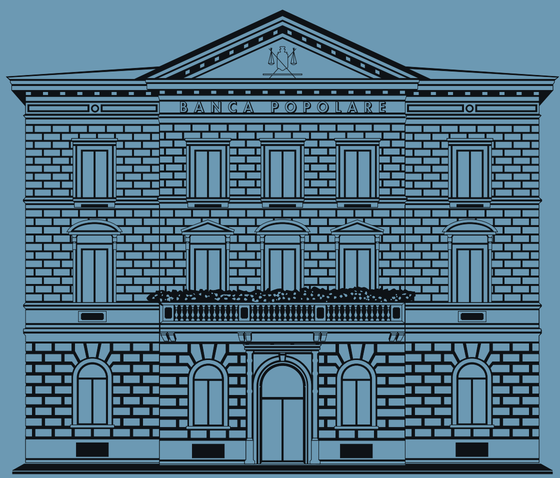
Banca Popolare di Sondrio



CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2019

Banca Popolare
di Sondrio

CONSOLIDATED
INTERIM
FINANCIAL
REPORT
AT 30 JUNE 2019

Banca Popolare di Sondrio

Founded in 1871

CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2019

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

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

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 5 June 2019:
  - Long-term: BB+
  - Short-term: B
  - Viability rating: bb+
  - Outlook: Stable

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

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

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

ADVISORY COMMITTEE

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

GENERAL MANAGEMENT

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

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

** Members of the Chairman's Committee

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

BRANCH NETWORK

BANCA POPOLARE DI SONDRIO
Founded in 1871

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

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

VIRTUAL UNIT
corso Vittorio Veneto 7, Sondrio

BRANCHES AND TREASURIES

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

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

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

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

PROVINCE OF BOLOGNA
BOLOGNA via Riva di Reno 58/B

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

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

PROVINCE OF COMO
ALBIOLO via Indipendenza 10
APPIANO GENTILE piazza della Libertà 9
ARGEGNO piazza Guglielmo Testi
AROSIO piazza Montello 1
BELLAGIO via Valassina 58
BINAGO via Roma 9
BIZZARONE via Roma 14
BREGNANO via Giuseppe Mazzini 22/A
BRUNATE via Alessandro Volta 28
BULGAROGRASSO via Pietro Ferloni 2
CAMPIONE D'ITALIA piazza Roma 1/G
CANTÙ via Milano 47
CANZO via Alessandro Verza 39
CAPIAGO INTIMIANO via Vittorio Emanuele II 7
CARATE URIO via Regina 58
CARIMATE - fraz. Montesolaro - piazza Lorenzo Spallino
CARLAZZO via V° Alpini 59/A
CARUGO via Luigi Cadorna 32
CASNATE CON BERNATE via Roma 7
CASTELMARTE largo Armando Diaz 1
CENTRO VALLE INTELVI via Provinciale 79
COMO
Head Office, viale Innocenzo XI 71
Branch no. 1, via Giorgio Giulini 12
Branch no. 2, via Statale per Lecco 70 - fraz. Lora
Branch no. 3, via Asiago 25 - fraz. Tavernola
Branch no. 4, ACSM - via Vittorio Emanuele II 93
DOMASO via Statale Regina 77
DONGO piazza Virgilio Matteri 14
ERBA via Alessandro Volta 3
FINO MORNASCO via Giuseppe Garibaldi - ang. piazza Odescalchi 5
GARZENO via Roma 32
GERA LARIO via Statale Regina 18
GRAVEDONA ED UNITI piazza Giuseppe Garibaldi 11
GUANZATE via Giuseppe Garibaldi 1
LAMBRUGO piazza Papa Giovanni II 4/7
LANZO INTELVI piazza Lanfranconi 22
LURAGO D'ERBA via Roma 58
MASLIANICO via XX Settembre 47
MENAGGIO via Annetta e Celestino Lusardi 62
MERONE via San Girolamo Emiliani 5/C
MONTORFANO via Brianza 6/B
MUSSO via Statale Regina 30
OSSUCCIO via Statale 72
PARÈ piazza della Chiesa 5/6
PIANELLO DEL LARIO via Statale Regina 32
PLESIO via Grona 85
PORLEZZA lungolago Giacomo Matteotti 15
PUSIANO via Giuseppe Mazzini - Complesso Pusiano 2000
SALA COMACINA via Statale 14/A
SAN NAZZARO VAL CAVARGNA via Don Luigi Gabbani 237
SAN SIRO via Statale 223
SCHIGNANO via Roma 8
SORICO piazza Cesare Battisti 1/A
TREMEZZO via Regina 26
TURATE via Vittorio Emanuele 14
VALSOLDA - fraz. San Mamete - piazza Roma 7/9
VENIANO via Alessandro Manzoni 5
VERCANA via Vico 3
VILLA GUARDIA via Varesina - ang. via Monte Rosa

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

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

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

PROVINCE OF IMPERIA
IMPERIA viale Giacomo Matteotti 8

PROVINCE OF LA SPEZIA
LA SPEZIA via XX Settembre 17

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

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

PROVINCE OF MANTOVA
CASTIGLIONE DELLE STIVIERE piazza Ugo Dallò 25
GAZOLDO DEGLI IPPOLITI via Guglielmo Marconi 74/76

MANTOVA
Head Office, corso Vittorio Emanuele II 26
Branch no. 1, piazza Broletto 7
MARMIROLO via Tito Speri 34 Ⓣ
SAN BENEDETTO PO via Enrico Ferri 15 Ⓣ
SUZZARA piazza Giuseppe Garibaldi 4
VIADANA piazza Giacomo Matteotti 4/A

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

PROVINCE OF MONZA E BRIANZA
ALBIATE via Trento 35
BELLUSCO via Bergamo 5 Ⓣ
BERNAREGGIO via Michelangelo Buonarroti 6
BRIOSCO piazza della Chiesa 5 Ⓣ
BOVISIO MASCIAGO via Guglielmo Marconi 7/A
CARATE BRIANZA via Francesco Cusani 10
DESIO via Portichetto - ang. via Pio XI
GIUSSANO via Cavour 19
LISSONE
Head Office, via Dante 43 - ang. via Matteotti
Branch no. 1, via Trieste 33
MACHERIO via Roma 17 Ⓣ
MEDA via Yuri Gagarin - ang. corso della Resistenza
MONZA
Head Office, via Galileo Galilei 1
Branch no. 1, via Alessandro Manzoni 33/A
NOVA MILANESE via Antonio Locatelli
SEREGNO
Head Office, via Cavour 84
Branch no. 1, via Cesare Formenti 5
SEVESO via San Martino 20
VAREDO corso Vittorio Emanuele II 53
VILLASANTA - fraz. San Fiorano - via Amatore Antonio Sciesa 7/9
VIMERCATE piazza Papa Giovanni Paolo II 9

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

PROVINCE OF PADOVA
PADOVA via Ponte Molino 4

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

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

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

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

PROVINCE OF SAVONA
ALASSIO via Giuseppe Mazzini 55
ALBISSOLA MARINA via dei Ceramisti 29 Ⓣ
SAVONA via Antonio Gramsci 54
VARAZZE via Goffredo Mameli 19

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

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

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

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

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

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

PROVINCE OF VERCELLI
VERCELLI piazza B. Mazzucchelli 12

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

PROVINCE OF VICENZA
VICENZA corso Santi Felice e Fortunato 88

TEMPORARY BRANCHES
MILANOCITY FIERA - piazzale Carlo Magno - pad. 3 piano quota +7 1
NUOVO POLO FIERISTICO - corso Italia Est
Strada Statale del Sempione 38 - Rho/Pero - tel. 02 45402082

MOBILE BRANCH
Autobanca

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

BANCA POPOLARE DI SONDRIO (SUISSE) SA
SWITZERLAND
www.bps-suisse.ch - contact@bps-suisse.ch

GENERAL MANAGEMENT
Lugano, via Giacomo Luvini 2a — tel. +41 58 8553000 — fax +41 58 8553015

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

BRANCHES AND AGENCIES
LUGANO - LUGANO Cassarate - BASEL - BELLINZONA - BERN - BIASCA - CASTASEGNA - CELERINA - CHIASSO - CHUR - LOCARNO - MARTIGNY - NEUCHÂTEL - PONTRESINA - POSCHIAVO - ST. MORITZ - VERBIER - ZURICH
Principality of Monaco: MONACO

FACTORIT SPA
Factoring - working capital solutions, credit risk protection and accounts receivable book-keeping - Branch offices in: Milano, Torino, Padova, Bologna, Roma and a network of foreign correspondents in over 90 countries. Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.
Headquarter: Milano, via Cino del Duca 12
tel. +39 02 58150.1 - fax +39 02 58150.205
www.factorit.it - info@factorit.it

BANCA DELLA NUOVA TERRA SPA
Personal loans collateralized by the assignment of up to one-fifth of salary or pension and facilities to advance subsidies of the Community Agricultural Policies
Offices in Milano, Palermo, Catania e Napoli. Operating at Banca Popolare di Sondrio's branches and at its partner banks' counters.
General Management: Roma, via Baldo degli Ubaldi 267
Toll-free number 800-77 00 33
www.bancanuovaterra.it - infobanca@bancanuovaterra.it

PIROVANO STELVIO SPA - The Ski University
Quarto Hotel - Passo dello Stelvio (m 2.760-3.450)
Sondrio, via Delle Prese 8 • Holiday Apartments: Apartments "Pirovano" - Bormio (SO), via Roma 131 (CIR: 014009-REC-00017) • Apartments "Chalet Felse" - Bormio (SO), via Milano 24/A (CIR: 014009-REC-00018)
www.pirovano.it - info@pirovano.it

"LUIGI CREDARO" LIBRARY
Sondrio, lungo Mallero Armando Diaz 18
tel. +39 0342 562 270 - fax +39 0342 510 825
www.popso.bibliotecacredaro.it - info@popso.bibliotecacredaro.it

Ⓣ Treasury – *soon to be transferred - **soon to be opened - Updated to 12 August 2019

THE BANKING GROUP IN

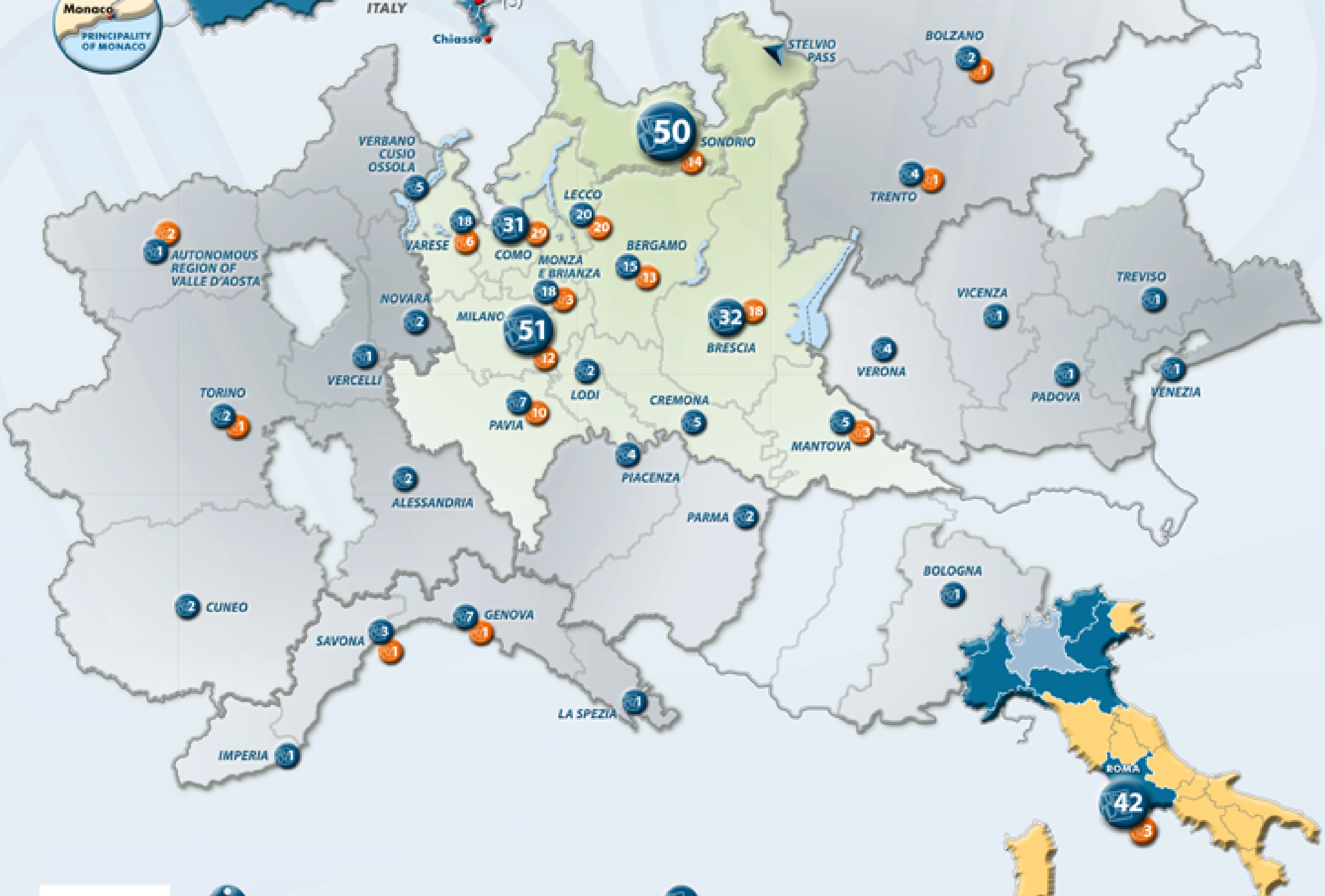
BPS (SUISSE)
Banca Popolare di Sondrio (SUISSE)

Branches in:

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

Principality of Monaco:

- MONACO



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

Number of branches in each province

Number of treasuries

IL GRUPPO BANCARIO

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 2018 and to comparable income statement data for the period to 30 June 2018, 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 2019

INTRODUCTION

The consolidated interim financial report at 30 June 2019 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 the 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 accounting policies applied during the period under review are consistent with those of the prior year, except for the adoption of IFRS 16 from 1 January 2019, for which reference should be made to the explanatory notes.

THE BANCA POPOLARE DI SONDRIO BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

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

Group companies:

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

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

Banca della Nuova Terra spa - Sondrio.

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

Popso Covered Bond srl - Conegliano (Tv).

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

FULLY CONSOLIDATED EQUITY INVESTMENTS:

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

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

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

Name	Head office	Share capital (in thousands)	% held
Alba Leasing S.p.A	Milan	357,953	19.264
Arca Vita S.p.A	Verona	208,279	14.837
Arca Holding S.p.A	Milan	50,000	21.137
Unione Fiduciaria S.p.A	Milan	5,940	24.000
Polis Fondi SGRpA	Milan	5,200	19.600
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Bormio Golf S.p.A	Bormio	317	25.237
Lago di Como Gal Scrl	Canzo	22	28.953
Acquedotto dello Stelvio S.r.l **	Bormio	21	27.000
Sifas S.p.A **	Bolzano	1,209	21.614
Rent2Go S.r.l	Bolzano	5,400	33.333
Cossi Costruzioni S.p.A	Sondrio	12,598	18.250
Rajna Immobiliare S.r.l	Sondrio	20	50.000

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

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

SUMMARY OF RESULTS

(in millions of euro)

Balance sheet	30/06/19	31/12/18	Change %
Loans to customers	26,563	25,845	2.78
Loans and receivables with customers measured at amortised cost	26,313	25,604	2.77
Loans and receivables with customers measured at fair value through profit or loss	250	241	3.85
Loans and receivables with banks	1,410	1,321	6.80
Financial assets that do not constitute loans	10,064	11,065	-9.05
Equity investments	228	221	3.18
Total assets	42,099	41,128	2.36
Direct funding from customers	31,617	31,063	1.78
Indirect funding from customers	32,051	30,182	6.19
Direct funding from insurance premiums	1,487	1,410	5.46
Customer assets under administration	65,155	62,655	3.99
Other direct and indirect funding	11,308	10,524	7.45
Equity	2,721	2,651	2.65

Income statement	30/06/19	30/06/18	Change %
Net interest income	230	250	-7.86
Total income	429	433	-0.95
Profit from continuing operations	68	102	-32.96
Profit for the period	47	74	-36.61

Key ratios (%)			
Cost/income ratio	61.39	58.87	
Net interest income/Total assets	0.55	0.60	
Net financial income/Total assets	0.76	0.83	
Net interest income/Total income	53.62	57.64	
Administrative expenses/Total income	63.93	62.63	
Profit for the period/Total assets	0.11	0.18	
Non-performing loans/Loans and receivables with customers	2.72	2.92	
Loans to customers/Direct deposits	84.01	83.41	
Texas ratio	66.97	75.22	

Capital ratios			
CET 1 capital ratio	15.50%	12.03%	
Total capital ratio	17.30%	13.61%	
Free capital	1,558	1,228	

Other information on the banking group			
Number of employees	3,262	3,254	
Number of branches	362	362	

INTERNATIONAL FACTORS

Risks related to a possible escalation in trade tensions and fears of a slowdown in Chinese growth continued to weigh on the international economy. This helped to weaken the prospects for global development.

