



# Banca Popolare di Sondrio



## CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2017



**Banca Popolare  
di Sondrio**

CONSOLIDATED  
I N T E R I M  
F I N A N C I A L  
R E P O R T  
AT 30 JUNE 2017



# Banca Popolare di Sondrio

Founded in 1871

## CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2017

Società cooperativa per azioni

Head office and general management: Piazza Garibaldi 16, 23100 Sondrio, Italy

Tel. 0342 528.111 - Fax 0342 528.204

Website: <http://www.popso.it> - E-mail: [info@popso.it](mailto:info@popso.it)

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842

Official List of Cooperative Banks no. A160536

Parent Company of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund

Fiscal code and VAT number: 00053810149

Share capital: € 1,360,157,331 - Reserves: € 947,325,264 (Figures approved at the shareholders' meeting of 29 April 2017)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 20 June 2017:
  - Long-term: BBB-
  - Short-term: F3
  - Viability rating: bbb-
  - Outlook: Stable
- Rating given by Dagong Europe Credit Rating to Banca Popolare di Sondrio scpa on 16 February 2017:
  - Long-term: BBB
  - Short-term: A-3
  - Individual Financial Strength Assessment: bbb
  - Outlook: Stable





## **BOARD OF DIRECTORS**

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

## **BOARD OF STATUTORY AUDITORS**

Chairman	PIERGIUSEPPE FORNI
Auditors	DONATELLA DEPPERU MARIO VITALI
Alternate Auditors	BRUNO GARBELLINI DANIELE MORELLI

## **ADVISORY COMMITTEE**

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

## **GENERAL MANAGEMENT**

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

## **Financial Reporting Officer**

MAURIZIO BERTOLETTI

\* Members of the Chairman's Committee

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

# BRANCH NETWORK

## BANCA POPOLARE DI SONDRIO

Founded in 1871

### GENERAL MANAGEMENT AND HEAD OFFICE

Sondrio, piazza Giuseppe Garibaldi 16  
tel. +39 0342 528111 - fax +39 0342 528204  
www.popsi.it - info@popsi.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 Mallerio Luigi Cadorna 24, Sondrio COMMERCIAL UNIT - PUBLIC ENTITIES AND TREASURY OFFICES - SUPPLY OFFICE - TECHNICAL, HEALTH AND SAFETY DEPARTMENT: corso Vittorio Veneto 7, Sondrio PERSONNEL DEPARTMENT: corso Vittorio Veneto 36, Sondrio

### VIRTUAL UNIT

corso Vittorio Veneto 7, Sondrio

### BRANCHES AND TREASURIES

#### PROVINCE OF SONDRIO

ALBOSAGGIA via al Porto 11

APRICA corso Roma 140

ARDENNO via Libertà

BERBENNO DI VALTELLINA - fraz. San Pietro - via Nazionale Ovest 110

BIANZONE piazza Ezio Vanoni 11

#### BORMIO

Head Office, via Roma 131 - ang. via don Evaristo Peccedi

Branch no. 1, via Roma 64

BUGLIO IN MONTE piazza della Libertà 1

CAMPODOLCINO via Corti 67

CASPOGGIO piazza Milano 13

CEDRASCO via Vittorio Veneto 15

CEPINA VALDISOTTO via Roma 13/E

CHIAVENNA via Francesco e Giovanni Dolzino 67

CHIESA IN VALMALENCO via Roma 138

CHIURO via Stelvio 8

COLORINA via Roma 84

COSIO VALTELLINO - fraz. Regoledo - via Roma 7

COSIO VALTELLINO - fraz. Cosio Stazione - piazza San Martino 14

DELEBIO piazza San Carpofo 7/9

DUBINO - Nuova Olonico - via Spluga 83

DUBINO via Valeriana 39

GORDONA via Scogli 9

GROSIO via Roma 67

GROSIO - fraz. Ravoledo - via Pizzo Dosdè

GROSOTTO via Statale 73

ISOLACCA 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 Ciaci 36

#### MORBEGNO

Head Office, piazza Caduti per la Libertà 7

Branch no. 1, via V. Alpini 172

NOVATE MEZZOLA via Roma 13

PASSO DELLO STELVIO località Passo dello Stelvio

PIANTEDO via Colico 43

PONTE IN VALTELLINA piazza della Vittoria 1

SAMOLACO - fraz. Era - via Trivulzia 28

SAN CASSIANO VALCHIAVENNA via Spluga 108

SAN NICOLÒ VALFURVA via San Nicolò 82

SEMOMO VALDIDENTRO via Cima Piazzzi 28

SONDALO via Dr. Ausonio Zubiani 2

#### SONDRIO

Head Office, piazza Giuseppe Garibaldi 16

Branch no. 1, via Bernina 1

Branch no. 2, via Tomaso Nani 32

Branch no. 3, Ingresso Ospedale Civile - via Stelvio 25

Branch no. 4, piazzale Giovanni Bertacchi 57

Branch no. 5, Galleria Campello 2

Branch no. 6, via Giacinto Sertorelli 2

TALAMONA via Don Giuseppe Cusini 83/A

TEGLIO piazza Santa Eufemia 2

TEGLIO - fraz. San Giacomo - via Nazionale

TIRANO piazza Cavour 20

TORRE SANTA MARIA via Risorgimento 5

TRAONA via Valeriana 88/A

TRESENDA DI TEGLIO via Nazionale 57

TRESIVIO piazza San Pietro e Paolo 24

VALFURVA - fraz. Madonna Dei Monti

piazza Madonna Del Carmine 6

VILLA DI CHIAVENNA via Roma 38

VILLA DI TIRANO traversa Foppa 25

VERCEIA via Nazionale 118/D

#### AUTONOMOUS REGION OF VALLE D'AOSTA

AOSTA corso Battaglione Aosta 79

PONT SAINT MARTIN via Emile Chanoux 45

SAINT-VINCENT via Duca D'Aosta 9

#### PROVINCE OF ALESSANDRIA

ALESSANDRIA corso Crimea 21

NOVI LIGURE corso Romualdo Marengo 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 Brosetta 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 Verdi 31

MOZZANICA piazza Antonio Locatelli

NEMBRO piazza Umberto I 1

OSIO SOTTO via Monte Grappa 12

ROMANO DI LOMBARDIA via Balliva 20

SARNICO via Giuseppe Garibaldi 1/C

SCANZOROSCIATE corso Europa 23

SERIATE piazza Caduti per la Libertà 7

TRESCORE BALNEARIO piazza Cavour 6

TREVIGLIO via Cesare Battisti 8/B

TREVIGLIO - Ospedale - piazzale Ospedale 1

VERDELLINO largo Luigi Einaudi 5

VILMINORE DI SCALVE piazza Vittorio Veneto 8

#### PROVINCE OF BOLOGNA BOLOGNA via Riva di Reno 58/B

#### PROVINCE OF BOLZANO

BOLZANO viale Amedeo Duca D'Aosta 88 / Amedeo Duca D'Aosta Allee 88

MERANO corso della Libertà 16 / Freiheitsstrasse 16

MERANO - Comune di Merano - via Portici 192

#### PROVINCE OF BRESCIA

ANGOLO TERME piazza Caduti 3

BERZO DEMO via Nazionale 14

BIENNO via Giuseppe Fantoni 36

BORNO via Vittorio Veneto 25

BRENO piazza Generale Pietro Ronchi 4

#### BRESCIA

Head Office, via Benedetto Croce 22

Branch no. 1, via Crocifissa di Rosa 59

Branch no. 2, via Solferino 61

Branch no. 3, viale Piave 61/A

Branch no. 4, via Fratelli Ugolini 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 3

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 Canonica 6

MANERBA DEL GARDA via Valtenesi 43

MANERBIO via Dante Alighieri 8

MARONE via Zanardelli 5

MONTE ISOLA frazione Sivano 116

MONTICHIARI via Mantova - ang. via 3 Innocenti 74

ORZINUOVI piazza Giuseppe Garibaldi 19

OSPITALETTO via Brescia 107/109

PALAZZOLO SULL'OGLIO via Brescia 23

PIAN CAMUNO via Agostino Gemelli 21

PISOGNE via Trento 1

PONTE DI LEGNO piazzale Europa 8

PONTE DI LEGNO - loc. Passo Del Tonale - via Case Sparse 84

REZZATO via Broli 49

SALE MARASINO via Roma 33/35

SALO viale Alcide De Gasperi 13

SALÒ via Giuseppe Garibaldi 21

SAREZZO via della Repubblica 99

TOSCOLANO MADERNO piazza San Marco 51

TOSCOLANO MADERNO viale Guglielmo Marconi 9

VEZZA D'OGLIO via Nazionale 80

ZONE via Orti 1

#### PROVINCE OF COMO

ALBIOLO via Indipendenza 10

ALSERIO via Carcano 10

APPIANO GENTILE piazza della Libertà 9

ARGEGNO piazza Guglielmo Testi

AROSIO piazza Montello 1

BELLAGIO via Valassina 58

BINAGO via Roma 9

BIZZARONE via Roma 14

BREGNANO via Giuseppe Mazzini 22/A

BRUNATE via Alessandro Volta 28

BULGAROGROSSO via Pietro Ferloni 3

CAMPIONE D'ITALIA piazza Roma 1/G

CANTÙ via Milano 47

CANZO via Alessandro Verza 39

CAPIAGO INTIMIANO via Vittorio Emanuele II 7

CARATE URIO via Regina 58

CARIMATE - fraz. Montesolaro - piazza Lorenzo Spallino

CARLAZZO via V° Alpini 59/A

CARUGO via Luigi Cadorna 32

CASNATE CON BERNATE via Roma 7

CASTELMARTE largo Armando Diaz 1

#### COMO

Head Office, viale Innocenzo XI 71

Branch no. 1, via Giorgio Giulini 12

Branch no. 2, via Statale per Lecco 70 - fraz. Lora

Branch no. 3, via Asiago 25 - fraz. Tavernola

Branch no. 4, ACSM - via Vittorio Emanuele II 93

DOMASO via Statale Regina 77

DONGO piazza Virgilio Matteri 14

ERBA via Alessandro Volta 3

FINO MORNASCO via Giuseppe Garibaldi - ang. piazza Odescalchi 5

GARZENO via Roma 32

GERA LARIO via Statale Regina 18

GRAVEDONA ED UNITI piazza Giuseppe Garibaldi 11

GUANZATE via Giuseppe Garibaldi 1

LAMBRUGO piazza Papa Giovanni II 4/7

LANZO INTELVI piazza Lanfrancini 22

LURAGO D'ERBA via Roma 58

MASLIANICO via XX Settembre 47

MENAGGIO via Annetta e Celestino Lusardi 62

MERONE via San Girolamo Emiliani 5/C

MONTEFANO 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 Grana 85

PORLEZZA lungolago Giacomo Matteotti 15

PUSIANO via Giuseppe Mazzini - Complesso Pusiano 2000

SALA COMACINA via Statale 14/A

SAN FEDELE INTELVI via Provinciale 79

SAN NAZZARO VAL CAVARGNA via Don Luigi Gabbanì 237

SAN SIRO loc. Santa Maria - via Statale Regina

SCHIGNANO via Roma 8

SORICO piazza Cesare Battisti 1/A

TREMEZZO via Regina 26

TURATE via Vittorio Emanuele 14

VALSOLDA - fraz. San Mamete - piazza Roma 7/9

VENIANO via Alessandro Manzoni 5

VERCANA via Vico 3

VILLA GUARDIA via Varesina - ang. via Monte Rosa

#### PROVINCE OF CREMONA

CREMA via Giuseppe Mazzini 109

#### CREMONA

Head Office, via Dante Alighieri 149/A

Branch no. 1, piazza Antonio Stradivari 9

PANDINO via Umberto I 1/3

RIVOLTA D'ADDA via Cesare Battisti 8

#### PROVINCE OF CUNEO

ALBA viale Torino 4

CUNEO piazza Tancredi Duccio Galimberti 13

#### PROVINCE OF GENOVA

BUSALLA via Vittorio Veneto 95

CAMOGLI via Cuneo 9

CHIAVARI piazza Nostra Signora dell'Orto 42/B - ang. via Doria

#### GENOVA

Head Office, via XXV Aprile 7

Branch no. 1, piazza Tommaseo 7 rosso

Branch no. 2, via Sabotino 32/34 rossi

RAPALLO via Gen. A. Lamarmora 4 - ang. via San Filippo Neri

SANTA MARGHERITA LIGURE piazza Giuseppe Mazzini 40

#### PROVINCE OF LECCO

AIRUNO via San Giovanni 11

ABBADIA LARIANA via Nazionale 140/A

BALLABIO via Ambrogio Confalonieri 6

BARZAGO viale Rimerbranze 20

BARZIO via Milano 21

BELLANO via Vittorio Veneto 9

BOSISIO PARINI via San Gaetano 4

CALOLZIOCORTE corso Europa 71/A

CASATENOVO via Roma 23

CASSAGO BRIANZA via Vittorio Emanuele II 2

CASTELLO DI BRIANZA via Roma 18

COLICO via Nazionale - ang. via Sacco

COLLE BRIANZA via Cantù 1

DERVIO via Don Ambrogio Invernizzi 2

ESINO LARIO piazza Gulfi 2

IMBERSAGO via Contessa Lina Castelbarco 5

# Banca Popolare di Sondrio

## PROVINCE OF MANTOVA

**CASTIGLIONE DELLE STIVIERE** piazza Ugo Dallò 25  
GAZOLDI DEGLI IPPOLITI via Guglielmo Marconi 74/76

### MANTOVA

**Head Office**, corso Vittorio Emanuele II 154  
**Branch no. 1**, piazza Broletto 7  
MARMIROLO via Tito Speri 34  
SAN BENEDETTO PO via Enrico Ferri 15  
**SUZZARA** piazza Giuseppe Garibaldi 4  
**VIADANA** piazza Giacomo Matteotti 4/A

## PROVINCE OF MILANO

**ABBATEGRASSO** piazza Giuseppe Garibaldi 2  
BASiglio piazza Monsignor Rossi 1  
**BUCCINASCIO** 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** via Clateo Castellini 19  
**MILANO**

**Head Office**, via Santa Maria Fulcorina 1  
**Branch no. 1**, Porpora, via Nicola Antonio Porpora 104  
**Branch no. 2**, Barona, viale Faenza 22  
**Branch no. 3**, a2a, corso di Porta Vittoria 4  
**Branch no. 4**, Regione Lombardia, piazza Città di Lombardia 1  
**Branch no. 5**, Bovisa, via degli Imbriani 54  
**Branch no. 6**, Corvetto, via Marco d'Agate 11  
**Branch no. 7**, Caneva, via Monte Cenisio 50  
**Branch no. 8**, Quarto Oggiaro, via M. Lessona - ang. via F. De Roberto  
**Branch no. 9**, A.L.E.R., viale Romagna 24  
**Branch no. 10**, Solari, via Andrea Solari 15  
**Branch no. 11**, Università Bocconi, via Ferdinando Bocconi 8  
**Branch no. 12**, Baggio, via delle Forze Armate 260  
**Branch no. 13**, Repubblica, viale Monte Sante 8  
**Branch no. 14**, Palazzo di Giustizia, via Colonneta 5 - ang. via C. Battisti  
**Branch no. 15**, Murat, via Gioacchino Murat 76  
**Branch no. 16**, Ortomercato, via Cesare Lombroso 54  
**Branch no. 18**, Fiera, viale Ezio Belisario 1  
**Branch no. 19**, Giambellino, via Giambellino 39  
**Branch no. 20**, Sempione, via Antonio Canova 39  
**Branch no. 21**, Politecnico, via Edoardo Bonardi 4  
**Branch no. 22**, Sforza, via F. Sforza 48 - ang. corso di Porta Romana  
**Branch no. 23**, Certosa, viale Certosa 62  
**Branch no. 24**, Piave, viale Piave 1  
**Branch no. 25**, Zara, viale Zara 13  
**Branch no. 26**, Lodi, corso Lodi - ang. via S. Gerolamo Emiliani 1  
**Branch no. 27**, Don Gnocchi, via Alfonso Capelacetro 66  
**Branch no. 28**, Corsica, via privata Sanremo - ang. viale Corsica 81  
**Branch no. 29**, Bicocca, piazza della Trivulziana 6 - edificio 6  
**Branch no. 30**, De Angeli, piazza Ernesto De Angeli 9  
**Branch no. 31**, Isola, via Carlo Farini 47  
**Branch no. 32**, Venezia, viale Luigi Majno 42 - viale Piave 43  
**Branch no. 33**, Porta Romana, corso di Porta Romana 120  
**Branch no. 34**, San Babila, via Cino del Duca 12  
**Branch no. 35**, Loreto, piazzale Loreto 1 - ang. viale Brianza  
**Branch no. 36**, Monti, via Vincenzo Monti 41  
**Branch no. 37**, Vercelli, corso Vercelli 38  
**Branch no. 38**, Università Cattolica del Sacro Cuore, largo A. Gemelli 1

**MILANO - CCIAA** di Milano - via Meravigli 9/B  
**MILANO - Istituto Nazionale Tumori** - via Giacomo Venezian 1  
**MILANO - ASP Golgi Redaelli** - via Bartolomeo D'Alviano 78  
**MILANO - Bicocca - piazza dell'Ateneo Nuovo 1** - Edificio U 6  
**MILANO - Istituto Neurologico** - via Giovanni Celoria 11  
**MILANO - I.U.L.M.** - via Carlo Bo 1  
**MILANO - Pio Albergo Trivulzio** - via Antonio Tolomeo Trivulzio 15  
**MILANO - Pirelli** - via Fabio Filzi 22  
**MILANO - Taramelli** - via Torquato Taramelli 12

### PERO

via Mario Greppi 13

### SEGRATE

via Rodolfo Morandi 25

SEGRATE via Fratelli Cervi 13 - Residenza Botteghe

### SESTO SAN GIOVANNI

**Branch no. 1**, piazza Martiri di via Fani 93

**Branch no. 2**, piazza della Resistenza 52

### TREZZO SULL'ADDA

via Antonio Gramsci 10

TURBIGO via Allea Comunale 17

VIZZOLO PREDABISSI via Pandina 1

- A.S.S.T. - Melegnano e della Martesana

## PROVINCE OF MONZA E BRIANZA

### ALBIATE

via Trento 35

BELLUSCO via Bergamo 5

BERNAREGGIO via Michelangelo Buonarroti 6

BRIOSCO piazza della Chiesa 5

BOVISIO MASCIAGO via Guglielmo Marconi 7/A

CARATE BRIANZA via Francesco Cusani 10

DESIO via Porticchetto - ang. via Pio XI

GIUSSANO via Cavour 19

LISSONE via Trieste 33

MACHERIO via Roma 17

MEDA via Yuri Gagarin - ang. corso della Resistenza

### MONZA

**Head Office**, via Galileo Galilei 1

**Branch no. 1**, via Alessandro Manzoni 33/A

NOVA MILANESE via Antonio Locatelli

### SEREGNO

**Head Office**, via Cavour 84

**Branch no. 1**, via Cesare Formenti 5

SEREGNO - Gelsia S.r.l. - Ronzoni - via Cardinal Minorette 18/B

SEVESO via San Martino 20

VAREDO corso Vittorio Emanuele II 53

VILLASANTA - fraz. San Fiorano - via Amatore Antonio Sciesa 7/9

VIMERCATE piazza Papa Giovanni Paolo II 9

## PROVINCE OF NOVARA

ARONA via Antonio Gramsci 19

NOVARA via Andrea Costa 7

## PROVINCE OF PADOVA

**PADOVA** via Ponte Molino 4

## PROVINCE OF PARMA

**PARMA** via Emilia Est 3/A

**FIDENZA** piazza Giuseppe Garibaldi 24

## PROVINCE OF PAVIA

BELGIOIOSO piazza Vittorio Veneto 23

BRONI via Giuseppe Mazzini 1

CANNETO PAVESE via Roma 15

CASTEGGIO piazza Cavour 4

CILAVEGNA via Giuseppe Mazzini 2/8

CORTEOLONA piazza Giuseppe Verdi 8

MEDE corso Italia 2

MORTARA via Roma 23

### PAVIA

**Head Office**, piazzale Ponte Coperto Ticino 11

**Branch no. 1**, corso Strada Nuova 75

PAVIA - DEA - via Privata Campeggi 40

PAVIA - Policlinico San Matteo - viale Camillo Golgi 19

RIVANAZZANO TERME piazza Cornaggia 41

ROBBIO piazza della Libertà 33

STRADELLA via XXVI Aprile 56

VIGEVANO piazza IV Novembre 8

VOGHERA via Emilia 70

## PROVINCE OF PIACENZA

**CASTEL SAN GIOVANNI** corso Giacomo Matteotti 27

### PIACENZA

**Head Office**, via Raimondo Palmerio 11

**Branch no. 1**, via Cristoforo Colombo 88

**Branch no. 2**, piazzale Torino 16

## PROVINCE OF ROMA

**CIAMPINO** viale del Lavoro 56

**FRANCATI** via Benedetto Cairoli 1

**GENZANO DI ROMA** viale Giacomo Matteotti 14

**GROTTAFERRATA** via XXV Luglio

MONTE COMPATRI piazza Marco Mastrofini 11

### ROMA

**Head Office**, Eur, viale Cesare Pavese 336

**Branch no. 1**, Monte Sacro, via Val Santeramo 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**, Aurelia, 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 Fiamino 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/Torrigliattara, 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 del Portillo 200

**Branch no. 32**, Monteverde Vecchia, via Anton Giulio Barrilli 50/H

**Branch no. 33**, Trastevere, piazza Sidney Sonnino 40

**Branch no. 34**, Gregorio VII, via Gregorio VII 348 - ang. piazza Pio XI 40

**Branch no. 35**, Parione, corso Vittorio Emanuele II 139

**Branch no. 36**, CONSOB - Sportello Interno -, via G. B. Martini 3

**Branch no. 37**, Trieste/Salario, via Tagliamento 37

ROMA - Biblioteca Nazionale Centrale - viale Castro Pretorio 105

ROMA - Università Foro Italoico - piazza Lauro De Bosis 15

## PROVINCE OF SAVONA

ALBISSOLA MARINA via dei Ceramisti 29

SAVONA via Antonio Gramsci 54

VAREZZE via Goffredo Mameli 19

## PROVINCE OF TORINO

CANDIOLO via Torino 3/A

### TORINO

**Head Office**, via XX Settembre 37

**Branch no. 1**, via Luigi Cibrario 17/A bis

## PROVINCE OF TRENTO

ARCO via delle Garberie 31

CLES piazza Navarino 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 Tonico

## PROVINCE OF VARESE

AEROPORTO DI MALPENSA 2000 Terminal 1 - FERNO

BESNATE via Libertà 2

BISUSCHIO via Giuseppe Mazzini 80

BRUSIMPIANO piazza Battaglia 1/A

BUSTO ARSIZIO piazza Trento e Trieste 10

CARNAGO via Guglielmo Marconi 2

CASTELLANZA corso Giacomo Matteotti 2

CUGLIATE FABIASCO via Pagliolico 25

GALLARATE via Torino 15

GAVIRATE via Guglielmo Marconi 13/A

LAVENA PONTE TRESA via Luigi Colombo 19

LNATE 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

VARESE - Comune di Varese - via Luigi Sacco 5

VEDANO OLONA via Giacomo Matteotti - ang. via Cavour 12

VIGGIO via Sallio 2

## 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 Ranzonei 27

VERBANIA - Pallanza, largo Vittorio Tonolli 34

## PROVINCE OF VERCELLI

VERCELLI piazza B. Mazzucchelli 12

## PROVINCE OF VERONA

BARDOLINO via Mirabello 15

PESCHIERA DEL GARDA via Venezia 40/A

VERONA corso Cavour 45

VILLAFRANCA DI VERONA corso Vittorio Emanuele II 194

## PROVINCE OF VICENZA

VICENZA corso Santi Felice e Fortunato 88

## TEMPORARY BRANCHES

MILANOCITY FIERA - piazzale Carlo Magno - pad. 3 piano quota +7.1

NUOVO POLO FIERISTICO - corso Italia Est

Strada Statale del Sempione 38 - Rho/Però tel. 02 45402082

## MOBILE BRANCH

Autobanca

## REPRESENTATIVE OFFICES AND DESKS ABROAD

ARGENTINA (Buenos Aires) - AUSTRALIA (Perth and Sydney) - BELGIUM

(Brussels) - BRAZIL (Belo Horizonte and Sao Paulo) - BULGARIA (Sofia)

- CANADA (Toronto and Vancouver) - CHILE (Santiago) - CHINA

(Shanghai) - DENMARK (Aarhus) - FINLAND (Helsinki) - FRANCE

(Lyon, Marseille and Perpignan) - GERMANY (Frankfurt) - GREECE

(Athens) - GUATEMALA (Guatemala City) - HUNGARY (Budapest) -

INDIA (Mumbai) - ISRAEL (Tel Aviv) - JAPAN (Tokyo) - MALTA (Valletta)

- MEXICO (Mexico City) - MONGOLIA (Ulaanbaatar) - PERU (Lima)

- PORTUGAL (Lisbon) - REPUBLIC OF MOLDOVA (Chisinau) - ROMANIA

(Bucharest) - RUSSIA (Moscow) - SERBIA (Belgrade) - SINGAPORE

(Singapore) - SOUTH AFRICA (Johannesburg) - SOUTH KOREA (Seoul)

- SPAIN (Madrid) - THAILAND (Bangkok) - TUNISIA (Tunis) - TURKEY

(Istanbul) - UNITED ARAB EMIRATES (Dubai) - UNITED KINGDOM

(London) - UNITED STATES (Chicago and Miami) - UZBEKISTAN

(Tashkent) - VIETNAM (Hanoi)

## BANCA POPOLARE DI SONDRIO (SUISSE) SA

### SWITZERLAND

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

### GENERAL MANAGEMENT

Lugano, via Giacomo Luvinì 2a tel. +41 5



# BRANCH NETWORK OF THE BANCA POPOLARE DI SONDRIO BANKING GROUP



**Banca Popolare di Sondrio** Founded in 1871

## BRANCHES

- 51 in the province of SONDRIO and 15 Treasuries
- 2 in the province of ALESSANDRIA
- 15 in the province of BERGAMO and 13 Treasuries
- 1 in BOLOGNA
- 2 in the province of BOLZANO and 1 Treasury
- 32 in the province of BRESCIA and 18 Treasuries
- 31 in the province of COMO and 29 Treasuries
- 5 in the province of CREMONA
- 2 in the province of CUNEO
- 7 in the province of GENOVA and 1 Treasury
- 20 in the province of LECCO and 20 Treasuries
- 2 in the province of LODI
- 5 in the province of MANTOVA and 3 Treasuries
- 38 in MILANO and 9 Treasuries
- 12 in the province of MILANO and 4 Treasuries
- 17 in the province of MONZA E BRIANZA and 4 Treasuries
- 2 in the province of NOVARA
- 1 in PADOVA
- 2 in the province of PARMA
- 7 in the province of PAVIA and 10 Treasuries
- 4 in the province of PIACENZA
- 38 in ROMA and 2 Treasuries
- 4 in the province of ROMA and 1 Treasury
- 2 in the province of SAVONA and 1 Treasury
- 2 in the province of TORINO and 1 Treasury
- 4 in the province of TRENTO and 1 Treasury
- 1 in TREVISO
- 18 in the province of VARESE and 7 Treasuries
- 5 in the province of VERBANO CUSIO OSSOLA
- 1 in VERCELLI
- 4 in the province of VERONA
- 1 in VICENZA
- 1 in the Autonomous Region of Valle d'Aosta and 2 Treasuries

## Representative offices and desks abroad:

- ARGENTINA (BUENOS AIRES) • AUSTRALIA (PERTH AND SYDNEY) • BELGIUM (BRUSSELS) • BRAZIL (BELO HORIZONTE AND SAO PAULO) • BULGARIA (SOFIA) • CANADA (TORONTO AND VANCOUVER) • CHILE (SANTIAGO) • CHINA (SHANGHAI)
- DENMARK (AARHUS) • FINLAND (HELSINKI) • FRANCE (LYON, MARSEILLE AND PERPIGNAN) • GERMANY (FRANKFURT) • GREECE (ATHENS) • GUATEMALA (GUATEMALA CITY) • HUNGARY (BUDAPEST) • INDIA (MUMBAI) • ISRAEL (TEL AVIV) • JAPAN (TOKYO) • MALTA (VALLETTA) • MEXICO (MEXICO CITY) • MONGOLIA (ULANBAATAR) • PERU (LIMA) • PORTUGAL (LISBON)
- REPUBLIC OF MOLDOVA (CHISINAU) • ROMANIA (BUCHAREST) • RUSSIA (MOSCOW) • SERBIA (BELGRADE) • SINGAPORE (SINGAPORE) • SOUTH AFRICA (JOHANNESBURG) • SOUTH KOREA (SEOUL) • SPAIN (MADRID) • THAILAND (BANGKOK) • TUNISIA (TUNIS) • TURKEY (ISTANBUL) • UNITED ARAB EMIRATES (DUBAI) • UNITED KINGDOM (LONDON) • UNITED STATES (CHICAGO AND MIAMI) • UZBEKISTAN (TASHKENT) • VIETNAM (HANOI)

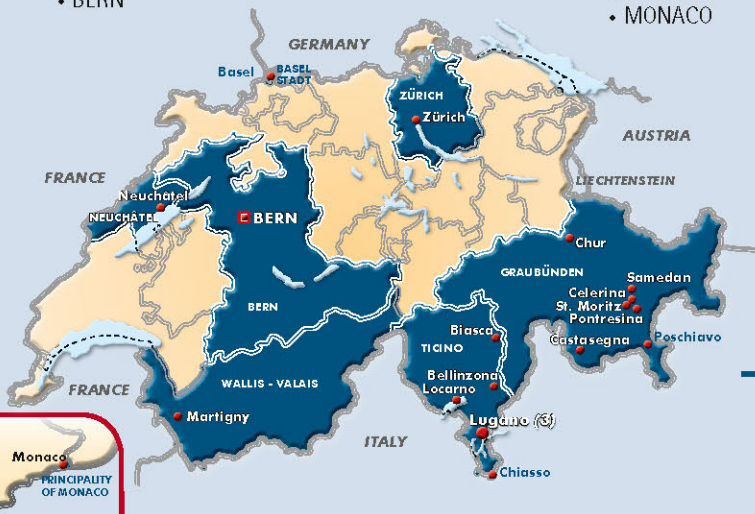
## BPS (SUISSE)

Banca Popolare di Sondrio (SUISSE)

### Branches in:

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

Principality of Monaco:  
• MONACO



## Factorit

GRUPPO Banca Popolare di Sondrio

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

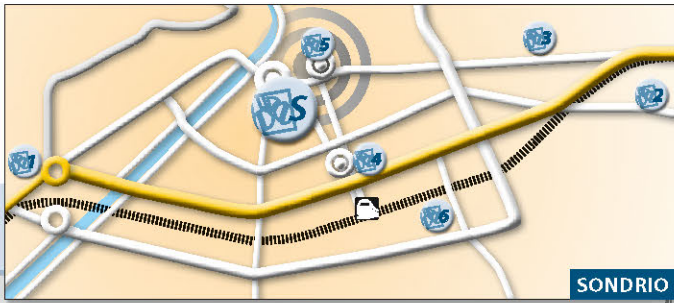
### Branch offices in:


- MILANO • TORINO • PADOVA
  - BOLOGNA • SIENA • ROMA
- Member of Factors Chain International with over 400 foreign correspondents in the most important international markets. Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.

