577,867**	**144,762,520**
270.	INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS	(82,092,905)	(40,422,529)
280.	**POST-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**193,484,962**	**104,339,991**
300.	**PROFIT (LOSS) FOR THE PERIOD**	**193,484,962**	**104,339,991**