This affected global trade, which in the first few months of the year suffered a further contraction, partly due to the restrictive measures implemented, or even announced, as part of the dispute between the US Administration and the Beijing Government, and partly due to the related deterioration in capital investment and business confidence.

In the Old Continent, the Brexit procedures have become even more entangled. In fact, for the United Kingdom, it seems increasingly difficult to implement, or even imagine, an orderly exit from the European Union.

Consumer inflation has remained moderate and expectations do not suggest that there will be significant changes. After a recovery in the first few months of the year, oil prices decreased.

At the end of the half-year, the Federal Reserve revised its inflation forecasts downwards and hinted that there could be a rate reduction in the offing, which then came about at the end of July. The Japanese Central Bank also announced that its approach would continue to be accommodating.

In the United States, the first quarter saw a GDP growth of over 3%, but in the following three months it fell to around 2.1%. In Japan too, the growing trend in the first quarter of the year (+0.9%) probably slowed down in the following quarter. Notwithstanding the uncertainty about Brexit, the United Kingdom enjoyed a 1.8% growth in the first three months of this year, higher than the 1.4% recorded in the last quarter of 2018.

As for the other more important countries, in Brazil, India and Russia the cycle is expected to slowdown starting from the beginning of the year whereas China continued its growth in the first quarter at the same rate at which it closed 2018 (6.4%), subsequently showing some signs of a decrease.

In the first three months of the year, the euro area moved in line with the last part of 2018. Then, it seems to have been affected by the trade tensions mentioned previously, with a consequent decline in foreign demand. Inflation has continued to be moderate, which gave the ECB the opportunity to extend its accommodative monetary policy and define a new series of refinancing operations (T-LTRO III) to help maintain expansive monetary conditions.

THE SCENARIO FOR OUR GROUP

Italy

In the first half of the year the Italian economy experienced a significant stagnation and after a slightly positive trend in the first few months (0.1%) returned to a level of zero growth. There are various reasons for this, including the weakness of the manufacturing cycle, not helped by the trend in the German industry, which has particularly suffered from the tensions that have plagued international trade.

For their part, households have slightly increased their consumption, giving preference to savings. However, some positive news came from the jobs front, with a slight increase in employment, especially fixed-term contracts. Inflation is still weak.

In the banking sector, private lending sector rose slightly, resulting in sustained growth in loans to households and a moderate contraction in those to the non-financial companies.

In the first few months of the year, the credit quality improvement process continued, also thanks to a reduction in the flow of new impaired loans. Likewise, there was a decrease in the proportion of impaired loans to total loans.

Switzerland

In the first quarter of the year, Switzerland's GDP was up +0.6% after the disappointing +0.3% in the last three months of 2018. An acceleration in the economic trend, which has to deal with the problems of the international situation, which also put a brake on Swiss foreign trade. However, GDP is expected to increase by around 1.2% in 2019.

Among the driving factors there is a good performance of private consumption, while on the corporate side the construction sector has returned to levels of growth that had not been seen for years. In any case, the entire manufacturing industry moved positively.

For its part, the Swiss National Bank kept its expansionary monetary policy unchanged, aiming to stabilise price changes and support economic activity.

THE ITALIAN BANKING MARKET

Given the low interest rates, the Italian banks' fund-raising cost from households and non-financial companies - albeit a recent rebound - still decreased, from 0.66 to 0.61%. The most expensive future issuance of regulatory computable instruments will be more closely related to the wholesale segment, while the general conditions of bank liquidity will flow from the new targeted long-term operations (T-LTRO III) announced by the ECB as starting from September.

The yield on interest-bearing assets during this period of time, thanks solely to the securities portfolio, rose from 2.15% to 2.25%, so that the differential widened overall from 1.49% to 1.64%.

The trend of volumes handled remains similarly moderate, even when supported by adjustments to take into account situations such as securitisations, with funding up by 2.2% and loans at least by 1%.

While the so-called «unlikely-to-pay loans» were being addressed, credit quality expressed by the traditional indicator of net non-performing loans to total loans showed a new and welcome improvement, having reached 1.88% in May, compared with 2.93% twelve months earlier.

In short, if you look at the past international financial crisis as an episodic event, the similarly temporary legacy of non-performing loans (NPLs) can now be considered almost resolved in our country as well. A negative impact on the income statement is still to be expected, however, due to the repeated pressures of the Supervisory Body to increase coverage, as well as to the sale of additional positions with respect to those already subject to write-down, but «sterilised» in application of IFRS 9.

From a structural point of view, our gradual arrival in a more balanced world, but one that is globally slower, interconnected but conflictual, is reflected in a low level of growth, inflation and interest rates; to the detriment of future development in banking volumes and profitability.

Although efforts are being made to recover efficiency, also through digitization - which also implies immediate investment and forms of integration - it is not a time for over-ambition. Rather, the watchword is rapidly becoming sustainability, even in the finance sector. In social and environmental terms.

FUNDING

In Italy, bank funding confirmed good growth overall. Moreover, there is still a clear contrast between the trend in short-term sources and the decline in medium/long-term sources, weighed down in particular by the now unstoppable decline in bonds.

As for our Group, direct funding from customers at 30 June 2019 amounted to 31,617 million, up by 1.78% on year-end 2018 and up by +1.36% on June 2018.

Indirect funding from customers amounted to 32,051 million, +6.19% on the end of 2018.

Direct funding from insurance premiums increased to 1,487 million, +5.46%.

Total funding from customers therefore amounted to 65,155 million (+3.99%).

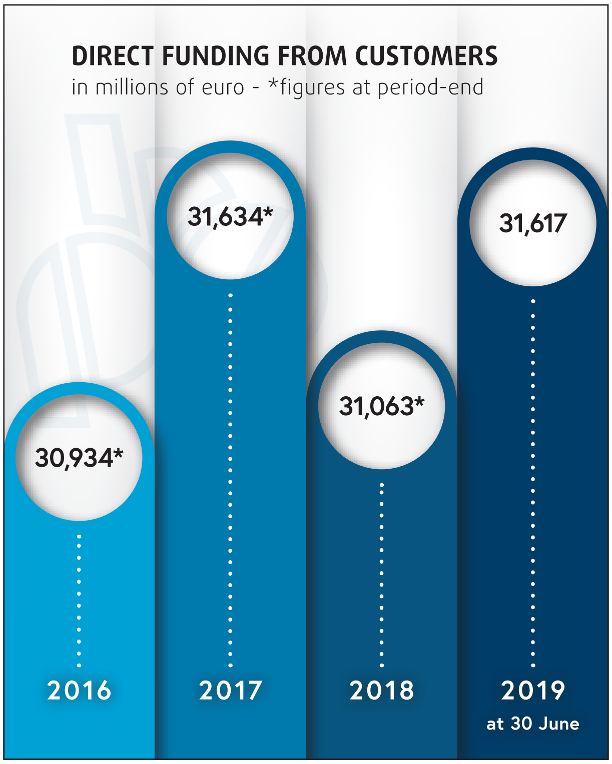
Amounts due to banks totalled 6,358 million, +3.12%. They include the refinancing operations with the European Central Bank for a total of 4,600 million, as explained in the chapter on «Treasury and trading operations».

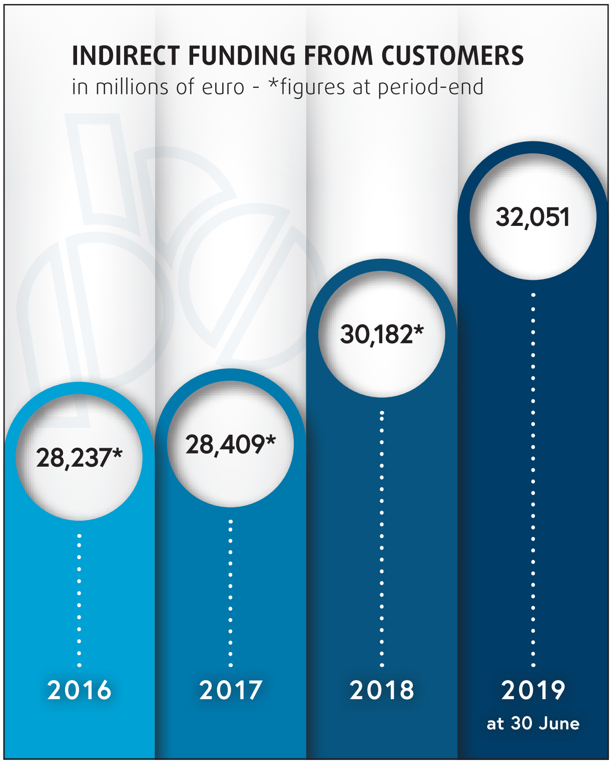
Indirect funding from banks amounts to 4,950 million, +13.57%.

Total funding from customers and banks therefore came to 76,463 million, +4.49%.

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

Considering the individual components, current accounts in euro and foreign currency dropped to 26,985 million, -0.97%, and make up 85.35% of all direct funding. Bonds posted +30.05% to 3.056 million, in contrast with the system due to the issue of 4 bonds for 294 million and the issue





DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	30/06/2019	%	31/12/2018	%	Change %
Savings deposits	517,519	1.64	527,859	1.70	-1.96
Certificates of deposit	1,407	–	1,594	0.01	-11.76
Bonds	3,055,746	9.66	2,349,650	7.56	30.05
Repo transactions	800	–	100	–	–
Bank drafts and similar	100,298	0.32	128,439	0.40	-21.91
Current accounts	24,635,385	77.93	24,944,658	80.31	-1.24
Time deposit accounts	723,380	2.29	806,856	2.60	-10.35
Current accounts in foreign currency	2,349,568	7.42	2,303,356	7.42	2.01
Lease liability	232,643	0.74	–	–	–
Totale	**31,616,746**	**100.00**	**31,062,511**	**100.00**	**1.78**

TOTAL FUNDING

(in thousands of euro)	30/06/2019	%	31/12/2018	%	Change %
Total direct funding from customers	31,616,746	41.35	31,062,511	42.45	1.78
Total indirect funding from customers	32,051,103	41.92	30,182,455	41.24	6.19
Total direct funding from insurance premiums	1,487,193	1.94	1,410,180	1.93	5.46
Total	**65,155,042**	**85.21**	**62,655,146**	**85.61**	**3.99**
Due to banks	6,358,117	8.32	6,165,836	8.43	3.12
Indirect funding from banks	4,949,961	6.47	4,358,442	5.96	13.57
Grand total	**76,463,120**	**100.00**	**73,179,424**	**100.00**	**4.49**

on 28 March 2019, as part of the EMTN programme, of the first senior preferred unsecured bond for 500 million. Savings deposits amounted to 518 million, -1.96%. Time deposit accounts amounted to 723 million, -10.35%. Repo transactions are virtually non-existent, while certificates of deposit come to 1 million and remain entirely marginal. Bank drafts amount to 100 million, -21.91%. The new item represented by the lease liabilities as required by IFRS 16, amounting to 233 million, is significant.

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

LOANS TO CUSTOMERS

The economic cycle is heading towards stagnation and this is reflected in the dynamics of bank loans with an annual increase of 0.6%, the result of a strong trend on the part of households and a decline on the part of businesses. This despite the fact that interest rates on new disbursements are at all-time lows. On the other hand, credit quality is continuing to improve, with a further reduction in non-performing loans.

Support for the economy in the areas served by our Group was provided by selecting counterparties according to strict and professional standards.

Loans total 26,563 million, up by 2.78% with respect to the prior year. The trend during the period, however, was rather subdued. The ratio of loans to direct deposits from customers is 84.01% compared with 83.20% last year.

Several different technical forms have contributed in varying degrees to the trend in loans. These items are equal to the sum of the loans included in line item «40. financial assets measured at amortised cost - b) loans and receivables with customers» and line item «20. financial assets measured at fair value through profit or loss - c) other financial assets mandatorily measured at fair value».

The performance of other unsecured loans was good, 5,667 million, +9.92%, which represents the second component of loans to customers with 21.33%, while the main item, with 38.61%, is represented by mortgages, which stood at 10,256 million, +3.43%. Current accounts decreased by 2.98%, from 4,253 to 4,126 million. Advances have gone up to 681 million, +45.03%. Factoring operations also expanded, +6.02% to 2,286 million, and advances subject to collection, 245 million, +6.27%. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, went from 1,204 to 1,033 million, -14.21 %.

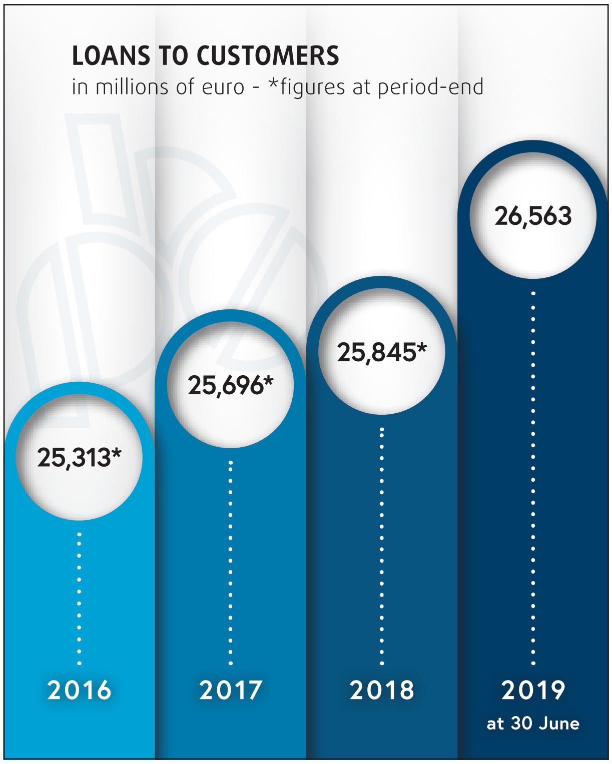
Likewise, personal loans fell by 1.97% to 485 million. Debt securities amounted to 263 million at the end of 2018 and were also down by -11.16% to 234 million; they derive from the securitisation of loans to customers made by Banca della Nuova Terra spa and Alba Leasing spa. Lastly, foreign currency loans came to 747 million, -12.60%.

Total loans include loans assigned but not derecognised of 1,464 million in relation to the issue of covered bonds and securitisations. These loans have not been derecognised because the chosen structure does not meet the requirements of IFRS 9.

Total impaired loans fell by 2.72% to 1,800 million and are equal to 6.78% (formerly 7.16%) of loans to customers. In absolute terms, the trend is in line with the system, but it does not fully reflect the work performed and the efforts made to contain them.

Writedowns of impaired loans totalled 2,133 million, -8.11%, representing 54.22% of the gross amount, compared with 55.63% at the end of 2018 and 51.79% at the end of 2017. This reduction in coverage is largely due to write-offs made to positions that were already classified as non-performing. The table gives a overview of impaired and performing loans.