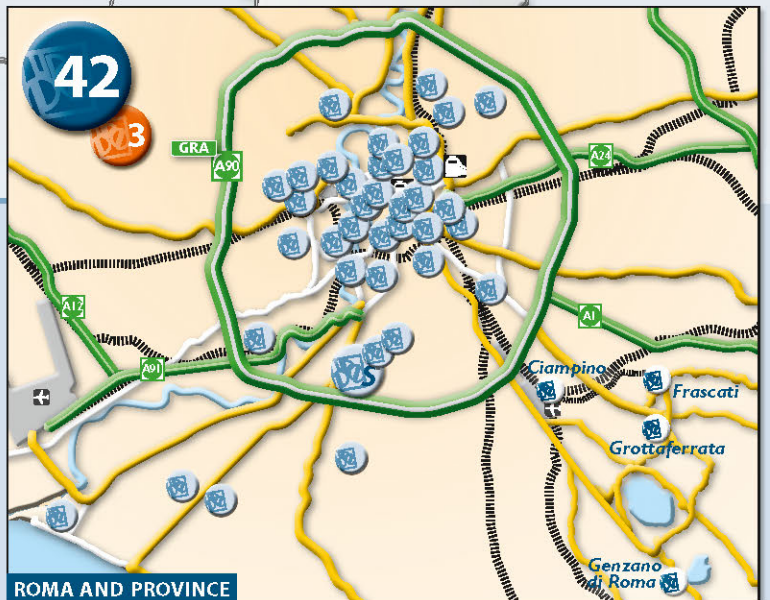
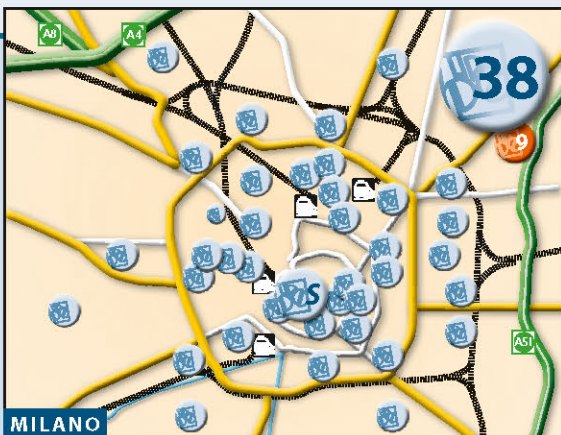
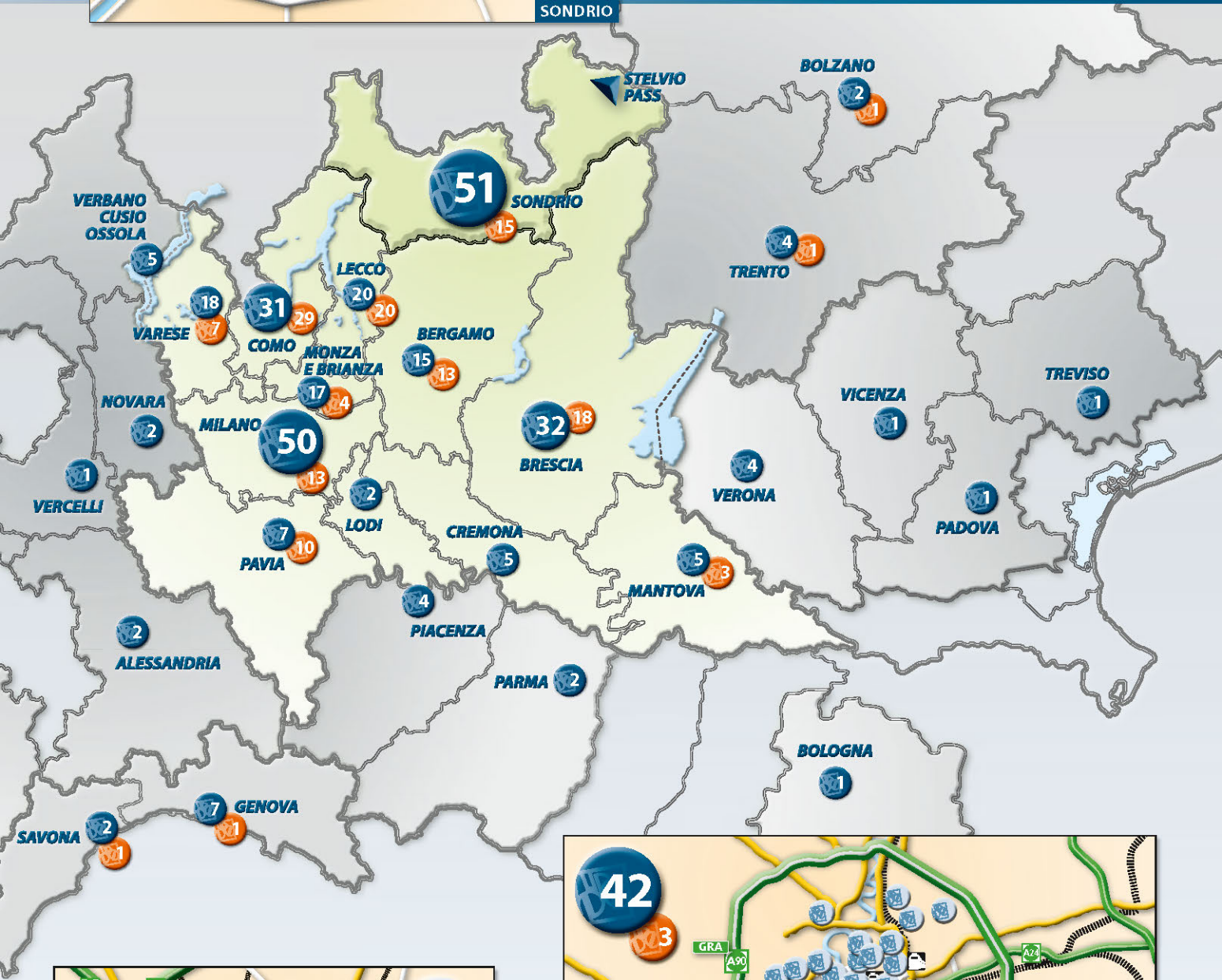
**PIROVANO** PASSO DELLO STELVIO 2 7 6 0  
L'UNIVERSITÀ DELLO SCI m a t r i  
SNOWBOARD UNIVERSITY 3 4 5 0  
L'UNIVERSITÀ DELLA MONTAGNA







-  Number of branches in each province
-  Number of treasuries
-  Branches in each city





## INFORMATION ON OPERATIONS

***Note.** The figures contained in this interim report on operations are stated in euro; the percentage changes refer to comparable balance sheet data at the end of 2016 and to comparable income statement data for the period to 30 June 2016, unless specified otherwise.*

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





# INTERIM REPORT ON OPERATIONS AT 30 JUNE 2017

## INTRODUCTION

The consolidated interim financial report at 30 June 2017 has been prepared pursuant to article 154 ter, paras 2, 3 and 4 of Decree Law 58 of 24 February 1998 and in accordance with the recognition and measurement criteria of the international accounting standards (IAS/IFRS) adopted by the European Community and currently in force.

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

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

## THE BANCA POPOLARE DI SONDRIO BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

### *Parent bank:*

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

### *Group companies:*

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

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

Factorit spa - Milan.

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

Sinergia Seconda srl – Milan.

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

Popso Covered Bond srl – Conegliano.

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



## FULLY CONSOLIDATED SHAREHOLDINGS:

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

\* equity investments not included in the banking group

\*\* held by Sinergia Seconda srl

## SHAREHOLDINGS MEASURED USING THE EQUITY METHOD:

Name	Head office	Share capital (in thousands)	% held
Alba Leasing spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Banca della Nuova Terra spa	Milan	31,315	19.609
Arca Holding spa	Milan	50,000	21.137
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Rajna Immobiliare srl	Sondrio	20	50.000

\* held by Banca Popolare di Sondrio (SUISSE) SA

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

## SUMMARY OF RESULTS

(in millions of euro)	2017	2016*	% Change
<b>Balance sheet</b>			
Loans and receivables with customers	25,712	25,313	1.57
Loans and receivables with banks	1,215	1,787	-32.01
Financial assets	11,570	7,877	46.88
Equity investments	208	209	-0.31
Total assets	40,581	37,196	9.10
Direct funding from customers	29,740	30,934	-3.86
Indirect funding from customers	28,907	28,409	1.75
Direct funding from insurance premiums	1,304	1,266	2.99
Customer assets under administration	59,951	60,609	-1.09
Other direct and indirect funding	10,162	6,127	65.84
Equity	2,617	2,588	1.14
<b>Income statement</b>			
Net interest income	239	247	-3.31
Total income	443	418	5.98
Profit from continuing operations	87	65	34.33
Profit of the period	56	46	21.41
<b>Key ratios (%)</b>			
Cost/income ratio	54.09	56.08	
Net interest income/Total assets	0.59	0.69	
Net financial income/Total assets	0.79	0.82	
Net interest income/Total income	53.94	59.12	
Administrative expenses/Total income	59.24	60.56	
Profit for the period/Total assets	0.14	0.13	
Non-performing loans/Loans and receivables with customers	2.95	3.03	
Loans and receivables with customers/Direct funding from customers	86.46	81.83	
<b>Capital ratios (%)</b>			
CET1 Capital ratio	11.11%	11.09%	
Total Capital ratio	13.36%	13.58%	
Free capital	1,260	1,294	
<b>Other information on the banking group</b>			
Number of employees	3,167	3,153	
Number of branches	359	356	

\* 2016 figures and capital ratios are at 31 December, while those relating to the income statement refer to 30 June.

## **INTERNATIONAL FACTORS**

In the first half of the year, the world economy achieved a substantial strengthening of its ongoing recovery, with a dynamic that was shared by both the more developed countries and by the emerging countries. The foregoing has facilitated trade, which appears to have expanded decisively. Notwithstanding the foregoing, there have still been concerns triggered by the well-known crises affecting sensitive areas of the planet. Undoubtedly, one of the principal growth factors is the fact that businesses from around the world, led by Japanese and European businesses, have started investing again.

The trend in prices has remained fairly low in the more advanced economies and moderate in other areas. A contributory factor has undoubtedly been oil prices, which fell towards the end of the half-year to close to 45 dollars a barrel.

Following a general decline in long term interest rates in the spring months, they then recorded a modest rise. The causes included the monetary policy implemented by the Fed and the strengthening of economic activity in the Eurozone.

The United States achieved a strengthening of growth in the second quarter of the year thanks in particular to domestic demand. In Japan positive signs were consolidated. For its part, China achieved GDP expansion of 6.9%. Industrial output, consumer spending and investment have been the engines of sustained growth, which exceeded the targets set by the government authorities. There was again good growth in India that is expected to be close to 7%, while Russia is expected to have overcome the recession.

In the Euro area, there has been a more lively GDP trend of around 1.9% and the prospects for the whole of 2017 have been revised upwards to above 2%. This is undoubtedly a positive figure driven by: expansion of manufacturing and service activity, growth in investment and an improvement in consumer confidence. Inflation has declined in the second quarter and was estimated to be around 1.3% at the end of June.

## **THE SCENARIO FOR OUR GROUP**

### **Italy**

There was also a significant acceleration in economic activity in Italy at the beginning of 2017 that led to growth having been forecast for the entire year of close to 1.5%. This is a growth rate that our country has been unable to aspire to for many years, but which, on its own, is not sufficient to eradicate the heavy legacy of an economic and financial crisis that manifests itself, inter alia, in an unemployment level and public debt to GDP ratio that are still too high.

Looking at the latest events, however, it is worth noting the marked rise in household spending, which has extended to services and durable goods, the upturn in manufacturing activity in the second quarter of the year and the acceleration in the services sector in general.

First of all, the banking sector has been able to overcome the crisis that had affected a number of intermediaries of national importance. In general, economic recovery was accompanied by a modest expansion of lending and by a much more significant improvement in the quality thereof, with a gradual reduction in impaired loans.

There has been an expansion in the number of people employed that, however, has been not been sufficient enough to significantly reduce the unemployment rate mentioned above, while inflation has remained low.

## **Switzerland**

During the first half of 2017, Switzerland only partly benefited from the positive boost arising from the improvement in the international economic situation. In fact, GDP growth came to around 1.1%.

It is envisaged that this will improve over the coming months. In particular, export-oriented sectors are expected to benefit from renewed dynamism of international markets.

The Swiss National Bank has maintained its expansionary monetary policy in order to stabilise price developments and to support economic activity. It has confirmed its commitment to diminish the pressure on the Swiss franc, thus lowering its value against other currencies. In the first half, inflation came to 0.3%; the unemployment rate came to around 3%.

## **THE ITALIAN BANKING MARKET**

The unchanged ECB official interest rate, which was held at zero, was met, between June 2016 and June 2017, by a further cut in bank lending rates. The cost of funds collected from households and non-financial companies fell from 1.09 to 0.95%, which was less than the drop in the yield from interest-bearing assets from 2.70 to 2.54%. As a consequence, the spread has again been fractionally reduced from 1.61 to 1.59%.

In terms of volumes handled, there has been a rise in funds collected from (+0.4%) and in lending to the aforementioned customer sectors (+1.5%).

There has been a strong improvement in asset quality, evidenced by a lower ratio of non-performing loans to total loans, which came to 4.38% in May against the prior year figure of 4.72%.

This gives us reason to hope that, after the recrudescence that gave rise to a loss reported in the financial statements in 2016, the burden of the loss provisions will start to decline and, combined with operational optimisation, will counteract the stagnation of revenue sources.

## FUNDING

The abundant liquidity that has been available in the banking system for some time has again been a feature of the period just ended. This is attributable to the European Central Bank's expansionary monetary policy that, in this manner, has preconstituted favourable conditions for economic recovery. There are cascading effects therefrom on interest rates, which are still at historically low levels, and thus on income from lending. Overall, there has been a slight growth in funding, while there has been a sharp contraction in bonds.

Against this background, the Group made every effort to reach a point of equilibrium between the need to limit the cost of funding and the need to meet customers' needs. As a consequence, there has been a slight decrease in funding and a shift towards alternative forms of investment.

Direct funding from customers amounted to 29,740 million, -3.86% on the end of 2016 and +2.05% y/y.

Indirect funding from customers, at market value, totalled 28,907 million, +1.75% on the 2016 year end balance and +7.86% on the prior year balance.

Funding from insurance premiums increased to 1,304 million, +2.99%.

Total funding from customers came to 59,951 million, -1.09% on the end of 2016 and +4.82% y/y.

Amounts due to banks totalled 6,322 million, +152.42%. They include the refinancing operations with the European Central Bank for a total of 4,600 million, as explained in the chapter on «Treasury and trading operations».

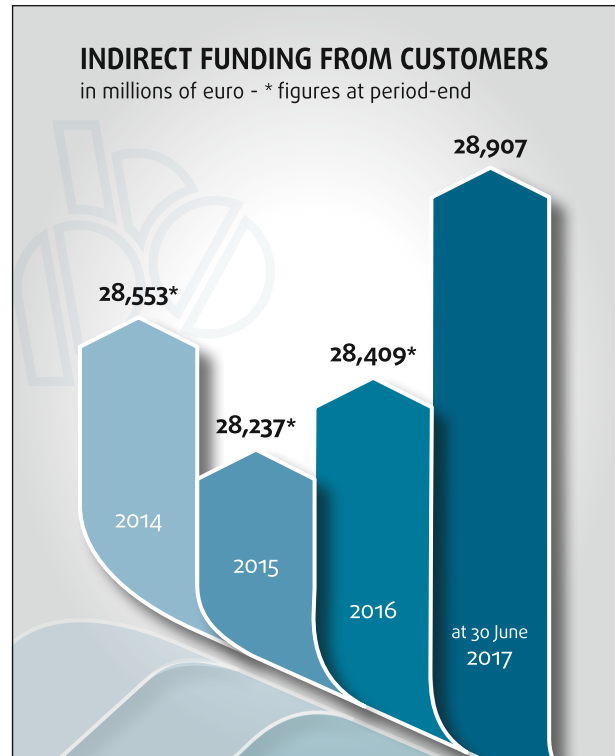
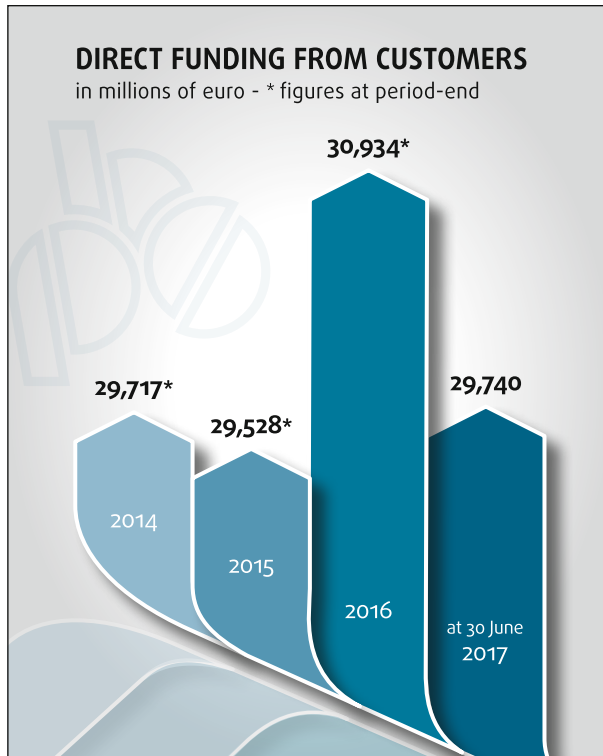
Indirect deposits from banks amount to 3,840 million, +5.99%.

Total funding from customers and banks therefore came to 70,113 million, +5.06%.

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

Considering the individual components, current accounts in euro and foreign currency dropped to 25,246 million, -3.63%, and make up 84.90% of all direct funding. Time deposit accounts have grown to 857 million, +141.22%. Bonds have declined by 8.05%, to 2,897 million. Repo transactions fell significantly to 111 million, -81.75%, while there was a marginal decline in savings deposits to 534 million, -1.16%. Certificates of deposit did not change at 3 million, and remain entirely marginal. Bank drafts amounted to 91 million, +17.03%.

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



## DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	30-06-2017	%	31-12-2016	%	% Change
Savings deposits	533,788	1.79	540,046	1.75	-1.16
Certificates of deposit	3,000	0.01	3,264	0.01	-8.09
Bonds	2,896,890	9.74	3,150,367	10.18	-8.05
Repo transactions	111,342	0.37	610,237	1.97	-81.75
Bank drafts and similar	91,457	0.31	78,150	0.25	17.03
Current account overdrafts	22,814,846	76.72	23,641,895	76.43	-3.50
Time deposit accounts	857,483	2.88	355,475	1.15	141.22
Foreign currency accounts	2,431,429	8.18	2,554,701	8.26	-4.83
<b>Total</b>	<b>29,740,235</b>	<b>100.00</b>	<b>30,934,135</b>	<b>100.00</b>	<b>-3.86</b>

## TOTAL FUNDING

(in thousands of euro)	30-06-2017	%	31-12-2016	%	% Change
Total direct funding from customers	29,740,235	42.41	30,934,135	46.35	-3.86
Total indirect funding from customers	28,906,653	41.23	28,409,167	42.57	1.75
Total insurance-related deposits	1,303,734	1.86	1,265,888	1.90	2.99
<b>Total</b>	<b>59,950,622</b>	<b>85.50</b>	<b>60,609,190</b>	<b>90.82</b>	<b>-1.09</b>
Due to banks	6,321,933	9.02	2,504,510	3.75	152.42
Indirect funding from banks	3,840,021	5.48	3,622,959	5.43	5.99
<b>Grand total</b>	<b>70,112,576</b>	<b>100.00</b>	<b>66,736,659</b>	<b>100.00</b>	<b>5.06</b>



## LENDING

The growth in loans to households and, to a lesser extent, to businesses is naturally attributable to the consolidation of the upturn in the economic cycle.

This also resulted, on one hand, in a further reduction in interest rates applied to all-time lows, and, on the other hand, and with a positive effect on the profitability of the banking system, in a significant deceleration in the dynamics of non-performing loans.

Against this background, the Group worked on strengthening the relationship with the local economies in the areas that it serves.

Loans and receivables with customers came to 25,712 million at 30 June 2017, having increased by 1.57% with respect to six months earlier and by 4.07% over the year.

The various types have contributed to total customer loans to a different extent. These items are shown in greater detail in the «Loans to customers» table and are based on other criteria compared with the notes.

Mortgage loans amount to 9,588 million, +1.24%, and are the largest item of total loans and receivables with customers (37.29%). They show a recovery due to the purchase of homes by families. This line item includes loans sold but not derecognised of 1,268 million in relation to mortgage loans sold as part of the issue of covered bonds by the Parent Company. These loans were not derecognised because the requirements of IAS 39 were not met. The change in other unsecured loans was significant, having risen to 5,520 million, +4.53%, thus constituting the second largest component of loans (21.47%). Current accounts, which are the third largest component of loans (19.63%), increased by 4.40% to 5,047 million. Factoring loans, granted by the subsidiary Factorit spa, have recovered well by having increased to 2,165 million, +18.33%. Personal loans increased, +5.18% to 231 million; as well as advances, +7.77% to 439 million; advances subject to collection rose by 13.65% to 224 million. Foreign currency loans decreased to 1,080 million, -8.10% and repo transactions, representing the temporary employment of excess liquidity, decreased from 699 to 233 million, -66.63%. Debt securities amounted to 356 million, -1.27%, and relate to customer loan securitisations carried out by the affiliates Banca della Nuova Terra spa and Alba Leasing spa.

The ratio of loans and receivables with customers to amounts due to customers has risen to 86.46% from 81.83% at the year end.

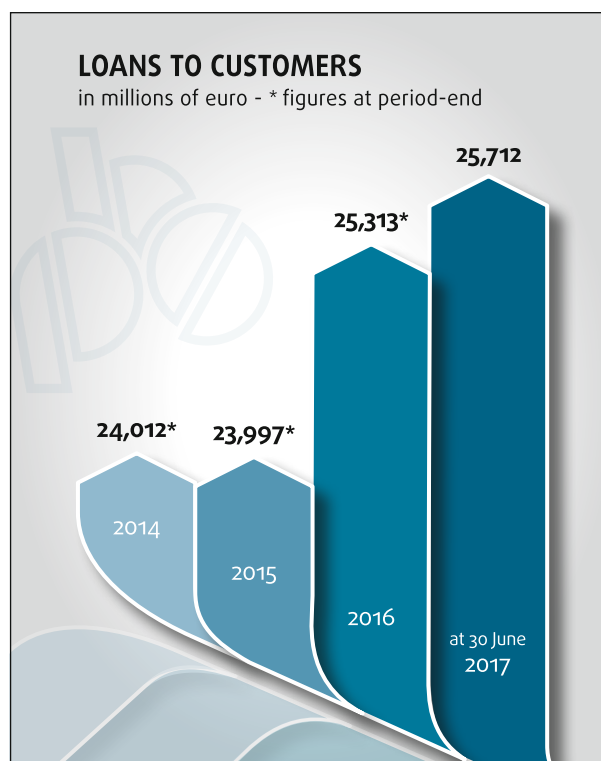
As regards credit quality, as a consequence of the aforementioned consolidation of the general upturn in the economic cycle, the decreasing trend in net impaired loans has been confirmed. The related gross amount came to -1.41%, compared with +4.04% at the end of 2016 and +0.85% in the first quarter of 2017. Substantial provisions have again been made, but far lower than in the comparative period. In addition to the general economic situation, this reflects what the Group has done to improve the quality of credit when granting and managing loans.

Total impaired loans amount to 2,289 million, -3.90%, representing 8.90% of loans and receivables with customers, compared with 9.41% at the

end of 2016 and 9.84% at the end of 2015. Writedowns of impaired loans totalled 2,074 million, representing 47.53% of the gross amount, compared with 46.17% at the end of 2016 and 44.47% at the end of 2015. The table gives an overview of impaired and performing loans.

Net non-performing loans, after writedowns, came to 758 million, -1.23% in the period, or 2.95% of total customer loans, compared with 3.03% at 31 December 2016 and 3.05% at 30 June 2016. The aforementioned decrease in net non-performing loans has interrupted the previous growth trend: +4.52% at 31 December 2016 and +2.56% as of mid-2016.

Adjustments to cover estimated losses on non-performing loans have risen to 1,376 million, +3.31%, representing 64.46% of the gross amount compared with 63.43% at the end of 2016. The level of coverage reflects our prudent provisioning policy and positions the Group among those with the highest level of coverage in Italy.



## LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	30-06-2017	%	31-12-2016	%	% Change
Current accounts	5,047,009	19.63	4,834,195	19.10	4.40
Foreign currency loans	1,080,410	4.20	1,175,623	4.64	-8.10
Advances	439,249	1.71	407,575	1.61	7.77
Advances subject to collection	224,227	0.87	197,294	0.78	13.65
Discounted portfolio	3,671	0.01	4,537	0.02	-19.09
Artisan loans	40,764	0.16	40,513	0.16	0.62
Agricultural loans	25,631	0.10	26,950	0.11	-4.89
Personal loans	231,278	0.90	219,897	0.87	5.18
Other unsecured loans	5,519,807	21.47	5,280,407	20.86	4.53
Mortgage loans	9,587,972	37.29	9,470,151	37.41	1.24
Non-performing loans	758,431	2.95	767,900	3.03	-1.23
Repo transactions	233,235	0.91	698,937	2.76	-66.63
Fixed-yield securities	355,579	1.38	360,145	1.42	-1.27
Factoring	2,164,679	8.42	1,829,340	7.23	18.33
<b>Total</b>	<b>25,711,942</b>	<b>100.00</b>	<b>25,313,464</b>	<b>100.00</b>	<b>1.57</b>



## LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		30-06-2017	31-12-2016	(+/-)	% change
<b>Impaired loans</b>	Gross exposure	4,363,706	4,425,892	-62,186	-1.41
	Adjustments	2,074,218	2,043,501	30,717	1.50
	<b>Net exposure</b>	<b>2,289,488</b>	<b>2,382,391</b>	<b>-92,903</b>	<b>-3.90</b>
- Non-performing loans	Gross exposure	2,134,312	2,099,717	34,595	1.65
	Adjustments	1,375,881	1,331,817	44,064	3.31
	<b>Net exposure</b>	<b>758,431</b>	<b>767,900</b>	<b>-9,469</b>	<b>-1.23</b>
- Unlikely to pay loans	Gross exposure	1,976,881	1,987,517	-10,636	-0.54
	Adjustments	656,655	664,922	-8,267	-1.24
	<b>Net exposure</b>	<b>1,320,226</b>	<b>1,322,595</b>	<b>-2,369</b>	<b>-0.18</b>
- Past due and/or impaired overdrawn exposures	Gross exposure	252,513	338,658	-86,145	-25.44
	Adjustments	41,682	46,762	-5,080	-10.86
	<b>Net exposure</b>	<b>210,831</b>	<b>291,896</b>	<b>-81,065</b>	<b>-27.77</b>
<b>Performing loans</b>	Gross exposure	23,567,520	23,070,964	496,556	2.15
	Adjustments	145,066	139,891	5,175	3.70
	<b>Net exposure</b>	<b>23,422,454</b>	<b>22,931,073</b>	<b>491,381</b>	<b>2.14</b>
<b>Total loans and receivables with customers</b>	Gross exposure	27,931,226	27,496,856	434,370	1.58
	Adjustments	2,219,284	2,183,392	35,892	1.64
	<b>Net exposure</b>	<b>25,711,942</b>	<b>25,313,464</b>	<b>398,478</b>	<b>1.57</b>

Considering the amounts written off in prior years against non-performing loans that are still tracked, in view of possible future recoveries, the coverage of such loans amounts to 74.20%.

Likely defaults, which are credit exposures, other than non-performing, for which it is deemed improbable that the obligor will pay its credit obligations in full without recourse to measures such as the enforcement of guarantees, have decreased slightly to 1,320 million, -0.18%, or 5.13% of total customer loans, while the related adjustments amount to 657 million, -1.24%, with a level of coverage of 33.22%, compared with 33.45% at the end of December 2016.

Past due and/or impaired overdrawn exposures, other than non-performing loans or unlikely-to-pay loans, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 days and which exceed a certain materiality threshold, amount to 211 million, -27.77%, and represent 0.82% of the total compared with 1.15% at the end of 2016, with a level of coverage of 16.51% compared with 13.81% at year-end.

Performing loans amounted to 23,422 million, +2.14%, with writedowns of 145 million, corresponding to 0.62% of them, compared with 0.61% at year-end.

Adjustments totalled 2,219 million overall, +1.64%, a value considered adequate.

In accordance with the terms established by Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that the amount of

loans to customers included loans made to central and local government for 93 million, local and state-owned enterprises for 618 million and to various other entities for 428 million.

## TREASURY AND TRADING OPERATIONS

The positive performance of the financial markets that had characterised the first quarter of the year continued up to 30 June.

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

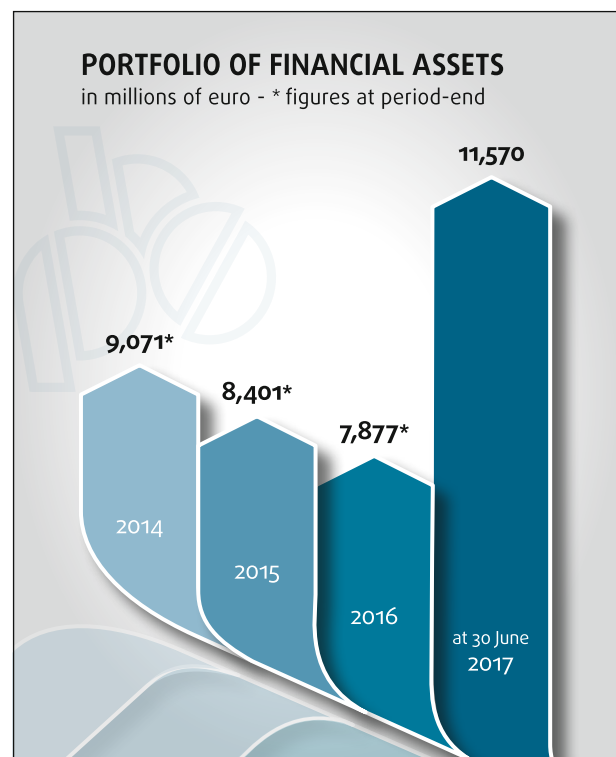
At 30 June 2017, the Group's net interbank borrowing amounts to 5,107 million, up by 4,389 million from 718 million at the end of 2016.

Net of Targeted Longer-Term Refinancing Operations (TLTRO), arranged by the Parent Company with the ECB totalling 4,600 million, net interbank borrowing would have been 507 million. The Group remained highly liquid throughout the first six months of the year. Treasury activity remained intensive throughout the period, albeit with a slight decrease in volumes, with a preference for lending transactions over funding transactions.

The exposure to liquidity risk is monitored both in the short term, taking a three-month view every day, and over the long term with a monthly check.

In March, the Bank participated in the latest long-term refinancing operation made available by the ECB (TLTRO II) for an amount of 3,500 million. This matures on 24 March 2021 and bears interest at a rate of 0%, which could go negative (generating income) if the loan covenants established by the ECB are met. The foregoing is in addition to a similar existing operation for an amount of 1,100 million that matures on 24 June 2020.

The latest available short and medium to long term liquidity indicators, respectively the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) came in well over the minimum requirements. In addition, the Group can always rely on a substantial portfolio of assets eligible for refinancing which, net of haircuts, amounts to 11,408 million, up by 46.86% on the end of 2016, of which 6,048 million available and 5,360 million committed.



The total of all portfolios of financial assets amounts to 11,570 million at 30 June 2017, a significant increase of 46.88% compared with the end of 2016 when it came to 7,877 million, and an increase of 42.98% compared with 12 months ago (8,092 million).

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

## FINANCIAL ASSETS

(in thousands of euro)	30-06-2017	31-12-2016	% Change
Financial assets held for trading (HFT)	857,253	1,019,712	-15.93
<i>of which, derivatives</i>	79,784	56,581	41.01
Financial assets carried at fair value (CFV - Carried at Fair Value)	103,518	96,303	7.49
Available-for-sale financial assets (AFS - Available For Sale)	10,515,090	6,644,437	58.25
Held-to-maturity investments (HTM)	94,393	117,023	-19.34
Hedging derivatives	2	-	-
<b>Total</b>	<b>11,570,256</b>	<b>7,877,475</b>	<b>46.88</b>

The large increase in the portfolio is essentially attributable to the purchase in the second quarter of the year of Italian, Spanish and French government securities that mainly affected the AFS portfolio. For this purpose, use was made of surplus liquidity arising from the TLTRO II refinancing operations at the end of March. Management policies reflect long-standing guidelines and, as always, have given preference to Government bonds, which represent the bulk of the portfolio. The overall volume of trading had increased steadily compared to the comparative period, resulting in the recognition of substantial trading/disposal gains, albeit lower than those recognised in the previous year, and the subsequent purchase of newly issued securities. New investments mainly involved BTPs, CTZs, CCTs and Spanish and French government securities, which have a relatively short maturity. The composition of the portfolio remains dominated by government securities, with a duration of about 3 years and 10 months, down on the end of 2016.