Net non-performing loans amount to 722 million, -5.09%, corresponding to 2.72% of total loans and receivables with customers, compared with 2.94% at 31 December 2018. The adjustments to cover estimated losses on non-performing loans have fallen to 1,565 million, -9.06%, representing 68.44% of the gross amount compared with 69.36% last year, a reduction related to what was explained above. The substantial adjustments reflect the higher provisions set aside for receivables for which sale is assumed, in addition to the prudent



LOANS TO CUSTOMERS

(in thousands of euro)	30/06/2019	%	31/12/2018	%	Change %
Current accounts	4,126,116	15.53	4,252,855	16.46	-2.98
Foreign currency loans	747,357	2.81	855,104	3.31	-12.60
Advances	680,835	2.56	469,429	1.82	45.03
Advances subject to collection	245,042	0.92	230,584	0.89	6.27
Discounted portfolio	4,606	0.02	5,801	0.02	-20.60
Artisan loans	59,262	0.22	58,858	0.23	0.69
Agricultural loans	15,803	0.06	20,764	0.08	-23.89
Personal loans	485,050	1.83	494,795	1.91	-1.97
Other unsecured loans	5,667,127	21.33	5,155,908	19.95	9.92
Mortgage loans	10,256,166	38.61	9,915,925	38.37	3.43
Net non-performing loans	721,742	2.72	760,412	2.94	-5.09
Repo transactions	1,033,318	3.89	1,204,429	4.66	-14.21
Factoring	2,286,305	8.61	2,156,486	8.34	6.02
Fixed-yield securities	233,993	0.89	263,374	1.02	-11.16
Total	**26,562,722**	**100.00**	**25,844,724**	**100.00**	**2.78**

LOANS TO CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		30/06/2019	31/12/2018	(+/-)	Change %
Impaired loans	Gross exposure	3,933,243	4,171,707	–238,464	–5.72
	Adjustments	2,132,750	2,320,944	–188,194	–8.11
	Net exposure	**1,800,493**	**1,850,763**	**–50,270**	**–2.72**
- Non-performing loans	Gross exposure	2,286,919	2,481,444	–194,525	–7.84
	Adjustments	1,565,177	1,721,031	–155,854	–9.06
	Net exposure	**721,742**	**760,413**	**–38,671**	**–5.09**
- Unlikely to pay loans	Gross exposure	1,544,599	1,585,177	–40,578	–2.56
	Adjustments	556,872	579,483	–22,611	–3.90
	Net exposure	**987,727**	**1,005.694**	**–17,967**	**–1.79**
- Past due and/or impaired overdrawn exposures	Gross exposure	101,725	105,086	–3,361	–3.20
	Adjustments	10,701	20,430	–9,729	–47.62
	Net exposure	**91,024**	**84,656**	**6,368**	**7.52**
Performing	Gross exposure	24,883,700	24,111,603	772,097	3.20
	Adjustments	121,471	117,644	3,827	3.25
	Net exposure	**24,762,229**	**23,993,959**	**768,270**	**3.20**
Total loans and receivables with customers	Gross exposure	28,816,943	28,283,312	533,631	1.89
	Adjustments	2,254,221	2,438,588	–184,367	–7.56
	Net exposure	**26,562,722**	**25,844,724**	**717,998**	**2.78**

valuation criteria, particularly for positions backed by collateral in the form of real estate, following the recommendations of the Supervisory Authority during its inspections at the Parent Company over the years. In this regard, the Board of Directors of the Parent Company today resolved to proceed with the sale of 1 billion gross non-performing loans. These receivables have been assessed with a view to disposal, which involved an increase in loan adjustments in the income statement. The limited decline in total adjustments is essentially due to the effect of higher adjustments, also with a view to disposal, offset by write-offs.

It is one of the highest coverage percentages at national level. Considering the amounts written off in prior years against non-performing loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 79.55%.

Unlikely-to-pay loans relate to exposures, excluding non-performing loans, that the debtor is deemed unlikely to settle in full, without recourse by the bank to the collection of guarantees or similar forms of protection. These have decreased to 988 million, -1.79%, corresponding to 3.72% of total loans and receivables with customers, compared with 3.89% in the previous year. The related adjustments, which ensure a coverage ratio of 36.06%, amounted to 557 million, -3.90% on the comparative period, when they amounted to 579 million.

Past due and/or impaired overdrawn exposures, which include exposures other than non-performing or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 91 million, +7.52%, and represent 0.34% of total loans and receivables with customers compared with 0.33% in the comparison period, with a coverage ratio of 10.52%. The related adjustments amounted to 11 million, -47.62%.

In addition to the adjustments made to impaired loans, provisions for performing loans totalled 121 million, +3.25%, giving coverage of 0.49%, a percentage similar to that of the comparison period. Adjustments totalled 2,254 million overall, -7.56%.

TREASURY AND TRADING OPERATIONS

After an extraordinarily difficult year in 2018, there was a marked strengthening of financial markets during the first half of 2019.

At 30 June 2019, the Group's net interbank position was as a borrower for 4,948 million, up by 103 million from 4,845 million at the end of 2018.

Cash and liquid assets total 2,852 million, compared with 1,577 million. The Group remained highly liquid, just like the rest of the system. The market was not significantly affected by the completion of direct purchases by the ECB, except for the reinvestment of securities reaching maturity. At the end of the period, the Parent Company arranged two Targeted Longer-Term Refinancing Operations (T-LTRO II) with the ECB for a total of 4,600 million. The first one, for 1,100 million, taken out on 23 June 2016 and due to expire on 24 June 2020, with an early redemption option from 27 June 2018, is a zero-interest transaction (except for a reduction in the case of an increase in «eligible» loans compared with the benchmark assigned).

The second one was stipulated in March 2017, for 3,500 million, as the Parent Company decided to take part in the last operation aimed at refinancing the T-LTRO II programme by the ECB with maturity on 24 March 2021, with the aim of stimulating the real economy, guaranteeing further liquidity to the banking system.

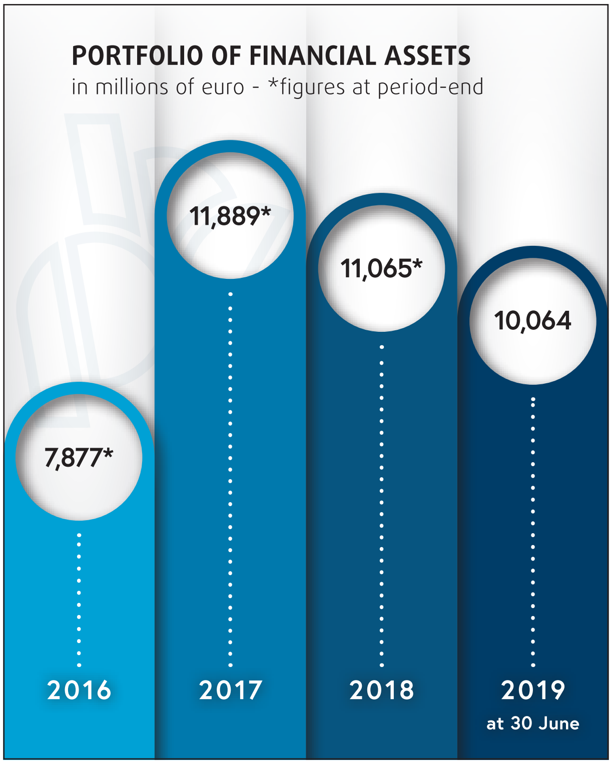
Excluding these TLTRO II operations, the net balance of loans and receivables with banks less amounts due to banks would have been negative for 348 million.

The Italian market for debt instruments during the course of the first half of the year was characterised by various different issues, helped by a reduction in volatility. Our Group also made various issues, including the first unsecured senior preferred bond for 500 million as part of the EMTN programme.

Treasury activity was intense, with a prevalence of lending operations.

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

The ratios required by Basel 3, being the short-term Liquidity Coverage



Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are considerably higher than the established minimums. The Group has a substantial portfolio of refinanceable assets that, net of the haircuts applied, total 11,209 million, compared with 11,923 million, of which 6,090 available and 5,119 committed.

At 30 June 2019 the portfolios of financial assets consisting of securities amounted to a total of 10,064 million, a decrease of 9.05% compared with 11,065 million at 31 December 2018 and -17.35% compared with 12,177 million at 30 June 2018. The decrease is related to the sale of Italian government securities (BTP and CTZ with very short maturities) included in the HTCS segment of the portfolio, to reposition the portfolio with respect to Italy's sovereign risk, a process already begun last year. Purchases, which were lower than sales, were made for the purpose of diversification and concerned highly rated securities (covered and supranational) or corporate securities, mainly senior banking securities. The following table summarises the various amounts involved and the percentage changes.

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

(in thousands of euro)	30/06/2019	31/12/2018	Change %
Financial assets held for trading	196,510	251,044	-21.72
of which, derivatives	35,531	31,668	12.20
Other financial assets mandatorily measured at fair value	382,323	366,287	4.38
Attività finanziarie valutate al fair value through other comprehensive income	3,084,906	4,423,618	-30.26
Financial assets measured at amortised cost	6,400,047	6,024,006	6.24
Total	**10,063,786**	**11,064,955**	**-9.05**

As in the past, the portfolio mostly comprises domestic government securities, despite the sales, as commented on previously. Movement remained high, albeit at lower levels compared with the comparison period and mainly involved the HTCS portfolio. In this regard, continuation of an expansionary monetary policy has held down yields on Italian public debt securities at minimum levels: zero or even negative rates for short maturities.The duration of the portfolio is now slightly lower than four years, compared with three-and-a-half years the previous year.

Financial assets held for trading

The trading portfolio showed a further contraction, albeit less significant than the previous year, with transactions limited almost entirely to shares. This portfolio totals 197 million, down 21.72% from 251 million previously.

(in thousands of euro)	30/06/2019	31/12/2018	Change %
Floating-rate Italian government securities	55,352	59,089	-6.32
Fixed-rate Italian government securities	40,374	54,008	-25.24
Bank bonds	-	11,109	-
Bonds of other issuers	2,050	1,925	6.49
Variable-yield securities	49,026	83,095	-41.00
Mutual funds	14,177	10,150	39.67
Net book value of derivative contracts	35,531	31,668	12.20
Total	**196,510**	**251,044**	**-21.72**

The composition of the trading portfolio is simple and transparent. Sales of financial assets have continued, with shares falling to 49 million from 83 million in the prior year (-41.00%), which represents 24.95% of the portfolio compared with 33.10%. The reduction in the size of the portfolio was accompanied by a decline in the profit from trading activity, while the relaxed climate on financial markets has positively influenced the net balance of unrealised gains and losses, which after being negative turned positive.

Therefore, the overall net trading result has increased by 89.54% to 32.756 million compared with 17.282 million in 2018.

Other financial assets mandatorily measured at fair value

The other financial assets mandatorily measured at fair value have increased by 4.38% to 382 million from 366 million. The portfolio relates almost entirely to various types of funds and Sicavs. The increase is largely due to the higher amount of UCITS in the portfolio.

(in thousands of euro)	30/06/2019	31/12/2018	Change %

Bank bonds	10,179	8,988	13.25
Other bonds	33,321	33,943	-1.83
Variable-yield securities	1	2	-50.00
Mutual funds in euro	306,515	301,084	1.80
Mutual funds in foreign currency (USD)	32,307	22,270	45.07
Total	**382,323**	**366,287**	**4.38**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS) amounted to 3,085 million compared with 4,424 million, -30.26%. The decrease is due to substantial sales of Italian government securities, fixed-income ones in particular and, to a lesser extent, Spanish securities. Among these, Italian government securities have decreased by 39.54% to 2,111 million; they represent the principal component, accompanied by fixed-income Spanish and French government securities for 306 million (+12.08%), with a view to diversification. In accordance with established operational practices, this portfolio contains part of the invested liquidity in order to contain, if only partially, the impact on the income statement of the volatility in the financial markets.

There was a slight increase in the bond component, made up of bank bonds for 521 million, +7.59%, and corporate bonds for 66 million, -5.84%. Variable-yield securities fell by 22.76% to 81 million. With regard to this last component, during the half year a portion of the interest held in Nexi spa was sold for 5,017,793 shares, with a capital gain of 16 million on the carrying amounts at 31 December 2018, which was booked to reserves in accordance with the accounting standards.

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

(in thousands of euro)	30/06/2019	31/12/2018	Change %
Floating-rate Italian government securities	655,306	592,896	10.53
Fixed-rate Italian government securities	1,455,423	2,898,339	-49.78
Foreign government securities	306,383	273,356	12.08
Bank bonds	520,723	483,996	7.59
Other bonds	66,066	70,160	-5.84
Variable-yield securities	81,005	104,871	-22.76
Total	**3,084,906**	**4,423,618**	**-30.26**

Financial assets measured at amortised cost

The securities measured at amortised cost comprise part of the financial assets measured at amortised cost (HTC) and total 6,400 million, compared with 6,024 million, +6.24%. Its composition shows an increase in Italian and foreign bank bonds of high standing (especially covered and supranational ones), which together rose from 75 to 376 million, and in corporate bonds, 167 million, +38.69%, while Italian and foreign government bonds have not seen significant changes.

(in thousands of euro)	30/06/2019	31/12/2018	Change %
LOANS AND RECEIVABLES WITH BANKS	**376,329**	**75,059**	**–**
Italian bank bonds	220,245	15,744	–
Foreign bank bonds	156,084	59,315	163.14
LOANS AND RECEIVABLES WITH CUSTOMERS	**6,023,718**	**5,948,947**	**1.26**
Floating-rate Italian government securities	809,066	809,779	-0.09
Fixed-rate Italian government securities	3,609,345	3,599,927	0.26
Foreign government securities	1,437,810	1,418,467	1.36
Other bonds	167,497	120,774	38.69
Total	**6,400,047**	**6,024,006**	**6.24**

Asset management

After a profoundly negative trend in the last part of 2018 for the asset management industry, stabilisation of financial markets favoured a return of interest in the sector during the first half of 2019. Even though, apart from extraordinary transactions, there was practically no growth in new funding. June closed positively after months of outflows and marked a return to UCITS. On the other hand, there were outflows from managed portfolios, which had been positive the previous months.

The general scenario has inevitably affected our Group's business, though overall the numbers reflect a certain growth. The assets managed in various forms totalled 5,578 million at the end of June, up by 3.24% since December 2018, of which 4,035 million, +7.86%. relates to the mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; the Group's asset management schemes came to 1,543 million, -7.21%.

EQUITY INVESTMENTS

Equity investments came to 228 million at 30 June 2019, up by 7 million since the end of 2018. The change is mainly due to the effect of using the equity method and to the acquisition of an interest in Cossi Costruzioni spa for 2.3 million.

TRANSACTIONS WITH ASSOCIATED COMPANIES

(in thousands of euro)	Associated companies of the parent company 30/06/2019	Associated companies of the parent company 31/12/2018	Associated companies of subsidiaries 30/06/2019	Associated companies of subsidiaries 31/12/2018
ASSETS	**700,425**	**626,019**	**–**	**377**
LIABILITIES	**207,533**	**367,383**	**772**	**973**
GUARANTEES AND COMMITMENTS	**176,963**	**51,557**	**775**	**200**
Guarantees given	42,818	48,984	89	89
Commitments	134,145	1,663	686	111

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 2019, the Parent Company's corporate bodies alone approved the following transactions of greater relevance:

– Release S.p.A, associated company; renewal of lines of credit totalling € 92,000,000 repayable on demand; resolution of 11/02/2019;
– Banca Popolare di Sondrio (SUISSE) SA, subsidiary; renewal of lines of credit totalling € 1,870,916,197 repayable on demand; resolution of 22/03/2019;
– Banca della Nuova Terra S.p.A, subsidiary; grant of a credit line in the finance area of € 250,000,000 expiring 24/03/2021; renewal of lines of credit totalling € 500 repayable on demand; resolutions of 22/03/2019;
– Presti Nuova S.p.A, subsidiary; revolving facility for advances up to € 80,000,000, expiring 15/09/2019; renewal of lines of credit totalling € 140,000,000 repayable on demand; resolutions of 22/03/2019.

During the period 1 January-30 June 2019, no transactions of greater or lesser relevance were carried out with related parties, which could have had an significant impact on the banking Group's balance sheet or results. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the 2019 balance

sheet or results of the Banking Group with regard to the related-party transactions carried out during 2018; in any case none were atypical, unusual or not on market terms.

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

During the first half of 2019 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 594 million, compared with 361 million at the end of 2018. The former totalled 561 million, +71.01%, the second category amounted to 33 million, substantially stable. The significant increase is related to the entry into force of IFRS 16 to replace IAS 17. It has got rid of the accounting duality between finance and operating leases for lessees, introducing instead a single accounting model that involves booking an asset (right of use) and lease liabilities in the balance sheet.

Intangible assets include 13 million of goodwill.

Goodwill is subjected to annual impairment testing to check for any loss of value. The most recent test was performed when preparing the consolidated financial statements at 31 December 2018. It was not deemed necessary to repeat the procedure at 30 June 2019.

PROVISIONS

These comprise post-employment benefits of 44 million, +3.09%, and provisions for risks and charges, which also include the risk provision for commitments and guarantees issued, totalling 254 million, +2.26%.

RISK MANAGEMENT

Risks have to be taken into consideration before making any important decision; a correct, balanced assessment of the uncertainty that inevitably surrounds all managerial decisions distinguishes banks that pay close attention to the question of sound and prudent management. The collaborative and informative relationship that links the functions in charge of risk control with the management bodies is therefore increasingly stable, in a «proactive» sense and not just a «notarial» sense.

Even the supervisors of banking activities closely monitor the state of health of the intermediaries, with continuous checks that focus on their ability to take on and manage risks, as well as the levels and quality of the capital held to cope with them. This is one of the key moments of Supervision, called the «Supervisory Review and Evaluation Process» (SREP).

As every year, the adequacy of the overall capital endowment with respect to the risks assumed or to be assumed was verified as part of the internal capital assessment process (ICAAP); a similar exercise (the Internal Liquidity Assessment Process or ILAAP) was carried out to ascertain the resilience of our liquidity situation. Both processes, reported in detail to the Supervisory Authority in April, were affected by significant adjustments to implement the guidelines of good practice dictated by the European Central Bank with the issuance of specific Guides.

Alongside the internal structures - first of all the Risk Appetite Framework (RAF) and the Recovery Plan - which can be activated by the bank in the event of derailments from the normal course of business, additional instruments have recently been added, in this case a prerogative of the Authorities assigned to the Resolution of the institutions in difficulty, which are capable of allowing an orderly and timely reconstruction of the crises, if necessary, mitigating the impact on the system.

The architraves of the European resolution mechanism, in addition to the adhesion of each bank with its own financial contributions to the central safeguard schemes, consist of (a) the Resolution Plan, prepared for each important bank in order to favour the identification of the most appropriate ways of resolving a situation of financial distress, and (b) the so-called MREL (Minimum Requirement for own funds and Eligible Liabilities), imposed on each significant institution and aimed at pre-establishing reserves that are able to absorb losses in a crisis, without imposing the costs of a bank rescue on the taxpayers. On both fronts, discussions were intensified with the representatives of these Bodies, including the supply of data at regular intervals and in-depth information on specific aspects of our operations.

The risk control structure, however solid, is always subject to refinements and improvements. Also during this half-year, enrichment or recalibration activities were carried out on the control methods, which went hand in hand with the natural advances in analysis techniques and measuring and reporting tools provided to the structures. Considerable improvements were also made to the IT infrastructures and to the databases used for the verifications and for the various reporting and disclosure requirements. The entire process is overseen by an increasingly complex body of policies and internal manuals, which has to be kept in line with developments.

Credit and counterparty risks

Optimisation of credit quality and the disposal of non-performing loans remain two of the bank's strategic priorities.

In a context made more rigorous by the new regulatory provisions on the treatment of non-performing loans, many initiatives have been launched with the aim of reducing the number and amount of problem positions, an objective pursued through combined actions to contain new flows into a critical state and maximisation of recovery levels on the masses of pathological loans.

The measures undertaken so far are part of a now multi-year programme of interventions to strengthen the organisational apparatus and operating procedures in support of the management of non-performing items, whose beneficial «long wave» is starting to give the desired results. Part of this strategy involves setting up a new department specifically responsible for supervising the management of irregular or already impaired loans with a pro-active approach. Its work is facilitated by the development of IT software designed to make management activities even faster and more efficient. Other initiatives range from the specialisation of control procedures and management of credit anomalies by the competent structures of the NPL sector, separate from the ordinary lending chain, to targeted use of outsourcers with the aim of relieving bank staff of the more time-consuming activities, through the formalisation of new tools and methods of analysis of «financial sustainability» to be adopted in the case of renegotiations being proposed to borrowers in difficulty.

Worth noting is also the activation of specific internal training courses, dedicated to the most important topics of NPL management, aimed at all of the central and network units involved, as well as the establishment of new approaches and systems for predictive management of loans, based on greater fluidity and evaluative effectiveness. Last but not least, we would like to mention the elaboration of a new series of early warning indicators designed to anticipate as much as possible the onset of the first symptomatic episodes of irregularity in the repayment of a loan and the integration in branch budgets of specific quality objectives for the dossiers being handled.

More recently, a new package of measures, which is still being implemented, has been prepared to further advance the credit management and monitoring model. The project aims to enhance the effectiveness of the processes and tools already in place, as well as to define a catalogue of credit solutions for network and head office employees in order to meet the diverse financial needs of customers. For the coming months, further work is underway to strengthen the credit supply processes, already complying with some of the provisions contained in the «Guidelines for granting and monitoring credit» published by the European Banking Authority (EBA) last June, as well as the adoption in the models and credit procedures of the new harmonised definition of «default» introduced by the EBA.

The set of initiatives implemented made it possible to observe a considerable reduction in the proportion of net impaired loans to total loans granted by the Group (NPL ratio) during the first six months of the year. This indicator stood at 13.65% in June, down from 14.75% at the end of 2018.

Another crucial element in the control of credit risk is being able to exploit the potential of internal ratings. At the end of May, the European Central Bank approved the use of the Parent Company's rating system as part of the advanced approach (Advanced Internal Rating Based Approach, AIRB) established by the prudential rules for the purpose of quantifying the capital requirements for credit risk, with specific regard to Corporate and Retail customers.

This important result, achieved as the culmination of hard work carried out over many years with dedication and competence by the numerous collaborators involved and supported by the Parent Company with huge economic investments, repays the long journey that we undertook and the many efforts that we had to make. At the end of a laborious set-up phase, the validation process gave us models for estimating debtors' riskiness that are methodologically more robust, technically more efficient and operationally more integrated with the processes of credit assessment and credit management, facilitating their execution and increasing their effectiveness. The capital benefits that will be available will then allow a more optimal allocation of capital, giving lifeblood to the strategic ambitions of development and diversification of the business, without neglecting the equally crucial objectives of de-risking and improving credit quality.

Despite the goal achieved, the work of refining the models, processes and databases used in the calculations does not stop here. Again spurred on by the Supervisory Authority, the rating systems will be affected by further measures aimed at improving their performance; also planned for the coming years is the progressive extension of internal models to other categories of exposures pertaining to the Parent Company, as well as to other members of the Group. Not to mention the physiological maintenance activity, made up of periodic re-estimates and recalibrations, aimed at constantly keeping the statistical parameters aligned to the changing context.

Market risks

Domestic government bonds remain the main asset in the Group's portfolios, albeit in a path of risk diversification that has continued in recent months with an increase in the proportion of investments in sovereign securities of other European countries and in bonds of corporate and financial issuers.

On the government bond market, as well as on the stock market, periods of strong fibrillation have alternated with others of less volatility;

overall, however, the financial situation has turned out to be more propitious than twelve months ago. The spread on Italian public debt has also experienced a gradual reduction, in particular thanks to a lowering in the tone of the political diatribe on the compatibility of Italy's latest budget with European constraints.

Against this calmer background, risk exposure monitoring continues, also carried out through simulative analysis and accompanied by daily observation of market trends. The control system has continued to be based on statistical measurements of Value at Risk (VaR) of the instruments in the portfolio, also calculated under extreme scenarios; such metrics, which quantify the uncertainty affecting the value of financial assets as market conditions change, are compared daily with the by now well-established system of internal limits, configured to estimate risk in both aggregate terms as well as according to more granular dimensions, thereby limiting the erosive effects on profit and on equity.

The foregoing applies having regard to the set of instruments held for trading purposes (the «trading portfolio») and, separately, the other assets contained in the so-called «banking portfolio»; given its materiality, dedicated monitoring, accompanied by a new threshold for portfolio concentration, is also reserved for the «Italy risk» deriving from public debt securities. The monitoring unit is completed by additional risk indicators which, on a daily and monthly basis, summarise the results of sensitivity analyses of financial assets to market fluctuations.

Interest-rate risk

In a ongoing context of low interest rates, regular monitoring of the risk profile in question has continued. The monitoring system continued to make use of monthly analyses of the sensitivity of the company's economic value to unexpected changes in market rates (Sensitivity Analysis) and contextual sensitivity analysis of interest income generated by the stock of assets and liabilities in the balance sheet (Repricing Analysis), supplemented by targeted impact studies.

There have also been improvements to the range of methods available and refinements to the calculation tools, aimed at optimising the incisiveness of the supervision. For example, within the scope of routine maintenance activities, the reference parameters of the so-called behavioural models of «on-demand items» - models aimed at estimating the persistence of the mass of assets and liabilities on deposit without a contractual expiry date and their reactivity to the dynamics of market rates - have been recalibrated by incorporating more extensive historical data samples, albeit with the aim of better intercepting and interpreting the changes that the situations being modelled might imply over time.

Significant interventions have also been carried out or are in progress to implement the recent developments in the regulatory standards published by the European Banking Authority (EBA) regarding the control of interest rate risk. In this regard, it is worth noting the introduction in the monthly analyses of the various simulation scenarios described by the guidelines, as well as the execution of dedicated implementation activities aimed at reproducing the battery of tests envisaged by the Supervisor (known as the «Supervisory Outlier Tests») to assess the resilience of banks to adverse rate movements.

Liquidity risk

Exposure to risk remains below the alert level, helped by abundant liquidity, the result of a substantial stock of securities that are readily negotiable on the market or transferable, if necessary, as collateral for refinancing operations.

Also in the half year, systematic monitoring of the expected liquidity position was based on a plurality of indicators and on different time horizons of analysis to assist managerial control of the main risk factors. With regard to the short-term (so-called «operational») liquidity situation, specific measurements ensure daily monitoring of both the cash flow dynamics typical of treasury operations or similar, as well as the availability of reserves (known as the «Counterbalancing Capacity») consisting of funds deposited with central banks and revenues potentially obtainable from the disposal of assets in the portfolio.

The medium-long term (so-called «structural») status is instead monitored on a monthly basis, with the aim of checking that there was a reasonable balance between funding and lending; in particular, surveys are conducted on the structural balance of the financial statements, with a focus on specific aspects of risk such as the concentration profile of funding.

In addition to the management measurements, there is also periodic quantification of the short and long-term regulatory parameters, Liquidity Coverage Ratio (LCR), monthly, and the Net Stable Funding Ratio (NSFR), quarterly - as well as the submission to the Supervisor of a further set of indicators (so-called «Additional Liquidity Monitoring Metrics») by sending dedicated monthly information forms. Changes in intra-day liquidity and intercompany financing are also monitored.

Significant progress in the monitoring systems was made during the period. For example, it is worth noting the update of the «Contingency Funding Plan», responsible for handling any liquidity situations that affect our Group, and the annual review of the set of scenarios used for stress simulations, metrics and associated thresholds. Other initiatives of primary importance concerned reporting to the Supervisory Authorities on the ILAAP process and the participation of our institute in the «Liquidity Stress Tests» (LiST) promoted by the European Central Bank on the entire system.

Operational and IT risks

In the wake of an evolutionary refinement of the operational risk monitoring and control structure - essential for identifying vulnerabilities, anomalous tendencies and/or emerging risk phenomena of greater importance for the bank, as much as for the potential amount of loss - we have strengthened the techniques for detecting, classifying and reporting so-called «borderline» situations between credit risks and operational risks. This activity made it possible to accumulate precious information for the identification of possible weaknesses in the granting, control and recovery of loans, facilitating the evaluation of subsequent impacts on the risk profiles in question.

In addition, with reference to the data acquisition procedures on operating losses suffered (Loss Data Collection), in addition to a series of interventions aimed at automating the controls on the logical and formal correctness of the information collected, the treatment and recording methods of the losses temporarily suspended or entered in temporary accounts (Pending Loss) have been revised, prudently expanding and in line with the regulatory guidelines, the concept of «operating loss», also with the aim of creating a new structured information table on the actual impact on the financial statements of these items and on the related dynamics.

Attention to technology and innovation is vital to keep pace with changes in business needs and customer service. Risks relating to the use, also in outsourcing, of ICT systems are periodically analysed by our competent resources and, when appropriate, mitigated with measures to upgrade infrastructures, configurations and networks.

The pitfalls arising from acts of «software piracy» (hacking) and attempts at fraudulent access to the sensitive data of the bank or of its customers, even if more and more malicious and sophisticated, continue to be adequately neutralised by our «cyber-security» devices, which are continuously updated.

Within the framework of online banking, we note significant refinement of the application functionalities, among which we mention the development of special programmes and software for integration with «Trusted Third Parties» (TTP) and the updating of authentication tools for financial transactions arranged on a day-to-day basis by customers. In addition to strengthening the safety standards of online services, these new technological solutions will guarantee operations compliant with the new and more stringent authentication and secure communication requirements, which will soon be mandatory, dictated by the Second European Directive on Payment Systems (so-called «PSD 2»).

Reputational and money laundering risk

Protecting the reputation of, primarily, the many stakeholders (shareholders, customers, suppliers, counterparties, investors, sector

Authorities) is an intrinsic element of our day-to-day work; the objective presupposes the adoption of effective measures for the governance and supervision of the risks associated with a negative perception of the corporate image, based mainly on self-assessment tools and monitoring of the precursory factors of the reputation enjoyed.

Also in light of the significant attention paid by public opinion and by the Supervisory Bodies to the ability of intermediaries to provide their customers with adequate advisory services in matters of financial investments, the reports intended for senior management have been integrated in recent months with more targeted analyses on the number, evolution and timing of the handling of complaints by customers that use investment services, as an additional management tool for identifying any operational deficiencies or improper practices in this specific sector, also to support the choice of corrective action.

During the half-year, the anti-money laundering function, a oppure specialized control unit responsible for overseeing correct compliance with regulatory requirements and effective governance of the risks associated with this delicate matter, promoted increased use of the specific IT solution - called «AML dashboard» - making it increasingly central to meeting customers' due diligence requirements. Furthermore, new types of interception analyses have been developed, as envisaged in the implementing provisions of the IV Directive and the more recent EU V Directive on the fight against money laundering and the financing of terrorist activities, phenomena potentially giving rise to the risks in question, thus contributing to optimising the quality of both line and second level controls and, consequently, preserving the bank's high reputation.

Regulatory non-compliance risk

In this first part of the year the verification activity was further increased, also in terms of follow up, on the sectors of operations supervised by the Compliance Function. In this context, the payment services sector was examined for the first time, in connection with the entry into force of the new regulation that transposed the provisions of the «PSD 2» EU Directive into Italian law, and the management of the formalities related to the keeping of the IT archive of bank checks and payment cards used irregularly. Relevant in scope and commitment in the area of investment services provision was the analysis of the transposition of the provisions dictated by the «MiFID 2» Directive in the field of product governance, suitable customer profiling and assessments of the adequacy and appropriateness of financial investments.

With regard to the consultancy activity guaranteed by the Function, clearances and conformity opinions continued to be given at the request of the structures on various issues with implications in terms of compliance legislation, accompanied by preliminary assessments for the marketing of new products or services; there has also been considerable development, helped by new staff, in the transmission of alerts concerning regulatory innovations to the business units involved from time to time.

With regard to the outsourced monitoring of compliance with the regulations by the subsidiary Banca della Nuova Terra, it should be noted that the first checks focused on transparency and usury, on the supply chain of loans based on European contributions to farmers (so-called «CAP advances»), as well as a survey of outsourcing services and business activities.