In accordance with the requirements of Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that these portfolios include bonds that form part of the sovereign debt (i.e. issued by local and central governments) totalling 10,240 million, largely relating to issues made by the Italian Government.

### Financial assets held for trading

Financial assets held for trading (HFT), details of which are shown in the following table, amount to 857 million, down by 15.93% as a result of sales of government securities close to maturity and the criteria used in the

allocation to various portfolios of similar securities, but with longer maturities, which partially replaced the previous ones.

(in thousands of euro)	30-06-2017	31-12-2016	% change
Floating-rate Italian government securities	261,131	398,469	-34.47
Fixed-rate Italian government securities	35,303	54,438	-35.15
Foreign government securities designated in foreign currencies	87,389	14	-
Bank bonds	151,974	212,690	-28.55
Bonds of other issuers	32,911	33,236	-0.98
Bonds of other issuers in foreign currency (USD)	13,196	11,369	16.07
Securitisations	26,922	27,507	-2.13
Variable-yield securities and mutual funds	168,643	225,408	-25.18
Net book value of derivative contracts	79,784	56,581	41.01
<b>Total</b>	<b>857,253</b>	<b>1,019,712</b>	<b>-15.93</b>

There have not been any substantial changes in the structure of the HFT portfolio, which has remained quite straightforward. Preference has again been given to Italian government securities: despite the fact that they have decreased as a result of sales, at the end of the period they amounted to 296 million, making up 34.58% of the portfolio. Of these securities, 261 million were floating rate, down by 34.47%, and 35 were fixed rate (BTPs) which were also down by 35.15%, given that sales were higher than the replacements of newly issued securities. As for their composition, the former account for 30.46% of the portfolio, while the latter account for 4.12%.

The derivatives component has increased from 57 to 80 million, +41.01%.

Moving against the general trend, foreign government securities rose to 101 million versus 11 million at the year end.

The corporate bonds held are all of high standing, comprising bank bonds of 152 million, -28.55%, and bonds of other issuers of 33 million, -0.98%. Securities deriving from securitisations have decreased by 2.13% to 27 million and are all classified as senior. The component represented by equities and mutual funds decreased to 169 million, -25.18%.

## Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (CFV), which entirely consist of units in mutual funds, amount to 104 million, +7.49%, with this increase being mainly attributable to period end measurement.

## Available-for-sale financial assets

The portfolio of available-for-sale financial assets (AFS) - in which certain securities are classified with the objective of containing, at least in



part, the impact on the income statement of any volatility affecting the securities portfolio as a result of turbulence in financial markets - rose by 10,515 million compared with 6,644 million, +58.25%. The sharp increase is due to the allocation to this portfolio of Italian, French and Spanish government securities that were purchased using a substantial part of the abundant liquidity available to the Parent Company in the period and which largely arose from participation in the refinancing operation arranged by the ECB in March. As always, the portfolio was impacted by intense movements both in and out due to disposals, with positive results, albeit significantly lower than in the comparative period.

Available-for-sale financial assets comprise Italian Government securities amounting to 8,058 million, +48.13%; Foreign government securities amount to 1,709 million, +109.67%; funds and sicavs, 210 million, -9.36%; bank bonds, 388 million; bonds of other issuers of 49 million, +52.26%; equities of 101 million, -0.99%.

Impairment writedowns were recognised for 29.900 million: 26.022 related to the write-down of the units held by the Parent Company in Fondo Atlante as a consequence of the liquidation of Banca Popolare di Vicenza and Veneto Banca, almost all of the shares of which had been held by Fondo Atlante; 1.194 million related to the voluntary action by the IDPF in favour of Cassa di Risparmio di Cesena; the remainder related to unlisted shares and various real estate funds.

(in thousands of euro)	30-06-2017	31-12-2016	% Change
Floating-rate Italian government securities	1,617,766	1,421,013	13.85
Fixed-rate Italian government securities	6,440,035	4,018,660	60.25
Foreign government securities	1,709,345	815,246	109.67
Bank bonds	387,700	23,283	-
Other bonds	48,783	32,039	52.26
Variable-yield securities	101,253	102,268	-0.99
Mutual funds in euro	210,208	231,928	-9.36
<b>Total</b>	<b>10,515,090</b>	<b>6,644,437</b>	<b>58.25</b>

## Held-to-maturity investments

The HTM portfolio, comprising solely fixed-yield securities, largely attributable to the employee pension fund, has decreased to 94 million, -19.34%, as a result of redemptions and disposals due to regulatory changes relating to pension fund securities. Unrealised gains at the end of June amount to 12 million.

## Asset management

In the first half of the year, the favourable trend continued for the asset

management industry, which led to a new record high for total assets under management. This result was undoubtedly helped by the ongoing effect of low interest rates, a situation that induced customers to seek alternative forms of investments with respect to traditional deposits, also with a view to increased diversification. At the end of June, the various forms of assets under management by the Group amounted to 5,155 million, +7.22% on December 2016, having benefited from the general growth of the segment. The most recent instruments placed, and which were well received by customers, include individual savings plans, which offer subscribers the possibility to benefit from significant tax advantages.

## EQUITY INVESTMENTS

Equity investments total 208 million at 30 June 2017, down by 0.6 million since the end of 2016. The change is mainly due to the effect of using the equity method.

## TRANSACTIONS WITH NON-CONSOLIDATED ASSOCIATED COMPANIES

Balance at 30/06/2017 (in thousands of euro)

	Associated companies of the parent company		Associated companies of subsidiaries	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
<b>ASSETS</b>				
Loans and receivables with banks	-	-		
Loans and receivables with customers	741,744	769,870	712	724
Other financial assets	-	-	-	-
<b>LIABILITIES AND EQUITY</b>				
Due to banks	2,131	2,333		
Due to customers	330,432	209,025	530	564
Other financial liabilities	-	-	-	-
<b>GUARANTEES AND COMMITMENTS</b>				
Guarantees given	49,051	49,051	89	98
Commitments	2,895	2,852	-	



## Related-party transactions

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

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

In compliance with the disclosure obligations laid down in article 5 of the Consob Regulation, during the period 1 January to 30 June 2017, the Parent Company's corporate bodies alone approved the following transactions of greater relevance:

- Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 10,000,000 repayable on demand; resolution of 16/02/2017;
- Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 5,000,000 repayable on demand; resolution of 17/03/2017;
- Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 80,000,000 repayable on demand; granting of a revolving facility for guarantees in favour of residents of € 5,000,000 repayable on demand; resolutions of 21/03/2017;
- Factorit spa, subsidiary; granting of a revolving facility for guarantees in favour of residents of € 50,000,000 repayable on demand; resolution of 27/04/2017;
- Alba Leasing, associated company; granting of commercial guarantees given on behalf of residents of € 600,000 repayable on demand; renewal of lines of credit totalling € 447,878,702 repayable on demand; resolutions of 29/06/2017.

During the period 1 January-30 June 2017, no transactions of greater or lesser relevance were carried out with related parties, which could have had a significant impact on the banking Group's balance sheet or results. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the 2017 balance sheet or results of the Banking Group with regard to the related-party transactions carried out during 2016; in any case none were atypical, unusual or not on market terms.

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



**Banca Popolare  
di Sondrio**

Founded in 1871

I - 23100 Sondrio SO  
piazza Giuseppe Garibaldi 16

tel. +39 0342 528111  
fax +39 0342 528204



[www.popso.it](http://www.popso.it)  
[info@popso.it](mailto:info@popso.it)

## BRANCHES:

- 51 in the province of SONDRIO and 15 Treasuries
- 2 in the province of ALESSANDRIA
- 15 in the province of BERGAMO and 13 Treasuries
- 1 in BOLOGNA
- 2 in the province of BOLZANO and 1 Treasury
- 32 in the province of BRESCIA and 18 Treasuries
- 31 in the province of COMO and 29 Treasuries
- 5 in the province of CREMONA
- 2 in the province of CUNEO
- 7 in the province of GENOVA and 1 Treasury
- 20 in the province of LECCO and 20 Treasuries
- 2 in the province of LODI
- 5 in the province of MANTOVA and 3 Treasuries
- 50 in the province of MILANO and 13 Treasuries
- 17 in the province of MONZA E BRIANZA and 4 Treasuries
- 2 in the province of NOVARA
- 1 in PADOVA
- 2 in the province of PARMA
- 7 in the province of PAVIA and 10 Treasuries
- 4 in the province of PIACENZA
- 42 in the province of ROMA and 3 Treasuries
- 2 in the province of SAVONA and 1 Treasury
- 2 in the province of TORINO and 1 Treasury
- 4 in the province of TRENTO and 1 Treasury
- 1 in TREVISO
- 18 in the province of VARESE and 7 Treasuries
- 5 in provincia del VERBANO CUSIO OSSOLA
- 1 in VERCELLI
- 4 in the province of VERONA
- 1 in VICENZA
- 1 in the Autonomous Region of Valle d'Aosta and 2 Treasuries

## Representative offices and desks abroad:

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CHINA (Shanghai) - DENMARK (Aarhus)  
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# THE BANKING GROUP IN THE HEART OF THE ALPS



 **BPS (SUISSE)**

Banca Popolare di Sondrio (SUISSE)

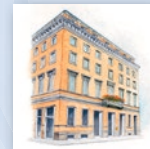
CH - 6900 Lugano  
via Giacomo Luvini 2a

tel. +41 58 8553000  
fax +41 58 8553015

[www.bps-suisse.ch](http://www.bps-suisse.ch)  
[contact@bps-suisse.ch](mailto:contact@bps-suisse.ch)

LUGANO via Giacomo Luvini 2a  
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GRUPPO Banca Popolare di Sondrio

I - 20122 Milano MI  
via Cino del Duca 12

tel. +39 02 58150.1  
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I - 23100 Sondrio SO  
via Delle Prese 8

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During the first half of 2017 and in the current period, no positions or transactions deriving from atypical and/or unusual operations have arisen. According to Consob Circular DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those - not arising in the ordinary course of business - that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.

## **PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS**

Property, equipment and investment property and intangible assets total 352 million, +2.18%. The former totalled 326 million, +1.63%, the increase having been due to additions, net of depreciation for the period. The second category, totalling 26 million, has increased by 9.59% and includes goodwill of 8 million. Goodwill is tested annually for impairment. The most recent test was performed when preparing the consolidated financial statements at 31 December 2016. It was not deemed necessary to repeat the procedure at 30 June 2017.

## **PROVISIONS**

These comprise post-employment benefits of 43 million, -3.64%, and provisions for risks and charges totalling 175 million, -3.48%.

## **RISK MANAGEMENT**

Risk management processes involve, with different tasks and responsibilities, senior management and the operational and control units, with the objective of identifying, preventing, measuring, assessing, monitoring, mitigating and reporting to the appropriate hierarchical levels, exposure to risks in the various operating segments.

Risk management is embodied by a strong managerial committee structure, which, in the past half-year, saw the setting up by the Parent Company of a new «ALM and Investment Committee» as well as an overhaul of the skills, composition and mode of operation of the existing «Risk Committee».

The cornerstone of this system is the Risk Appetite Framework (RAF), which consists of the processes, methodologies, controls and procedures in place to establish, monitor and communicate the Group's risk appetite. In the period just ended, a more sophisticated RAF took shape that complied with what was laid down by the Board at the end of the past year, on the occasion of the annual review of risk objectives. First of all, a clearer separation has been introduced, as far as documentation is concerned, between the RAF's structural elements and process and the periodic risk appetite statement; secondly, the set of parameters that reflect the Group's risk appetite have been

enriched by means of the introduction of new significant metrics from an organisational standpoint that combine with traditional indicators required by the supervisory rules.

The architecture is supported by a more granular system of operating limits, which is better calibrated and linked to the strategic and business levers on a more timely basis. The quest for a greater affinity of the approach with the Risk Appetite Framework was intended to provide an impetus to a more effective transfer of the risk objectives, at a global level, to the operational functions involved in risk assumption, so as to increase the incisiveness and timeliness of reaction to the first signs of risk escalation.

Also integrated with the RAF are the tools for the prevention and management of situations of financial and capital stress, represented by the Contingency Plan and, in circumstances of particular gravity, by the Recovery Plan – with the latter document having been imposed by European regulations on the resolution of banking crises. In the half-year just ended, considerable efforts have been made to ensure harmony between all the structures, with a view to preserving the consistency of the overall framework in safeguarding the maintenance (under ordinary conditions) and, if appropriate, the restoration (under emergency or crisis conditions) of the Group's solidity.

Further refinements of the analysis techniques have been made for purposes of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). As usual, in April, the annual results of the two processes were divulged by the Supervisory Authority in the final reports issued thereby, the structure and content of which had been aligned to the most recent indications of the ECB and the European Banking Authority (EBA).

As an ideal link between the above components, the identification and mapping of risks constitutes an important cognitive process, conducted by the entire Group, aimed at the identification of types of risk that, more than others, are likely to impact, inclusive of in prospective terms, the Group's capital, results and financial position. An analysis of the degree of materiality, performed in accordance with a common methodological approach, supports the ability to intercept in an appropriated manner all truly significant risks.

The IT and reporting system provides the various organisational levels cognitive elements useful for an assessment of the factors that drive changes in principal risk profiles and their consistency with the risk appetite. In this regard, in this first part of the year, the integrated reports on risk exposure distributed to senior bodies and committees have been subject to refinement, as has also been the case for more analytical information provided on risks, as well as that arising from the fulfilment of specific requests from the Supervisor.

The Group's overall risk management system is documented in a robust set of policies and manuals, which set out the roles and responsibilities of the persons involved in the monitoring and management of risks, the techniques, the analysis and measurement adopted to control risks, the systems for supervisory limits/thresholds and the decision-making processes aimed at curbing an excessive assumption of risks.



## **Credit and counterparty risks**

As regards the monitoring of credit risk, the structures have primarily concentrated their efforts on strengthening the new mechanisms for the monitoring and management of problem loans and on strengthening the methodological and procedural architecture used for internal rating models.

With respect to the first aspect, the finishing touches are being made to the new problem loans management system, aimed at improving the ability to predict positions becoming classified as insolvent and to increase the effectiveness of the regularisation and recovery action.

This system – as a result of which there has been a positive impact on the quality of the loan portfolio – is characterised by a specialisation of the organisational processes based on the type of customer and by the setting up of a strong centralised control structure to monitor the branch network's activities. Operational formalities have been streamlined thanks to support provided by specialist companies, entasked with telephone reminders and the agreement of repayment plans with Retail customers showing the first signs of difficulty.

As regards the review of the rating system, the sector is still involved in a number of ongoing pervasive projects that rely on a contribution by a large group of professionals with the aim of further increasing its performance, with a view to the utilisation thereof in the computation of the capital requirement in accordance with the Advanced Internal Rating Based Approach (AIRB) required by prudential regulations.

In the first half of the year, the most significant initiatives have addressed the consolidation and operational activation of PD (Probability of Default), LGD (Loss Given Default), EAD (Exposure at Default) and Danger Rate (component of the LGD expressing the likelihood of «Past due, impaired» and «Unlikely-to-pay» positions becoming «Non-performing») models developed or recalibrated in 2016 and the refinement of estimation methods underlying the rating systems to take account of indications arising from independent checks performed, according to regulations, by the validation functions and internal audit and, more generally, an extension of the use of the rating models in the business processes.

There is an increasing tendency to consolidate the centralisation of rating for various loan management purposes. The coming half-year will see the introduction of a more advanced version of the IT environment developed for the simulation of pricing conditions related to customer risk to be applied to loans, recently integrated within the electronic credit line system. Lastly, as part of the establishment of a more organic and focused corporate lending policy, ratings contribute in a dynamic manner to the identification of targets for the repositioning of the portfolio towards less risky customer segments.

## **Market risks**

The monitoring and quantification of the risks to which our proprietary financial portfolios are exposed are based on an analysis of the sensitivity

thereof to adverse fluctuations in market variables. These measurements are supported by Value-at-Risk (VaR) statistical methodology and a system of operational limits, applied separately to the «trading portfolio» and the «bank book», based on a comparison of the risk exposure to the maximum loss on financial instruments and currency transactions deemed tolerable. These parameters are converted into more detailed daily loss limits.

In addition, use is made of limiting thresholds for negative results generated and still being generated by the portfolios.

VaR and actual loss estimates are supplemented by further more recently introduced metrics (sensitivities), reflecting the potential amount of the reaction of financial assets to changes in underlying risk factors.

Separate treatment has been reserved for «sovereign risk», a risk category that is subject to dedicated and constant monitoring, on account of the weighting of Italian government bonds to our total assets.

The expansion of the tools and methodologies for the monitoring of risk and the extension of the analysis perimeters have given rise to significant changes to calculation platforms, to reporting systems and to documentation. As regards ongoing refinements, we are looking at strengthening the monthly stress testing framework, aimed at increasing the variety and plausibility of simulation scenarios used, as well as the development of reports relating to the outcome of backtesting on the reliability of the VaR model.

## **Interest-rate risk**

Further enhancements have been made to ensure more incisive monitoring of exposure to interest rate risk.

Following the significant progress that was made in 2016, the monitoring systems currently being used make it possible to produce, on a monthly basis, an analysis of the sensitivity of the economic value of equity to fluctuations in interest rates (Sensitivity Analysis) and similar measurements of the sensitivity of net interest income generated by the stock of income-earning assets and interest-bearing liabilities (Repricing Analysis), through the use of appropriate indicators.

The calculation methodologies for the above metrics envisage the inclusion, in the computation, of specific parameters to identify behavioural aspects relating to the persistence of volumes and the trend in interest rates applied: these include the «pre-payment» model, designed to estimate the exposure to risk deriving from the exercise by customers of their option to repay early the loans granted thereto (option risk).

In the first six months of the year, various updates and improvements were made to the existing systems, along with the alignment of processing processes and supporting IT architecture. Worthy of note, in particular, is the introduction of a more advanced model for the statistical treatment of «demand items» of the Bank and the adoption of a series of methodological expedients, which, in compliance with the Supervisory Authorities' guidelines, facilitate measurements of interest rate risk that are more in line with

operational logic and the characteristics of the Group's portfolio. As a consequence of these interventions, appropriate changes were made to periodical reports.

## **Liquidity risk**

Liquidity risk management has been methodical and continuous, having been conducted in a different manner for the operational (short term) and structural (medium to long term) liquidity positions, by means of measurements carried out for management and supervisory purposes.

The control is based on a vast range of risk indicators, which flag potential issues relating to the liquidity position of various maturity profiles linked to systemic or specific Group events.

In the half-year just ended, significant efforts have been dedicated to the assessment and verification of prospective sustainability, with a view to risk, of the funding plan, which is an integral part of strategic planning, and to the preparation and delivery to the Supervisor at the end of April, of the annual report on the findings of the internal liquidity adequacy assessment process (ILAAP).

The liquidity risk measurement system has been further strengthened by the introduction of new intraday liquidity monitoring indicators, with an update of the entire system of supervisory thresholds and with the enhancement of periodical reports.

The participation by the bank, having been invited by the ECB, in the system test known as an «SSM Liquidity Exercise» – that lasted five consecutive working days between the end of March and the beginning of April – required the processing and delivery of detailed daily data relating to exposure to liquidity risk, with the aim of checking the ability of an intermediary to monitor its liquidity position under adverse conditions.

## **Operational and IT risks**

The management of operational risks involves, on the one hand, identifying and recording the economic losses incurred as a result of risk events (Loss Data Collection) and, on the other, estimating the risks that the Group might face as part of its business operations (Risk Self Assessment).

The half-year just ended saw the full implementation of a new methodological approach, which had been developed in the previous year, for the quantification of the exposure to operational risk (Operational VaR). The quest for continuous refinements to the process for the identification and monitoring of operational risk has also made it possible to identify and make improvements to techniques for loss data collection that are no longer based on the timing of detection of risk events that generate losses, but on the date of the effective recognition of the losses. A general revision of periodical reports was made to take account of these changes.

With regard to prospective operational risk, the analysis involves

preparing specific qualitative questionnaires for subsequent completion by experts from the various operational units, with a view to interpreting their perceptions of the potential operational risks faced; this process, which is carried out annually, is also used to obtain useful suggestions about controls and mitigating action that can be taken.

Work has continued, with fruitful results, on the integration of the systems for the identification and management of IT risk within the operational risk monitoring framework.

Close attention continues to be paid to cyber risk, inclusive of in evolutionary terms: in fact, tools for the prevention of and defence from increasingly frequent attempted attacks and IT fraud perpetrated via ICT systems are continuously being strengthened.

### **Reputation and money laundering risk**

In the period just ended, refinements were made to the methodological approach for the identification and assessment of reputation risk. In relation thereto, preliminary activities are being conducted for the introduction of a new IT application to support the annual Risk Self Assessment process.

As regards the prevention of risks of money laundering and financing of terrorism, in line with what has become apparent since the entry into force of the Legislative Decree implementing European Union Directive 2015/849 relating to the prevention of use of the financial system for the recycling of income from criminal activities and for the financing of terrorism, in the first half of the year, further specific risk mitigation controls were implemented, with a particular focus on working relationships with politically exposed persons (PEPs). Moreover, a new procedural system will soon be completed that will be capable of targeting and tracking on a more timely basis the conduct of anti-money laundering and anti-terrorism controls needed in both the central and branch offices.

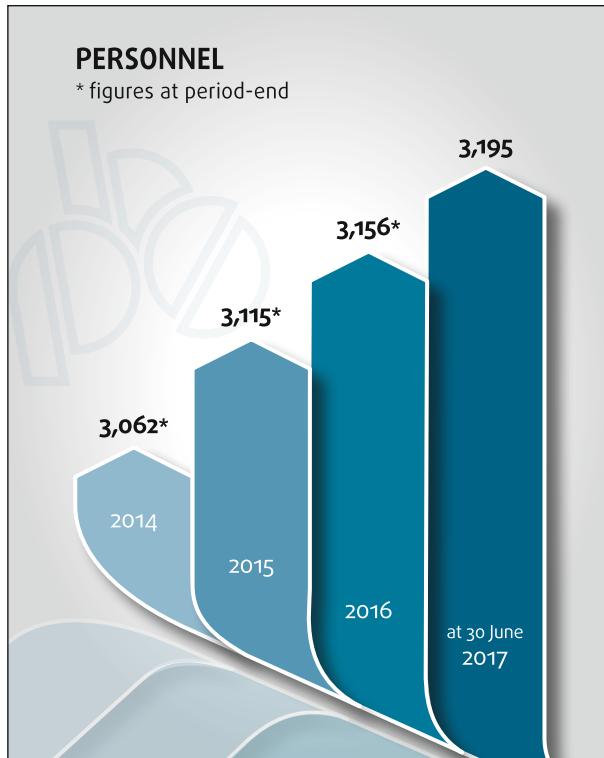
### **Regulatory non-compliance risk**

The half-year just ended saw the gradual implementation, with the coordination of the appropriate function, of an innovative operating model for the management of non-compliance risk that was introduced in the second half of 2016 (so-called «widespread compliance»).

The following matters were subjected to specific examination and controls, in terms of regulatory compliance of the corresponding business operations: insurance broking, custodian bank activities, outsourcing and measures to promote health and safety in the workplace that were generally well-received and that met with constructive collaboration by the structures involved in the checks.

It is planned to make specific assessments of further key operational areas by the end of the year. Updates are being made to tax compliance activities as part of first and second level processes and controls.





## HUMAN RESOURCES

At the end of the period, the Banking Group's workforce consisted of 3,167 people, of whom 2,682 are employed by the Parent Company, 314 by Banca Popolare di Sondrio (SUISSE) SA and 171 by Factorit spa. The total number of employees has increased by 14 (+0.44%) compared with 31 December and by 43 (+1.38%) compared with 30 June 2016. A significant figure, especially in light of the general trend in the sector, which tends to be in the opposite direction.

At 30 June 2017, 70.16% of the Banking Group's staff operated in the distribution network with the rest employed at the central offices of the respective companies.

The average age was 41 years and 2 months, with an average period of service of 15 years and 5 months.

In addition to the Banking Group's staff, there is also the personnel of the subsidiary

Pirovano Stelvio spa: 28 people at 30 June 2017, 25 of whom are employed seasonally.

## PROMOTIONAL AND CULTURAL ACTIVITIES

The Group has taken all necessary steps to raise awareness among the general public as to who we are, what we are capable of offering and at what conditions, taking account of our status as a cooperative bank and the fact that the interests of the Bank have to meet and satisfy the interests of the customer.

A pleasant 2017 wall calendar was issued by the Parent Company, with attractive landscape images, mainly of mountain views, and with a written introduction entitled «From the Alps to Europe – Banca Popolare di Sondrio from 1871 until now», which covered the history of the Bank since 4 March 1871, the date of its foundation.

The Company newsletter, an elegant four-monthly publication with approximately one hundred thousand readers, will also feature articles by prestigious contributors in the first issue of 2017, such as Carlo Cottarelli, executive director of the International Monetary Fund, with the text of the conference held at the Parent Company in Sondrio on 3 February 2017 entitled «The rock. Why the public debt crushes us and what needs to be done to free oneself». Sufficient space has been reserved in the same issue for a monograph on the 17th century architect Francesco Borromini, whose great baroque work enriches Rome's finest artistic heritage. This is the monograph

that embellished the 2016 annual report of the subsidiary «SUISSE».

The Parent Company's 2016 annual report includes an insert on the works of the 20th century Bergamasque painter Paolo Punzo that form part of our proprietary art collection that may be viewed online on the corporate website. The paintings were put on display inside the Pentagono in Bormio on the occasion of the Shareholders' Meeting of 29 April. An exhibition is being held in July and August at the Bank's Via Roma branch in Bormio entitled «From the mountains to the urban landscapes» with works by the same painter.

On the occasion of the annual meeting held in April, the members in attendance were presented with a book entitled «Food, History and Recipes», a publication that recalls food in times gone by in the province of Sondrio, whose characteristic dishes, which were intensely flavoured and had ancient aromas, bear witness to the simplicity and frugality of people back then.

In the first half of the year, the subsidiary Pirovano Stelvio Spa promoted several sporting and other initiatives, with the usual successful participation by athletes, supporters and holidaymakers. Worthy of note was the active collaboration towards the success of the «Re Stelvio Mapei 2017» event held on 9 July, which has been repeated over the years and attracts thousands to the province of Sondrio.

The library owned by Luigi Credaro received a donation from the Italian Banking Association of 19 thousand volumes. They include a significant number of important national and international publications, mainly covering scientific, economic and banking issues. We are proud of the fact that they thought of us as recipients of the hefty donation.

Another significant donation was that made by the family members of the much missed Sandro Sozzani, Valtellina politician, wise administrator of public affairs and well liked mayor of Sondalo over a number of mandates. The substantial documentation covers the activities carried out in the period 2003–2012 by IAPS – Intergruppo Acque Provincia di Sondrio, being activities that scrupulously focused on the correct use of local water resources.

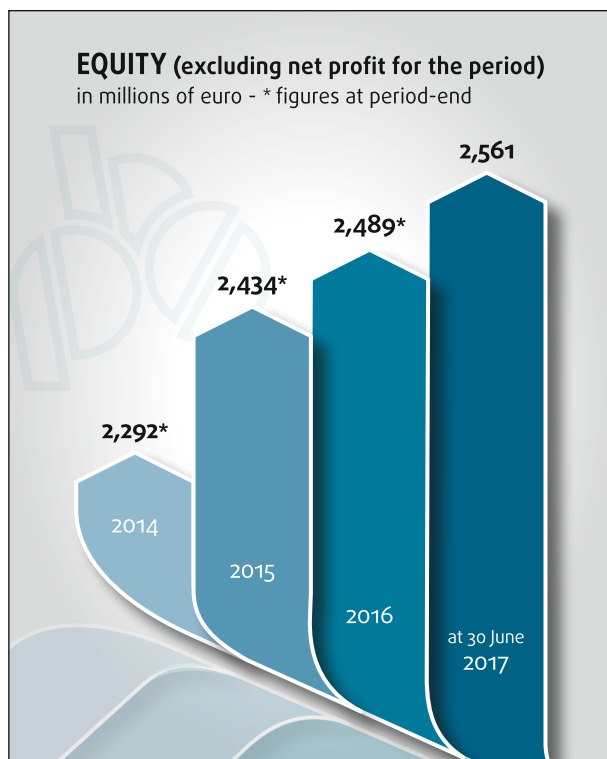
In June, the Luigi Credaro library purchased a number of valuable old books, dating back to the seventeenth to nineteenth century, attractive both for their uniqueness, given that they are impossible to find in the other libraries in the province of Sondrio, as well as the interesting topics addressed concerning our territories.

It is hoped that there will never be a lack of desire and that it will be possible to continue our commitment to culture with the same enthusiasm there has always been, thus meeting expectations.

## EQUITY

Consolidated shareholders' equity at 30 June 2017, inclusive of valuation reserves and the profit for the period, amounts to 2,617.287 million, +1.14%.

The Parent Company's share capital, which consists of 453,385,777



ordinary shares with a par value of 3 euro, amounts to 1,360.157 million, unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million, whereas the line item Treasury Shares rose slightly to 25.375 million.

The line item reserves rose to 1,100.372 million, +6.48%, due to the allocation of a significant portion of the 2016 profit for the year. The Ordinary Shareholders' Meeting of 29 April 2017 approved the distribution of a dividend of 0.06 euro for each of the 453,385,777 shares outstanding at 31 December 2016.

The valuation reserves, representing the net unrealised gains and losses recorded on AFS financial assets and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a net positive balance of 46.796 million, + 11.61% from the

positive balance of 41.927 million reported at the end of 2016.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force as implemented by Regulation (EU) no. 575/2013 (CRR) and by EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios that, when fully implemented (January 2019), will be 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio. These coefficients are lower in 2017 and 2018, during the transition phase. Using the information gathered during the prudential review and assessment process, the ECB has the authority to set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the Parent Company was informed in December of the decision made by the Supervisory Board regarding the new minimum coefficients applicable from 1 January 2017 for the current year. The new minimum capital ratios to be met by the Banking group are indicated below:

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

While the first two items of each index are indicated by prudential

regulations and are identical for all banks within the same country, the third item is quantified by the ECB on the basis of the individual intermediary's actual degree of risk.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the Group's capital, is added to the two ratios this year. This parameter is confidential, by contrast with the two minimum requirements, and - based on guidelines issued by the ECB - is not deemed relevant for the determination of distributable dividends.

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,141 million at 30 June 2017. Risk-weighted assets totalled 23,513 million. Set out below are the Group's adequacy requirements at 30 June 2017 and the minimum requirements for the current year:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	11.11%	7.25%
Tier 1 Capital Ratio	11.14%	7.25%*
Total Capital Ratio	13.36%	10.75%*

\* Minimum requirements.

The leverage ratio at 30 June 2017 came to 5.84%, applying the Phased In transitional criteria in force for 2017 and 5.82% based on the Fully Phased criteria.

The Texas ratio is 88.36%.