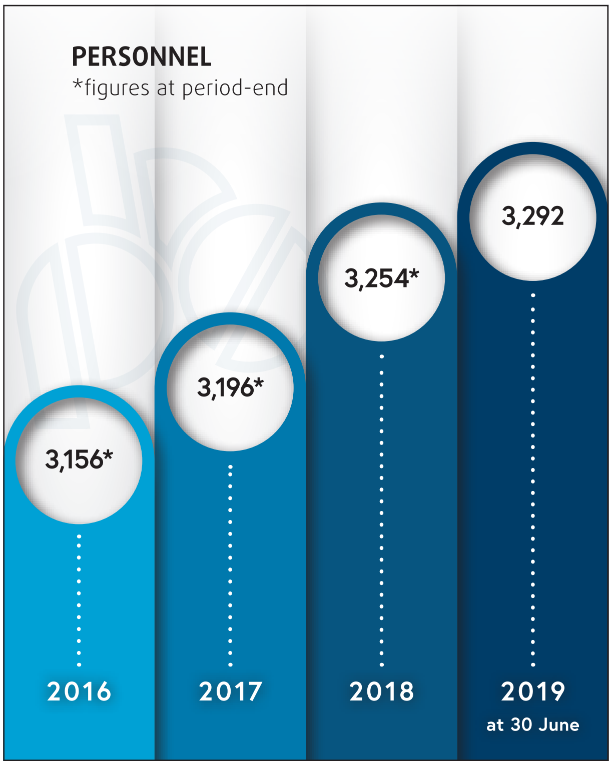
HUMAN RESOURCES

At the end of the period, the Banking Group's workforce consisted of 3,262 people, of whom 2,744 are employed by the Parent Company, 330 by Banca Popolare di Sondrio (SUISSE) SA, 169 by Factorit S.p.A and 19 by BNT S.p.A. The total number of employees has increased by 35 (+1.07%) compared with 31 December and by 72 (+2.24%) compared with 30 June 2018. These figures are significant given the current trend in the banking sector, usually in the opposite direction.

At 30 June 2019, 68% 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 42 years, with an average period of service of 16 years.

In addition to the Banking Group's staff, there is also the personnel of the subsidiary Pirovano Stelvio spa: 30 people at 30 June 2019, 27 of whom are employed seasonally.



PROMOTIONAL AND CULTURAL ACTIVITIES

Twenty years have now passed since the day when Popolare di Sondrio won the «Peggy Guggenheim Award 1999», reserved for companies that invest in culture, with the following motivation: «A project with a high social value linked to the capacity of cultural enhancement of its territory with initiatives that, despite their heterogeneity, insist on distinctive elements and the needs of local entrepreneurship. Through this project the Bank is responding to the socio-cultural development needs of the area».

Time has passed, but Banca Popolare di Sondrio is still committed to its contribution in the cultural sphere. The following are the bank's main initiatives during the period.

The four-monthly «Notiziario», our key publication, opened the new year with interesting articles, among which we remember «The Beatitudes, the Christian code of happiness» of Cardinal Gianfranco Ravasi, president of the Pontifical Council for Culture and of the Pontifical Commission for Sacred Archaeology, often our guest as an authoritative lecturer. The periodical also published the various texts that make up the monograph dedicated to Umberto Veronesi, also hosted in the 2018 Annual Report of the subsidiary BPS (SUISSE) SA.

To commemorate the 500th anniversary of the death of Leonardo da Vinci, the articles «Reflections on the Restoration of the Last Supper» and «The 'Scientific' Drawing of Leonardo», respectively by Pinin Brambilla Barcilon - an art restorer who is known throughout the world for having carried out the «restoration» of the Last Supper over a period of twenty years - and Pietro C. Marani, one of the greatest scholars of the genius of Vinci. On 21 June, Professor Pinin Brambilla Barcilon also held an interesting conference at our Fabio Besta room on the subject: «Restoration of Da Vinci's Last Supper».

The cycle of conferences was opened on 28 May, on the joint initiative of BPS and our subsidiary Arca Fondi SGR, at the Teatro Sociale di Sondrio, with Professor Marco Fortis, professor at the Università Cattolica del Sacro Cuore of Milan and director of Edison Foundation, whose topic was: «Italy does not deserve another crisis», inspired by the professor's book of the same name.

A special edition of the book «Valtellina Wine Places» by Dario Benetti, with an introduction by Marco Vitale and a preface by Paolo Massobrio, was donated to members who attended the annual general meeting. The volume describes an activity with the ancient flavour of our land, it mentions the history of places, immortalises landscapes, describes the uses and customs of the simple and hardworking people of the Valtellina of the past, but not only. «The hymn» by Enzo Biagi, written on the occasion of the conference in Sondrio on 23 November 1996 on the theme «Valtellina, land of vineyards: a commitment to support», an event organised by our bank with the patronage of the Province of Sondrio, comes to mind. The text ends with the following paragraph: «... Every terrace is a small world of engineering, built with stones, laid out towards the sun and defended from the snow, wind and rain that steal the topsoil. A small world that sums up the tenacity of many generations, educated to win their daily bread, as well as their daily glass of wine.»

Our Luigi Credaro library continues to see constant growth in subscribers and visitors, who can consult the texts for research, in-depth studies, or with the sole intention of broadening their general knowledge.

The business newspaper Milano Finanza, during the event «Milano Finanza Global Awards 2019», awarded the «Creators of Value» prize to Banca Popolare di Sondrio, as the «Best Bank of the Lombardy Region», and assigned to the Managing Director, Mario Alberto Pedranzini, the «Guido Carli/Lombard» prize as the «Best Cooperative Banker».

The activity of the subsidiary Pirovano at the Stelvio Pass, better known as the Ski and Mountain University, continued with sporting events that encompassed various disciplines, recording wide participation, combined with great enthusiasm.

EQUITY

Consolidated shareholders' equity at 30 June 2019, inclusive of valuation reserves and the profit for the period of 47.007 million, amounts to 2,721.168 million, +2.65%.

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

The share premium reserve remained unchanged at 79.005 million.

Reserves rose by 1,298.125 million, +11.84%, due to the allocation of a large part of the 2018 profit and the reversal of capital gains on the disposal of equities from the valuation reserves. The Ordinary Shareholders' Meeting of 27 April 2019 approved the distribution of a dividend of 0.05 euro for each of the 453,385,777 shares outstanding at 31 December 2018.

The valuation reserves, representing the net unrealised gains and losses recorded on financial assets measured at fair value through other comprehensive income and the net actuarial gains and losses on the defined benefit plans arranged for employees, are showing a negative net balance of 37.756 million, higher than at the end of 2018, when they had a negative balance of 34.452 million, in particular for the reversal of the valuation reserve to other reserves following disposals, as mentioned above. These were positively affected by the favourable performance of the financial markets.

The value of the shares held in the Parent Company has gone from 25.375 million to 25.370 million.

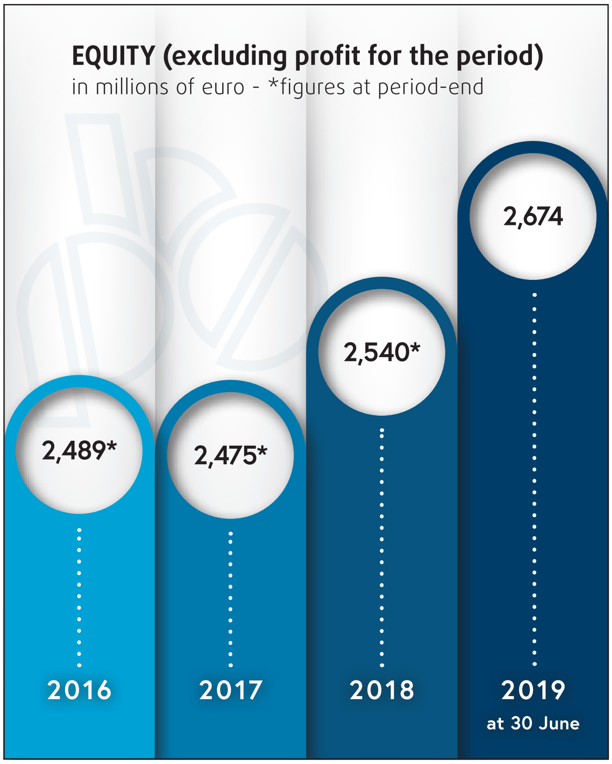
As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force as implemented by Regulation (EU) no. 575/2013 (CRR) and by EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios that amounted to 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio. Within the ambit of its powers, the ECB has the authority, using the information gathered during the prudential review and assessment process, to set customised capital and/or liquidity ratios for each intermediary subject to EU supervision. In this regard, the bank was informed in a communication dated 5 February 2019, following the annual supervisory process, of the Supervisory Board's decision regarding the new minimum ratios applicable from 1 March 2019.

The minimum capital levels required of our Banking Group are:

– a minimum Common Equity Tier 1 ratio of 9.25% (formerly 8.375%), calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.5%, formerly 1.875%) and an additional Second Pillar requirement (2.25%, formerly 2%);

– a minimum requirement of Tier 1 Ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (6%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (2.25%);

– a minimum Total Capital ratio of 12.75% (formerly 11.875%), being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (2.5%, formerly 1.875%) and an additional Pillar 2 requirement (2.25%, formerly 2%).



While the first two additions are specified by the prudential regulations and are identical for all banks in a given country, the third is determined by the ECB based on the actual degree of risk faced by the individual bank.

A «Pillar 2 Guidance», which aims to offer a guideline to the prospective evolution of the Group's capital, was added to the two ratios in 2017. This parameter is confidential, by contrast with the two minimum requirements, and - based on guidelines issued by the ECB - is not deemed relevant for the determination of distributable dividends.

In May, the European Central Bank communicated its authorisation for us to use the internal rating system for regulatory purposes, starting from the reports as of 30 June 2019. This is the successful outcome of a very long journey, which required substantial investment and which led to a very significant increase in our capital ratios.

Consolidated own funds for supervisory purposes, including the allocation of profit for the first quarter of 2019, amount to 2,898 million.

In the interests of full disclosure, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, in the calculation of their Tier 1 capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of IFRS 9, which came into force on 1 January 2018. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 95% in 2018 to 25% in 2022, until it is completely eliminated in 2023.

The figures for these coefficients at 30 June 2019 and the minimum requirements are given below.

	Group's capital ratios	Minimum capital ratio requirementi
CET 1 Ratio	15.50%	9.25%
Tier 1 capital ratio	15.56%	10.75%
Total Capital Ratio	17.30%	12.75%

The leverage ratio is 5.63%, applying the Phased In transitional criteria in force, and 5.62% based on the Fully Phased criteria.

The following ratios of capital (and reserves, including profit for the period) to the principal balance sheet aggregates are shown with comparative figures at 31 December 2018:

– *capital/direct funding from customers*
  8.61% v. 8.53%;
– *capital/loans to customers*
  10.24% v. 10.26%
– *capital/financial assets*
  27.04% v. 23.96%;
– *capital/total assets*
  6.46% v. 6.44%;
– *net non-performing loans/capital*
  26.52% v. 28.69%.

BPS STOCK

BPS stock is listed on the Screen-Traded Market (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed the first six months of 2019 with a performance of -25.95%, marking a reference price at 28 June 2019 of 1.949 euro, compared with 2.632 euro at the end of 2018. During the first half of the year, the stock recorded an intraday low of € 1.902 on 18 June and an intraday high of € 2.76 on 8 January.

The average daily volume of securities traded on the MTA market of Borsa Italiana in the first six months of the year was 514 thousand, down from 931 thousand in the same period of 2018.

The shareholder base at 30 June 2019 consists of 168,558 members, a decrease of 2,113 members compared with the end of 2018.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent Company holds 3,650,000 treasury shares, which is unchanged since the end of 2018. There are also 24,431 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies. Their carrying amount is 25.370 million, of which 25.322 involves use of the reserve for purchase of treasury shares of the Parent Company of 30 million.

Applications for admission as a member received during the year were examined by the Board of Directors in accordance with the law and the articles of association (as per art. 2528, last para., of the Italian Civil Code).

BANCA POPOLARE DI SONDRIO stock - MTA segment of Borsa Italiana

In particular, art. 9 of the articles of association states that: «The Board of Directors decides on applications for admission as a member by adopting a suitably-reasoned resolution, having regard for the interests of the bank, the spirit of the cooperative movement and the requirements of the articles of association», taking into account the guidelines laid down by the Board.

RATINGS

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

Their latest ratings were released on 5 June 2019 and 20 November 2018 respectively.

FITCH RATINGS – issued on 5 June 2019

	RATING
LONG-TERM It is a measure of the probability of default and reflects the bank's ability to repay medium/long-term loans. It is expressed on a scale from AAA to D, for a total of 11 levels.	**BB+**
SHORT – TERM It measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within the next 13 months. The scale includes seven levels (F1, F2, F3, B, C, RD and D).	**B**
VIABILITY RATING It aims to assess what the bank's situation would be if it were completely independent and could not rely on external support. It is expressed on a scale from aaa to d, for a total of 11 levels.	**bb+**

SUPPORT It reflects Fitch's assessment of the probability that an external body would provide support to the bank, if it needed it. The scale has five levels from 1 (best) to 5 (worst).	**5**
SUPPORT RATING FLOOR It reflects Fitch's assessment of the minimum level below which it will not lower the long-term rating of the issuer in the event that it found itself in financial difficulty, given the propensity of potential supporters (government or institutional owner) to help the bank in such circumstances. The scale of values associated with this assessment reflects that of a long-term rating. A further possible score, represented by the «No Floor» (NF), indicates that according to Fitch it is unlikely that aid could come from an external source (probability of support lower than 40%).	**No Floor**
OUTLOOK It is a prospective evaluation regarding possible changes in the long-term rating over a period of 1-2 years. It can be «positive», «stable» or «negative».	**Stable**
LONG-TERM DEPOSIT RATING 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».	**BBB-**
SENIOR PREFERRED DEBT It is a coefficient that reflects the probability of default of Senior Preferred bond expressed using a scale from AAA to D	**BB+**

DAGONG EUROPE CREDIT RATING – issued on 20 November 2018

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

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

The following table reconciles «profit 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 30/06/2019	2,422,213	35,553
Consolidation adjustments	-3,722	-3,722
Difference with respect to the carrying amounts of equity investments in:		
- companies consolidated on a line-by-line basis	258,947	12,012
- companies valued using the equity method	43,730	3,164
Balance as of 30/06/2019, as reported in the consolidated financial statements	**2,721,168**	**47,007**

INCOME STATEMENT

The weakness of the economic cycle during the latter part of 2018 also characterised the first half of 2019. The prospects of the global economy suffer the consequences of the commercial tensions between the United States and China and the latter's economic slowdown. In Italy, the difficulties of manufacturing sectors with particular links to German industry weighed heavily, as did the uncertainties caused by the country's huge public debt.

In this context, our Group achieved a result for the period of 47.007 million, down 36.61% from 74.154 million in the first six months of 2018, essentially due to the increase in credit risk adjustments resulting from the decisions taken by the Parent Company on the subject of NPL.

On 1 January 2019 the new IFRS 16 came into force, replacing IAS 17 which governed leases. The Group has exercised the option provided in the standard of not having to restate comparative figures. It follows that the figures are not fully comparable with regard to administrative expenses, depreciation on property, equipment and investment property and interest expense.

Continuation of the ECB's expansive monetary policy, destined to continue throughout the current year, and the targeted longer-term refinancing operations already launched and those announced, albeit at price conditions to be defined in the coming months, have helped keep rates at minimum levels. Government bond yields have remained extremely low, even negative at times. On the other hand, the reduction in the margins applied on disbursements to companies and individuals continued, as the tightening determined by the uncertainty of the economic prospects tended to be offset by the competitive pressure among credit institutions.

Net interest income was affected by this situation, recording a decline of 7.86% to 230.063 million, compared with 249.702 million. In fact, the contraction in interest income was not accompanied by an equivalent decrease in the cost of funding in terms of amount, so that the spread between the average return on loans and the average cost of funding decreased further.

Net fee and commission income showed a slightly downward trend, coming in at 152.569 million, -0.54%. Net fees and commissions from loans, guarantees given and order acceptance went down, whereas those arising from the placement of asset management and insurance products, as well as those related to collections and payments, had a positive trend.

Dividends totalling 3.168 million were collected, compared with 3.195 million. The net profit from securities, foreign exchange and derivatives operations (the sum total of income statement line items 80, 90, 100 and 110) amounted to 43.299 million, compared with 26.929 million, +60.79%.

While recording wide fluctuations in the period, financial markets showed a general decline in long-term yields and risk prices in the euro area due to the prospect of greater monetary accommodation. The markets consequently recovered the losses recorded at the end of 2018.

Net trading income, line item 80, amounted to 32.756 million, +89.54%, and, on the comparative period, recorded a positive balance between revaluations and write-downs of securities compared with a negative balance in the comparative period, despite a lower net result from derivative trading and income from foreign exchange and currencies.

Gains on sale or repurchase, line item 100, equal to 5.729 million, derive from financial assets measured at amortised cost for 2.603 million, from financial assets measured at fair value through other comprehensive income for 2.823 million and from financial liabilities for 0.303 million. Net hedging income amounted to 0.008 million. The net profit from other financial assets measured at fair value through profit or loss (line item 110) was 4.806 million.

Income from banking activities therefore fell to 429.099 million, compared with 433.219 million, -0.95%.

Within this aggregate, the weighting of net interest income was 53.62% compared with 57.64%.

While, on the one hand, the trend in the economic situation has seen a slowdown in non-performing loans, on the other, it has to deal with future macroeconomic scenarios marked by poor growth. Our Group continued to evaluate exposures to customers based on the current rigorous policies. The various activities and processes activated by the bank for the monitoring and control of loans and receivables with customers in the various phases of disbursement and management helped reduce the flow of new impaired loans.

Net adjustments for credit risk (income statement line item 130) amounted to 105.660 million, compared with 85.533 million, +23.53%, and were affected by the decisions taken by the Parent Company regarding NPL. As is well-known, the «Guidelines on the Management of NPLs» published by the ECB invite banks that have accumulated high levels of (gross) impaired loans to adopt clear and realistic strategies to reduce their stock of them. This can be done internally, through the establishment of dedicated Working Units, or through direct sale on the market. Our Group, which has one of the highest national levels of coverage of impaired loans, has set up a dedicated Working Unit in this area. However, this solution implies the permanence in the balance sheet of impaired loans and long recovery times compared with selling them on the market, which allows a bank to achieve immediate derisking. Selling them on the market makes it possible to improve capital ratios, profitability ratios and risk management immediately; at the same time freeing up financial resources that are tied up in fixed assets, while also making available the specialist resources assigned to their recovery. It also helps to improve the Group's reputation thanks to the increased quality of its assets. After careful consideration, the Board of Directors of the Parent Company decided to approve a plan to sell receivables from non-performing customers; the receivables likely to be sold were assessed in this light, booking the necessary adjustments to the income statement.

For positions falling within this scope, we then used models to estimate the potential recovery value of these receivables and, from this, formulating a sale price, also taking into account the peculiarities of the market where these assets will probably be sold.

Net adjustments for credit risk relating to financial assets measured at amortised cost, consisting of exposures to customers and banks in the form of loans and securities, amounted to 106.691 million compared with 88.310 million; this increase, as mentioned previously, is largely due to the increase in adjustments to loans that are likely to be sold and which have been assessed in this light. Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income consisted of reversals of 1.031 million relating to fixed-yield securities, while in the comparative period, reversals of 2.777 million were recorded.

The ratio of net adjustments to loans to customers to total loans to customers, also known as the cost of credit, has improved to 0.80% from 0.93% at 31 December 2018, despite the extraordinary component of adjustments.

Line item 140, which is used for the recognition of gains/losses on contractual amendments not resulting in derecognition, arising from modifications to contractual cash flows, was negative for 1.462 million in the reporting period, compared with 0.724 million.

This leads to net financial income of 321.977 million, compared with 346.962 million (-7.20%).

A great deal of attention was paid to holding down operating costs, though they rose from 255.022 to 263.405 million, +3.29%, mainly because of the absorption of PrestiNuova spa by Banca della Nuova Terra spa. They were also affected by the strong regulatory pressures that have significant impacts in terms of maintaining adequate operating structures, skills and personnel.

The ratio of operating costs to income from banking activities, otherwise known as the cost-income ratio, has risen to 61.39%, from 58.87%, while the annualised ratio of operating costs to total assets has came to 1.25% from 1.23%.

Looking at costs in more detail, administrative expenses - normalised after excluding the deferral of the proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense - amounted to 269.558 million, +0.13%, of which personnel costs amounted to 120.634 million compared with 117.444 million, +2.72%, while other administrative expenses fell from 151.775 to 148.924 million, -1.88%. It is not a like-for-like comparison as the figures are not perfectly comparable because of the new accounting rules on leases and rental contracts introduced by IFRS 16. The latter still posted a significant increase in contributions incurred or expected for the Interbank Deposit Guarantee and

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	30/06/2019	30/06/2018	(+/-)	change %
Net interest income	230,063	249,702	-19,639	-7.86
Dividends	3,168	3,195	-27	-0.85
Net fee and commission income	152,569	153,393	-824	-0.54
Result of financial activities	43,299	26,929	16,370	60.79
Total income	**429,099**	**433,219**	**-4,120**	**-0.95**
Net adjustments to loans and financial assets	-105,660	-85,533	-20,127	23.53
Gains/losses on contractual amendments not resulting in derecognition	-1,462	-724	-738	101.93
Net financial income	**321,977**	**346,962**	**-24,985**	**-7.20**
Personnel expenses	-120,634	-117,444	-3,190	2.72
Other administrative expenses	-148,924	-151,775	2,851	-1.88
Other operating income/expense	33,106	30,254	2,852	9.43
Net accruals to provisions for risks and charges	-680	-634	-46	7.26
Adjustments to property, equipment and investment property and intangible assets	-26,273	-15,423	-10,850	70.35
Operating costs	**-263,405**	**-255,022**	**-8,383**	**3.29**
Operating profit (loss)	**58,572**	**91,940**	**-33,368**	**-36.29**
Net gains (losses) on equity investments and other investments	9,687	9,876	-189	-1.91
Profit (loss) before tax	**68,259**	**101,816**	**-33,557**	**-32.96**
Income taxes	-20,822	-25,390	4,568	-17.99
Profit (loss)	**47,437**	**76,426**	**-28,989**	**-37.93**
Profit (loss) attributable to non-controlling interests	-430	-2,272	1,842	-81.07
Profit (loss) attributable to the Parent Company	**47,007**	**74,154**	**-27,147**	**-36.61**

Note: The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement. Personnel expenses and other operating income have been reclassified, excluding the contra-entry represented by the proceeds from the post-employment benefits fund of € 4.745 million

Single Resolution Funds, which went from 24.924 million to 27.924 million, +12.04%. The increases in consultancy fees, the use of interbank networks and IT costs are significant.

Net accruals to provisions for risks and charges included a provision of 0.680 million, compared with a provision of 0.634 million. This now includes provisions for credit risk relating to commitments and guarantees given (that previously had been allocated to income statement line item 130).

The depreciation of property, equipment and investment property and the amortisation of software amounted to 26.273 million, +70.35%, attributable to the new accounting rules on leases under IFRS 16. Other income, stated after the above mentioned reclassification and net of other operating expenses, amounted to 33.106 million, +9.43%.

The aggregate profits/losses on equity and other investments shows a positive balance of 9.687 million, compared with 9.876 million. Profit before income taxes therefore totalled 68.259 million, -32.96%. After deducting income taxes of 20.822 million compared to the amount of 25.390 million the previous year, and the non-controlling interest of 0.430 million, the profit for the period amounted to 47.007 million, -36.61%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 30.50% compared with 24.94% in the previous year.

SIGNIFICANT SUBSEQUENT EVENTS

On 22 July, after having received the necessary authorisations from the Supervisory Authority, the Parent Company and BPER Banca acquired from Banca Popolare di Vicenza in LCA and Veneto Banca in LCA 39.99% of Arca Holding S.p.A, a company that controls all the shares of Arca Fondi SGRpa. Popolare di Sondrio now holds 36.83% of the capital of Arca Holding S.p.A, while BPER Banca holds 57.06% of it. The two banks have signed a shareholders' agreement, based on the Arca Holding shares held, in order to regulate reciprocal relations on the subject of corporate governance and the circulation of shares.

Also at the end of July, the Parent Company successfully completed the placement with institutional investors of a Tier 2 subordinated bond with a ten-year maturity and a call option after 5 years for an amount of 200 million euro. Bonds reserved for institutional investors were issued under the EMTN Programme of Banca Popolare di Sondrio of 5 billion euro dated 6 March 2019.

OUTLOOK

The general economic situation seems to be characterised by a situation of poor growth, even stagnation. This, despite the ongoing expansive monetary policy supported by the European Central Bank.

As for our Banking Group, we are committed to continuing the efforts to reduce impaired loans and for the second half of the year it is reasonable to assume that we will be able to make a higher profit than in the first half. This, provided that the relaxed climate in financial markets continues.

Sondrio, 8 August 2019

THE BOARD OF DIRECTORS

CONDENSED CONSOLIDATED INTERIM REPORT FOR THE PERIOD ENDED 30 JUNE 2019

PRESENTATION OF COMPARATIVE AMOUNTS

Considering the method adopted for the transition to IFRS 16, the Group did restate the comparative figures in the year of first-time adoption of IFRS 16 on a consistent basis; the figures for 2018 are therefore not fully comparable,

CONSOLIDATED BALANCE SHEET
(in thousands of euro)

	Asset items	30-06-2019	31-12-2018
10.	Cash and cash equivalents	2,852,465	1,577,163
20.	Financial assets measured at fair value through profit or loss	828,320	858,069
	a) financial assets held for trading	196,510	251,044
	c) other financial assets mandatorily measured at fair value	631,810	607,025
30.	Financial assets measured at fair value through other comprehensive income	3,084,906	4,423,618
40.	Financial assets measured at amortised cost	33,747,360	32,873,554
	a) loans and receivables with banks	1,410,407	1,320,621
	b) loans and receivables with customers	32,336,953	31,552,933
70.	Equity investments	227,977	220,957
90.	Property, equipment and investment property	561,203	328,161
100.	Intangible assets	32,825	33,259
	of which:		
	- goodwill	12,632	12,632
110.	Tax assets	442,034	465,040
	a) current	35,782	31,834
	b) deferred	406,252	433,206
130.	Other assets	322,772	348,364
	Total assets	**42,099,862**	**41,128,185**

THE CHAIRMAN
Francesco Venosta

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

	Equity and liability items	30-06-2019	31-12-2018
10.	Financial liabilities measured at amortised cost	37,974,863	37,228,347
	a) due to banks	6,358,117	6,165,836
	b) due to customers	28,459,294	28,630,307
	c) securities issued	3,157,452	2,432,204
20.	Financial liabilities held for trading	64,972	57,211
40.	Hedging derivatives	15,457	16,826
60.	Tax liabilities	30,368	29,767
	a) current	2,415	4,252
	b) deferred	27,953	25,515
80.	Other liabilities	900,554	760,091
90.	Post-employment benefits	44,556	43,222
100.	Provisions for risks and charges	254,484	248,850
	a) commitments and guarantees given	40,054	46,163
	b) pension and similar obligations	178,455	160,734
	c) other provisions for risks and charges	35,975	41,953
120.	Valuation reserves	(37,756)	(34,452)
150.	Reserves	1,298,125	1,160,683
160.	Share premium reserve	79,005	79,005
170.	Share capital	1,360,157	1,360,157
180.	Treasury shares (-)	(25,370)	(25,375)
190.	Non-controlling interests (+/-)	93,440	93,049
200.	Profit (loss) for the year (+/-)	47,007	110,804
	Total liabilities and equity	**42,099,862**	**41,128,185**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

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

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

		30-06-2019	30-06-2018
10.	Interest and similar income	291,021	308,765
	of which: interest income calculated using the effective interest method	287,870	306,108
20.	Interest and similar expense	(60,958)	(59,063)
30.	**Net interest income**	**230,063**	**249,702**
40.	Fee and commission income	163,451	163,294
50.	Fee and commission expense	(10,882)	(9,901)
60.	**Net fee and commission income**	**152,569**	**153,393**
70.	Dividends and similar income	3,168	3,195
80.	Net trading income	32,756	17,282
90.	Net hedging gains (losses)	8	77
100.	Gains/losses from sale or repurchase of:	5,729	12,338
	a) financial assets measured at amortised cost	2,603	2,240
	b) financial assets measured at fair value through other comprehensive income	2,823	10,234
	c) financial liabilities	303	(136)
110.	Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss	4,806	(2,768)
	b) other financial assets mandatorily measured at fair value	4,806	(2,768)
120.	**Total income**	**429,099**	**433,219**
130.	Net adjustments for credit risk relating to:	(105,660)	(85,533)
	a) financial assets measured at amortised cost	(106,691)	(88,310)
	b) financial assets measured at fair value through other comprehensive income	1,031	2,777
140.	Gains/losses on contractual amendments not resulting in derecognition	(1,462)	(724)
150.	**Net financial income**	**321,977**	**346,962**
180.	**Balance of financial and insurance management**	**321,977**	**346,962**
190.	Administrative expenses:	(274,303)	(271,334)
	a) personnel expenses	(125,379)	(119,559)
	b) other administrative expenses	(148,924)	(151,775)
200.	Net accruals to provisions for risks and charges	(680)	(634)
	a) commitments for guarantees given	6,113	(21)
	b) other net provisions	(6,793)	(613)
210.	Depreciation and net impairment losses on property, equipment and investment property	(19,039)	(8,517)
220.	Amortisation and net impairment losses on intangible assets	(7,234)	(6,906)
230.	Other operating income/expense	37,851	32,369
240.	**Operating costs**	**(263,405)**	**(255,022)**
250.	Net gains (losses) on equity investments	9,541	10,217
260.	Net result of fair value measurement of property, equipment and investment property and intangible assets	133	(352)
280.	Net gains on sales of investments	13	11
290.	**Pre-tax profit from continuing operations**	**68,259**	**101,816**
300.	Income taxes	(20,822)	(25,390)
310.	**Post-tax profit from continuing operations**	**47,437**	**76,426**
330.	**Profit (loss) for the period**	**47,437**	**76,426**
340.	Profit (loss) of the year of non-controlling interests	(430)	(2,272)
350.	**Profit (loss) for the period attributable to the parent company**	**47,007**	**74,154**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

(in thousands of euro)

ITEMS		30-06-2019	30-06-2018
10.	**Profit (loss) for the period**	**47,437**	**76,426**
	Other income items net of income taxes that will not be reclassified to profit or loss		
20.	Variable-yield securities measured at fair value through other comprehensive income	(23,821)	7,965
70.	Defined-benefit plans	(11,961)	(756)
90.	Share of valuation reserves of equity investments valued at net equity	49	(3,144)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
140.	Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	30,487	(81,611)
160.	Share of valuation reserves of equity investments valued at net equity	1,914	(2,893)
170.	**Total other income items net of income taxes**	(3,333)	(80,439)
180.	**Comprehensive income (Item 10+170)**	44,104	(4,013)
190.	Consolidated comprehensive income attributable to non-controlling interest	(401)	(2,288)
200.	**Consolidated comprehensive income attributable to the Parent Company**	43,703	(6,301)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2018	Change in opening balances	Opening balance at 1.1.2019	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,746		1,393,746				
b) other shares							
Share premium reserve	**83,363**		**83,363**				
Reserves							
a) from earnings	1,207,575		1,207,575	91,375		16,560	
b) other	5,186		5,186			32,665	
Valuation reserves	**(34,586)**		**(34,586)**				
Equity instruments							
Treasury shares	**(25,375)**		**(25,375)**				
Profit for the year	**113,962**		**113,962**	**(91,375)**	**(22,587)**		
Equity attributable to the group	**2,650,822**		**2,650,822**		**(22,587)**	**49,225**	
Equity attributable to non-controlling interest	**93,049**		**93,049**				

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2017	Change in opening balances	Opening balance at 1.1.2018	Allocation of prior year result: Reserves	Allocation of prior year result: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,736		1,393,736				
b) other shares							
Share premium reserve	**83,363**		**83,363**				
Reserves							
a) from earnings	1,119,099	(51,266)	1,067,833	131,267		3,416	
b) other	5,186		5,186				
Valuation reserves	**28,315**	**7,757**	**36,072**				
Equity instruments							
Treasury shares	**(25,370)**		**(25,370)**				
Profit for the year	**165,184**		**165,184**	**(131,267)**	**(33,917)**		
Equity attributable to the group	**2,678,920**	**(45,119)**	**2,633,801**		**(31,567)**	**3,416**	
Equity attributable to non-controlling interest	**90,593**	**1,610**	**92,203**		**(2,350)**		