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2016:

– *capital/direct funding from customers*

8.80% v. 8.37%

– *capital/customer loans*

10.18% v. 10.22%

– *capital/financial assets*

22.62% v. 32.85%

– *capital/total assets*

6.45% v. 6.96%

– *net non-performing loans/capital*

28.98% v. 29.67%

## BPS STOCK

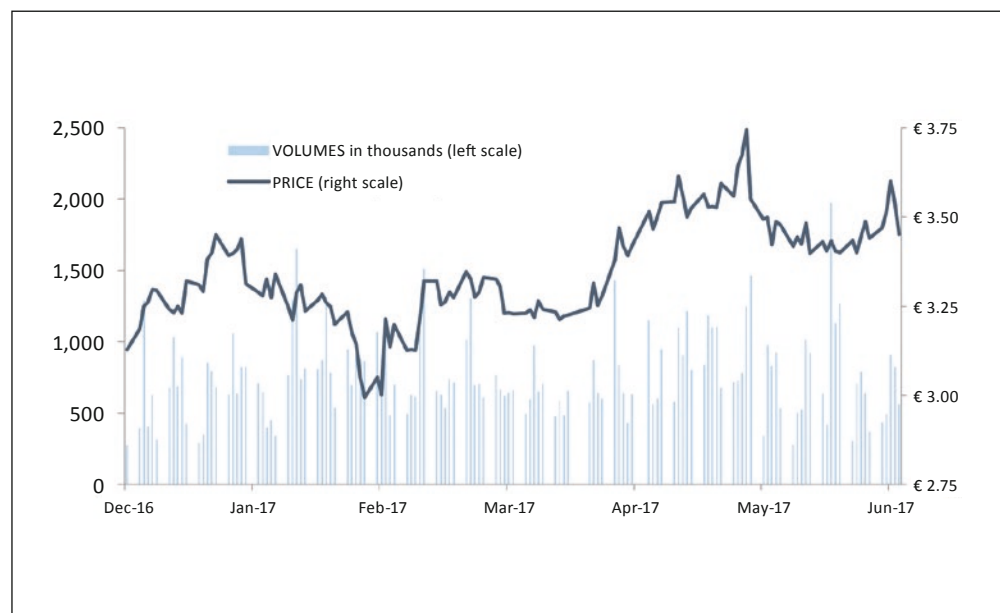
BPS stock, which is listed on the Screen-traded Market (MTA) operated by Borsa Italiana, a component of the FTSE Italia All Share Index, closed the first half of 2017 up 10.36%, with a stock price at 30 June 2017 of 3.452 euro versus 3.128 euro at the end of 2016. The FTSE Italia

All Share and FTSE Italy All Banks indices rose in the half-year by 8.64% and 17.01%, respectively. As the following chart shows, the price trends reflect the improvement in confidence in the market and, in particular, in the financial sector, for which the trend has been positive following the recent resolution of the issues concerning the Veneto banks. The volume of securities traded on the MTA was lower than in the first half of 2016, falling from about 136 million to 98 million shares, with a reduction in the average daily volume from 1.06 to 0.76 million shares. The shareholder base at 30 June 2017 consisted of 177,091 shareholders, being a decrease of 5,706 in the first half of 2017.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent Company holds 3,650,000 treasury shares with a carrying amount of 25.322 million, which is unchanged since the end of 2016. There are also 15,609 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies.

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

### BPS stock - MTA segment



## RATINGS

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

These ratings refer to the date of update of the assessments by Dagong Europe Credit Rating on 16 February 2017 and to the periodic review by Fitch Ratings on 20 June 2017. Fitch's assessment differs from its previous one due to a downward revision of the long term outlook (previously BBB), which reflected the downgrade assigned to Italy and the improvement of the outlook from negative to stable.

### FITCH RATINGS – issued on 20 June 2017

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

### DAGONG EUROPE CREDIT RATING – issued on 16 February 2017

	RATING
<b>LONG - TERM</b>	
It is a measure of the probability of default and reflects the bank's ability to meet its financial obligations. It is expressed on a scale from AAA to D, for a total of 10 levels.	<b>BBB</b>
<b>SHORT - TERM</b>	
It measures the ability of the organisation to which the rating is assigned to meet payments due in the short-term. The scale includes six levels (A-1, A-2, A-3, B, C and D).	<b>A-3</b>





## INDIVIDUAL FINANCIAL STRENGTH ASSESSMENT

It aims to assess what the bank's situation would be if it were completely independent and could not rely on external support. It is expressed on a scale from aaa to d, for a total of 10 levels. **bbb**

## OUTLOOK

It is a prospective evaluation regarding possible changes in the long-term rating over a period of 1-2 years. It can be «positive», «stable» or «negative». **Stable**

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

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

	Equity	of which: Profit for the period
Equity of the Parent Company as of 30.6.2017	2,355,946	42,629
Consolidation adjustments	(10,557)	(10,557)
Difference with respect to carrying values of equity investments in:		
- companies consolidated on a line-by-line basis	240,526	16,515
- companies valued using the equity method	31,372	7,745
<b>Balance as of 30.6.2017, as reported in the consolidated financial statements</b>	<b>2,617,287</b>	<b>56,332</b>

## INCOME STATEMENT

The gradual consolidation of the upturn in the economic cycle and the positive tone of the financial markets have characterised the first six months of the year, during which the Group has achieved satisfactory results, notwithstanding the fact that earnings have been heavily impacted by costs linked to the stabilisation of the Italian banking system. Specifically, the units held by the Parent Company in Fondo Atlante have been subjected to a significant write-down.

Despite the foregoing, profit reported for the period ended 30 June 2017 came to 56.332 million, up by 21.41% on that for the comparative period of 46.398 million.

Net interest income fell from 246.984 to 238.819 million, -3.31%, with the interest spread still on the decline. The reduction in the cost of funding was not sufficient to cope with the drop in lending rates: those charged to customers are on all-time lows, while they are even negative for those on government bonds and interbank deposits with short maturities. These are the effects of the continued highly expansionary monetary policy aimed at supporting the economic cycle and of the still reduced propensity to invest by businesses.

Net fee and commission income has risen from 143.190 million to 148.378 million, +3.62%. The increase benefited from the trend of commissions earned on securities and financial products.

Dividends collected amounted to 4.561 million, compared with 5.969 million, -23.59%.

Income from financial activities, including that from the securities portfolio, foreign exchange and derivatives, rose significantly to 50.979 million, +136.08%. This was due to a sizeable reduction in the negative difference between capital gains and capital losses that characterised the comparative period.

Among the financial activities, the net trading income associated with the HFT portfolio was positive for 31.506 million compared with the negative amount of 19.954 million in the comparative period. The causes included a marked improvement in trading income, in income from foreign exchange activities and, above all, a sharp drop in losses on securities compared to the first six months of 2016.

The contribution made by available-for-sale financial assets, held-to-maturity investments and financial liabilities amounted to 13.814 million, compared with 44.931 million, reflecting the disposal of AFS securities.

The result of financial assets carried at fair value was positive by 5.674 million compared with a loss of 4.093 million. Net hedging losses came to 0.015 million, compared with net hedging gains of 0.710 million in the comparative period.

As a result, total income rose to 442.737 million, +5.98%. Within this aggregate, the weighting of net interest income was 53.94% compared with 59.12%.

The ongoing economic recovery has contributed to an improvement in asset quality and a further deceleration in the trend of impaired loans. The foregoing has benefited the income statement, which, despite the extreme rigour with which the Group has continued to evaluate loans and receivables with customers, reflects a lower level of adjustments.

Net adjustments to loans, available-for-sale financial assets, held-to-maturity investments and other financial transactions came to 124.167 million, slightly down with respect to 125.417 million in the comparative period, with very different dynamics for the components thereof. The loans element has fallen from 123.856 million to 93.895 million, -24.19%. This has benefited from improved economic conditions, as well as a refinement of the process for the granting and management of loans.

The ratio of net adjustments to customer loans/total customer loans - the so-called annualised cost of credit - again showed a significant improvement, coming to 0.74% compared with 1% at 30 June 2016, and 0.99 % at the end of 2016.

Adjustments to available-for-sale financial assets, which amounted to 2.273 million in the comparative period, rose to 29.900 million, of which: 26.022 related to the write-down of the units held by the Parent Company in Fondo Atlante as a consequence of the liquidation of Banca Popolare di Vicenza and Veneto Banca, almost all of the shares of which had been held





by Fondo Atlante; 1.194 related to the voluntary action by the IDPF in favour of Cassa di Risparmio di Cesena; the remainder related to unlisted shares and various real estate funds.

Adjustments to other financial transactions, which in the comparative period amounted to income of 0.712 million due to the release of prior year provisions and allocations to provisions in the period for impairment losses on endorsement loans, amounted to a loss of 0.372 million.

Net financial income was therefore 318.570 million, compared with 292.320 million, +8.98%.

Operating costs amounted to 239.456 million, compared with 234.254 million, +2.22%. The incidence of operating costs on total income, the «cost/income ratio», has risen to 54.09% from 56.08% in the comparative period and 55.31% at the end of 2016.

Considering the individual components, administrative expenses, for which we proceeded to a reclassification regarding the allocation of the income

## SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	30/06/2017	30/06/2016	(+/-)	% change
Net interest income	238,819	246,984	-8,165	-3.31
Dividends	4,561	5,969	-1,408	-23.59
Net fee and commission income	148,378	143,190	5,188	3.62
Results of financial activities	50,979	21,594	29,385	136.08
<b>Total income</b>	<b>442,737</b>	<b>417,737</b>	<b>25,000</b>	<b>5.98</b>
Net adjustments to loans and financial assets	-124,167	-125,417	1,250	-1.00
<b>Net financial income</b>	<b>318,570</b>	<b>292,320</b>	<b>26,250</b>	<b>8.98</b>
Personnel costs	-116,966	-114,668	-2,298	2.00
Other administrative expenses	-139,464	-137,465	-1,999	1.45
Other operating income/expense	32,085	34,579	-2,494	-7.21
Net accruals to provisions for risks and charges	676	-1,575	2,251	-142.92
Adjustments to property, equipment and investment property and intangible assets	-15,787	-15,125	-662	4.38
<b>Operating costs</b>	<b>-239,456</b>	<b>-234,254</b>	<b>-5,202</b>	<b>2.22</b>
<b>Operating profit (loss)</b>	<b>79,114</b>	<b>58,066</b>	<b>21,048</b>	<b>36.25</b>
Net gains (losses) on equity investments and other investments	7,577	6,470	1,107	17.11
<b>Profit (loss) before tax</b>	<b>86,691</b>	<b>64,536</b>	<b>22,155</b>	<b>34.33</b>
Income taxes	-25,930	-16,777	-9,153	54.56
<b>Profit (loss)</b>	<b>60,761</b>	<b>47,759</b>	<b>13,002</b>	<b>27.22</b>
Profit pertaining to minority interests	-4,429	-1,361	-3,068	225.42
<b>Profit pertaining to the Parent Bank</b>	<b>56,332</b>	<b>46,398</b>	<b>9,934</b>	<b>21.41</b>

**Notes:** The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement.

The allocation of revenues from investments in Pension and similar obligations has been reclassified from «Personnel costs» to «Other operating income/expense».

of the pension fund, amounted to 256.430 million, +1.70%, and consist of personnel expenses, +2%, 116.966 million, and other administrative expenses, which rose by 1.45% to 139.464 million. These include the ordinary contribution of 10.991 million to the Resolution Fund provided for the entire current year and an estimate of 3.000 million for the contribution to the Interbank Deposit Protection Fund; the recurring increases in consulting fees, as well as IT costs relating to constantly changing regulations also had an impact.

Net movements on provisions for risks and charges amounted to income of 0.676 million arising from the difference between releases and provisions, compared with an allocation to provisions of 1.575 million in the comparative period.

The depreciation of property, equipment and investment property and amortisation of software amounted to 15.787 million, +4.38%.

Other operating income, net of other operating expenses, totalled 32.085 million, -7.21%. Profits (losses) from equity investments and other investments amounted to 7.577 million, +17.11%.

Profit before income taxes totalled 86.691 million, +34.33%. After deducting income taxes of 25.930 million, +54.56%, and the non-controlling interest of 4.429 million, the profit attributable to the shareholders of the Parent Company amounted to 56.332 million, +21.41%, compared with 46.398 million in the prior period.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 29.91% compared with 26% in the comparative period.

## **SIGNIFICANT SUBSEQUENT EVENTS**

No significant events have taken place since 30 June 2017.

## **OUTLOOK**

Economic recovery appears to be consolidating, both in the Eurozone and in Italy. This has been acknowledged by the research institutes, which have tended to improve their forecasts for the current year.

As for our Banking Group, there is a legitimate expectation that the above dynamics of the general economic situation may favour the tendency towards an improvement in asset quality, resulting in a containment of the related provisions.

With interest rates at historically low levels, net interest income is still under pressure.

Overall, for the second half of the year, we can reasonably expect a continued improvement in profitability, barring external events that are not foreseeable at present.

*Sondrio, 9 August 2017*

THE BOARD OF DIRECTORS



**CONDENSED CONSOLIDATED  
INTERIM REPORT FOR THE  
PERIOD ENDED 30 JUNE 2017**



# CONSOLIDATED BALANCE SHEET

(in thousands of euro)

ASSET ITEMS	30-06-2017	31-12-2016
10. CASH AND CASH EQUIVALENTS	740,445	789,612
20. FINANCIAL ASSETS HELD FOR TRADING	857,253	1,019,712
30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	103,518	96,303
40. AVAILABLE-FOR-SALE FINANCIAL ASSETS	10,515,090	6,644,437
50. HELD-TO-MATURITY INVESTMENTS	94,393	117,023
60. LOANS AND RECEIVABLES WITH BANKS	1,214,862	1,786,732
70. LOANS AND RECEIVABLES WITH CUSTOMERS	25,711,942	25,313,464
80. HEDGING DERIVATIVES	2	-
100. EQUITY INVESTMENTS	207,926	208,575
120. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	326,163	320,922
130. INTANGIBLE ASSETS	26,158	23,869
of which:		
- goodwill	7,847	7,847
140. TAX ASSETS	411,021	484,698
a) current	9,963	73,251
b) deferred	401,058	411,447
b1) of which as per Law 214/2011	345,409	360,592
160. OTHER ASSETS	372,311	390,978
<b>TOTAL ASSETS</b>	<b>40,581,084</b>	<b>37,196,325</b>

THE CHAIRMAN  
Francesco Venosta

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

EQUITY AND LIABILITY ITEMS		30-06-2017	31-12-2016
10.	DUE TO BANKS	6,321,933	2,504,510
20.	DUE TO CUSTOMERS	26,748,888	27,702,353
30.	SECURITIES ISSUED	2,991,347	3,231,782
40.	FINANCIAL LIABILITIES HELD FOR TRADING	62,810	73,016
60.	HEDGING DERIVATIVES	30,081	38,734
80.	TAX LIABILITIES	44,014	45,636
	a) current	1,830	2,963
	b) deferred	42,184	42,673
100.	OTHER LIABILITIES	1,457,230	701,529
110.	POST-EMPLOYMENT BENEFITS	43,174	44,805
120.	PROVISIONS FOR RISKS AND CHARGES:	175,233	181,552
	a) pension and similar obligations	135,318	130,874
	b) other provisions	39,915	50,678
140.	VALUATION RESERVES	46,796	41,927
170.	RESERVES	1,100,372	1,033,417
180.	SHARE PREMIUM RESERVE	79,005	79,005
190.	SHARE CAPITAL	1,360,157	1,360,157
200.	TREASURY SHARES (-)	(25,375)	(25,349)
210.	MINORITY INTERESTS	89,087	84,652
220.	PROFIT (LOSS) FOR THE PERIOD (+/-)	56,332	98,599
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>40,581,084</b>	<b>37,196,325</b>

THE MANAGING DIRECTOR AND GENERAL MANAGER  
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER  
Maurizio Bertoletti



# CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

VOCI		30-06-2017	30-06-2016
10.	INTEREST AND SIMILAR INCOME	309,791	341,988
20.	INTEREST AND SIMILAR EXPENSE	(70,972)	(95,004)
30.	<b>NET INTEREST INCOME</b>	<b>238,819</b>	<b>246,984</b>
40.	FEE AND COMMISSION INCOME	157,703	152,445
50.	FEE AND COMMISSION EXPENSE	(9,325)	(9,255)
60.	<b>NET FEE AND COMMISSION INCOME</b>	<b>148,378</b>	<b>143,190</b>
70.	DIVIDENDS AND SIMILAR INCOME	4,561	5,969
80.	NET TRADING INCOME	31,506	(19,954)
90.	NET HEDGING GAINS (LOSSES)	(15)	710
100.	GAINS (LOSSES) FROM SALES OR REPURCHASES OF:	13,814	44,931
	b) available-for-sale financial assets	13,866	45,442
	d) financial liabilities	(52)	(511)
110.	NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	5,674	(4,093)
120.	<b>TOTAL INCOME</b>	<b>442,737</b>	<b>417,737</b>
130.	NET IMPAIRMENT LOSSES ON:	(124,167)	(125,417)
	a) loans and receivables	(93,895)	(123,856)
	b) available-for-sale financial assets	(29,900)	(2,273)
	d) other financial transactions	(372)	712
140.	<b>NET FINANCIAL INCOME</b>	<b>318,570</b>	<b>292,320</b>
170.	<b>BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT</b>	<b>318,570</b>	<b>292,320</b>
180.	ADMINISTRATIVE EXPENSES:	(262,267)	(252,981)
	a) personnel expenses	(122,803)	(115,516)
	b) other administrative expenses	(139,464)	(137,465)
190.	NET PROVISIONS FOR RISKS AND CHARGES	676	(1,575)
200.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(8,979)	(8,917)
210.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	(6,808)	(6,208)
220.	OTHER OPERATING CHARGES/INCOME	37,922	35,427
230.	<b>OPERATING COSTS</b>	<b>(239,456)</b>	<b>(234,254)</b>
240.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS	7,577	6,275
250.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS	(5)	160
270.	NET GAINS ON SALES OF INVESTMENTS	5	35
280.	<b>PRE-TAX PROFIT FROM CONTINUING OPERATIONS</b>	<b>86,691</b>	<b>64,536</b>
290.	INCOME TAXES	(25,930)	(16,777)
300.	<b>POST-TAX PROFIT FROM CONTINUING OPERATIONS</b>	<b>60,761</b>	<b>47,759</b>
320.	<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>60,761</b>	<b>47,759</b>
330.	PROFIT (LOSS) FOR THE PERIOD OF MINORITY INTERESTS	(4,429)	(1,361)
340.	<b>PROFIT (LOSS) FOR THE PERIOD OF THE PARENT BANK</b>	<b>56,332</b>	<b>46,398</b>

## STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items	30/06/2017	30/06/2016
10. <b>Profit for the period</b>	<b>60,761</b>	<b>47,759</b>
<b>Other income items net of income taxes that will not be reclassified to profit or loss</b>		
40. Defined-benefit plans	1,322	(9,977)
60. Share of valuation reserves of equity investments valued at net equity	2	118
<b>Other income items net of income taxes that may be reclassified subsequently to profit or loss</b>		
100. Available-for-sale financial assets	4,528	(21,010)
120. Share of valuation reserves of equity investments valued at net equity	(977)	506
130. <b>Total other income items net of income taxes</b>	<b>4,875</b>	<b>(30,363)</b>
140. <b>Comprehensive income (Item 10+130)</b>	<b>65,636</b>	<b>17,396</b>
150. Consolidated comprehensive income pertaining to minority interests	(4,435)	(1,304)
160. <b>Consolidated comprehensive income pertaining to the Parent Bank</b>	<b>61,201</b>	<b>16,092</b>





## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2016	Change in opening balances	Opening balance at 1.1.2017	Allocation of prior year results		Changes in reserves	Issue of new shares
				Reserves	Dividends and other allocations		
<b>Share capital</b>							
a) ordinary shares	1,393,736	-	1,393,736	-	-	-	-
c) other shares	-	-	-	-	-	-	-
<b>Share premium reserve</b>	<b>83,363</b>	-	<b>83,363</b>	-	-	-	-
<b>Reserves</b>							
a) from earnings	1,073,800	-	1,073,800	72,791	-	(4,560)	-
c) other	5,186	-	5,186	-	-	-	-
<b>Valuation reserves</b>	<b>41,797</b>	-	<b>41,797</b>	-	-	-	-
<b>Equity instruments</b>							
<b>Treasury shares</b>	<b>(25,349)</b>	-	<b>(25,349)</b>	-	-	-	-
<b>Profit for the period</b>	<b>99,875</b>	-	<b>99,875</b>	<b>(72,791)</b>	<b>(27,084)</b>	-	-
<b>Equity attributable to the group</b>	<b>2,587,756</b>	-	<b>2,587,756</b>	-	<b>(27,084)</b>	<b>(4,560)</b>	-
<b>Equity attributable to minority interests</b>	<b>84,652</b>	-	<b>84,652</b>	-	-	-	-

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2015	Change in opening balances	Opening balance at 1.1.2016	Allocation of prior year results		Changes in reserves	Issue of new shares
				Reserves	Dividends and other allocations		
<b>Share capital</b>							
a) ordinary shares	1,393,736	-	1,393,736	-	-	-	-
c) other shares	-	-	-	-	-	-	-
<b>Share premium reserve</b>	<b>83,363</b>	-	<b>83,363</b>	-	-	-	-
<b>Reserves</b>							
a) from earnings	965,679	-	965,679	102,696	-	(6)	-
c) other	5,186	-	5,186	-	-	-	-
<b>Valuation reserves</b>	<b>89,310</b>	-	<b>89,310</b>	-	-	-	-
<b>Equity instruments</b>	-	-	-	-	-	-	-
<b>Treasury shares</b>	<b>(25,322)</b>	-	<b>(25,322)</b>	-	-	-	-
<b>Profit for the period</b>	<b>137,500</b>	-	<b>137,500</b>	<b>(102,696)</b>	<b>(34,804)</b>	-	-
<b>Equity attributable to the group</b>	<b>2,562,829</b>	-	<b>2,562,829</b>	-	<b>(31,581)</b>	<b>(6)</b>	-
<b>Equity attributable to minority interests</b>	<b>86,623</b>	-	<b>86,623</b>	-	<b>(3,223)</b>	-	-

Changes during the period

Equity transactions							Comprehensive income	Equity attributable to the group at 30.06.2017	Equity pertaining to minority interests at 30.06.2017
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held				
-	-	-	-	-	-	-	1,360,157	33,579	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	79,005	4,358	
-	-	-	-	-	-	-	1,097,143	44,888	
-	-	-	-	-	-	-	3,229	1,957	
-	-	-	-	-	-	-	4,875	(124)	
(26)	-	-	-	-	-	-	(25,375)	-	
-	-	-	-	-	-	-	60,761	4,429	
(26)	-	-	-	-	-	-	61,201	2,617,287	
-	-	-	-	-	-	-	4,435	89,087	

Changes during the period

Equity transactions							Comprehensive income	Equity attributable to the group at 30.06.2016	Equity pertaining to minority interests at 30.06.2016
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held				
-	-	-	-	-	-	-	1,360,157	33,579	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	79,005	4,358	
-	-	-	-	-	-	-	1,024,757	43,612	
-	-	-	-	-	-	-	3,229	1,957	
-	-	-	-	-	-	-	(30,363)	(163)	
-	-	-	-	-	-	-	-	-	
(27)	-	-	-	-	-	-	(25,349)	-	
-	-	-	-	-	-	-	47,759	1,361	
(27)	-	-	-	-	-	-	16,092	2,547,307	
-	-	-	-	-	-	-	1,304	84,704	



## CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

	30-06-2017	30-06-2016
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Cash generated from operations</b>	<b>196,332</b>	<b>252,559</b>
- profit for the year (+/-)	56,332	46,398
- gains/losses on financial assets held for trading and financial assets/liabilities carried at fair value (-/+)	(1,374)	43,000
- net hedging gains (losses) (-/+)	15	(710)
- net impairment losses (+/-)	137,145	134,267
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	15,787	15,125
- provisions for risks and charges and other costs/revenues (+/-)	12,518	17,649
- unpaid taxes and duties (+)	25,930	16,777
- net impairment adjustments to assets held for sale, net of tax effect (+/-)	-	-
- other adjustments (+/-)	(50,021)	(19,947)
<b>2. Cash generated/absorbed by financial assets</b>	<b>(3,593,313)</b>	<b>(332,223)</b>
- financial assets held for trading	172,431	264,813
- financial assets at fair value through profit or loss	(6,660)	-
- available-for-sale financial assets	(3,894,694)	(39,947)
- loans and receivables with banks: sight	17,773	98,758
- loans and receivables with banks: other receivables	547,588	188,109
- loans and receivables with customers	(482,812)	(850,137)
- other assets	53,061	6,181
<b>3. Cash generated/absorbed by financial liabilities</b>	<b>3,379,633</b>	<b>84,730</b>
- due to banks: sight	82,206	178,415
- due to banks: other payables	3,758,767	(48,168)
- due to customers	(923,051)	(699,319)
- securities issued	(241,966)	314,875
- financial liabilities held for trading	(26,415)	19,999
- financial liabilities carried at fair value	-	-
- other liabilities	730,092	318,928
<b>Net cash generated/absorbed by operating activities</b>	<b>(17,348)</b>	<b>5,066</b>

	30-06-2017	30-06-2016
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash generated by</b>	<b>50,212</b>	<b>33,240</b>
- sales of equity investments	-	-
- dividends collected from equity investments	8,670	5,770
- sales and reimbursements of held-to-maturity investments	39,085	27,453
- sale of property, equipment and investment property	2,457	17
- sale of intangible assets	-	-
- sale of business divisions	-	-
<b>2. Cash absorbed by</b>	<b>(42,599)</b>	<b>(20,970)</b>
- purchases of equity investments	-	-
- purchases of held-to-maturity investments	(16,455)	(7,686)
- purchases of property, equipment and investment property	(17,030)	(5,181)
- purchases of intangible assets	(9,114)	(8,103)
- purchases of business divisions	-	-
<b>Net cash generated/absorbed by investing activities</b>	<b>7,613</b>	<b>12,270</b>
<b>C. FINANCING ACTIVITIES</b>		
- issues/purchases of treasury shares	(26)	(27)
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	(26,984)	(34,705)
<b>Net cash generated/absorbed by financing activities</b>	<b>(27,010)</b>	<b>(34,732)</b>
<b>TOTAL NET CASH GENERATED/ABSORBED IN THE PERIOD</b>	<b>(36,745)</b>	<b>(17,396)</b>

Key:

(+) generated (-) absorbed

## RECONCILIATION

Line items	30-06-2017	30-06-2016
Cash and cash equivalents at beginning of period	789,612	766,097
Total net cash generated/absorbed in the period	(36,745)	(17,396)
Cash and cash equivalents: effect of change in exchange rates	(12,422)	(2,209)
<b>Cash and cash equivalents at end of period</b>	<b>740,445</b>	<b>746,492</b>



## EXPLANATORY NOTES

### ***Form and content of the report on the first half of 2017***

The consolidated interim report for the first half 2017 has been prepared in accordance with art. 154-ter of Legislative Decree 58 of 24 February 1998 «Consolidated Law on financial intermediation under arts. 8 and 21 of law 52 of 6/2/1996» and the provisions issued by Consob. Account has also been taken of the instructions issued by Consob with resolutions 15520 of 27/7/2006 and Communication DEM/6064293 of 28/7/2006 and Communication DEM/11070007 of 5/8/2011.

The consolidated interim report at 30 June 2017 has been prepared in accordance with IAS 34 and comprises:

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

### ***General information***

#### ***Declaration of compliance with International Financial Reporting Standards***

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

#### ***Basis of preparation***

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

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



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

- 4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
- 5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
- 6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or its interpretation. Explanatory and descriptive information is included when this helps to provide a better understanding of the consolidated financial statements.

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

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

### ***Scope and methods of consolidation***

The consolidated interim report presents the economic and financial position at 30 June 2017 of the Banca Popolare di Sondrio banking group, which comprises the Parent Company, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.a., Sinergia Seconda, Popso Covered Bond S.r.l. and the entities that are controlled by the Group pursuant to IFRS 10.

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

Name	Location	Type of relationship <sup>(1)</sup>	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 180,000	100	100
Factorit S.p.a.	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	1	60,000	100	100
Pirovano Stelvio S.p.a. **	Sondrio	1	2,064	100	100
Immobiliare San Paolo S.r.l. **	Tirano	1	10 *	100	100
Immobiliare Borgo Palazzo S.r.l.**	Tirano	1	10 *	100	100
Popso Covered Bond srl	Conegliano V.	1	10	60	60

<sup>(1)</sup> 1 = majority of voting rights at ordinary shareholders' meeting

4 = other form of control

\* held by Sinergia Seconda S.r.l.

\*\* equity investments not included in the banking group

In addition, Fondo Immobiliare Centro delle Alpi Real Estate, which is 100% held by the Parent Company, has been consolidated. As defined by IFRS 10, control exists when the investor is exposed, or has rights, to variable returns from its involvement with the

investee and has the ability to affect those returns through its power over the investee. Control may therefore be obtained in various ways, including via exposure to risks and rewards, and not just as a consequence of the power to influence financial and operating policies.

The joint venture shown below is valued at equity:

Name	Location	Type of relationship <sup>(1)</sup>	Share capital (in thousands)	% held	% of votes
Rajna Immobiliare S.r.l.	Sondrio	7	20	50	50

<sup>(1)</sup> 7 = joint control.

The scope of consolidation also includes the equity investments where the Parent Company exercises a significant influence in that the shareholding is between 20% and 50%; or, if it has an interest of less than 20%, if one or more of the following circumstances apply:

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

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

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

The ownership percentages are specified in the following table:

Name	Location	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Banca della Nuova Terra S.p.a.	Milan	31,315	19.609
Arca Holding S.p.a.	Milan	50,000	21.137
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi Srgpa	Milan	5,200	19.600
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milan	75	33.333
Bormio Golf S.p.a.	Bormio	631	25.237
Lago di Como Gal Scrl	Canzo	22	28.953
Sofipo S.A.	Lugano	(CHF) 2,000 *	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21 **	27.000
Sifas S.p.a.	Bolzano	1,209 **	21.614

\* held by Banca Popolare di Sondrio (SUISSE) SA

\*\* held by Pirovano Stelvio S.p.a.

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

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

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

The significant evaluations and assumptions adopted to establish the existence of control are also given in paragraph 7 «Equity Investments» in the «Part relating to the main line items in the financial statements» of these explanatory notes.

There are no restrictions concerning Group assets/liabilities referred to in paragraph 3 of IFRS 12.

### **Translation of financial statements in currencies other than the euro**

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

### ***Subsequent events***

No events have taken place between the reporting date of this consolidated interim report and its approval by the Board of Directors on 9/8/2017 that would require an adjustment to the approved information, and nothing of significance has occurred that would require additional disclosures.

### ***Other aspects***

The accounting policies applied during the period under review are substantially consistent with those of the year 2016.

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

Preparing the consolidated interim report requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, and the use of valuation models for identifying the fair value of instruments that are not listed on active markets. These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements; however, as allowed by IAS 34, this consolidated interim report does not include all of the information provided in an annual report.

The Parent Company and other Group companies have defined the estimation processes that support the carrying amounts of the more significant items recognised in the consolidated interim report at 30 June 2017, as required by the prevailing accounting standards and relevant regulations.

These processes are largely based on estimating the future recoverability of amounts

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

The outcome of this work supports the carrying amount of these items at 30 June 2017. It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context that have made it increasingly difficult to prepare even short-term forecasts for the financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the particularly uncertain macroeconomic and market environment which could, as in the past, experience rapid changes that are currently unforeseeable, with effects – even significant effects – on the amounts stated in the interim report at 30 June 2017.

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

### **IFRS 9: the new accounting standard on financial instruments**

On 24 July 2014 the IASB published the final version of IFRS 9 «Financial Instruments» to replace IAS 39, which currently governs the classification and measurement of financial instruments, from 1 January 2018.

IFRS 9 introduces important changes with regard to «classification and measurement of financial instruments,» «impairment» and «hedge accounting».

The new standard, approved by the European Commission on 22 November 2016 through registration in the Official Gazette (EU Regulation 2016/2067 of the Commission) will apply from 1 January 2018, also permitting early application as an alternative.

Among the effects of the global financial crisis, operators believed that the accounting rules had contributed to the acceleration and intensification of the crisis, particularly with regard to the delayed recognition of losses on loans and other financial assets. As a result, the IASB commenced a project in 2008 to replace IAS 39 in a number of stages. With regard to the above, the Group already found it necessary to take action in this matter in 2015, when it carried out a «gap analysis» to identify the possible effects of applying the new standard, both with regard to the classification and measurement of financial instruments, and in relation to the new impairment model for calculating adjustments to loans based on an «expected losses» approach (rather than the «incurred losses» approach required by IAS 39).