Changes during the period								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held	Comprehensive income at 30.06.2019	**Equity attributable to the group at 30.06.2019**	**Equity attributable to non-controlling interest at 30.06.2019**
(10)							**1.360.157**	**33.579**
							79,005	**4,358**
							1,262,231	**53,279**
							35,894	**1,957**
						(3,333)	**(37,756)**	**(163)**
5							**(25,370)**	
						47,437	**47,007**	**430**
5						**43,703**	**2,721,168**	
(10)						**401**		**93,440**

Changes during the period								
Equity transactions								
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held	Comprehensive income at 30.06.2018	**Equity attributable to the group at 30.06.2018**	**Equity attributable to non-controlling interest at 30.06.2018**
							1,360,157	**33,579**
							79,005	**4,358**
							1,152,395	**50,121**
							3,229	**1,957**
						(80,439)	**(44,220)**	**(147)**
							–	**–**
(21)							**(25,391)**	
						76,426	**74,154**	**2,272**
(21)						**(6,301)**	**2,599,329**	
						2,288		**92,140**

CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

	30-06-2019	30-06-2018
A. OPERATING ACTIVITIES		
1. **Cash generated from operations**	174,268	238,524
- profit for the year (+/-)	47,007	74,154
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through other comprehensive income (-/+)	(14,038)	12,958
- net hedging gains (losses) (-/+)	(8)	(77)
- net adjustments for credit risk (+/-)	114,036	89,915
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	26,141	15,775
- provisions for risks and charges and other costs/revenues (+/-)	13,270	18,601
- unpaid taxes, duties and tax credits (+)	20,822	25,390
- other adjustments (+/-)	(32,962)	1,808
2. Cash generated/absorbed by financial assets	**585,781**	**(143,675)**
- financial assets held for trading	66,444	8,938
- financial assets designated at fair value	–	–
- financial assets mandatorily measured at fair value through profit and loss	36,990	(82,810)
- financial assets measured at fair value through other comprehensive income	1,338,541	1,239,168
- financial assets measured at amortised cost	(872,474)	(1,272,663)
- other assets	16,280	(36,308)
3. Cash generated/absorbed by financial liabilities	538,218	(39,810)
- financial liabilities valued at amortised cost	433,920	(291,602)
- financial liabilities held for trading	1,794	10,567
- financial liabilities carried at fair value	–	–
- other liabilities	102,504	241,225
Net cash generated/absorbed by operating activities	**1,298,267**	**55,039**

	30-06-2019	30-06-2018
B. **INVESTING ACTIVITIES**		
1. **Cash generated by**	**6,392**	**10,082**
- sales of equity investments	–	–
- dividends collected from equity investments	6,377	9,892
- sales of property, equipment and investment property	15	190
- sales of intangible assets	–	–
- sales of subsidiaries and business divisions	–	–
2. **Cash absorbed by**	**(15,808)**	**(14,188)**
- purchases of equity investments	(1,999)	(1,800)
- purchases of property, equipment and investment property	(7,070)	(4,157)
- purchases of intangible assets	(6,739)	(8,231)
- purchases of subsidiaries and business divisions	–	–
Net cash generated/absorbed by investing activities	**(9,416)**	**(4,106)**
C. **FINANCING ACTIVITIES**		
- issues/purchases of treasury share	5	(20)
- issues/purchases of equity instruments	–	–
- distribution of dividends and other uses	(22,487)	(33,832)
- sale/purchase of controlling interests in third parties	–	–
Net cash generated/absorbed by financing activities	**(22,482)**	**(33,852)**
NET CASH GENERATED/ABSORBED IN THE YEAR	**1,266,369**	**17,081**

Key:
(+) generated (-) absorbed

RECONCILIATION

Line items	30-06-2019	30-06-2018
Cash and cash equivalents at beginning of period	1,577,163	699,379
Total net cash generated/absorbed in the period	1,266,369	17,081
Cash and cash equivalents: effect of change in exchange rates	8,933	6,777
Cash and cash equivalents at end of period	**2,852,465**	**723,237**

EXPLANATORY NOTES

Form and content of the report on the first half of 2019

The report for the first half 2019 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 2019 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. As allowed on first-time adoption of IFRS 16 «Leases» from 1 January 2019, the Group has elected not to restate the comparative figures. In this regard, reference should be made to the following paragraph «Other aspects» for an explanation of the changes introduced by IFRS 16, as well as for a description of the impacts for the BPS Group deriving from first-time adoption (FTA) of this new standard. 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 con tained 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 2019 of the Banca Popolare di Sondrio banking group, which comprises the Parent Company, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.A., Sinergia Seconda, Banca della Nuova Terra S.p.A., Popso Covered Bond S.r.l. and the entities that are controlled by the Group pursuant to IFRS 10.

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

Name	Location	Type of relationship (1)	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 180,000	100	100
Factorit S.p.A.	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	1	60,000	100	100
Banca della Nuova Terra S.p.A.	Sondrio	1	31,315	100	100
Pirovano Stelvio S.p.A. **	Sondrio	1	2,064	100	100
Servizi Internazionali e Strutture Integrate 2000 S.r.l.**	Milan	1	75	100	100
Immobiliare San Paolo S.r.l. **	Tirano	1	10 *	100	100
Immobiliare Borgo Palazzo S.r.l.**	Tirano	1	10 *	100	100
Popso Covered Bond S.r.l.	Conegliano V.	1	10	60	600
Centro delle Alpi RE	Milan	4	70,179	–	–

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

In addition, Fondo Immobiliare Centro delle Alpi Real Estate, which is 100% held by the Parent Company, has been consolidated. The scope of the companies that are consolidated on a line-by-line basis was amended following the absorption of Prestinuova Spa by Banca della Nuova Terra S.p.A on 24 June and the exclusion of Adriano SPV Srl, which carried out a securitisation of receivables sold by Prestinuova S.p.A and which was closed in advance last May.

In June, Prestinuova S.p.A. was absorbed by Banca della Nuova Terra S.p.A. The transaction took place between wholly-owned subsidiaries and in the separate financial statements of the merging company the use of the so-called pooling/continuity of values method was chosen, given that the transaction does not fall into the scope of IFRS 3. The transaction did not have any impact on the condensed consolidated interim financial statements at 30 June 2019.

Control, as defined by IFRS 10, is the power over the investee entity (i.e. holding valid rights that give the current capacity to direct the activities of the investee entity) and exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control can therefore be obtained in various ways, including via exposure to risks and rewards, and not just as a consequence of the power to influence financial and operating policies. The assets, liabilities, revenues and costs of the subsidiary acquired or sold during the year are included in the consolidated financial statements from the date on which the Group obtains control until the date on which the Group no longer exercises control over the company.

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

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

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

The significant evaluations and assumptions adopted to establish the existence of control are also given in paragraph 5 «Equity Investments» in the «Part relating to the main line items in the financial statements» of these explanatory notes. There are no restrictions concerning Group assets/liabilities referred to in paragraph 13 of IFRS 12.

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

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

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

The joint ventures shown below are valued at equity:

Name	Location	Type of relationship [1]	Share capital (in thousands)	% held	% of votes
Rajna Immobiliare S.r.l.	Sondrio	7	20	50	50
Rent2Go S.r.l.	Bolzano	7	5,400	33.33	33.33

(1) 7 = joint control.

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

a) the Bank has a representative on the Board of Directors or the equivalent body of the affiliate;

b) the Bank takes part in the decision-making process, including decisions regarding dividends;

c) there are significant transactions between the parent company and the affiliate;

d) there is an exchange of managers;

e) essential technical information is being provided.

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

The equity method involves initial recognition of the investment at cost and its subsequent remeasurement based on the portion of equity held. The portion of the company's net result for the year attributable to the group is shown in a specific item in the income statement. Any change in the other components of comprehensive income relating to these subsidiaries is presented as part of the Group's comprehensive income.

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

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

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Upon the loss of significant influence over an associate or joint control over a joint venture, the Group assesses and recognises the residual investment at fair value.

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

The ownership percentages are specified in the following table:

Name	Location	Share capital (in thousands)	% held
Alba Leasing S.p.A.	Milan	357,953	19.264
Arca Vita S.p.A.	Verona	208,279	14.837
Arca Holding S.p.A.	Milan	50,000	21.137
Cossi S.p.A.	Sondrio	12,598	18.250
Unione Fiduciaria S.p.A.	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Bormio Golf S.p.A.	Bormio	317	25.237
Lago di Como Gal S.c.r.l.	Canzo	22	28.953
Sofipo S.A.	Lugano	(CHF) 2,000 *	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21 **	27.000
Sifas S.p.A.	Bolzano	1,209 **	21.614

* held by Banca Popolare di Sondrio (SUISSE) SA

** held by Pirovano Stelvio S.p.A.

Business combinations

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

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

Any contingent consideration is recognised by the purchaser at fair value at the acquisition date. The contingent consideration classified as equity is not subject to re-measurement and its subsequent payment is accounted for with a contra-entry to equity. Any change in the fair value of the contingent consideration classified as an asset or liability, as a financial instrument that is covered by IFRS 9 Financial Instruments, must be recognised in the income statement in accordance with IFRS 9. Contingent consideration that does not fall within the scope of IFRS 9 is measured at fair value at the balance sheet date and changes in its fair value are recognised in the income statement.

Goodwill is initially recognised at cost represented by the excess of the sum paid and the amount recorded for non-controlling interests with respect to the identifiable net assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the sum paid, the Group checks again whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to determine the amounts to be recognised at the acquisition date. If the new valuation still shows a fair value of the net assets acquired that is higher than the consideration, the difference (a gain) is recognised in the income statement. After initial recognition, goodwill is valued at cost net of accumulated impairment losses. For the purpose of the impairment test, the goodwill acquired in a business combination is allocated, from the acquisition date, to each cash generating unit (CGU) of the Group which is expected to benefit from the synergies of the combination, regardless of the fact that other assets or liabilities of the acquired entity may be assigned to these units.

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

Translation of financial statements in currencies other than the euro

The 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 in consolidated equity.

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 08/08/2019 that would require an adjustment to the approved information, and nothing of significance has occurred that would require additional disclosures.

Other aspects

The financial statements presented in the consolidated interim report comply with the mandatory reporting formats required for statutory reporting purposes by the Bank of Italy Regulation no. 262 dated 22 December 2005, 6th update. The accounting policies applied during the period under review are consistent with those of the prior year, except for the adoption of IFRS 16 - Leases from 1 January 2019.

The following are the new documents issued by the IASB and endorsed by the EU, which have to be adopted from the financial statements for the years beginning on 1 January 2019:

· IFRS 16 - Leases
· IFRIC 23 - Uncertainty over income tax treatments
· Amendments to IFRS 9 - Prepayment features with negative compensation
· Amendments to IAS 28 - Investments in associates and joint ventures
· Amendments to IAS 19 - Employee benefits
· Annual IFRS implementation process
  · IFRS 3 - Business combinations
  · IFRS 11 - Joint arrangements
  · IAS 12 - Income taxes
  · IAS 23 - Borrowing costs

With the exception of the adoption of IFRS 16 - Leases from 1 January 2019, the other amendments to international accounting standards have not had a significant impact on the condensed interim consolidated financial statements.

The new accounting standards, amendments and interpretations, whose application will become mandatory after 31 December 2019, are listed below:

- Amendments to references to the IFRS Conceptual Framework. This applies from 1 January 2020
- Amendments to IFRS 3 - Business combinations. This applies from 1 January 2020
- Amendments to IAS 1 and IAS 8 - Definition of material. This applies from 1 January 2020
- IFRS 17 - Insurance contracts. This applies from 1 January 2021, although the IASB has recommended the deferral of application until 1 January 2022.

The condensed consolidated interim financial statements, accompanied by the directors' report on operations, consist 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 condensed consolidated interim financial statements requires making estimates and valuations that can have a significant impact on the figures shown in the balance sheet and income statement, especially as regards loans and receivables, the valuation of financial assets, the quantification of the provisions for personnel expenses and for risks and charges, the use of valuation models for identifying the fair value of instruments that are not listed on active markets, equity investments and goodwill and for estimating the recoverability of deferred tax assets.

These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements; 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 2019, 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 analyses performed confirm the carrying amounts of the items mentioned at 30 June 2019.

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 2019.

The condensed consolidated interim financial statements are 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 16: Leases

IFRS 16, the new standard on leases issued by the IASB (International Accounting Standards Board) and endorsed by the European Commission in Regulation 1986/2017, from 1 January 2019 replaces IAS 17 and the related interpretations to clarify the definition of a lease (IFRIC 4 «Determining whether an arrangement contains a lease»; SIC 15 «Operating leases - incentives» and SIC 27 «Evaluating the substance of transactions involving the legal form of a lease») eliminating, for the lessee, the difference between finance and operating leases by introducing a single accounting model that recognises a lease asset («right of use») and the related lease liability in the financial statements. For the lessor, IFRS 16 essentially represents the continuation of IAS 17.

The purpose of the new international accounting standard is to «ensure that lessees and lessors disclose appropriate information in a manner that fairly represents the underlying transactions. The disclosures provide the users of financial statements with the information needed to evaluate the effect of the leases on the financial position, economic results and cash flows of the entity».

On signing the contract, the entity must determine if the contract is, or contains, a lease. The contract is, or contains, a lease if:

- in exchange for a consideration, it grants the right to control the use of a specific asset for a period of time,
- during the entire period of use, the customer will have the right to obtain substantially all the economic benefits deriving from use of the asset and the right to decide how the asset should be used.

At the contract start date, the lessee must recognise both the right-of-use asset and the leasing liability. On the date of initial recognition, the lease liability is the present value of the lease payments not yet made at that date. Subsequently, the amount of the leasing liability is determined by increasing the carrying amount by the interest charged, decreasing it by the lease payments made and recalculating it with reference to any changes made to the lease or new considerations.

Again on initial recognition, the cost of the asset, being the right of use obtained, comprises the initial amount of the leasing liability, the lease payments made on or prior to the start, net of any leasing incentives received, the initial direct costs incurred by the lessee and the estimated cost of removing or restoring the underlying asset. Subsequently, the asset is measured at historical cost and depreciated over the life of the contract or over its useful life if the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the asset consisting of the right of use reflects the fact that the lessee will exercise the purchase option.

In economic terms, the lease instalments previously recognised as administrative expenses are replaced by recognition of the interest charged on the leasing liability and the depreciation charged on the right of use.

On FTA, the lessee has two options for applying the standard. The lessee can apply the new standard to its lease contracts:

a) retrospectively applying IAS 8 «Accounting policies, changes in accounting estimates and errors» and restating the comparative data; or
b) retrospectively recognising the cumulative effect of apply the standard as an adjustment of the opening balance of retained earnings on the first-time application date (without restating the comparative data).

The Group decided not to apply the grandfathering option, which would have involved redetermining which leases were subject to the new standard. Instead, the Group elected to recognise the effects of first-time adoption using the «amended retrospective» approach, without therefore recognising them retrospectively in accordance with IAS 8. According to this approach:

- the right of use is equal to the lease liability, i.e. it is equal to the present value of the future instalments to be paid for the expected duration of the contract and attributable to the lease component, net of VAT, discounted on the basis of the incremental borrowing rate on the date of FTA, adjusted for any prepaid expenses or accrued liabilities relating to the lease;
- the comparative figures for 2018 are not restated.

Lastly, lease contracts whose underlying assets are intangible are not subject to IFRS 16.

As allowed by IFRS 16, the Group opted to apply the following practical expedients on transition to the new standard:

a) exclusion from balance sheet recognition of lease contracts with a residual duration not exceeding 12 months (regardless of the original duration of the contract);
b) estimation of lease duration based on prior experience and the information available on the date of first-time adoption about the future exercise of any extension or early termination options.