During 2016, the Group began projects to continue analysing the impact of introducing this accounting standard and to initiate the design phase of the target operating model.

Responsibility for coordinating the various project activities has been given jointly to Administration & General Accounting, Risk Control and Information Systems of the Parent Company. Project governance also includes the involvement of top management by means of Steering Committees that meet regularly to define the implementation guidelines. The control functions, such as the Validation and Internal Audit Departments, will also be involved on an ongoing basis.

Because of the numerous areas of impact on corporate processes, the risk measurement models and organisational structure, this initiative envisages two main «implementation projects» which, respectively, are responsible for the «classification and measurement» of financial instruments and for «impairment» (i.e. the measurement of expected losses). As regards the various activities involved in updating the system of hedge accounting, the Group has decided, in line with current practice and as foreseen by the new standard, to continue applying IAS 39.

As regards the classification and measurement of financial instruments, the Group has carried out the activities involving interpretation of the accounting standard, identification

of the business processes affected and the possible areas of impact. This has made it possible to identify a new structure for the accounting processes and to start designing the target model.

In light of the simulation work carried out in connection with the new accounting classification, led by the business model and by the contractual characteristics of the instruments' cash flows, no significant changes are expected in the composition of the portfolio on the basis of the accounting category. In detail, the bulk of the portfolio recorded at amortised cost will continue to be accounted for in this way, whereas, for a marginal portion of financial instruments (held to maturity and loans and receivables), a change in accounting treatment may be possible from amortised cost to fair value through profit and loss.

As for the activities relating to the impairment model, the scope of the Group's financial instruments that are subject to the new standard has been defined and we have started deciding on the methodologies to be used for estimating the risk parameters and carrying out the staging allocation. With a view to consistency in the risk measurement methods currently in use, the Group aims to develop models and methodologies for IFRS 9 purposes, enhancing - to the extent that this is appropriate - the practices and processes that are already being applied.

The initial choices of method have been made (e.g. lifetime probability of default, point-in-time based risk parameters, application of multiple macroeconomic scenarios) in order to determine the expected loss and the main criteria for allocating financial instruments to the various risk classes proposed by the legislation have been defined.

The choices made in relation to the classification, measurement and impairment of the Group's financial instruments have been the subject of quantitative simulations to determine the potential impacts adopting the standard.

The project to adapt to the new accounting standard requires an ongoing dialogue with the European Central Bank to keep them up to date on the progress that we are making on the project, as well as the approach that we have decided to take. These discussions will continue and become even more intense during 2017.

In the early months of 2017, steps were taken to identify what was needed for the implementation of the procedures necessary for compliance with IFRS 9. Work commenced in March 2017 on functional analysis and process design, with the identification of the related impact, that ended with the start of the implementation phase.

In order to test the target operating model, in line with the timing of the regulatory changes, parallel processing (to the current IAS 39 accounting framework) will start in the second half of 2017 on the accounting classification of financial instruments and measurement of impairment, based on IFRS 9.

### **IFRS 15 «Revenues from contracts with customers»**

IFRS 15, published on 28 May 2014, introduces a new model for the recognition of revenues deriving from contracts with customers, and replaces the current standards on the subject, being IAS 18, IAS 11 and the related interpretations. Entities are required to recognise revenues based on the remuneration expected from the products or services provided, which is calculated in five steps: identification of the contract, identification of the individual obligations arising under the contract, determination of the price of the transaction, allocation of the price to each of the individual obligations and recognition of the revenue when control over the product or service is transferred to the customer. This standard will apply from 1 January 2018. In 2015 the Group launched a project that continued during 2016, with a view to analysing the main contracts according to the new rules. A series of studies was carried out in 2017 in order to define the approach to the new standard and how to upgrade processes and systems. It is reasonable to expect that the economic impacts will not be significant. Checks are being performed of the impact and of the related operational interventions.

## ***Analysis of the principal captions contained in the consolidated interim report***

### **1. Financial assets held for trading**

#### ***Classification***

This caption comprises fixed-yield and variable-yield securities and units in mutual funds held for trading. It also includes derivative contracts with a positive fair value, excluding hedges but including those recorded separately from the underlying structured financial instrument, when the requirements for making this distinction are met. 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; it is settled on maturity and requires a limited initial net investment. A derivative is separated from a complex financial instrument when its economic characteristics and risks are not strictly related to the characteristics of the underlying contract. When the embedded instruments comply with the definition of a derivative even after separation, and the hybrid instruments to which they belong are not measured at fair value through the income statement.

#### ***Recognition***

Assets held for trading are recorded at the settlement date with reference to their fair value, usually represented by the consideration paid, while the transaction costs and revenues are reflected directly in the income statement.

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 recording, trading financial instruments are stated at their fair value at the reference 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 the fair value of equity instruments cannot be determined on a reliable basis, they are stated at cost.

#### ***Recognition of components affecting the income statement***

The components of income generated by financial instruments held for trading are recognised in the income statement for the period in which they arise as «Net trading income». An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. The original value is not reinstated, even if the losses no longer exist. Realised gains and losses from the sale or reimbursement and unrealised gains and losses deriving from the change in the fair value of the trading portfolio, as well as the impairment of financial assets carried at cost are booked to the income statement under «net trading income».

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





### ***Derecognition***

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

## **2. Available-for-sale financial assets**

### ***Classification***

This caption comprises financial assets that are not derivatives and which are not classified as Receivables, Financial assets held for trading or Held-to-maturity assets. In particular, this caption includes securities not held for trading and equity interests, also not held for trading, that do not represent investments in subsidiary companies, associated companies or companies under joint control.

### ***Recognition***

The assets classified in this caption are recorded on the settlement date. Available-for-sale securities are initially recognised at their fair value, which is usually represented by the fair value of the consideration paid to acquire them.

Aside from the exceptions allowed under IAS 39, it is not possible to transfer assets from the available-for-sale portfolio to other portfolios, or vice versa. The value recorded on any reclassification from Held-to-maturity assets reflects the fair value of the asset concerned at the time of transfer.

### ***Accounting policies***

Subsequent to initial recording, available for-sale financial assets are stated at their fair value, determined on the basis described in relation to financial assets held for trading.

Variable-yield securities whose fair value cannot be determined reliably are stated at cost. These comprise equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Group operates. These instruments show that equities represent the majority in this portfolio. The fair value of these investments cannot be reliably determined, given that the valuation techniques applied to them would have to make significant use of discretionary, non-market factors.

An impairment test is performed at each reporting date to check if there is any objective evidence of a reduction in value. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

The rules adopted by the Bank prescribe that an impairment test has to be carried out on variable-yield securities in one of the following cases:

- a cumulative reduction in the fair value exceeding 20% of the original cost gives rise to the need to evaluate the presence of other characteristics which might make it necessary to carry out an impairment test. In any case, a cumulative reduction in fair value exceeding 50% of the original cost automatically leads to an impairment test.
- a cumulative reduction in the fair value of the instrument for at least 9 months gives rise to the need to evaluate the presence of other characteristics which might make it necessary to carry out an impairment test. In any case, a cumulative reduction in the fair value of the original cost for more than 18 months has to be considered permanent and automatically leads to an impairment.

### ***Recognition of components affecting the income statement***

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

Income and charges deriving from changes in fair value, net of the related deferred tax effect, are recorded in specific equity reserves, known as «Valuation reserves», until the asset is derecognised or its value is impaired; the accumulated gains or losses are released to the income statement at the time of derecognition or the recognition of impairment. Dividends are shown under «dividends and similar income». If the reasons for impairment cease to apply following events subsequent to the reduction in the value of the financial asset, the writebacks relating to fixed-yield securities are reflected in the income statement, while those relating to variable-yield securities are recorded in a specific «valuation reserve» within equity.

### ***Derecognition***

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

## **3. Held-to-maturity investments**

### ***Classification***

These are almost entirely unlisted fixed-yield securities that the Group has the capacity and the willingness to hold to maturity.

### ***Recognition***

Assets due to be held to maturity are initially recorded on the settlement date at their fair value, which normally coincides with the amount paid, including transaction costs.

Any assets booked under the terms of the amendment to IAS 39 regarding the application of fair value, as adopted by the European Union with EC Regulation 1004/2008 of 15/10/2008 are measured at their fair value as of 1 July 2008, providing they were on the books as of 31 October 2008; those booked subsequently are shown at their fair value at the date of reclassification.

### ***Accounting policies***

After initial recognition, they are measured at amortised cost using the effective interest method, subjecting such assets to impairment testing if there are any signs of a deterioration in the solvency of the issuers.

### ***Recognition of components affecting the income statement***

Components affecting the income statement are recognised according to the process of financial amortisation.

### ***Derecognition***

Held-to-maturity investments are derecognised on expiry of the contractual rights over the related financial flows.



## **4. Receivables**

### **4.1 Cash loans and deposits**

#### ***Classification***

Receivables comprise deposits with banks and loans to customers, made directly or acquired from third parties, which have fixed or determinable payments, not listed on an active market. Receivables also include trade receivables, repo transactions, loans originating from finance leases and securities not listed on an active market that were acquired as a result of subscriptions or private placements, with payment amounts that are known or determinable.

#### ***Recognition***

Receivables and loans are classified in the receivables portfolio when they are paid out or acquired and cannot be transferred to other portfolios subsequently.

Loans include the advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables assigned to the company and booked in the name of the assigned debtor for which the related risks and benefits have all been substantially transferred to the assignee.

Repurchase agreements are recorded in the financial statements as funding or lending transactions. In particular, spot sales with forward repurchases are recorded as a payable for the spot amount collected, while spot purchases with forward resales are recorded as a receivable for the spot amount paid. Changes in receivables regarding transactions not yet settled are governed by the «settlement date» method. Loans are initially recorded at their fair value when they were paid out or acquired, which usually corresponds to the amount paid out or the current value paid to acquire them.

The initially recorded value includes any transaction costs and revenues directly associated with each loan.

#### ***Accounting policies***

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

Loans are subjected to impairment testing at each reporting date to check for any loss in value due to deterioration in the solvency of borrowers.

For measurement purposes, loans are classified into two macro categories: impaired loans and performing loans.

In accordance with the definition of «Non-performing exposures» (NPE) provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts»; the sum of these categories corresponds to the total Non-Performing Exposures in the ITS. The previous watchlist and restructured exposures categories have been eliminated.

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

Exposures classified as unlikely-to-pay loans are credit exposures, other than non-performing, for which the Group deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.

Impaired past due and/or overdrawn exposures are exposures, other than non-performing or likely default, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 continuous days and which exceed a set materiality threshold. Impaired past due and/or overdrawn exposures may be determined with reference to the position of the individual debtor or, alternatively, solely for exposures to retail customers, with reference to a single transaction.

Loans may be measured on a detailed or an overall basis. Losses in the value of individual loans are represented by 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:

- a) value of contractual cash flows net of any expected losses, estimated with reference to both the ability of the borrower to meet its obligations and the value of any secured or unsecured guarantees assisting the loan;
- b) expected timing of recoveries, considering the progress made by recovery procedures;
- c) internal rate of return.

Non-performing loans are assessed on either a detailed or an overall basis. The specific analysis of non-performing loans takes the following parameters into account:

- a) recoveries forecast by the account managers;
- b) expected timing of recoveries based on historical-statistical data;
- c) original discounting rates or the actual contractual rates applying at the time of classifying the loans as doubtful.

Overall assessments are made of positions with limited total exposures that do not exceed given «threshold values». These thresholds are determined from time to time, using simple processes that mainly involve the automatic application of specific coefficients defined internally with reference to detailed quantitative analyses.

Unlikely-to-pay loans, which include loans subject to restructuring agreements, are also assessed on either a detailed or an overall basis. The detailed analysis takes the following parameters into account:

- a) recoveries forecast by the offices concerned;
- b) expected timing of recoveries based on historical-statistical data;
- c) original discounting rates represented by the actual contractual rates applying at the time the loans were classified as unlikely-to-pay or, with specific reference to loans subject to restructuring agreements, in force before signing the agreement with the debtor.

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of non-performing loans for which no specific estimate has been made of the loss attributable to each individual relationship. These loans are adjusted on an overall basis with reference to specific historical/statistical analyses of the related losses incurred in the past.

Past due/overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters identified by the Supervisory Authorities. They are subject to a detailed assessment attributed to each risk position. In the absence of specific forecasts of the losses attributable to each individual relationship, the assessment takes into account the losses recorded historically in the category of

exposures, as well as their technical form, existing guarantees and the ageing of the past due position. The responsible offices prepare appropriate statistical analyses to determine adjusting factors suitable for the loan category concerned.

Performing loans that do not show any objective signs of impairment are valued on a collective basis. Such loans aggregated in homogeneous classes with similar characteristics have applied to them impairment coefficients that are estimated on the basis of statistical data and expressed as the probability of default (PD) by the customer and the extent of the loss given default (LGD). The expected loss on these loans (nominal amount of the loan multiplied by the PD and the LGD) is adjusted by the LCP (Loss Confirmation Period), which reflects for the various homogeneous classes of loan the delay between the deterioration in the financial situation of the customer and the recognition of that situation by the Group.

### ***Recognition of components affecting the income statement***

Interest on loans is shown under «Interest and similar income».

Reductions or recoveries of partial or entire amounts previously written down are booked to the income statement.

Any writebacks do not exceed the (specific and general or «portfolio») impairment adjustments recorded previously.

### ***Derecognition***

Loans are derecognised when substantially all the related risks and benefits have been transferred and no control over them is retained.

## **4.2 Endorsement loans**

### ***Classification***

Endorsement loans consist of all secured and unsecured guarantees given for third-party obligations.

### ***Recognition and measurement***

Endorsement loans are valued on the basis of the riskiness of this particular form loan, taking into account the creditworthiness of the borrower.

### ***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 impairment losses on other financial assets» with the contra-entry to other liabilities.

## **5. Financial assets at fair value through profit or loss**

The portfolio of «Financial assets at fair value through profit or loss» comprises the securities for which the «fair value option» has been applied. The recognition, measurement and derecognition criteria applied are the same as those adopted in relation to financial assets held for trading.

The income elements relating to instruments classified as financial assets at fair value through profit or loss booked to the income statement in the period when they arise to «net gains on financial assets and liabilities at fair value through profit or loss».

## 6. Hedging transactions

### **Classification and recognition**

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:

- a) fair value hedges of the exposure to changes in the fair value of a balance sheet item attributable to a specific risk;
- b) cash flow hedges of the exposure to changes in future cash flows attributable to specific risks associated with balance sheet items.

A transaction can be recorded as a «hedge» if it satisfies the following conditions: a) the hedging relationship must be formally documented; b) the hedge must be effective at its inception and prospectively throughout its life. Effectiveness is tested using specific techniques and exists when the changes in the fair value (or cash flows) of the hedging instrument almost entirely offset the related changes in the hedged instrument (the results of the test fall into the 80% - 125% interval). The effectiveness of the hedge is assessed at each interim reporting date and at year end. 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.

### **Measurement and recognition of components affecting the income statement**

Fair value hedges are measured and recorded on the following basis:

- 1) hedging instruments are stated at their fair value; the fair value of instruments listed on active (efficient) markets is represented by their closing market price, while the fair value of instruments not listed on active markets corresponds to the present value of expected cash flows, which are determined having regard for the different risk profiles of the instruments subject to measurement. The measurement techniques used are those normally adopted by the market. The resulting gains and losses are recorded in the «Net hedging gains (losses)» caption of the income statement to match the change in the carrying value of the hedged item;
- 2) hedged positions are stated at their fair value and any gains or losses attributable to the hedged risk are also recorded in the «Net hedging gains (losses)» caption of the income statement.

With regard to interest-earning financial instruments, if the hedge ceases to satisfy the recognition criteria, the difference between the carrying value of the hedged item at the time the hedge ceases and its carrying value had the hedge never existed is amortised to the income statement over the residual life of the original hedge; if the financial instruments concerned do not earn interest, this difference is recorded in the income statement immediately.

Cash flow hedges are measured and recorded on the following basis:

- 1) 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;
- 2) the hedged item continues to be valued on the basis applicable to the category concerned.

### **Derecognition**

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





## **7. Equity investments**

### **Classification**

The portfolio of equity investments comprises the holdings in subsidiary companies, associated companies and companies under joint control. Control is presumed to exist when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control is therefore deemed to exist in the following circumstances:

- a) availability of actual and potential voting rights at a shareholders' meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;
- b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;
- c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

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

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

Joint control exists when control over the investment is shared equally with others, is agreed contractually and only exists if the decisions about relevant activities require the unanimous consent of the parties sharing control.

### **Recognition**

Equity investments are initially recorded at cost on the settlement date, which normally coincides with the amount paid, including transaction costs.

### **Accounting policies**

Investments are subsequently valued at equity, determined with reference to the value indicated in the latest approved financial statements.

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

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

### **Measurement and recognition of components affecting the income statement**

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

### ***Derecognition***

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

## **8. Property, equipment and investment property**

### ***Classification***

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery.

As required by IAS 17, assets held under finance leases are also classified in this caption.

In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation.

### ***Recognition***

Property, equipment and investment property are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

### ***Accounting policies***

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

### ***Recognition of components affecting the income statement***

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

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

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

### ***Derecognition***

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



## **9. Intangible assets**

### ***Classification***

This caption comprises identifiable, intangible, non-monetary assets that will benefit future years. Intangible assets comprise software and goodwill.

### ***Recognition***

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

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

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

### ***Accounting policies***

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

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

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

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

### ***Recognition of components affecting the income statement***

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

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

### ***Derecognition***

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

## **10. Non-current assets held for sale and discontinued operations**

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

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

## 11. 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 period. Tax liabilities are determined by applying the current tax rates and regulations. Tax assets and liabilities also include a reasonable estimate of the risks deriving from outstanding tax disputes.

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

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

## 12. Provisions for risks and charges

This caption comprises the following provisions:

- a) Provisions for other long-term employee benefits. These are included in «Provisions for risks and charges» based on the valuation of liabilities at the date of preparation of the financial statements using the «projected unit credit method» as in the case of post-employment benefits; once again, the actuarial gains and losses deriving from actuarial estimates are treated in accordance with the provisions of the revised version of IAS 19 endorsed by EC Regulation 475 of 5 June 2012, i.e. booked to equity as shown in the statement of comprehensive income. These are:
  - 1) Pension and similar obligations. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Parent Company is responsible for any unfunded liabilities.
  - 2) Provision for long-service bonuses. This represents the liability for bonuses to employees who reached a period of service of 30 years. It is recorded under «other provisions».
- b) Other provisions. This caption comprises the provision for long-service bonuses mentioned above and provisions recorded for liabilities whose timing and extent cannot be determined, which can be recognised in the financial statements when:
  - 1) the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
  - 2) it is likely that settlement of the obligation will involve the use of economic resources;
  - 3) a reliable estimate can be made of the amount necessary to settle the obligation.

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

## 13. Payables and securities issued

### **Classification**

Amounts due to customers and banks and securities issued comprise the financial instruments (other than trading instruments) that represent the normal funding of the Group's activities by customers and other banks, or by the issue of securities. This caption also includes the liability deriving from finance lease transactions and the value of the consideration still to be paid to the assignor in factoring transactions that involve an assignment of receivables with the transfer of the related risks and benefits versus the assignee.



### **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 amount initially recorded includes any transaction costs and revenues that are directly related to each liability; this amount does not include the charges made to creditors in order to recover administrative costs. The elements of structured funding, comprising a host instrument and one or more embedded derivatives, are split and recorded separately from the related implicit derivatives, on condition that the economic characteristics and risks of the embedded derivatives are substantially different to those of the host instrument and that the derivatives can be configured as autonomous derivative contracts.

### **Accounting policies**

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Short-term liabilities are stated at the amount collected. Liabilities covered by effective hedges are valued in accordance with the regulations applying to such transactions.

### **Recognition of components affecting the income statement**

Interest expense linked to funding instruments are booked to the income statement under «Interest and similar expense».

Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses from sales or repurchases of financial liabilities».

### **Derecognition**

Financial liabilities are derecognised when they expire or are settled.

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

## **14. Financial liabilities held for trading**

This caption comprises derivative instruments with a negative fair value, except for hedging derivatives. The total also includes the negative value of derivatives separated from their underlying structured financial instruments, when the conditions for such separation apply. The criteria for classification, cancellation, measurement and recognition of components affecting the income statement are the same as those described in relation to assets held for trading.

## **15. Financial liabilities at fair value**

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

## **16. Currency transactions**

### **Classification**

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

### **Recognition**

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

### **Accounting policies**

On the reporting date, monetary assets and liabilities denominated in foreign currencies

are translated using the spot exchange rates at that time. Non-current financial assets denominated in foreign currencies are translated using the exchange rates ruling at the time of purchase.

### **Recognition of components affecting the income statement**

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

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

### **Derecognition**

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

## **17. Termination indemnities**

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

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

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

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

## **18. Other information**

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives.

Revenues are recorded as received or when collection becomes likely and a reasonable estimate can be made of the amount to be received. In particular, the default interest accrued on doubtful accounts is only credited to the income statement upon collection.

Dividends are recorded upon collection.

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





### Covered bonds

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

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

A second assignment of performing loans totalling € 202 million took place on 4 December 2015.

On 1 February 2016, a portfolio of performing loans totalling € 576 million was assigned without recourse to POPSO Covered Bond s.r.l., the vehicle company, in relation to the second series of 7-year covered bonds amounting to € 500 million.

On 31 October 2016, a fourth portfolio of performing loans totalling € 226 million was assigned without recourse to the special purpose entity, POPSO Covered Bond s.r.l.

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

## INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS

### Reclassified financial assets: book value, fair value and the impact on comprehensive income

Type of financial instruments ( <sup>1</sup> )	Portfolio of origin ( <sup>2</sup> )	Portfolio of destination ( <sup>3</sup> )	Net book value as of 30.06.2017 ( <sup>4</sup> )	Fair value at 30.06.2017 ( <sup>5</sup> )	Income items without any transfer (pre-tax)		Income items recorded during the year (pre-tax)	
					Valuation ( <sup>6</sup> )	Other ( <sup>7</sup> )	Valuation ( <sup>8</sup> )	Other ( <sup>9</sup> )
A. Debt securities	HFT	HTM	3,806	3,880	18	10	47	10

Income items include securities service employees' pension and similar obligations.

The valuation items relate to the amortised cost differential for those booked during the year and to differences in fair value for those not transferred.

### Transfer of financial assets held for trading

As in the previous year, the Group did not carry out any reclassifications of financial assets. A reclassification was made on the basis of the amendment to IAS 39 approved by EU Regulation 1004 of 15/10/2008. In very particular circumstances, this amendment makes it possible to reclassify certain financial instruments from one portfolio to another. Its purpose is to reduce the volatility in the income statement (or in equity) of financial institutions and companies that apply IAS/IFRS in situations of illiquid markets and/or characterised by prices that do not reflect the realisable value of financial instruments. The previous table shows the profits and losses that would have been made if the Bank had not taken advantage of this possibility.

## INFORMATION ON FAIR VALUE

### Qualitative information

IFRS 13 Fair Value Measurement came into force on 1 January 2013. This standard collects in one document the rules governing the determination of fair value that were previously contained in several accounting standards. IFRS 13 essentially does not change

the concept of fair value, but provides new application guidelines and envisages additional disclosures.

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

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

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

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

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

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

### ***Processes and sensitivity of the measurements***

The Group determines the fair value of assets and liabilities using various methodologies defined in the corporate policies. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3.

Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, as envisaged in IAS 39, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability

concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

- a) the future cash flows deriving from the asset or liability to be measured;
- b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;
- c) the rate applicable to risk-free monetary assets of similar duration;
- d) the risk premium;
- e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

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

If a financial instrument is measured by recourse to inputs from various levels, it is allocated to the level of the input considered least meaningful.

With regard to Level 3 financial assets, IFRS 13 requires the disclosure of information about the sensitivity of the reported results to changes in one or more of the unobservable parameters used to measure their fair value.

Given the limited weighting of such instruments within the Group's portfolio of financial assets and considering that the Level 3 instruments contained in the AFS portfolio largely comprise securities carried at cost, or through prices of previous transactions, or information from third parties without further adjustments (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact

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

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

### ***Fair value hierarchy***

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

- a) prices (without adjustments) on active markets - according to the definition of IAS 39 - for the assets and liabilities being measured (level 1);
- b) inputs other than the listed prices mentioned above; these can be seen directly (prices) or indirectly (derived from prices) on the market (level 2);
- c) inputs not based on market observable data (level 3). In this case, the fair value is determined using measurement techniques based on estimates and assumptions by the relevant offices of the Group.

Allocation to the levels is not optional and is carried out in hierarchical order, giving priority to the official prices in active markets; in the absence of such inputs, reference is made to other methods that rely on observable parameters, and then to measurement techniques that use unobservable inputs.

An asset or liability is transferred between different levels of the fair value hierarchy when, following changes, their previous classification is no longer consistent with the inputs used.

## Other information

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

## QUANTITATIVE INFORMATION

### Fair value hierarchy

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

Financial assets/liabilities carried at fair value	30/06/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	753,076	77,008	27,169	930,387	56,581	32,744
2. Financial assets at fair value through profit or loss	103,518	-	-	96,303	-	-
3. Available-for-sale financial assets	10,364,165	-	150,925	6,470,827	-	173,610
4. Hedging derivatives	-	2	-	-	-	-
5. Property, equipment and investment property	-	-	62,925	-	-	62,930
6. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>11,220,759</b>	<b>77,010</b>	<b>241,019</b>	<b>7,497,517</b>	<b>56,581</b>	<b>269,284</b>
1. Financial assets held for trading	4,488	58,322	-	-	73,016	-
2. Financial liabilities carried at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	30,081	-	-	38,734	-
<b>Total</b>	<b>4,488</b>	<b>88,403</b>	<b>-</b>	<b>-</b>	<b>111,750</b>	<b>-</b>

There were no significant transfers between the various levels during the period.

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

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Property, equipment and investment property	Intangible assets
<b>1. Opening balance</b>	<b>32,744</b>	<b>-</b>	<b>173,610</b>	<b>-</b>	<b>62,930</b>	<b>-</b>
<b>2. Increases</b>	<b>157</b>	<b>-</b>	<b>17,534</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1. Purchases	2	-	10,943	-	-	-
2.2. Income booked to:						
2.2.1. Income statement	51	-	51	-	-	-
of which realized gains	37	-	-	-	-	-
2.2.2. Equity	-	-	6,060	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	104	-	480	-	-	-
<b>3. Decreases</b>	<b>5,732</b>	<b>-</b>	<b>40,219</b>	<b>-</b>	<b>5</b>	<b>-</b>
3.1. Sales	-	-	4,780	-	-	-
3.2. Reimbursements	529	-	300	-	-	-
3.3. Losses booked to:						
3.3.1. Income statement	65	-	30,604	-	-	-
of which realized losses	65	-	29,900	-	-	-
3.3.2. Equity	-	-	-	-	-	-
3.4. Transfers to other levels	5,026	-	142	-	-	-
3.5. Other decreases	112	-	4,393	-	5	-
<b>4. Closing balance</b>	<b>27,169</b>	<b>-</b>	<b>150,925</b>	<b>-</b>	<b>62,925</b>	<b>-</b>



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

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

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

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/06/2017				31/12/2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Held-to-maturity investments	94,393	97,356	-	9,518	117,023	120,742	-	12,286
2. Loans and receivables with banks	1,214,862	-	-	1,214,862	1,786,732	-	-	1,786,732
3. Loans to customers	25,711,942	-	-	26,082,228	25,313,464	-	-	25,941,639
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>27,021,197</b>	<b>97,356</b>	<b>-</b>	<b>27,306,608</b>	<b>27,217,219</b>	<b>120,742</b>	<b>-</b>	<b>27,740,657</b>
1. Due to banks	6,321,933	-	-	6,321,933	2,504,510	-	-	2,504,510
2. Customer deposits	26,748,888	-	-	26,748,888	27,702,353	-	-	27,702,353
3. Securities issued	2,991,347	1,631,306	1,381,411	-	3,231,782	1,505,350	1,754,057	-
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>36,062,168</b>	<b>1,631,306</b>	<b>1,381,411</b>	<b>33,070,821</b>	<b>33,438,645</b>	<b>1,505,350</b>	<b>1,754,057</b>	<b>30,206,863</b>

Key:

VB: book value

L1: Level 1

L2: Level 2

L3: Level 3

### INFORMATION ON THE SO-CALLED «DAY ONE PROFIT/LOSS»

The «day one profit/loss» provided for in IFRS 7 and IAS 39 para. AG. 76 derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally to be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

## Information on the balance sheet

### Assets

#### Financial assets held for trading - line item 20

##### Financial assets held for trading: breakdown by sector

Items/Amounts	30/06/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>A. Cash assets</b>						
1. Fixed-yield securities	581,658	-	27,169	704,983	-	32,740
1.1 Structured securities	29,284	-	26,922	29,448	-	27,507
1.2 Other fixed-yield securities	552,374	-	247	675,535	-	5,233
2. Variable-yield securities	115,537	-	-	146,007	-	4
3. Mutual funds	53,107	-	-	79,397	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total A</b>	<b>750,302</b>	<b>-</b>	<b>27,169</b>	<b>930,387</b>	<b>-</b>	<b>32,744</b>
<b>B. Derivatives</b>						
1. Financial derivatives:	2,774	77,008	-	-	56,581	-
1.1 for trading	2,774	77,008	-	-	56,581	-
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
<b>Total B</b>	<b>2,774</b>	<b>77,008</b>	<b>-</b>	<b>-</b>	<b>56,581</b>	<b>-</b>
<b>Total (A+B)</b>	<b>753,076</b>	<b>77,008</b>	<b>27,169</b>	<b>930,387</b>	<b>56,581</b>	<b>32,744</b>

The fixed-yield securities included in Level 3 principally comprise bonds deriving from the securitisation of loans, measured using price information received from external infoprovaders and for which the market cannot be considered active.

#### Financial assets at fair value through profit or loss - line item 30

##### Financial assets at fair value through profit or loss: breakdown by sector

Items/Amounts	30/06/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	-	-	-	-	-	-
<b>2. Variable-yield securities</b>	-	-	-	-	-	-
<b>3. Mutual funds</b>	<b>103,518</b>	-	-	<b>96,303</b>	-	-
<b>4. Loans</b>	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total</b>	<b>103,518</b>	<b>-</b>	<b>-</b>	<b>96,303</b>	<b>-</b>	<b>-</b>
<b>Cost</b>	<b>97,852</b>	<b>-</b>	<b>-</b>	<b>93,993</b>	<b>-</b>	<b>-</b>

This portfolio includes all securities, other than those booked to the trading portfolio, which the Parent Company has decided to measure at fair value, charging any gains or losses to the income statement, in line with a documented system of risk management based on a board resolution passed on 27/7/2005. Information on the performance of these securities is provided regularly to the managers in charge.



## Available-for-sale financial assets - line item 40

### Available-for-sale financial assets: breakdown by sector

Items/Amounts	30/06/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	<b>10,188,281</b>	-	<b>15,348</b>	<b>6,294,939</b>	-	<b>15,302</b>
1.1 Structured securities	1,104,787	-	12,942	834,350	-	12,775
1.2 Other fixed-yield securities	9,083,494	-	2,406	5,460,589	-	2,527
<b>2. Variable-yield securities</b>	-	-	<b>101,253</b>	-	-	<b>102,268</b>
2.1 Carried at fair value	-	-	93,075	-	-	91,702
2.2 Carried at cost	-	-	8,178	-	-	10,566
<b>3. Mutual funds</b>	<b>175,884</b>	-	<b>34,324</b>	<b>175,888</b>	-	<b>56,040</b>
<b>4. Loans</b>	-	-	-	-	-	-
<b>Total</b>	<b>10,364,165</b>	-	<b>150,925</b>	<b>6,470,827</b>	-	<b>173,610</b>

Given the difficulties in determining a precise fair value, unlisted variable-yield securities are usually retained at cost, as adjusted for possible losses where applicable. An exception was made to this approach with regard to the interests held in Istituto Centrale delle Banche Popolari Italiane spa and Cartasì spa. In particular, following the sale of the ICBPI Group to a consortium of investment funds by the controlling shareholders, these interests were revalued with reference to the sale price.

If a comparison between the cost and net equity of other unlisted equities based on the latest available financial statements identifies impairment losses, we make a write-down in accordance with company policies. As a result of impairment, adjustments were booked to income statement of 29.900 million, of which over 26 million relates to units held in Fondo Atlante.

## Held-to-maturity investments - line item 50

### Held-to-maturity investments: breakdown by sector

Type of transaction/Amounts	30/06/2017				31/12/2016			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	<b>94,393</b>	<b>97,356</b>	-	<b>9,518</b>	<b>117,023</b>	<b>120,742</b>	-	<b>12,286</b>
- structured	22,247	14,423	-	8,015	12,140	4,194	-	7,948
- other	72,146	82,933	-	1,503	104,883	116,548	-	4,338
<b>2. Loans</b>	-	-	-	-	-	-	-	-

In 2008 the Parent Company transferred securities held for trading to this portfolio for a total par value of € 242.686 million, taking advantage of the amendment issued by IASB on 13/10/2008 and adopted by the European Commission with Regulation 1004/2008 on 15/10/2008.

If the securities transferred, which are currently in portfolio at an amount of € 3.872 million at par, had been carried at fair value at the date of the financial statements, they would have been worth € 3.880 million, practically the same as their book value, namely € 3.806 million.



## Loans and receivables with banks - line item 60

### Loans and receivables with banks: breakdown by sector

Type of transaction/Amounts	30/06/2017				31/12/2016			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Deposits with central banks</b>	<b>580,764</b>	-	-	<b>580,764</b>	<b>955,355</b>	-	-	<b>955,355</b>
1. Time deposits	-	-	-	-	-	-	-	-
2. Compulsory reserve	577,281	-	-	-	952,038	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-
4. Other	3,483	-	-	-	3,317	-	-	-
<b>B. Loans and receivables with banks</b>	<b>634,098</b>	-	-	<b>634,098</b>	<b>831,377</b>	-	-	<b>831,377</b>
1. Loans	634,098	-	-	634,098	831,377	-	-	831,377
1.1 Current accounts and sight deposits	216,719	-	-	-	237,081	-	-	-
1.2 Time deposits	346,832	-	-	-	510,350	-	-	-
1.3 Other loans:	70,547	-	-	-	83,946	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-	-
- Financial leases	-	-	-	-	-	-	-	-
- Other	70,547	-	-	-	83,946	-	-	-
2. Fixed-yield securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-
2.2 Other fixed-yield securities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,214,862</b>	-	-	<b>1,214,862</b>	<b>1,786,732</b>	-	-	<b>1,786,732</b>

These receivables are not specifically hedged.

Their fair value is equal to their book value as they are short-term loans repayable on demand.

## Loans and receivables with customers - line item 70

### Loans and receivables with customers: breakdown by sector

Type of transaction/Amounts	30/06/2017						31/12/2016					
	Book value			Fair Value			Book value			Fair Value		
	Not impaired	Impaired Purchased	Other	Level 1	Level 2	Level 3	Not impaired	Impaired Purchased	Other	Level 1	Level 2	Level 3
<b>Loans</b>	<b>23,066,876</b>	<b>1,985</b>	<b>2,287,503</b>	-	-	<b>25,725,725</b>	<b>22,570,929</b>	-	<b>2,382,390</b>	-	-	<b>25,580,570</b>
1. Current accounts	4,530,589	1,437	981,691	-	-	-	4,247,591	-	991,283	-	-	-
2. Repurchase agreements	233,235	-	-	-	-	-	698,937	-	-	-	-	-
3. Mortgage loans	12,008,203	-	1,136,082	-	-	-	11,599,370	-	1,193,752	-	-	-
4. Credit cards, personal loans and assignments of one-fifth of salary	224,369	-	11,692	-	-	-	212,506	-	12,444	-	-	-
5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	2,161,006	-	6,112	-	-	-	1,814,657	-	18,709	-	-	-
7. Other loans	3,909,474	548	151,926	-	-	-	3,997,868	-	166,202	-	-	-
<b>Fixed-yield securities</b>	<b>355,578</b>	-	-	-	-	<b>356,503</b>	<b>360,145</b>	-	-	-	-	<b>361,069</b>
8.1 Structured securities	355,578	-	-	-	-	-	360,145	-	-	-	-	-
8.2 Other fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>23,422,454</b>	<b>1,985</b>	<b>2,287,503</b>	-	-	<b>26,082,228</b>	<b>22,931,074</b>	-	<b>2,382,390</b>	-	-	<b>25,941,639</b>

These receivables are specifically hedged in part.



Loans include € 1.268 million of performing residential mortgages, which were the subject of covered bonds issued by the Parent Company.

The covered bond transactions involved the sale to the SPV POPSO Covered Bond s.r.l. of the first portfolio of performing residential mortgage loans as part of the issue of covered bonds reserved to institutional customers.

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

The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Group.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

### *Hedging derivatives - line item 80*

#### **Hedging derivatives: breakdown by type of hedge and by level**

Type of transaction/Amounts	30/06/2017				31/12/2016			
	Level 1	Level 2	Level 3	30/06/2017	Level 1	Level 2	Level 3	30/06/2016
<b>A) Financial derivatives</b>								
1) Fair value	-	2	-	1,700	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
<b>B) Credit derivatives</b>								
1) Fair value	-	-	-	-	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>2</b>	-	<b>1,700</b>	-	-	-	-

### *Equity investments - line item 100*

#### **Equity investments: changes during the year**

	30/06/2017	31/12/2016
<b>A. Opening balance</b>	<b>208,575</b>	<b>198,176</b>
<b>B. Increases</b>	<b>1,248</b>	<b>10,981</b>
B1. Purchases	-	7
B2. Write-backs	-	-
B3. Revaluations	-	25
B4. Other changes	1,248	10,949
<b>C. Decreases</b>	<b>1,897</b>	<b>582</b>
C1. Disposals	-	-
C2. Adjustments	168	-
C3. Other changes	1,729	582
<b>D. Closing balance</b>	<b>207,926</b>	<b>208,575</b>
<b>E. Total revaluations</b>	-	-
<b>F. Total write-downs</b>	<b>(447)</b>	<b>(279)</b>

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

### *Property, equipment and investment property - line item 120*

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

Assets/Values	30/06/2017	31/12/2016
<b>1. owned</b>	<b>236,928</b>	<b>231,172</b>
a) land	61,185	61,232
b) buildings	153,049	146,851
c) furniture	5,648	6,097
d) IT equipment	3,198	3,547
e) other	13,848	13,445
<b>2. purchased under finance leases</b>	<b>26,310</b>	<b>26,820</b>
a) land	6,803	6,803
b) buildings	19,507	20,017
c) furniture	-	-
d) IT equipment	-	-
e) other	-	-
<b>Total</b>	<b>263,238</b>	<b>257,992</b>

#### **Investment property: analysis of assets carried at fair value**

Items/Amounts	30/06/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Owned assets</b>	-	-	<b>62,925</b>	-	-	<b>62,930</b>
a) land	-	-	-	-	-	-
b) buildings	-	-	62,925	-	-	62,930
<b>2. Assets purchased under finance leases</b>	-	-	-	-	-	-
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
<b>Total</b>	-	-	<b>62,925</b>	-	-	<b>62,930</b>

These include assets belonging to Fondo Immobiliare Centro delle Alpi Real Estate, which is 100% held by the Parent Company.

### *Intangible assets - line item 130*

#### **Intangible assets: breakdown by type**

Assets/Values	30/06/2017		31/12/2016	
	Finite life	Indefinite life	Finite life	Indefinite life
<b>A.1 Goodwill</b>	-	<b>7,847</b>	-	<b>7,847</b>
A.1.1 Attributable to the banking group	-	7,847	-	7,847
A.1.2 Pertaining to minority interests	-	-	-	-
<b>A.2 Other intangible assets:</b>	<b>18,311</b>	-	<b>16,022</b>	-
A.2.1 Carried at cost	18,311	-	16,022	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	18,311	-	16,022	-
A.2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
<b>Total</b>	<b>18,311</b>	<b>7,847</b>	<b>16,022</b>	<b>7,847</b>

Intangible assets comprise the cost of purchasing software with a finite life, normally 3 years, which is amortised over that period, and goodwill relating to the acquisition of Factorit spa. Goodwill booked for € 7.847 million refers to the acquisition of Factorit Spa. The accounting treatment is in accordance with IFRS 3 on business combinations. This standard requires that the acquisition and therefore the first consolidation of the acquired entity has to take place on the date when the purchaser effectively obtains control over the other business.

Based on IFRS 3, the allocation took place according to the purchase method, which says that allocation of the identifiable assets and liabilities acquired has to take place with reference to the acquisition date. The difference between the acquisition price and the fair value of the assets and liabilities has to be recognised as goodwill and allocated to the CGU concerned.

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

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

For this goodwill, which was subject to impairment testing in the 2016 financial statements, there has been no reason to repeat it.

### ***Other assets - line item 160***

#### **Other assets: breakdown**

	<b>30/06/2017</b>	<b>31/12/2016</b>
Advances paid to tax authorities	48,176	47,838
Withholdings on interest due to customers	-	256
Tax credits and related interest	61,755	26,243
Current account cheques drawn on third parties	241	26,548
Current account cheques drawn on Group banks	57,559	9,443
Transactions in customers' securities	6,437	50,822
Inventories	14,436	14,163
Costs pertaining to the subsequent year	-	2,845
Advances to suppliers	1,218	713
Advances to customers awaiting collections	11,332	21,088
Miscellaneous debits in transit	14,474	46,989
Liquidity of pension fund	19,176	18,976
Accrued expenses not allocated	33,321	38,559
Prepayments not allocated	34,854	17,745
Differences on elimination	500	1,770
Residual items	68,832	66,980
<b>Total</b>	<b>372,311</b>	<b>390,978</b>

***Liabilities and equity***  
***Due to banks - line item 10***  
**Due to banks: breakdown by type**

Type of transaction/Amounts	30/06/2017	31/12/2016
<b>1. Due to central banks</b>	<b>4,839,209</b>	<b>1,226,758</b>
<b>2. Due to banks</b>	<b>1,482,724</b>	<b>1,277,752</b>
2.1 Current accounts and sight deposits	488,023	406,188
2.2 Time deposits	538,025	481,059
2.3 Loans	455,612	387,128
2.3.1 Repurchase agreements	-	-
2.3.2 Other	455,612	387,128
2.4 Payables for commitments to repurchase own equity instruments	-	-
2.5 Other payables	1,064	3,377
<b>Total</b>	<b>6,321,933</b>	<b>2,504,510</b>
<b>Fair value - livello 1</b>	-	-
<b>Fair value - livello 2</b>	-	-
<b>Fair value - livello 3</b>	<b>6,321,933</b>	<b>2,504,510</b>
<b>Total Fair value</b>	<b>6,321,933</b>	<b>2,504,510</b>

These payables are not specifically hedged.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO): one of € 1.100 million, obtained in June 2016, repayable in June 2020 and a second obtained in March 2017 of € 3.500 million, repayable on 24 March 2021. These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable.

«Other loans» principally comprise funding from the EIB in connection with loans granted by the bank under agreements signed with the EIB, as well as special forms of loan drawn down by Factorit Spa.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand.

***Due to customers - line item 20***  
**Due to customers: breakdown by sector**

Type of transaction/Amounts	30/06/2017	31/12/2016
<b>1. Current accounts and sight deposits</b>	<b>25,193,696</b>	<b>26,147,739</b>
<b>2. Time deposits</b>	<b>1,373,810</b>	<b>889,312</b>
<b>3. Loans</b>	<b>124,556</b>	<b>627,631</b>
3.1 Repurchase agreements	111,342	610,237
3.2 Other	13,214	17,394
<b>4. Payables for commitments to repurchase own equity instruments</b>	-	-
<b>5. Other payables</b>	<b>56,826</b>	<b>37,671</b>
<b>Total</b>	<b>26,748,888</b>	<b>27,702,353</b>
<b>Fair value - level 1</b>	-	-
<b>Fair value - level 2</b>	-	-
<b>Fair value - level 3</b>	<b>26,748,888</b>	<b>27,702,353</b>
<b>Fair value</b>	<b>26,748,888</b>	<b>27,702,353</b>

These payables are not specifically hedged.

Their fair value corresponds to their book value as they are amounts due on demand or with short-term restrictions.



## Securities issued - line item 30

### Securities issued: breakdown by sector

Type of security/Amounts	30/06/2017				31/12/2016			
	Book value	Fair Value			Book value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Securities</b>								
1. Bonds	2,896,890	1,631,306	1,286,954	-	3,150,368	1,505,350	1,672,643	-
1.1 structured	176,489	-	176,489	-	188,699	-	188,699	-
1.2 other	2,720,401	1,631,306	1,110,465	-	2,961,669	1,505,350	1,483,944	-
2. Other securities	94,457	-	94,457	-	81,414	-	81,414	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	94,457	-	94,457	-	81,414	-	81,414	-
<b>Total</b>	<b>2,991,347</b>	<b>1,631,306</b>	<b>1,381,411</b>	<b>-</b>	<b>3,231,782</b>	<b>1,505,350</b>	<b>1,754,057</b>	<b>-</b>

The fair value of the «other securities» is equal to the book value as this item includes bankers' drafts and similar documents as well as short-term bearer certificates of deposit.

The level 1 securities relate to covered bonds and almost exclusively subordinated bonds listed on the Hi-ml market (Trading Multilateral system).

## Financial liabilities held for trading - line item 40

### Financial liabilities held for trading: breakdown by sector

Type of transaction/Amounts	30/06/2017					31/12/2016						
	NV	Fair Value				FV*	NV	Fair Value				FV*
		Level 1	Level 2	Level 3	Level 1			Level 2	Level 3			
<b>A. Cash liabilities</b>												
1. Due to banks	-	-	-	-	-	-	-	-	-	-	-	
2. Due to customers	-	-	-	-	-	-	-	-	-	-	-	
3. Fixed-yield securities	-	-	-	-	-	-	-	-	-	-	-	
3.1 Bonds	-	-	-	-	-	-	-	-	-	-	-	
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-	-	
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-	-	
3.2 Other securities	-	-	-	-	-	-	-	-	-	-	-	
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	
3.2.2 Other	-	-	-	-	-	-	-	-	-	-	-	
<b>Total A</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>B. Derivatives</b>												
1. Financial derivatives	-	4,488	58,322	-	-	-	-	73,016	-	-	-	
1.1 for trading	-	4,488	58,322	-	-	-	-	73,016	-	-	-	
1.2 connected with the fair value option	-	-	-	-	-	-	-	-	-	-	-	
1.3 Other	-	-	-	-	-	-	-	-	-	-	-	
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	
2.1 For trading	-	-	-	-	-	-	-	-	-	-	-	
2.2 Connected with the fair value option	-	-	-	-	-	-	-	-	-	-	-	
2.3 Other -	-	-	-	-	-	-	-	-	-	-	-	
<b>Total B</b>	<b>-</b>	<b>4,488</b>	<b>58,322</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73,016</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total A+B</b>	<b>-</b>	<b>4,488</b>	<b>58,322</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73,016</b>	<b>-</b>	<b>-</b>	<b>-</b>	

FV\* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

VN = Nominal or notional value

## Hedging derivatives - line item 60

### Hedging derivatives: breakdown by type of hedge and by level

Type of derivatives/Underlying assets	Fair Value 30/06/2017			Nominal Value 30/06/2017	Fair Value 31/12/2016			Nominal Value 31/12/2016
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>A. Financial derivatives</b>	-	<b>30,081</b>	-	<b>725,240</b>	-	<b>38,734</b>	-	<b>922,618</b>
1) Fair value	-	30,081	-	725,240	-	38,734	-	922,618
2) Financial flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>30,081</b>	-	<b>725,240</b>	-	<b>38,734</b>	-	<b>922,618</b>

## Other liabilities - line item 100

### Other liabilities – breakdown

	30/06/2017	31/12/2016
Amounts at the disposal of third parties	439,997	323,222
Taxes to be paid on behalf of third parties	288,739	46,934
Taxes to be paid	1,151	2,034
Employee salaries and contributions	17,219	23,448
Suppliers	18,474	15,844
Transit accounts for sundry entities	41,777	2,412
Invoices to be received	1,778	12,118
Credits in transit for financial transactions	5,768	2,490
Value date differentials on portfolio transactions	339,904	27,820
Directors' and statutory auditors' emoluments	147	1,070
Loans disbursed to customers to be finalised	6,335	9,543
Miscellaneous credit items being settled	111,159	97,688
Accrued expenses not allocated	16,291	13,022
Deferred income not allocated	18,297	13,272
Allowance for risks on guarantees and commitments	25,763	23,402
Differences on elimination	52,213	6,260
Residual items	72,218	80,950
<b>Total</b>	<b>1,457,230</b>	<b>701,529</b>

The sharp increase is primarily attributable to value date differentials on portfolio transactions and taxes to be paid on behalf of third parties.

## Post-employment benefits - line item 110

### Termination indemnities: changes during the year

	30/06/2017	31/12/2016
<b>A. Opening balance</b>	<b>44,805</b>	<b>43,374</b>
<b>B. Increases</b>	<b>3,609</b>	<b>9,573</b>
B.1 Termination indemnities - allocation to provision	3,609	7,809
B.2 Other changes	-	1,764
<b>C. Decreases</b>	<b>5,240</b>	<b>8,142</b>
C.1 Termination indemnities - Payments made	1,236	1,139
C.2 Other changes	4,004	7,003
<b>D. Closing balance</b>	<b>43,174</b>	<b>44,805</b>



## ***Provisions for risks and charges - line item 120***

### **Provisions for risks and charges: breakdown**

Items/Components	30/06/2017	31/12/2016
<b>1. Pension and similar obligations</b>	<b>135,318</b>	<b>130,874</b>
<b>2. Other provisions for risks and charges</b>	<b>39,915</b>	<b>50,678</b>
2.1 Legal disputes	26,762	30,856
2.2 Personnel expenses	9,294	17,206
2.3 Other	3,859	2,616
<b>Total</b>	<b>175,233</b>	<b>181,552</b>

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

The value of the fund is adjusted with reference to its membership, which was closed on 28/4/1993. This closed group comprises 394 employees and 252 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.

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

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The Group makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice. The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 30/06/2017 as the discount rate.

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

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

## ***Group equity - Line items 140, 170, 180, 190, 200 and 220***

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, par value € 3 each, totalling € 1,360.157 million. Shares in circulation have dividend and voting rights from 1 January 2017.

At the period-end, the Bank held treasury shares with a carrying value of € 25.375 million.

## Other information

### Guarantees given and commitments

Operations	30/06/2017	31/12/2016
<b>1) Financial guarantees:</b>	<b>465,948</b>	<b>425,222</b>
a) Banks	14,491	14,963
b) Customers	451,457	410,259
<b>2) Commercial guarantees:</b>	<b>2,986,862</b>	<b>3,197,716</b>
a) Banks	82,082	86,265
b) Customers	2,904,780	3,111,451
<b>3) Irrevocable commitments to make loans</b>	<b>1,298,557</b>	<b>1,565,790</b>
a) Banks	39,147	72,099
i) certain to be called on	25,125	58,552
ii) not certain to be called on	14,022	13,547
b) Customers	1,259,410	1,493,691
i) certain to be called on	333,902	345,483
ii) not certain to be called on	925,508	1,148,208
<b>4) Commitments underlying credit derivatives: protection sold</b>	<b>-</b>	<b>-</b>
<b>5) Assets lodged to guarantee the commitments of third parties</b>	<b>36,692</b>	<b>36,706</b>
<b>6) Other commitments</b>	<b>120,658</b>	<b>22,491</b>
<b>Total</b>	<b>4,908,717</b>	<b>5,247,925</b>

### Management and intermediation for third parties

Type of service	30/06/2017
<b>1. Execution of orders on behalf of customers</b>	
a) Purchases	295,074
1. settled	292,452
2. not settled	2,622
b) Sales	225,408
1. settled	224,479
2. not settled	929
<b>2. Portfolio management</b>	
a) Individual	1,741,013
b) Collective	-
<b>3. Custody and administration of securities</b>	
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,750,022
1. securities issued by consolidated companies	-
2. other securities	1,750,022
b) Third-party securities on deposit (excluding portfolio management): other	16,643,316
1. securities issued by consolidated companies	2,599,807
2. other securities	14,043,509
c) Third-party securities on deposit with third parties	18,660,542
d) Own securities on deposit with third parties	11,720,106
<b>4. Other transactions</b>	-

## Information on the income statement

### Interest - line items 10 and 20

#### Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	Total 30/06/2017	Total 30/06/2016
1. Financial assets held for trading	2,606	-	-	2,606	5,746
2. Financial assets at fair value through profit or loss	-	-	-	-	-
3. Available-for-sale financial assets	13,048	-	-	13,048	18,493
4. Held-to-maturity investments	259	-	-	259	250
5. Loans and receivables with banks	-	3,365	-	3,365	1,546
6. Loans and receivables with customers	882	287,694	-	288,576	315,953
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	1,937	1,937	-
<b>Total</b>	<b>16,795</b>	<b>291,059</b>	<b>1,937</b>	<b>309,791</b>	<b>341,988</b>

#### Interest and similar income: other information

##### Interest and similar income on foreign currency assets

Items	30/06/2017	30/06/2016
Interest and similar income on foreign currency assets	42,591	42,357

#### Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other liabilities	Total 30/06/2017	Total 30/06/2016
1. Due to central banks	(34)	-	-	(34)	(845)
2. Due to banks	(2,839)	-	-	(2,839)	(1,738)
3. Due to customers	(26,091)	-	-	(26,091)	(46,007)
4. Securities issued	-	(30,858)	-	(30,858)	(36,863)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities carried at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	(3,969)	(3,969)	(30)
8. Hedging derivatives	-	-	(7,181)	(7,181)	(9,521)
<b>Total</b>	<b>(28,964)</b>	<b>(30,858)</b>	<b>(11,150)</b>	<b>(70,972)</b>	<b>(95,004)</b>

#### Interest and similar expense: differentials on hedging transactions

Items	30/06/2017	30/06/2016
A. Positive differentials on hedging transactions	-	-
B. Negative differentials on hedging transactions	(7,181)	(9,521)
<b>C. Balance (A-B)</b>	<b>(7,181)</b>	<b>(9,521)</b>

## Interest and similar expense: other information

### Interest and similar expense on foreign currency liabilities

	30/06/2017	30/06/2016
Interest and similar expense on foreign currency liabilities	(12,343)	(12,247)

### Interest expense on finance lease transactions

	30/06/2017	30/06/2016
Interest expense on finance lease transactions	(1)	(7)

## Commissions - line items 40 and 50

### Fee and commission income: breakdown

Type of service/Amounts	30/06/2017	30/06/2016
<b>a) guarantees given</b>	<b>14,041</b>	<b>14,494</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, intermediation and consultancy services:</b>	<b>46,610</b>	<b>42,603</b>
1. trading in financial instruments	4,400	4,474
2. trading in foreign currencies	5,000	5,451
3. portfolio management	5,195	4,613
3.1. individual	5,195	4,613
3.2. collective	-	-
4. custody and administration of securities	3,946	4,104
5. custodian bank	1,492	1,085
6. placement of securities	12,776	10,645
7. order receipt and transmission	5,391	5,078
8. consultancy	92	-
8.1 investments	-	-
8.2 corporate finance	92	-
9. distribution of third-party services	8,318	7,153
9.1 portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2 insurance products	6,529	5,803
9.3 other products	1,789	1,350
<b>d) collection and payment services</b>	<b>35,808</b>	<b>34,309</b>
<b>e) services for securitisation transactions</b>	-	-
<b>f) services for factoring transactions</b>	<b>11,429</b>	<b>10,815</b>
<b>g) tax collection services</b>	-	-
<b>h) management of multilateral trading systems</b>	-	-
<b>i) management of current accounts</b>	<b>16,112</b>	<b>14,112</b>
<b>j) other services</b>	<b>33,703</b>	<b>36,112</b>
<b>Total</b>	<b>157,703</b>	<b>152,445</b>



### Fee and commission expense: breakdown

Services/Amounts	30/06/2017	30/06/2016
<b>a) guarantees received</b>	<b>(231)</b>	<b>(171)</b>
<b>b) credit derivatives</b>	-	-
<b>c) management and intermediation services:</b>	<b>(1,954)</b>	<b>(1,695)</b>
1. trading in financial instruments	(890)	(824)
2. trading in foreign currencies	-	-
3. portfolio management	-	-
3.1 own	-	-
3.2 delegated by third parties	-	-
4. custody and administration of securities	(1,064)	(871)
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
<b>d) collection and payment services</b>	<b>(4,784)</b>	<b>(4,700)</b>
<b>e) other services</b>	<b>(2,356)</b>	<b>(2,689)</b>
<b>Total</b>	<b>(9,325)</b>	<b>(9,255)</b>

### *Dividends and similar income - line item 70*

#### Dividends and similar income: breakdown

Items/Income	30/06/2017		30/06/2016	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	777	131	2,878	54
B. Available-for-sale financial assets	3,454	175	3,015	-
C. Financial assets at fair value through profit or loss	-	-	-	-
D. Equity investments	24	-	22	-
<b>Total</b>	<b>4,255</b>	<b>306</b>	<b>5,915</b>	<b>54</b>

## Net trading income - line item 80

### Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit (loss) [(A+B)-(C+D)] 30/06/2017
<b>1. Financial assets held for trading</b>	<b>12,563</b>	<b>25,903</b>	<b>(12,832)</b>	<b>(1,466)</b>	<b>24,168</b>
1.1 Fixed-yield securities	1,107	1,537	(1,786)	(1,003)	(145)
1.2 Variable-yield securities	282	7,657	(8,485)	(121)	(667)
1.3 Mutual funds	150	3,730	(2,145)	(342)	1,393
1.4 Loans	-	-	-	-	-
1.5 Other	11,024	12,979	(416)	-	23,587
<b>2. Financial liabilities held for trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
<b>3. Other financial assets and liabilities: exchange differences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,782)</b>
<b>4. Derivatives</b>	<b>7,308</b>	<b>33,166</b>	<b>(8,562)</b>	<b>(21,797)</b>	<b>10,120</b>
4.1 Financial derivatives:	7,308	33,166	(8,562)	(21,797)	10,120
- On debt securities and interest rates	3,370	6,103	(2,902)	(6,090)	481
- On equities and equity indices	2,774	25,097	(4,488)	(13,774)	9,609
- On currency and gold	-	-	-	-	5
- Other	1,164	1,966	(1,172)	(1,933)	25
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>19,871</b>	<b>59,069</b>	<b>(21,394)</b>	<b>(23,263)</b>	<b>31,506</b>

Net trading income has gone from a loss of € 19.954 million to income of € 31.506 million, attributable to a favourable trend in income from trading in securities, in foreign exchange and derivatives, as well as a sharp contraction in the negative difference between gains and losses.

The income from trading in «other financial assets» is mainly made up of exchange gains.

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



## Net hedging gains (losses) - line item 90

### Net hedging gains (losses): breakdown

Income items/Amounts	30/06/2017	30/06/2016
<b>A. Income from:</b>		
A.1 Fair value hedging derivatives	7,203	-
A.2 Hedged financial assets (fair value)	-	2,604
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash-flow hedges	-	-
A.5 Assets and liabilities in foreign currency	-	-
<b>Total income from hedging activities (A)</b>	<b>7,203</b>	<b>2,604</b>
<b>B. Charges from:</b>		
B.1 Derivatives hedging fair value	-	(1,894)
B.2 Hedged financial assets (fair value)	(7,218)	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedges	-	-
B.5 Assets and liabilities in foreign currency	-	-
<b>Total charges from hedging activities (B)</b>	<b>(7,218)</b>	<b>(1,894)</b>
<b>C. Net hedging gains (losses) (A - B)</b>	<b>(15)</b>	<b>710</b>

## Gains (losses) from sales or repurchases - line item 100

### Gains (losses) from sales or repurchases - breakdown

Items/income items	30/06/2017			30/06/2016		
	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
<b>Financial assets</b>						
<b>1. Loans and receivables with banks</b>	-	-	-	-	-	-
<b>2. Loans and receivables with customers</b>	-	-	-	-	-	-
<b>3. Available-for-sale financial assets</b>	<b>14,570</b>	<b>(704)</b>	<b>13,866</b>	<b>47,041</b>	<b>(1,599)</b>	<b>45,442</b>
3.1 Fixed-yield securities	14,544	-	14,544	43,640	-	43,640
3.2 Variable-yield securities	26	(704)	(678)	3,390	(1,599)	1,791
3.3 Mutual funds	-	-	-	11	-	11
3.4 Loans	-	-	-	-	-	-
<b>4. Held-to-maturity investments</b>	-	-	-	-	-	-
<b>Total assets</b>	<b>14,570</b>	<b>(704)</b>	<b>13,866</b>	<b>47,041</b>	<b>(1,599)</b>	<b>45,442</b>
<b>Financial liabilities</b>						
<b>1. Due to banks</b>	-	-	-	-	-	-
<b>2. Due to customers</b>	-	-	-	-	-	-
<b>3. Securities issued</b>	<b>284</b>	<b>(336)</b>	<b>(52)</b>	<b>662</b>	<b>(1,173)</b>	<b>(511)</b>
<b>Total liabilities</b>	<b>284</b>	<b>(336)</b>	<b>(52)</b>	<b>662</b>	<b>(1,173)</b>	<b>(511)</b>



## Net change in value of financial assets and liabilities at fair value - line item 110

### Net change in value of financial assets/liabilities at fair value: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit (loss) [(A+B)-(C+D)] 30/06/2017
<b>1. Financial assets</b>	<b>7,802</b>	<b>-</b>	<b>(14)</b>	<b>-</b>	<b>7,788</b>
1.1 Fixed-yield securities	-	-	-	-	-
1.2 Variable-yield securities	-	-	-	-	-
1.3 Mutual funds	7,802	-	(14)	-	7,788
1.4 Loans	-	-	-	-	-
<b>2. Financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
<b>3. Other financial assets and liabilities: exchange differences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,114)</b>
<b>4. Credit and financial derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>7,802</b>	<b>-</b>	<b>(14)</b>	<b>-</b>	<b>5,674</b>

The gains and losses recognised mainly concern mutual funds.

## Net impairment losses - line item 130

### Net impairment losses on loans and receivables: breakdown

Transactions/Income items	Adjustments (1)			Write-backs (2)				Total 30/06/2017	Total 30/06/2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other			A	B	A	B	
<b>A. Loans and receivables with banks</b>									
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
<b>B. Loans and receivables with customers</b>	<b>(13,247)</b>	<b>(215,630)</b>	<b>(21,534)</b>	<b>1,390</b>	<b>89,092</b>	<b>-</b>	<b>66,034</b>	<b>(93,895)</b>	<b>(123,856)</b>
<b>Purchased impaired loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Loans	-	-	-	-	-	-	-	-	-
- Fixed-yield securities	-	-	-	-	-	-	-	-	-
<b>Other receivables</b>	<b>(13,247)</b>	<b>(215,630)</b>	<b>(21,534)</b>	<b>1,390</b>	<b>89,092</b>	<b>-</b>	<b>66,034</b>	<b>(93,895)</b>	<b>(123,856)</b>
- Loans	(13,247)	(213,532)	(21,534)	1,390	89,092	-	66,034	(91,797)	(123,680)
- Fixed-yield securities	-	(2,098)	-	-	-	-	-	(2,098)	(176)
<b>C. Total</b>	<b>(13,247)</b>	<b>(215,630)</b>	<b>(21,534)</b>	<b>1,390</b>	<b>89,092</b>	<b>-</b>	<b>66,034</b>	<b>(93,895)</b>	<b>(123,856)</b>

Key:

A = interest

B = other write-backs



### Net impairment losses on available-for-sale financial assets: breakdown

Transactions/Income items	Adjustments (1)		Write-backs (2)		Total 30/06/2017	Total 30/06/2016
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Variable-yield securities	-	(3,298)	-	-	(3,298)	(1,955)
C. Mutual funds	-	(26,602)	-	-	(26,602)	(318)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
<b>F. Total</b>	<b>-</b>	<b>(29,900)</b>	<b>-</b>	<b>-</b>	<b>(29,900)</b>	<b>(2,273)</b>

Key:

A = interest

B = from write-back

Of the adjustments, 26.002 million relates to the write-down of units held in Fondo Atlante, while the remainder relates to mainly unlisted equities and units in mutual funds.

### Net impairment losses on other financial transactions: breakdown

Transactions/Income items	Adjustments			Write-backs				Total 30/06/2017	Total 30/06/2016
	Specific			Specific		Portfolio			
	Write-offs	Other	Portfolio	A	B	A	B		
A. Guarantees given	-	(859)	-	-	154	-	333	(372)	712
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to make loans	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
<b>E. Total</b>	<b>-</b>	<b>(859)</b>	<b>-</b>	<b>-</b>	<b>154</b>	<b>-</b>	<b>333</b>	<b>(372)</b>	<b>712</b>

Key:

A = interest

B = from write-back

## Administrative expenses - line item 180

### Personnel expenses: breakdown

Type of expense/Amounts	30/06/2017	30/06/2016
<b>1) Employees</b>	<b>(121,361)</b>	<b>(114,112)</b>
a) Wages and salaries	(77,534)	(75,585)
b) Social security contributions	(19,237)	(18,227)
c) Termination indemnities	-	-
d) Pension expenses	(2,368)	(2,227)
e) Provision for employee termination indemnities	(3,609)	(3,762)
f) Provision for pension and similar obligations:	(6,781)	(1,809)
- defined contribution	-	-
- defined benefits	(6,781)	(1,809)
g) Payments to external supplementary pension funds:	(1,761)	(1,674)
- defined contribution	(1,761)	(1,674)
- defined benefits	-	-
h) Costs deriving from payment agreements based on own capital instruments	-	-
i) Other personnel benefits	(10,071)	(10,828)
<b>2) Other working personnel</b>	<b>(221)</b>	<b>(279)</b>
<b>3) Directors and Statutory auditors</b>	<b>(1,221)</b>	<b>(1,125)</b>
<b>4) Retired personnel</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>(122,803)</b>	<b>(115,516)</b>

The increase is to a large extent attributable to the recognition of income pertaining to the Parent Company's pension fund of 5.837 million (0.848 in 2016) with an opposite entry to other operating income and, thus, with a zero impact on the income statement.

### Average number of employees by category

	30/06/2017	31/12/2016
<b>1) Employees</b>	<b>3,157</b>	<b>3,119</b>
a) Managers	38	36
b) Officials	766	750
c) Other employees	2,353	2,333
<b>2) Other personnel</b>	<b>24</b>	<b>10</b>
	<b>30/06/2017</b>	<b>31/12/2016</b>
- Number of employees at year-end	3,195	3,156
- Other personnel	6	8
<b>BRANCHES</b>	<b>359</b>	<b>356</b>



### Other administrative expenses: breakdown

Type of service/Amounts	30/06/2017	30/06/2016
Telephone, post and data transmission	(7,800)	(7,889)
Maintenance of property, equipment and investment property	(4,716)	(4,940)
Rent of buildings	(13,811)	(13,780)
Security	(3,264)	(3,194)
Transportation	(1,846)	(1,763)
Professional fees	(16,492)	(16,073)
Office materials	(1,376)	(1,271)
Electricity, heating and water	(2,581)	(2,748)
Advertising and entertainment	(1,957)	(1,866)
Legal	(9,112)	(9,154)
Insurance	(960)	(983)
Company searches and information	(3,089)	(3,039)
Indirect taxes and dues	(27,104)	(26,713)
Software and hardware rental and maintenance	(8,453)	(7,431)
Data entry by third parties	(969)	(909)
Cleaning	(2,952)	(2,911)
Membership fees	(982)	(898)
Services received from third parties	(2,334)	(1,785)
Outsourced activities	(10,102)	(8,725)
Deferred charges	(1,048)	(1,676)
Goods and services for employees	(485)	(478)
Other	(18,031)	(19,239)
<b>Total</b>	<b>(139,464)</b>	<b>(137,465)</b>

Other expenses include € 13.991 million comprising the contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

### *Net accruals to provisions for risks and charges - line item 190*

#### **Net accruals to provisions for risks and charges: breakdown**

The line item amounts to € 0.676 million.

### *Net gains (losses) on equity investments - line item 240*

#### **Net gains (losses) on equity investments: breakdown**

Income item/Segments	30/06/2017	30/06/2016
<b>1) Joint-ventures</b>		
A. Income	9	8
1. Revaluations	9	8
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	-	-
1. Write-downs	-	-
2. Impairment writedowns	-	-
3. Loss from disposals	-	-
4. Other charges	-	-
<b>Profit (loss)</b>	<b>9</b>	<b>8</b>
<b>2) Associated companies</b>		
A. Income	7,922	6,526
1. Revaluations	7,922	6,526
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	(354)	(259)
1. Write-downs	(186)	(259)
2. Impairment writedowns	(168)	-
3. Loss from disposals	-	-
4. Other charges	-	-
<b>Profit (loss)</b>	<b>7,568</b>	<b>6,267</b>
<b>Total</b>	<b>7,577</b>	<b>6,275</b>

### *Net gains on sales of investments - line item 270*

#### **Net gains on sales of investments: breakdown**

Income items/Amounts	30/06/2017	30/06/2016
<b>A. Buildings</b>	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
<b>B. Altre attività</b>	<b>5</b>	<b>35</b>
- Gains on disposal	5	35
- Losses on disposal	-	-
<b>Profit (loss)</b>	<b>5</b>	<b>35</b>

### *Earnings per share*

#### **Average number of ordinary shares (fully diluted)**

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

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

	30/06/2017	30/06/2016
number of shares	453,385,777	453,385,777



## Other information

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

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

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

There are no circumstances under which earnings can be diluted and there are no activities to be sold for which basic and diluted EPS must be stated separately.

	30/06/2017	30/06/2016
earnings per share - €	0.124	0.102
diluted eps - €	0.124	0.102

## Information on risks and related hedging policy

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

## Risks of the Banking Group

### Credit risk

#### QUALITATIVE INFORMATION

Qualitative information about credit risk is provided in the financial statements at 31/12/2016. With reference to impaired financial assets, please refer to the information in the report on operations, in the paragraph on «Lending», and in the notes, in the «Loans» section.

## QUANTITATIVE INFORMATION

### Asset quality

#### Impaired and performing loans: size, adjustments, trends, economic and territorial distribution

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

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired	Past due exposures, not impaired	Not impaired exposures	Total 30/06/2017
1. Available-for-sale financial assets	-	317	-	-	10,203,312	10,203,629
2. Held-to-maturity investments	-	-	-	-	94,393	94,393
3. Loans and receivables with banks	-	865	-	50,021	1,163,976	1,214,862
4. Loans and receivables with customers	758,431	1,320,226	210,831	816,411	22,606,043	25,711,942
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-
<b>Total 30/06/2017</b>	<b>758,431</b>	<b>1,321,408</b>	<b>210,831</b>	<b>866,432</b>	<b>34,067,724</b>	<b>37,224,826</b>
<b>Total 31/12/2016</b>	<b>767,900</b>	<b>1,323,550</b>	<b>291,897</b>	<b>519,589</b>	<b>30,624,524</b>	<b>33,527,460</b>

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

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

Portfolio/quality	Impaired assets			Not impaired assets			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
1. Available-for-sale financial assets	317	-	317	10,203,312	-	10,203,312	10,203,629
2. Held-to-maturity investments	-	-	-	94,393	-	94,393	94,393
3. Loans and receivables with banks	865	-	865	1,213,997	-	1,213,997	1,214,862
4. Loans and receivables with customers	4,363,706	2,074,218	2,289,488	23,567,520	145,066	23,422,454	25,711,942
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-	-
<b>Total 30/06/2017</b>	<b>4,364,888</b>	<b>2,074,218</b>	<b>2,290,670</b>	<b>35,079,222</b>	<b>145,066</b>	<b>34,934,156</b>	<b>37,224,826</b>
<b>Total 31/12/2016</b>	<b>4,426,848</b>	<b>2,043,501</b>	<b>2,383,347</b>	<b>31,284,004</b>	<b>139,891</b>	<b>31,144,113</b>	<b>33,527,460</b>

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

## Banking Group - Cash and off-balance sheet exposures to banks: gross and net values and past due bands

Type of exposure/Amounts	Gross exposure				Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
	Impaired assets							
	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year				
<b>A. Cash exposures</b>								
a) Non-performing loans	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
b) Unlikely-to-pay loans	865	-	-	-	-	-	-	865
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
c) Impaired past due exposures	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
d) Not impaired past due exposures	-	-	-	-	50,021	-	-	50,021
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
e) Other not impaired exposure	-	-	-	-	1,700,044	-	-	1,700,044
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
<b>Total A</b>	<b>865</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,750,065</b>	<b>-</b>	<b>-</b>	<b>1,750,930</b>
<b>B. Off-balance sheet exposures</b>								
a) Impaired	-	-	-	-	-	-	-	-
b) Not impaired	-	-	-	-	180,848	-	-	180,848
<b>Total B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>180,848</b>	<b>-</b>	<b>-</b>	<b>180,848</b>
<b>Total (A+B)</b>	<b>865</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,930,913</b>	<b>-</b>	<b>-</b>	<b>1,931,778</b>

Cash exposures include the loans and receivables with banks, shown under item 60, as well as other financial assets consisting of bank securities included in items 20, 30, 40, 50 of assets, excluding variable-yield securities. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities).





### Banking group – Cash exposures to banks: dynamics of impaired exposures

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
<b>A. Opening gross exposure</b>	-	<b>639</b>	-
- of which: sold but not eliminated from the balance sheet	-	-	-
<b>B. Increases</b>	-	<b>324</b>	-
B.1 transfers from performing loans	-	-	-
B.2 transfers from other categories of impaired exposure	-	-	-
B.3 other increases	-	324	-
<b>C. Decreases</b>	-	<b>98</b>	-
C.1 transfers to performing loans	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	98	-
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposure	-	-	-
C.7 other decreases	-	-	-
<b>D. Closing gross exposure</b>	-	<b>865</b>	-
- of which: sold but not eliminated from the balance sheet	-	-	-

**Banking group – Cash and off-balance sheet exposures to customers:  
gross and net values and past due bands**

Type of exposure/Amounts	Gross exposure				Not impaired assets	Specific adjustments	General portfolio adjustments	Net exposure
	Impaired assets							
	Up to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year				
<b>A. Cash exposures</b>								
a) Non-performing loans	4,450	8,177	43,082	2,078,603	-	1,375,881	-	758,431
- of which: exposures subject to forbearance	890	245	10,638	85,783	-	58,573	-	38,983
b) Unlikely-to-pay loans	757,330	111,783	202,217	905,868	-	656,655	-	1,320,543
- of which: exposures subject to forbearance	327,615	41,177	44,525	130,747	-	164,564	-	379,500
c) Impaired past due exposures	78,548	26,721	64,805	82,439	-	41,682	-	210,831
- of which: exposures subject to forbearance	5,828	2,027	4,151	7,524	-	2,974	-	16,556
d) Not Impaired past due exposures	-	-	-	-	822,988	-	6,577	816,411
- of which: exposures subject to forbearance	-	-	-	-	67,809	-	774	67,035
e) Other not impaired exposure	-	-	-	-	33,109,441	-	138,489	32,970,952
- of which: exposures subject to forbearance	-	-	-	-	435,862	-	4,701	431,161
<b>Total A</b>	<b>840,328</b>	<b>146,681</b>	<b>310,104</b>	<b>3,066,910</b>	<b>33,932,429</b>	<b>2,074,218</b>	<b>145,066</b>	<b>36,077,168</b>
<b>B. Off-balance sheet exposures</b>								
a) Impaired	78,446	-	-	-	-	18,838	-	59,608
b) Not impaired	-	-	-	-	4,648,236	-	4,925	4,643,311
<b>Total B</b>	<b>78,446</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,648,236</b>	<b>18,838</b>	<b>4,925</b>	<b>4,702,919</b>
<b>Total (A+B)</b>	<b>918,774</b>	<b>146,681</b>	<b>310,104</b>	<b>3,066,910</b>	<b>38,580,665</b>	<b>2,093,056</b>	<b>149,991</b>	<b>40,780,087</b>

Cash exposures include the customer loans shown in item 70 as well as other financial assets represented by non-bank securities included in items 20, 30, 40, 50 of the assets side of the balance sheet, excluding variable-yield securities and mutual funds. Off-balance sheet exposure is represented by guarantees given, commitments and derivatives (except those relating to variable-yield securities and mutual funds).



**Banking group – Cash exposures to customers:  
dynamics of gross impaired loans**

Categories	Non-performing loans	Unlikely-to-pay loans	Past due exposures, impaired
<b>A. Opening gross exposure</b>	<b>2,099,717</b>	<b>1,987,835</b>	<b>338,658</b>
- of which: sold but not eliminated from the balance sheet		34	2,833
<b>B. Increases</b>	<b>221,753</b>	<b>374,748</b>	<b>90,069</b>
B.1 transfers from performing loans	10,175	158,602	77,890
B.2 transfers from other categories of impaired exposure	167,099	74,552	-
B.3 other increases	44,479	141,594	12,179
<b>C. Decreases</b>	<b>187,158</b>	<b>385,385</b>	<b>176,214</b>
C.1 transfers to performing loans	887	44,075	54,265
C.2 write-offs	79,425	41	-
C.3 collections	92,441	88,065	18,937
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposure	31	153,179	88,441
C.7 other decreases	14,374	100,025	14,571
<b>D. Closing gross exposure</b>	<b>2,134,312</b>	<b>1,977,198</b>	<b>252,513</b>
- of which: sold but not eliminated from the balance sheet		-	1,154

## Banking Group – Cash exposures to customers: dynamics of exposures subject to forbearance broken down by credit quality

Categories	Exposures subject to forbearance: impaired	Exposures subject to forbearance: not impaired
<b>A. Opening gross exposure</b>	<b>556,911</b>	<b>453,871</b>
- of which: sold but not eliminated from the balance sheet	-	-
<b>B. Increases</b>	<b>181,180</b>	<b>174,088</b>
B.1 transfers from performing loans not subject to forbearance	31,925	99,941
B.2 transfers from performing loans subject to forbearance	26,562	-
B.3 transfers from loans subject to forbearance and impaired	-	8,680
B.4 other increases	122,693	65,467
<b>C. Decreases</b>	<b>76,941</b>	<b>124,288</b>
C.1 transfers to performing loans not subject to forbearance	-	15,423
C.2 transfers to performing loans subject to forbearance	8,680	-
C.3 transfers to loans subject to forbearance and impaired	-	26,562
C.4 write-offs	1	-
C.5 collections	34,756	45,194
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	33,504	37,109
<b>D. Closing gross exposure</b>	<b>661,150</b>	<b>503,671</b>
- of which: sold but not eliminated from the balance sheet	-	-

## Banking group – Cash exposures to customers: dynamics of total writedowns

Categories	Non-performing loans		Unlikely-to-pay loans		Past due exposures, impaired	
	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance
<b>A. Total opening adjustments</b>	<b>1,331,817</b>	<b>40,887</b>	<b>664,924</b>	<b>141,267</b>	<b>46,761</b>	<b>3,644</b>
- of which: sold but not eliminated from the balance sheet	7	-	500	-	357	-
<b>B. Increases</b>	<b>153,142</b>	<b>18,749</b>	<b>142,676</b>	<b>54,179</b>	<b>17,445</b>	<b>1,837</b>
B.1 adjustments	19,452	964	46,770	13,188	7,271	208
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of impaired exposure	66,920	5,626	10,815	2,183	-	-
B.4 other increases	66,770	12,159	85,091	38,808	10,174	1,629
<b>C. Decreases</b>	<b>109,078</b>	<b>1,063</b>	<b>150,945</b>	<b>30,882</b>	<b>22,524</b>	<b>2,507</b>
C.1 write-backs on valuation	19,233	856	34,634	2,552	1,464	35
C.2 write-backs due to collections	10,139	206	13,208	8,895	1,156	2
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	79,424	1	41	-	-	-
C.5 transfers to other categories of impaired exposure	6	-	64,935	5,482	12,794	2,327
C.6 other decreases	276	-	38,127	13,953	7,110	143
<b>D. Total closing adjustments</b>	<b>1,375,881</b>	<b>58,573</b>	<b>656,655</b>	<b>164,564</b>	<b>41,682</b>	<b>2,974</b>
- of which: sold but not eliminated from the balance sheet	-	-	1,041	-	159	-



## Distribution and concentration of lending

### Banking group - Distribution by sector of the cash and off-balance sheet exposures to customers (book value)

Exposures/Counterparties	Government			Other public entities		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
<b>A. Cash exposures</b>						
A.1 Non-performing loans	-	-	-	-	-	-
- of which exposures subject to forbearance	-	-	-	-	-	-
A.2 Unlikely-to-pay loans	-	-	-	-	-	-
- of which exposures subject to forbearance	-	-	-	-	-	-
A.3 Past due exposures, impaired	-	-	-	1	-	-
- of which exposures subject to forbearance	-	-	-	-	-	-
A.4 Not impaired exposures	10,373,610	-	659	393,497	-	181
- of which exposures subject to forbearance	-	-	-	-	-	-
<b>Total A</b>	<b>10,373,610</b>	<b>-</b>	<b>659</b>	<b>393,498</b>	<b>-</b>	<b>181</b>
<b>B. Off-balance sheet exposures</b>						
B.1 Non-performing loans	-	-	-	-	-	-
B.2 Unlikely-to-pay loans	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-
B.4 Not impaired exposures	19,758	-	-	29,032	-	37
<b>Total B</b>	<b>19,758</b>	<b>-</b>	<b>-</b>	<b>29,032</b>	<b>-</b>	<b>37</b>
<b>Total (A+B) 30/06/2017</b>	<b>10,393,368</b>	<b>-</b>	<b>659</b>	<b>422,530</b>	<b>-</b>	<b>218</b>
<b>Total (A+B) 31/12/2016</b>	<b>6,819,908</b>	<b>4,661</b>	<b>-</b>	<b>114,811</b>	<b>12</b>	<b>122</b>

### Banking group - Territorial distribution of cash and off-balance sheet exposures to customers (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total writedowns	Net exposure	Total writedowns
<b>A. Cash exposures</b>				
A.1 Non-performing loans	752,464	1,327,431	5,958	44,593
A.2 Unlikely-to-pay loans	1,306,064	651,520	13,709	4,825
A.3 Past due exposures, impaired	157,447	32,764	53,359	8,915
A.4 Not impaired exposures	27,916,754	137,606	5,632,207	6,736
<b>Total A</b>	<b>30,132,729</b>	<b>2,149,321</b>	<b>5,705,233</b>	<b>65,069</b>
<b>B. Off-balance sheet exposures</b>				
B.1 Non-performing loans	4,411	8,996	-	-
B.2 Unlikely-to-pay loans	50,226	9,736	-	-
B.3 Other impaired assets	4,886	4	83	100
B.4 Not impaired exposures	3,968,810	4,170	670,366	753
<b>Total B</b>	<b>4,028,333</b>	<b>22,906</b>	<b>670,449</b>	<b>853</b>
<b>Total A+B 30/06/2017</b>	<b>34,161,062</b>	<b>2,172,227</b>	<b>6,375,682</b>	<b>65,922</b>
<b>Total A+B 31/12/2016</b>	<b>32,097,393</b>	<b>2,135,824</b>	<b>5,138,803</b>	<b>66,482</b>

Financial companies			Insurance companies			Non-financial companies			Other parties		
Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
8,950	43,567	-	-	-	-	607,205	1,142,624	-	142,276	189,690	-
1,968	4,799	-	-	-	-	34,939	52,293	-	2,076	1,481	-
10,040	9,651	-	-	-	-	1,086,707	569,012	-	223,796	77,992	-
3,462	2,290	-	-	-	-	330,963	149,649	-	45,075	12,625	-
1,934	408	-	-	-	-	97,693	19,128	-	111,203	22,146	-
-	-	-	-	-	-	9,036	1,813	-	7,520	1,161	-
2,747,780	-	20,081	11,060	-	14	13,724,236	-	112,435	6,537,180	-	11,696
30	-	-	-	-	-	409,780	-	5,218	88,386	-	257
<b>2,768,704</b>	<b>53,626</b>	<b>20,081</b>	<b>11,060</b>	<b>-</b>	<b>14</b>	<b>15,515,841</b>	<b>1,730,764</b>	<b>112,435</b>	<b>7,014,455</b>	<b>289,828</b>	<b>11,696</b>
-	-	-	-	17	-	4,206	8,679	-	205	301	-
761	67	-	-	-	-	48,300	9,462	-	1,166	208	-
-	-	-	-	-	-	4,790	104	-	180	-	-
375,889	-	120	3,918	-	5	3,925,167	-	4,426	289,534	-	337
<b>376,650</b>	<b>67</b>	<b>120</b>	<b>3,918</b>	<b>17</b>	<b>5</b>	<b>3,982,463</b>	<b>18,245</b>	<b>4,426</b>	<b>291,085</b>	<b>509</b>	<b>337</b>
<b>3,145,354</b>	<b>53,693</b>	<b>20,201</b>	<b>14,978</b>	<b>17</b>	<b>19</b>	<b>19,498,304</b>	<b>1,749,009</b>	<b>116,861</b>	<b>7,305,540</b>	<b>290,337</b>	<b>12,033</b>
<b>3,691,946</b>	<b>63,703</b>	<b>16,790</b>	<b>16,311</b>	<b>17</b>	<b>19</b>	<b>19,451,072</b>	<b>1,723,706</b>	<b>116,642</b>	<b>7,273,900</b>	<b>269,436</b>	<b>11,688</b>

AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
8	23	-	3,810	1	24
769	310	-	-	1	-
5	1	2	-	18	2
142,281	137	43,697	285	52,424	302
<b>143,063</b>	<b>471</b>	<b>43,699</b>	<b>4,095</b>	<b>52,444</b>	<b>328</b>
-	-	-	-	-	1
-	-	-	-	1	1
-	-	-	-	1	-
3,214	1	780	1	128	-
<b>3,214</b>	<b>1</b>	<b>780</b>	<b>1</b>	<b>130</b>	<b>2</b>
<b>146,277</b>	<b>472</b>	<b>44,479</b>	<b>4,096</b>	<b>52,574</b>	<b>330</b>
<b>49,379</b>	<b>414</b>	<b>28,291</b>	<b>4,021</b>	<b>54,082</b>	<b>55</b>



### Banking group - Territorial distribution of cash and off-balance sheet exposures to banks (book value)

Exposures/Geographical areas	ITALY		OTHER EU COUNTRIES	
	Net exposure	Total writedowns	Net exposure	Total writedowns
<b>A. Cash exposures</b>				
A.1 Non-performing loans	-	-	-	-
A.2 Unlikely-to-pay loans	865	-	-	-
A.3 Past due exposures, impaired	-	-	-	-
A.4 Not impaired exposures	1,453,179	-	201,028	-
<b>Total A</b>	<b>1,454,044</b>	<b>-</b>	<b>201,028</b>	<b>-</b>
<b>B. Off-balance sheet exposures</b>				
B.1 Non-performing loans	-	-	-	-
B.2 Unlikely-to-pay loans	-	-	-	-
B.3 Off-balance sheet exposures	-	-	-	-
B.4 Not impaired exposures	60,818	-	115,787	-
<b>Total B</b>	<b>60,818</b>	<b>-</b>	<b>115,787</b>	<b>-</b>
<b>Total A+B 30/06/2017</b>	<b>1,514,862</b>	<b>-</b>	<b>316,815</b>	<b>-</b>
<b>Total A+B 31/12/2016</b>	<b>1,755,069</b>	<b>-</b>	<b>358,660</b>	<b>-</b>

### Significant risks

	30/06/2017	31/12/2016
Number of positions	13	11
Exposure	15,070,139	12,973,341
Risk position	3,770,059	3,608,205

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

The above positions include the Republic of Italy (Nominal exposure, 8,565 million; Risk position, 52 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione Garanzia - Clearing House (Nominal exposure, 415 million; Risk position, 60 million), principally in relation to lending and funding repo transactions, as well as nominal exposures to Spain and France of 1,709 million with zero risk positions.

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

### Banking group - Market risk

Qualitative information about interest rate, price and exchange rate risks is provided in the financial statements at 31/12/2016.



AMERICA		ASIA		REST OF THE WORLD	
Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
62,832	-	28,060	-	4,966	-
<b>62,832</b>	<b>-</b>	<b>28,060</b>	<b>-</b>	<b>4,966</b>	<b>-</b>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
202	-	2,655	-	1,386	-
<b>202</b>	<b>-</b>	<b>2,655</b>	<b>-</b>	<b>1,386</b>	<b>-</b>
<b>63,034</b>	<b>-</b>	<b>30,715</b>	<b>-</b>	<b>6,352</b>	<b>-</b>
<b>44,156</b>	<b>-</b>	<b>38,521</b>	<b>-</b>	<b>3,301</b>	<b>-</b>



## Derivative instruments

### Financial derivatives

Trading portfolio for supervisory purposes: notional amounts at period end

Underlying assets/Type of derivative	Total 30/06/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>1. Fixed-yield securities and interest rates</b>	<b>2,219,481</b>	<b>-</b>	<b>2,338,532</b>	<b>-</b>
a) Options	22,370	-	24,947	-
b) Swaps	2,197,111	-	2,313,585	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Variable-yield securities and stock indices</b>	<b>-</b>	<b>544,225</b>	<b>11</b>	<b>-</b>
a) Options	-	544,225	11	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currency and gold</b>	<b>4,310,263</b>	<b>-</b>	<b>4,384,629</b>	<b>-</b>
a) Options	72,617	-	62,882	-
b) Swaps	-	-	-	-
c) Forwards	4,237,646	-	4,321,747	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	<b>20,704</b>	<b>-</b>	<b>26,882</b>	<b>-</b>
<b>5. Other underlying assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>6,550,448</b>	<b>544,225</b>	<b>6,750,054</b>	<b>-</b>

Bank book: notional amounts at period end

For hedging

Underlying assets/Type of derivative	Total 30/06/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>1. Fixed-yield securities and interest rates</b>	<b>726,940</b>	<b>-</b>	<b>922,618</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	726,940	-	922,618	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Variable-yield securities and stock indices</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Currency and gold</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>5. Other underlying assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>726,940</b>	<b>-</b>	<b>922,618</b>	<b>-</b>



## Financial derivatives: gross positive fair value - breakdown by product

Portfolio/Type of derivatives	POSITIVE FAIR VALUES			
	Total 30/06/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>A. Trading portfolio for supervisory purposes</b>	<b>77,008</b>	<b>2,774</b>	<b>56,581</b>	-
a) Options	1,236	2,774	1,236	-
b) Interest rate swaps	17,618	-	20,136	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forward	57,822	-	33,707	-
f) Futures	-	-	-	-
g) Other	332	-	1,502	-
<b>B. Bank book - for hedging purposes</b>	<b>2</b>	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	2	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Bank book - other derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>77,010</b>	<b>2,774</b>	<b>56,581</b>	<b>-</b>

**Financial derivatives: gross negative fair value - breakdown by product**

Underlying assets/Type of derivative	NEGATIVE FAIR VALUES			
	Total 30/06/2017		Total 31/12/2016	
	Over the counter	Central Counterparties	Over the counter	Central Counterparties
<b>A. Trading portfolio for supervisory purposes</b>	<b>58,322</b>	<b>4,488</b>	<b>73,016</b>	-
a) Options	1,153	4,488	1,157	-
b) Interest rate swaps	18,020	-	20,489	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forward	38,835	-	49,894	-
f) Futures	-	-	-	-
g) Other	314	-	1,476	-
<b>B. Bank book - for hedging purposes</b>	<b>30,081</b>	-	<b>38,734</b>	-
a) Options	-	-	-	-
b) Interest rate swaps	30,081	-	38,734	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Bank book - other derivatives</b>	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swaps	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>88,403</b>	<b>4,488</b>	<b>111,750</b>	-



**Over the Counter financial derivatives - trading portfolio for supervisory purposes: notional values, gross positive and negative fair value by counterparty - contracts which are not part of settlement agreements**

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
<b>1. Fixed-yield securities and interest rates</b>							
- notional value	-	-	2,084,740	232	-	130,620	3,889
- positive fair value	-	-	10,461	10	-	7,081	93
- negative fair value	-	-	18,022	-	-	25	-
- future exposure	-	-	12,475	-	-	259	5
<b>2. Variable-yield securities and stock indices</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>3. Currency and gold</b>							
- notional value	365,293	-	3,304,387	119,645	1,859	369,811	149,268
- positive fair value	-	-	46,366	2,241	11	7,899	2,514
- negative fair value	6,364	-	27,675	2,029	84	2,301	1,507
- future exposure	3,653	-	33,183	1,490	19	3,538	1,493
<b>4. Other assets</b>							
- notional value	-	-	10,352	-	-	10,352	-
- positive fair value	-	-	223	-	-	109	-
- negative fair value	-	-	101	-	-	214	-
- future exposure	-	-	1,040	-	-	1,040	-

**OTC financial derivatives - bank book: notional values, gross positive and negative fair values for counterparties - contracts which are not part of settlement agreements**

Contracts which are not part of settlement agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
<b>1) Fixed-yield securities and interest rates</b>							
- notional value	-	-	726,940	-	-	-	-
- positive fair value	-	-	2	-	-	-	-
- negative fair value	-	-	30,081	-	-	-	-
- future exposure	-	-	4,034	-	-	-	-
<b>2. Variable-yield securities and stock indices</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>3. Currency and gold</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>4. Other assets</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

**Residual life of OTC financial derivatives: notional values**

Underlyings/residual life	Within 12 months	1 to 5 years	Over 5 years	Total
<b>A. Trading portfolio for supervisory purposes</b>				
A.1 Financial derivatives on fixed-yield securities and interest rates	4,342,476	1,269,124	938,848	6,550,448
A.2 Financial derivatives on variable-yield securities and stock indices	28,666	1,251,967	938,848	2,219,481
A.3 Financial derivatives on exchange rates and gold	-	-	-	-
A.4 Financial derivatives on other instruments	4,293,626	16,637	-	4,310,263
<b>B. Bank book</b>	<b>207,421</b>	<b>411,208</b>	<b>108,311</b>	<b>726,940</b>
B.1 Financial derivatives on fixed-yield securities and interest rates	20,184	520	-	20,704
B.2 Financial derivatives on variable-yield securities and stock indices	207,421	411,208	108,311	726,940
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other instruments	-	-	-	-
<b>Total 30/06/2017</b>	<b>4,549,897</b>	<b>1,680,332</b>	<b>1,047,159</b>	<b>7,277,388</b>
<b>Total 31/12/2016</b>	<b>4,856,329</b>	<b>1,734,714</b>	<b>1,081,630</b>	<b>7,672,673</b>





## **Banking group - Liquidity risk**

Qualitative information about liquidity risk is provided in the financial statements at 31/12/2016.

## **Securitisation transactions and disposal of assets**

### **Covered bonds**

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

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

A second assignment of performing loans totalling € 202 million took place on 4 December 2015, under the same contract. On 1 February 2016, a portfolio of performing loans totalling € 576 million was assigned without recourse to POPSO Covered Bond s.r.l., the vehicle company, in relation to the second series of 7-year covered bonds amounting to € 500 million.

On 31 October 2016, a fourth portfolio of performing loans totalling € 226 million was assigned without recourse to the special purpose entity, POPSO Covered Bond s.r.l.

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

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as assignments without recourse pursuant to IAS 39. Therefore, these mortgages were not derecognised.

The principal strategic objectives for this issue including equipping the Parent Company with instruments that can be placed on the market, even via public transactions. In addition, the activation of instruments of this type can contribute to:

- extending the maturities of funding and therefore strengthening its correlation with the medium/long-term loans granted;
- diversifying the long-term sources of funding;
- obtaining favourable conditions, with respect to those available via the routine placement of unsecured bonds.

A complex and detailed process has been established for complying with the related regulatory requirements. The process involves, in particular, calculating and monitoring the tests required by law and contracts, checking compliance with the requirements governing the suitability of the assets assigned, preparing the reports required by the regulations and the rating agency, and performing all the related control activities. Among the various counterparts involved for various reasons, BDO Italia Spa, the independent auditing firm and «asset monitor», is responsible for verifying the tests.

The operations are proceeding smoothly and no issues have emerged with respect to the contractual requirements.

The regulations also require assessment of the objectives, legal, reputational and other risks, and controls put in place by the corporate bodies responsible for strategic supervision and control.

The following information is provided about the bonds issued by Banca Popolare di Sondrio S.C.p.A. for which the vehicle company, Popso Covered Bond s.r.l., acts as Guarantor:

Series and Class	Series 1
ISIN Code	IT0005039711
Issue date	05/08/2014
Maturity Date	05/08/2019
Extended maturity	05/08/2020
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	1,375%
Annual	Coupon
Applicable law	Italian

Series and Class	Series 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0,750%
Annual	Coupon
Applicable law	Italian

### Banking group - Operational risks

Qualitative information about operational risks is provided in the financial statements at 31/12/2016.

### Information on exposure to sovereign debt

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

In this regard we communicate that the overall exposure of the Group as at 30/06/2017 amounted to € 11,377 million and was structured as follows:

- a) Government securities: € 10,193 million;
- b) Other issuers securities: € 46 million;
- c) Loans to public administrations: € 28 million;
- d) Loans to local administrations: € 64 million;
- e) Loans to local or state-owned enterprises: € 618 million;
- f) Loans to other public administrations and other entities: € 428 million.



## ***Information on consolidated equity***

### ***Consolidated capital***

#### **QUALITATIVE INFORMATION**

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

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

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of the Group features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

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

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

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

#### **QUANTITATIVE INFORMATION**

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

## Consolidated equity broken down by type of businesses

Equity items	Banking group	Insurance companies	Other businesses	Consolidated		Total 30/06/2017
				eliminations and adjustments		
<b>1. Share capital</b>	<b>1,393,736</b>	-	-	-	-	<b>1,393,736</b>
<b>2. Share premium reserve</b>	<b>83,363</b>	-	-	-	-	<b>83,363</b>
<b>3. Reserves</b>	<b>1,125,096</b>	-	<b>1,994</b>	<b>20,127</b>		<b>1,147,217</b>
<b>4. Equity instruments</b>	-	-	-	-	-	-
<b>5. (Treasury shares)</b>	<b>(25,375)</b>	-	-	-	-	<b>(25,375)</b>
<b>6. Valuation reserve</b>	<b>42,979</b>	-	<b>192</b>	<b>3,501</b>		<b>46,672</b>
- Available-for-sale financial assets	78,012	-	-	-	-	78,012
- Property, equipment and investment property	-	-	-	-	-	-
- Intangible assets	-	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-	-
- Cash-flow hedges	-	-	-	-	-	-
- Exchange differences	-	-	-	-	-	-
- Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
- Actuarial profits (losses) on defined-benefit plans	(35,033)	-	-	-	-	(35,033)
- Share of valuation reserves of equity investments valued at net equity	-	-	-	3,501		3,501
- Special revaluation regulations	-	-	192	-		192
<b>7. Profit (loss) of the year (+/-) of the Group and of minority interests</b>	<b>61,974</b>	-	<b>(286)</b>	<b>(927)</b>		<b>60,761</b>
<b>Total</b>	<b>2,681,773</b>	-	<b>1,900</b>	<b>22,701</b>		<b>2,706,374</b>

## Valuation reserves for available-for-sale financial assets: breakdown

Assets/Values	Banking group		Insurance companies		Other businesses		Consolidated eliminations and adjustments		Total 30/06/2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	25,310	(9,739)	-	-	-	-	-	-	25,310	(9,739)
2. Variable-yield securities	50,985	-	-	-	-	-	-	-	50,985	-
3. Mutual funds	11,590	(134)	-	-	-	-	-	-	11,590	(134)
4. Loans	-	-	-	-	-	-	-	-	-	-
<b>Total 30/06/2017</b>	<b>87,885</b>	<b>(9,873)</b>	-	-	-	-	-	-	<b>87,885</b>	<b>(9,873)</b>
<b>Total 31/12/2016</b>	<b>79,403</b>	<b>(5,919)</b>	-	-	-	-	-	-	<b>79,403</b>	<b>(5,919)</b>



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

	Fixed-yield securities	Variable-yield securities	Mutual funds	Loans
<b>1. Opening balance</b>	<b>14,979</b>	<b>45,896</b>	<b>12,609</b>	-
<b>2. Positive changes</b>	<b>17,962</b>	<b>5,089</b>	<b>658</b>	-
2.1 Increases in fair value	17,920	5,089	658	-
2.2 Release to the income statement of negative reserves	42	-	-	-
- from impairment	-	-	-	-
- from disposals	42	-	-	-
2.3 Other changes	-	-	-	-
<b>3. Negative changes</b>	<b>17,370</b>	-	<b>1,811</b>	-
3.1 Reductions in fair value	9,610	-	1,811	-
3.2 Impairment writedowns	-	-	-	-
3.3 Transfer to income statement from positive reserves: from disposals	7,760	-	-	-
3.4 Other changes	-	-	-	-
<b>4. Closing balance</b>	<b>15,571</b>	<b>50,985</b>	<b>11,456</b>	-

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

The valuation reserve relating to the defined-benefit plans has a negative balance of € 35.033 million.

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

### *Capital and capital adequacy ratios*

#### **Scope of application of the regulations**

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and Directive 2013/36 EU (CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

While the CRR Regulation is directly applicable in national law, the CRD IV Directive was implemented by Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to Own Funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the EU instructions.

#### **Own funds**

#### **QUALITATIVE INFORMATION**

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), own funds comprise:

- Tier 1 Capital;
- Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists :

- Common Equity Tier 1 - CET1;
- Additional Tier 1 - AT1.

The Tier 1 capital (CET1) is made up of the following positive and negative components:

- Share capital;
- Share premium reserve;
- Retained earnings;
- Negative valuation reserves - OCI;
- Other reserves;
- Previous CET 1 instruments subject to transitional instructions (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

Additional Tier 1 capital (AT1) consists of the following positive and negative components:

- Equity instruments and related premiums;
- Previous AT1 instruments subject to transitional instructions (grandfathering);
- Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:

- Equity instruments, subordinated loans and related premiums;
- Positive measurement reserves - OCI;
- Previous T2 instruments subject to transitional instructions (grandfathering);
- Deductions.

The supervisory regulations envisaged a transition period, still in progress, with the gradual introduction (phase in) of part on the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

Following the entry into force of the ECB Regulation, since October 2016, larger banks have to include in or deduct from CET 1, respectively, gains and losses arising from exposures to EU central governments classified as AFS according to the following percentages: 60% for 2016 (4); 80% for 2017. The amounts that remain after application of these percentages (i.e. 40% for 2016 and 20% for 2017) should not be counted for the purposes of calculating Own Funds, continuing to be subjected to sterilisation: under the transitional arrangements laid down in CRR, in fact, the national arrangements already in force on 31 December 2013 still apply.



## QUANTITATIVE INFORMATION

	30.06.2017	31.12.2016
<b>A. Common Equity Tier 1-CET1 before the application of prudential filters</b>	<b>2,629,809</b>	<b>2,589,999</b>
of which: CET1 instruments subject to transitional instructions		
B.1 Prudential filters of CET1 (+/-)		
<b>C. CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)</b>	<b>2,629,809</b>	<b>2,589,999</b>
<b>D. Elements to be deducted from CET1</b>	<b>26,145</b>	<b>23,862</b>
<b>E. Transitional instructions - Impact on CET1 (+/-), including minority interest subject to transitional instructions</b>	<b>7,596</b>	<b>7,878</b>
<b>F. Total Common Equity Tier 1-CET1 (C - D +/- E)</b>	<b>2,611,260</b>	<b>2,574,015</b>
<b>G. Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions</b>	<b>10,721</b>	<b>9,808</b>
of which: AT1 instruments subject to transitional instructions		
<b>H. Elements to be deducted from AT1</b>		
<b>I. Transitional instructions - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions</b>	<b>- 2,144</b>	<b>- 3,923</b>
<b>L. Total Additional Tier 1 - AT1 (G - H +/- I)</b>	<b>8,577</b>	<b>5,885</b>
<b>M. Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions</b>	<b>478,366</b>	<b>487,226</b>
of which: T2 instruments subject to transitional instructions	14,294	13,077
<b>N. Elements to be deducted from T2</b>	<b>14,074</b>	<b>14,316</b>
<b>O. Transitional instructions - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional instructions</b>	<b>56,906</b>	<b>97,826</b>
<b>P. Total Tier 2 - T2 (M - N +/- O)</b>	<b>521,198</b>	<b>570,736</b>
<b>Q. Total Own funds (F + L + P)</b>	<b>3,141,035</b>	<b>3,150,636</b>

The composition of own funds takes account of the profit for the period, net of the estimated dividends to be distributed, in compliance with art. 26, para. 2, of Regulation (EU) 575 of 26/6/2013 (CRR), in order to determine the Common Equity Tier 1 capital.

## Capital adequacy

### QUALITATIVE INFORMATION

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

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

In addition to the above, the following additional restrictions are provided for:

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;



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

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

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

These coefficients are lower in 2017 and 2018, during the transition phase.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

With the SREP decision of 20 November 2015, the European Central Bank, within its powers, raised the level of capital required to guarantee appropriate coverage of the Group's risks. In particular, the minimum Common Equity Tier 1 ratio was raised to 9.25%.

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

- a minimum requirement of Common Equity Tier 1 ratio of 7.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.25%), and an additional Second Pillar requirement (1.50%);
- a minimum requirement of total capital ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.25%) and an additional Second Pillar requirement (1.50%).

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

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the group's capital, is added to the two ratios this year. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced,



as it is an element which, also according to the ECB's approach, is not relevant for the calculation of distributable dividends.

At 30 June 2017, the parameters of the Group under the new regulations are as follows

- CET 1 Capital ratio 11.11%;
- Tier 1 Capital ratio 11.14%;
- Total Capital ratio 13.36%.

The leverage ratio required by Basel 3, calculated as the ratio of Tier 1 to total on- and off-balance sheet assets, is 5.84% applying the transitional criteria in force for 2017 and 5.82% under the definitive criteria.

The Texas Ratio is 88.36%.

## QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/ requirements	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
<b>A. ASSETS AT RISK</b>				
A.1 Credit and counterparty risk				
1. Standardised approach	41,465,004	37,523,992	20,602,567	20,249,883
2. Approach based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	355,579	360,145	311,603	315,447
<b>B. CAPITAL ADEQUACY REQUIREMENTS</b>				
B.1 Credit and counterparty risk			1,673,134	1,645,226
B.2 Loan adjustment risk			2,168	1,789
B.3 Regulation risks			-	-
B.4 Market risks			-	-
1. Standard methodology			59,988	63,827
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			-	-
1. Basic method			145,773	145,773
2. Standardised approach			-	-
3. Advanced method			-	-
B.6 Other calculation elements			-	-
B.7 Total precautionary requirements			1,881,063	1,856,615
<b>C. RISK ASSETS AND CAPITAL RATIOS</b>				
C.1 Risk-weighted assets			23,513,295	23,207,691
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			11.11	11.09
C.3 Tier 1 capital/ Risk-weighted assets (T1 capital ratio)			11.14	11.12
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)			13.36	13.58

## ***Related-party transactions***

### **Related party disclosures**

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

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

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

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

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

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

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

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

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



	Assets	Liabilities	Income	Charges	Guarantees given	Guarantees received
Directors	982	5,745	10	14	-	1,263
Statutory auditors	234	264	3	1	-	-
Management	18	1,144	-	3	-	-
Family members	2,435	14,652	24	49	95	10,158
Subsidiaries	2,781,396	276,006	10,476	8,118	882,155	9,129
Associated companies	742,456	333,092	1,368	178	49,140	7,308
Other related parties	249,363	99,633	1,285	34	8,449	32,248

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA and Factorit spa, while loans to associated companies relate for € 667 million to Alba Leasing spa and for € 73 million to Banca della Nuova Terra spa; assets with other related parties include loans of € 116 million granted to the affiliate Release spa.

## Segment information

### Primary format

#### Distribution by business segment: income statement

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 30/06/2017
Interest income	193,218	155,506	-	72,018	420,742	-110,951	309,791
Interest expense	-39,975	-77,569	-	-64,379	-181,923	110,951	-70,972
<b>Net interest income</b>	<b>153,243</b>	<b>77,937</b>	<b>-</b>	<b>7,639</b>	<b>238,819</b>	<b>-</b>	<b>238,819</b>
Fee and commission income	74,334	37,225	40,915	5,688	158,162	-459	157,703
Fee and commission expense	-2,978	-3,747	-2,626	81	-9,270	-55	-9,325
Dividends and similar income	-	-	-	4,561	4,561	-	4,561
Net trading income	-	-	-	31,008	31,008	498	31,506
Net hedging profit (loss)	-	300	-	-315	-15	-	-15
Gains/losses from sales or repurchases	-	-	-	13,814	13,814	-	13,814
Net change in financial assets and liabilities carried at fair value	-	-	-	5,674	5,674	-	5,674
<b>Total income</b>	<b>224,599</b>	<b>111,715</b>	<b>38,289</b>	<b>68,150</b>	<b>442,753</b>	<b>-16</b>	<b>442,737</b>
Adjustments to the net value of financial assets	-80,063	-14,205	-	-29,899	-124,167	-	-124,167
<b>Net financial income</b>	<b>144,536</b>	<b>97,510</b>	<b>38,289</b>	<b>38,251</b>	<b>318,586</b>	<b>-16</b>	<b>318,570</b>
Administrative expenses	-67,121	-80,283	-27,392	-59,216	-234,012	-28,255	-262,267
Provisions for risks and charges	409	-999	-	1,266	676	-	676
Depreciation and net impairment losses on property, equipment and investment property	-2,248	-3,208	-1,061	-2,462	-8,979	-	-8,979
Amortisation and net impairment losses on intangible assets	-1,946	-2,726	-895	-1,241	-6,808	-	-6,808
Other operating income/expense	4,447	3,262	-153	2,095	9,651	28,271	37,922
Share of profit/loss of equity investments	-	-	-	7,577	7,577	-	7,577
Net result of fair value measurement of property, equipment and investment property and intangible assets	-	-	-	-5	-5	-	-5
Gains/losses on disposal of investments	-	-	-	5	5	-	5
<b>Gross profit</b>	<b>78,077</b>	<b>13,556</b>	<b>8,788</b>	<b>-13,730</b>	<b>86,691</b>	<b>-</b>	<b>86,691</b>

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 30/06/2016
Interest income	217,956	172,299	-	92,820	483,075	-141,087	341,988
Interest expense	-53,804	-104,975	-	-77,312	-236,091	141,087	-95,004
<b>Net interest income</b>	<b>164,152</b>	<b>67,324</b>	<b>-</b>	<b>15,508</b>	<b>246,984</b>	<b>-</b>	<b>246,984</b>
Fee and commission income	74,511	35,583	37,148	5,743	152,985	-540	152,445
Fee and commission expense	-3,276	-3,651	-2,346	237	-9,036	-219	-9,255
Dividends and similar income	-	-	-	5,969	5,969	-	5,969
Net trading income	-	-	-	-20,696	-20,696	742	-19,954
Net hedging profit (loss)	-	1,480	-	-770	710	-	710
Gains/losses from sales or repurchases	-	-	-	44,931	44,931	-	44,931
Net change in financial assets and liabilities carried at fair value	-	-	-	-4,093	-4,093	-	-4,093
<b>Total income</b>	<b>235,387</b>	<b>100,736</b>	<b>34,802</b>	<b>46,829</b>	<b>417,754</b>	<b>-17</b>	<b>417,737</b>
Adjustments to the net value of financial assets	-108,729	-14,416	-	-2,272	-125,417	-	-125,417
<b>Net financial income</b>	<b>126,658</b>	<b>86,320</b>	<b>34,802</b>	<b>44,557</b>	<b>292,337</b>	<b>-17</b>	<b>292,320</b>
Administrative expenses	-65,765	-79,445	-27,307	-57,735	-230,252	-22,729	-252,981
Provisions for risks and charges	-4,172	2,597	-	-	-1,575	-	-1,575
Depreciation and net impairment losses on property, equipment and investment property	-2,225	-3,190	-1,074	-2,428	-8,917	-	-8,917
Amortisation and net impairment losses on intangible assets	-1,791	-2,482	-820	-1,115	-6,208	-	-6,208
Other operating income/expense	5,855	3,756	-34	3,104	12,681	22,746	35,427
Share of profit/loss of equity investments	-	-	-	6,275	6,275	-	6,275
Net result of fair value measurement of property, equipment and investment property and intangible assets	-	-	-	160	160	-	160
Gains/losses on disposal of investments	-	-	-	35	35	-	35
<b>Gross profit</b>	<b>58,560</b>	<b>7,556</b>	<b>5,567</b>	<b>-7,147</b>	<b>64,536</b>	<b>-</b>	<b>64,536</b>

The 2016 figures have been adjusted for comparison purposes.

### Distribution by business segment: balance sheet

Items	Enterprises	Individuals and other customers	Securities	Central functions	Total 30/06/2017
Financial assets	16,155,578	11,304,245	-	11,245,163	38,704,986
Other assets	-	-	-	1,523,777	1,523,777
Property, equipment and investment property	57,693	79,349	25,815	163,306	326,163
Intangible assets	5,257	7,303	2,388	11,210	26,158
Financial liabilities	6,899,948	22,842,607	-	6,412,504	36,155,059
Other liabilities	38,873	5,703	-	1,456,668	1,501,244
Provisions	68,759	91,691	23,202	34,755	218,407
Guarantees given	3,021,445	371,483	-	96,574	3,489,502
Commitments	1,023,175	323,439	33,456	39,145	1,419,215



Items	Enterprises	Individuals and other customers	Securities	Central functions	Total 30/06/2016
Financial assets	16,194,497	10,784,230	-	8,207,519	35,186,246
Other assets	-	-	-	1,665,288	1,665,288
Property, equipment and investment property	55,387	77,067	25,400	163,068	320,922
Intangible assets	4,625	6,402	2,103	10,739	23,869
Financial liabilities	7,369,111	23,566,630	-	2,614,654	33,550,395
Other liabilities	28,053	6,851	-	712,261	747,165
Provisions	71,428	94,807	23,641	36,481	226,357
Guarantees given	3,160,368	398,047	-	101,229	3,659,644
Commitments	1,017,207	460,034	38,941	72,099	1,588,281

The 2016 figures have been adjusted for comparison purposes.

## Secondary format

### Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 30/06/2017
Interest income	347,778	42,407	31,690	421,875	-112,084	309,791
Interest expense	-144,960	-26,251	-12,408	-183,619	112,647	-70,972
<b>Net interest income</b>	<b>202,818</b>	<b>16,156</b>	<b>19,282</b>	<b>238,256</b>	<b>563</b>	<b>238,819</b>
Fee and commission income	120,056	26,809	11,926	158,791	-1,088	157,703
Fee and commission expense	-5,213	-3,432	-1,277	-9,922	597	-9,325
Dividends and similar income	16,305	-	13	16,318	-11,757	4,561
Net trading income	19,926	-	10,747	30,673	833	31,506
Net hedging profit (loss)	-	-	300	300	-315	-15
Gains/losses from sales or repurchases	13,814	-	-	13,814	-	13,814
Net change in financial assets and liabilities carried at fair value	4,062	-	-	4,062	1,612	5,674
<b>Total income</b>	<b>371,768</b>	<b>39,533</b>	<b>40,991</b>	<b>452,292</b>	<b>-9,555</b>	<b>442,737</b>
Adjustments to the net value of financial assets	-119,955	-5,080	868	-124,167	-	-124,167
<b>Net financial income</b>	<b>251,813</b>	<b>34,453</b>	<b>41,859</b>	<b>328,125</b>	<b>-9,555</b>	<b>318,570</b>
Administrative expenses	-183,282	-21,452	-31,328	-236,062	-26,205	-262,267
Provisions for risks and charges	-540	-51	1,267	676	-	676
Depreciation and net impairment losses on property, equipment and investment property	-7,252	-662	-1,065	-8,979	-	-8,979
Amortisation and net impairment losses on intangible assets	-5,483	-579	-746	-6,808	-	-6,808
Other operating income/expense	10,684	1,811	225	12,720	25,202	37,922
Share of profit/loss of equity investments	-168	-	-	-168	7,745	7,577
Net result of fair value measurement of property, equipment and investment property and intangible assets	-5	-	-	-5	-	-5
Gains/losses on disposal of investments	5	-	-	5	-	5
<b>Gross profit</b>	<b>65,772</b>	<b>13,520</b>	<b>10,212</b>	<b>89,504</b>	<b>-2,813</b>	<b>86,691</b>

Items	Northern Italy	Central Italy	Switzerland	Total	Reconciliation	Total 30/06/2016
Interest income	406,620	46,546	31,092	484,258	-142,270	341,988
Interest expense	-185,860	-37,883	-14,234	-237,977	142,973	-95,004
<b>Net interest income</b>	<b>220,760</b>	<b>8,663</b>	<b>16,858</b>	<b>246,281</b>	<b>703</b>	<b>246,984</b>
Fee and commission income	115,530	25,651	12,520	153,701	-1,256	152,445
Fee and commission expense	-5,247	-3,405	-1,142	-9,794	539	-9,255
Dividends and similar income	16,974	-	10	16,984	-11,015	5,969
Net trading income	-29,403	-	8,483	-20,920	966	-19,954
Net hedging profit (loss)	-	-	1,480	1,480	-770	710
Gains/losses from sales or repurchases	44,931	-	-	44,931	-	44,931
Net change in financial assets and liabilities carried at fair value	-3,431	-	-	-3,431	-662	-4,093
<b>Total income</b>	<b>360,114</b>	<b>30,909</b>	<b>38,209</b>	<b>429,232</b>	<b>-11,495</b>	<b>417,737</b>
Adjustments to the net value of financial assets	-125,407	-590	580	-125,417	-	-125,417
<b>Net financial income</b>	<b>234,707</b>	<b>30,319</b>	<b>38,789</b>	<b>303,815</b>	<b>-11,495</b>	<b>292,320</b>
Administrative expenses	-182,386	-19,994	-29,894	-232,274	-20,707	-252,981
Provisions for risks and charges	347	-1,922	-	-1,575	-	-1,575
Depreciation and net impairment losses on property, equipment and investment property	-7,085	-654	-1,178	-8,917	-	-8,917
Amortisation and net impairment losses on intangible assets	-4,999	-533	-676	-6,208	-	-6,208
Other operating income/expense	12,935	2,065	199	15,199	20,228	35,427
Share of profit/loss of equity investments	-132	-	-	-132	6,407	6,275
Net result of fair value measurement of property, equipment and investment property and intangible assets	160	-	-	160	-	160
Gains/losses on disposal of investments	35	-	-	35	-	35
<b>Gross profit</b>	<b>53,582</b>	<b>9,281</b>	<b>7,240</b>	<b>70,103</b>	<b>-5,567</b>	<b>64,536</b>

The 2016 figures have been adjusted for comparison purposes.



### Distribution by geographical area: balance sheet

Items	Northern Italy	Central Italy	Switzerland	<b>Total 30/06/2017</b>
Financial assets	31,986,309	2,791,844	3,926,833	38,704,986
Other assets	835,131	-	688,646	1,523,777
Property, equipment and investment property	291,595	17,295	17,273	326,163
Intangible assets	22,769	1,568	1,821	26,158
Financial liabilities	24,474,480	7,399,053	4,281,526	36,155,059
Other liabilities	1,462,831	13,644	24,769	1,501,244
Provisions	193,588	22,339	2,480	218,407
Guarantees given	2,706,273	629,555	153,674	3,489,502
Commitments	1,104,420	288,112	26,683	1,419,215

Items	Northern Italy	Central Italy	Switzerland	<b>Total 31/12/2016</b>
Financial assets	28,251,215	2,976,628	3,958,403	35,186,246
Other assets	943,693	-	721,595	1,665,288
Property, equipment and investment property	283,615	16,629	20,678	320,922
Intangible assets	20,864	1,392	1,613	23,869
Financial liabilities	21,016,052	8,187,958	4,346,385	33,550,395
Other liabilities	710,572	8,210	28,383	747,165
Provisions	199,443	23,120	3,794	226,357
Guarantees given	2,895,580	602,602	161,462	3,659,644
Commitments	1,249,834	307,621	30,826	1,588,281



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

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Financial Reporting Officer of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Legislative Decree 58 of 24 February 1998, confirm:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for the formation of the condensed consolidated interim financial statements for the period 1 January 2017/30 June 2017.

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

We also confirm that the condensed consolidated interim financial statements at 30 June 2017:

- have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
- agree with the balances on the books of account and the accounting entries;
- are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the scope of consolidation.

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

Sondrio, 8 August 2017

The Managing Director  
Mario Alberto Pedranzini



The Financial Reporting Officer  
Maurizio Bertoletti



# Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

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

## Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the statement of financial position as of June 30, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flow for the period then ended and the related explanatory notes of Banca Popolare di Sondrio S.C.p.A. (the "Bank") and its subsidiaries (the "Banca Popolare di Sondrio Group"). The Directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

## Scope of Review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of the Banca Popolare di Sondrio Group at June 30, 2017 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.



## Other matters

The consolidated financial statements for the year ended December 31, 2016 and the interim condensed consolidated financial statements for the half-year period ended June 30, 2016 have been respectively audited and reviewed by another auditor who expressed an unqualified opinion on the consolidated financial statements on March 27, 2017 and expressed an unqualified conclusion on the interim condensed consolidated financial statements on August 12, 2016.

Milan, August 12, 2017

EY S.p.A.

Signed by: Davide Lisi, partner

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



Attachment 1

**FINANCIAL STATEMENTS  
OF THE PARENT BANK  
AT 30 JUNE 2017**



## BALANCE SHEET

ASSET ITEMS		30-06-2017	31-12-2016
10.	CASH AND CASH EQUIVALENTS	88,486,964	96,466,584
20.	FINANCIAL ASSETS HELD FOR TRADING	819,810,606	1,014,376,806
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	173,303,088	163,116,546
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS	10,514,373,109	6,643,534,743
50.	HELD-TO-MATURITY INVESTMENTS	94,392,870	117,022,971
60.	LOANS AND RECEIVABLES WITH BANKS	2,155,673,783	2,759,906,193
70.	LOANS AND RECEIVABLES WITH CUSTOMERS	21,534,096,906	21,331,910,550
100.	EQUITY INVESTMENTS	487,518,854	487,346,548
110.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	180,538,828	170,969,964
120.	INTANGIBLE ASSETS	16,372,882	14,313,189
130.	TAX ASSETS	371,825,062	437,950,534
	a) current	5,122,419	64,074,927
	b) deferred	366,702,643	373,875,607
	<i>b1) of which as per Law 214/2011</i>	321,233,083	335,353,219
150.	OTHER ASSETS	327,043,288	350,831,386
<b>TOTAL ASSETS</b>		<b>36,763,436,240</b>	<b>33,587,746,014</b>

THE CHAIRMAN  
Francesco Venosta

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

<b>EQUITY AND LIABILITY ITEMS</b>		<b>30-06-2017</b>	<b>31-12-2016</b>
10.	DUE TO BANKS	<b>5,827,394,898</b>	<b>2,249,796,181</b>
20.	DUE TO CUSTOMERS	<b>23,965,303,065</b>	<b>24,913,251,427</b>
30.	SECURITIES ISSUED	<b>2,926,587,896</b>	<b>3,089,135,232</b>
40.	FINANCIAL LIABILITIES HELD FOR TRADING	<b>80,435,755</b>	<b>87,615,749</b>
80.	TAX LIABILITIES	<b>31,982,680</b>	<b>30,470,573</b>
	b) deferred	31,982,680	30,470,573
100.	OTHER LIABILITIES	<b>1,366,571,536</b>	<b>666,090,044</b>
110.	POST-EMPLOYMENT BENEFITS	<b>40,710,395</b>	<b>42,271,279</b>
120.	PROVISIONS FOR RISKS AND CHARGES:	<b>168,503,666</b>	<b>174,329,787</b>
	a) pension and similar obligations	135,317,867	130,873,531
	b) other provisions	33,185,799	43,456,256
130.	VALUATION RESERVES	<b>43,192,042</b>	<b>37,356,524</b>
160.	RESERVES	<b>856,284,530</b>	<b>803,540,688</b>
170.	SHARE PREMIUM RESERVE	<b>79,005,128</b>	<b>79,005,128</b>
180.	SHARE CAPITAL	<b>1,360,157,331</b>	<b>1,360,157,331</b>
190.	TREASURY SHARES (-)	<b>(25,321,549)</b>	<b>(25,321,549)</b>
200.	PROFIT OF THE PERIOD	<b>42,628,867</b>	<b>80,047,620</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>36,763,436,240</b>	<b>33,587,746,014</b>

THE MANAGING DIRECTOR AND GENERAL MANAGER  
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER  
Maurizio Bertoletti





# INCOME STATEMENT

ITEMS	30-06-2017	30-06-2016
10. INTEREST AND SIMILAR INCOME	267,018,569	299,859,837
20. INTEREST AND SIMILAR EXPENSE	(60,115,475)	(81,612,243)
<b>30. NET INTEREST INCOME</b>	<b>206,903,094</b>	<b>218,247,594</b>
40. FEE AND COMMISSION INCOME	134,156,497	128,395,398
50. FEE AND COMMISSION EXPENSE	(7,100,058)	(6,941,349)
<b>60. NET FEE AND COMMISSION INCOME</b>	<b>127,056,439</b>	<b>121,454,049</b>
70. DIVIDENDS AND SIMILAR INCOME	16,280,160	16,950,554
80. NET TRADING INCOME	20,377,068	(28,648,155)
100. GAINS/LOSSES FROM SALES OR REPURCHASES OF:	13,814,211	44,930,267
a) loans and receivables	(43)	(50)
b) available-for-sale financial assets	13,866,382	45,441,726
d) financial liabilities	(52,128)	(511,409)
110. NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	4,062,080	(3,430,720)
<b>120. TOTAL INCOME</b>	<b>388,493,052</b>	<b>369,503,589</b>
130. NET IMPAIRMENT LOSSES ON:	(131,079,671)	(118,588,207)
a) loans and receivables	(100,741,142)	(117,004,891)
b) available-for-sale financial assets	(29,899,577)	(2,273,008)
d) other financial transactions	(438,952)	689,692
<b>140. NET FINANCIAL INCOME</b>	<b>257,413,381</b>	<b>250,915,382</b>
150. ADMINISTRATIVE EXPENSES:	(219,856,524)	(212,788,499)
a) personnel expenses	(94,581,987)	(88,579,510)
b) other administrative expenses	(125,274,537)	(124,208,989)
160. NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	512,428	(1,648,125)
170. DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(6,913,352)	(6,746,251)
180. AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	(6,041,480)	(5,504,907)
190. OTHER OPERATING INCOME/EXPENSE	35,793,025	31,943,261
<b>200. OPERATING COSTS</b>	<b>(196,505,903)</b>	<b>(194,744,521)</b>
210. NET GAINS (LOSSES) ON EQUITY INVESTMENTS	(167,852)	(132,067)
240. NET GAINS ON SALES OF INVESTMENTS	4,279	12,115
<b>250. PRE-TAX PROFIT FROM CONTINUING OPERATIONS</b>	<b>60,743,905</b>	<b>56,050,909</b>
260. INCOME TAXES	(18,115,038)	(13,716,309)
<b>270. POST-TAX PROFIT FROM CONTINUING OPERATIONS</b>	<b>42,628,867</b>	<b>42,334,600</b>
<b>290. PROFIT OF THE PERIOD</b>	<b>42,628,867</b>	<b>42,334,600</b>