The operating rules used by the Group during the FTA phase for lease contracts classified as operating leases according to IAS 17 are summarised below:

- the low-value contract exemption has been applied: the threshold applied is consistent with the USD 5,000 provided for in IFRS 16. This includes mobile phones not owned by the Company;
- the short-term contract exemption has been applied to contracts that end within 12 months of being applied for the first time. In particular, this includes property contracts with a release date within the same term.
- the practical expedient of not separating service components from the lease components

has not been applied, which means that the entire contract is accounted for as a lease;

- for the recognition and measurement of the lease payable at 1 January 2019:
  a. the discount rate applied was set by using the «incremental borrowing rate» approach based on the duration of the contract at 1 January 2019. Specifically, the methodology adopted by the Group envisages that the incremental borrowing rate should be determined as the risk-free borrowing rate plus a spread to reflect the total cost of funding. This rate therefore takes into account the creditworthiness of the lessee, the duration of the lease and the macroeconomic context in which the transaction takes place.
  b. the lease duration was determined by applying the principle of reasonableness; in particular, the Group has decided to consider only the first renewal period as reasonably certain on the FTA date (and on new contracts), unless there are specific contractual clauses, facts or circumstances that lead one to consider additional renewals or to determine the end of the lease;
  c. for the quantification of the right of use at 1 January 2019, the practical expedient used was to exclude initial direct costs from the measurement.
- The practical expedient envisaged by IAS 37 was applied to the evaluation of the onerous nature of the leases.

Reconciliation of financial position at 31 December 2018 to the new financial position at 1 January 2019.

The table summarises the impact of adopting the new standard on each asset, liability and equity component of the balance sheet format laid down by the 6th update to Bank of Italy Circular 262/05. Note that rights of use are recognised as part of «Property, equipment and investment property» and are not therefore shown separately in the balance sheet.

The «31/12/2018» column shows the amounts of the balance sheet items on that date, the «Change» column shows the amounts deriving from the recognition of contracts according to the new accounting standard, while the «01/01/2019» column shows the new amounts of assets and liabilities following the transition to the new standard, being the sum of the figures in the other two columns.

Figures are stated in thousands of euro.

Asset items	31/12/2018	CHANGE	01/01/2019
90. Property, equipment and investment property	328,161	225,889	554,050
130. Other assets	348,364	(1,454)	346,910
Total assets	**41,128,185**	**224,435**	**41,352,620**

Equity and liability items	31/12/2018	CHANGE	01/01/2019
10. Financial liabilities measured at amortised cost	37,228,347	224,435	37,452,782
a) Due to banks	6,165,836	–	6,165,836
b) Customer deposits	28,630,307	224,435	28,854,742
c) Debt securities in issue	2,432,204	–	2,432,204
Total liabilities and equity	**41,128,185**	**224,435**	**41,352,620**

Details of the impacts shown in the table are as follows:

- Euro 225.889 million representing the value of the right of use connected to the lease of buildings, vehicles and electronic office equipment;
- Euro 224.435 million for the related lease liability to lessors given by the present value of lease payments due but not paid on the FTA date;
- –Euro 1.454 million for prepaid expenses accounted for at 31 December 2018 for lease payments that are no longer subject to recognition following the introduction of the new standard, as the new accounting treatment envisages precise recognition of the lease liability.

- the above changes arising on FTA, almost entirely attributable to property lease contracts, did not give rise to the recognition of profits or losses as a result of FTA to be recorded under equity and are immaterial with respect to CET1.

The provisions introduced by IFRS 16, on FTA, entailed the recognition under assets of the rights of use and of the corresponding financial liabilities for property lease agreements and car rental contracts. The non-lease components of these types of contracts are accounted for separately in accordance with IFRS 15.

As regards the discount rate, as reported above, the lease liabilities have been discounted at the rate as of 1 January 2019 with reference to the maturities of the individual contracts. In particular, the weighted average of the lessee's weighted incremental borrowing rate, applied to lease liabilities, recognised in the statement of financial position at the date of first-time application is 1.73%.

According to the provisions of IFRS 16.C12, the following table compares the scope of leases as defined by IAS 17 with the scope as defined by the new standard:

Reconciliation of lease liabilities at 1 January 2019

Minimum future liabilities at 31 December 2018 - IAS 17 operating lease commitments not discounted	**255,672**
Exceptions to IFRS 16 recognition	**481**
- contracts ending within 12 months from the date of initial application	111
- contracts whose underlying asset is of low value	370
Other changes	**(11,301)**
Lease liabilities at 1 January 2019 not discounted	**243,891**
Discounting effect	(19,456)
Lease liabilities at 1 January 2019	**224,435**
Lease liabilities for financial leases under IAS 17 at 1 January 2019	261
Total lease liabilities at 1 January 2019	**224,696**

The following detail is also provided in order to explain the various categories of rights of use that have been identified and the various impacts on the balance sheet items:

Impacts on balance sheet items	Assets Lease liabilities	Prepayments at 31 December 2018	Recovery costs (provision for charges)	Total at 1 January 2019	Liabilities Total at 1 January 2019
Property, equipment and investment property used for business purpose	**224,435**	**1,454**	**–**	**225,889**	
– land	396	8	–	404	
– buildings	–	1,441	–	225,045	
– furniture	–	–	–	–	
– plant	214	–	–	214	
– other	221	5	–	226	
Rights of use purchased with a lease (adjusted for prepayments and recovery costs)	**224,435**	**1,454**	**–**	**225,889**	
Prepayments at 31 December 2018 (deducted from other assets)				(1,454)	
Total assets at 1 January 2019*				**224,435**	
Lease liabilities					**224,435**
Recovery costs					–
Total liabilities at 1 January 2019*					**224,435**
Equity (retained earnings)				–	–

* Net of existing finance leases at the transition date

Analysis of the principal captions contained in the consolidated interim report

Classification of financial assets

Financial assets are classified with reference, on the one hand, to the contractual characteristics of the related cash flows i.e. whether or not they depend solely on the payment of principal and related interest (SPPI) and, on the other, the reason (business model) for which the instrument is held. The business model determines whether the cash flows derive from the collection of contractual cash flows, the sale of financial assets or both.

Held to Collect (HTC)

The objective of this business model is to hold financial assets to collect the contractual cash flows during the instrument's life.

Sales are deemed to be eligible only if frequent but not significant or significant but not frequent or if due to an increase in credit risk. Frequency is measured based on the number of sales made in the period, while significance is measured based on the total amount of sales compared to the portfolio at the beginning of the period. The criteria used to determine these requisites have been included by the Group in specific internal regulations.

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

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

Held to Collect & Sell (HTC&S)

The objective of this business model is to collect contractual cash flows and to sell the financial assets. The Group has decided not to use the HTC&S business model for loans, but for securities (most of the securities held as financial assets available for sale have been included here).

Others (FVTPL)

This business model is adopted when the Group takes decisions based on the fair value of financial assets and it manages them in order to realise the latter or when the objective of the business model does not fall within that of the previous two (HTC and HTC&S).

Banca Popolare di Sondrio Group holds the following within an «Others» business model:

- Financial instruments held within a trading business model
- Financial instruments held within a fair value business model (that mostly include funds and SICAVs).

The Group does not require ex post monitoring for credit and loans to verify the consistency of the loan portfolio with the HTC business model within which they are held, while it is required for securities to verify the consistency of securities portfolio management with the HTC and HTC&S business models.

Solely Payment of Principal and Interest Test (SPPI test)

By means of an SPPI test, it is possible to check whether a financial asset may be considered to be a «basic lending arrangement», whereby the contractual cash flows consist solely of payments of principal and interest accrued on the principal amount outstanding. If the test of the characteristics of the contractual cash flows shows compliance with the requirements of IFRS 9 (SPPI test has been passed), the asset may be measured at amortised cost, provided that it is held within a business model the objective of which is to collect the contractual cash flows during the instrument's life (HTC business model), or at fair value through other comprehensive income (FVOCI), provided that the asset is held within a business model the objective of which is to collect contractual cash flows over the entire life of the asset and to sell the asset (HTC&S business model). If the test of the characteristics of the contractual cash flows from a financial asset does not show compliance with the requirements of IFRS 9 (SPPI test has not been passed), the asset is measured at fair value through profit or loss (FVTPL). In accordance with Group guidelines, the test is performed before a loan is granted or a security purchased (origination) in order to gain awareness of the accounting implications in terms of the classification of assets in accordance with IFRS 9. Test procedures make use of an SPPI tool.

For credit and loans, the approach for the execution of the SPPI test differs based on whether they consist of:

- Standard products (e.g. current accounts or loans), for which the test is performed at product level. Upon granting a loan, account is taken of the outcome of the SPPI test at product level, updated following verification of the remuneration of credit risk and a benchmark test, where required.
- Non-standard contracts, for which the test is performed individually for each amount.

For the securities portfolio, the results of the SPPI test and benchmark test are acquired for each ISIN from an external info provider. For amounts for which the results of the SPPI test and/or benchmark test obtained from an external info provider are not available and/or complete, the tests are performed within the Group, using the aforementioned tool.

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

Financial assets held for trading (fixed-yield securities, variable-yield securities, loans, mutual funds) have been allocated to this line item. It also includes the derivative contracts with a positive fair value, except those offset pursuant to IAS 32. A derivative contract is a financial instrument whose value is linked to movements in an interest rate, the prices struck for a financial instrument, the price of a commodity, a currency exchange rate, a price index, a rate index or other type of index, is settled on maturity and requires a limited initial net investment. If the derivative qualifies as a hedging derivative, the applicable line item is «hedging derivatives». If a financial asset contains an embedded derivative, it is measured by measuring the entire asset at fair value. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

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

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

Recognition

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

Accounting policies

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

With regard to instruments listed on active official markets, fair value is calculated with reference to their official bid price at the close of trading, while the fair value of instruments not listed on active official markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer. If data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity; cost, in the event that this is the best approximation of fair value).

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

– Discounted Cash Flow Model (DCF);

– Reverse mortgage model;

– ABS model.

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

Recognition of components affecting the income statement

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

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

Derecognition

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

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

Classification

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

The following are classified in the portfolio measured at fair value through other comprehensive income:

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

Recognition

The assets classified in this caption are recorded on the settlement date. Financial assets measured at fair value through other comprehensive income are initially recognised at fair value, which normally corresponds to the fair value of the consideration paid to acquire them.

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

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

Accounting policies

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

The line item «Financial assets measured at fair value through other comprehensive income» comprises equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Group operates. These instruments show that equities represent the majority in this portfolio. For these investments and in consideration of the fact that the application of valuation techniques would use significant discretionary factors, valuation at cost is considered the best expression of their fair value.

At each year end or interim reporting date, fixed-yield securities classified at «fair value through other comprehensive income» are subject to impairment testing based on an impairment calculation framework similar to that designed for financial instruments measured at amortised cost. Any subsequent writebacks cannot exceed the impairment losses recorded previously.

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

Recognition of components affecting the income statement

The interest calculated using the effective interest method, which takes account of the difference between cost and redemption value, is recorded in the income statement. Income and charges deriving from changes in fair value, net of the related deferred tax effect, are recognised in an equity reserve named «Valuation reserves», composed of the sub-items «Valuation reserves: Variable-yield securities designated at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income». As an exception for fixed-yield securities, changes in fair value triggered by changes in risk are recognised in profit or loss in the line item 130 b) «Net impairment adjustments/write-backs relating to credit risk» in relation to financial assets measured at fair value through other comprehensive income. Upon derecognition of fixed-yield securities, accumulated gains or losses pertaining thereto are recognised in profit or loss.

Upon derecognition of variable-yield securities, accumulated gains or losses pertaining thereto are recognised in an equity reserve (line item 150).

Dividends are shown under «dividends and similar income».

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

Derecognition

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

3. Financial assets measured at amortised cost

Classification

This line item includes fixed-yield securities and loans allocated to the portfolio measured at amortised cost. To qualify for inclusion in the portfolio measured at amortised cost, a financial asset must be held within an HTC business model and have passed the SPPI test. The following are recognised in this line item:

a) due from banks (current accounts, guarantee deposits, fixed-yield securities, etc.). These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, the distribution of financial products).

They also include deposits with Central Banks other than sight deposits included in the line item «Cash and cash equivalents» (for example, mandatory reserve);

b) loans and receivables with customers (mortgage loans, finance leases, factoring, fixed-yield securities, etc.). These also include deposits with post offices and Cassa Depositi e Prestiti, variation margins with clearing houses arising from derivative transactions and operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, servicing activities).

Also included are:

- finance leases relating to assets under construction and assets about to be leased under «transfer of risks» contracts, whereby the risks are transferred to the lessee prior to delivery of the asset and the start of lease instalments;
- loans granted through government or other public entity funding in connection with particular lending transactions provided for and governed by specific laws («loans through third-party funds under administration»), provided that the loans and funds bear interest due and payable to the lender;
- trade notes and documents that the banks receive subject to collection or subsequent to collection and for which the banks handle the collection service on behalf of assignors (recognised only upon settlement of the related amounts).

Recognition

Financial assets measured at amortised cost are recognised on the settlement date at fair value, which normally coincides with the amount paid, including transaction costs.

Financial assets measured at amortised cost include advances made on the assignment of receivables with recourse or on a without-recourse basis, but without transferring substantially all of the related risks and benefits. They also include receivables acquired by the bank, and booked in the name of the assigned debtor, for which the related risks and benefits have all been substantially transferred to the bank.

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

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

Accounting policies

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans (less than 12 months) without a specific repayment date and loans repyable

on demand are recognised at historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this amount. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used associated to discount expected cash flows, even if there has been a credit change associated with the loan triggered by loan forbearance that has led to a change in the contractual rate.
In order to measure the impairment adjustments required for expected losses, financial assets measured at amortised cost are classified in one of the following stages:

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

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts». At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, use of the low credit risk exemption for limited and particular types of counterparties and technical forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric («Probability of Default»), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard. Such a case would result in a transfer between stages: this model is symmetrical and assets may be moved from one stage to another. In particular, consistent with the prudent principles of forbearance, an observation period of at least two years is applied before returning the position to a better stage.

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

In particular:

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

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

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

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

– Non-performing loans reflect the exposure to parties that are insolvent or in essentially equivalent situations, regardless of any loss forecasts made by the Group. Accordingly, no account is taken of any guarantees received in support of such exposures.
– Exposures classified as unlikely-to-pay loans are exposures, other than non-performing, for which the bank deems it improbable that the obligor will pay its credit obligations (principal and/or interest) in full without recourse to measures such as the enforcement of guarantees.
– Impaired past due and/or overdrawn exposures are exposures, other than those classified as non-performing or unlikely-to-pay, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 days and which exceed a set materiality threshold. Impaired past due and/or overdrawn exposures may be determined with reference to the position of the individual debtor or, alternatively, solely for exposures to retail customers, with reference to a single transaction.

Impairment of individual assets measured at amortised cost is the extent to which their recoverable value is lower than their amortised cost. In the case of detailed analysis, recoverable value is defined as the present value of expected cash flows, determined with reference to the following elements:

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

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

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

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

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

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

Overall writedowns are made using similar methodology to that applied in relation to the overall writedown of non-performing loans for which no specific estimate has been made of the loss attributable to each individual relationship.

These financial assets are adjusted on an overall basis with reference to specific historical/ statistical analyses of the related losses incurred in the past.

Past due and/or impaired overdrawn exposures are identified using automated procedures that extrapolate anomalous positions with reference to specific parameters established by regulations in force from time to time.

For the positions in question, it is not possible to quantify expected losses on a detailed basis at the level of individual position. The measurement of the level of impairment thereof – and, thus, of the impairment adjustments to be applied on an overall basis – is performed by taking account of the possibility of return to performing of the positions or of a further deterioration of default and, accordingly, of the amount of the estimated expected loss arising from the established recovery process. Measurement is also performed based on the availability of appropriate information of a macroeconomic and prospective nature that is deemed significant for the estimation of the adjustments.

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

The Group incorporates the various recovery strategies considering the different probabilities that they will take place according to the IFRS 9 impairment model.

Recognition of components affecting the income statement

Interest income on financial assets measured at amortised cost is classified in the line item «interest and similar income».

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

As regards financial assets classified in stage 3 and loans purchased or originated credit-impaired (POCI), interest is calculated using the net interest method and is recognised in the line item «interest and similar income».

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

Derecognition

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

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

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

However, the standard includes new guidance on:

- Write-offs of financial assets: when an entity does not reasonably expect to fully or partly recover contractual cash flows from a financial asset, it must directly reduce the gross carrying amount of the financial asset. This writedown constitutes partial or total derecognition of the asset.
- Modification of contractual cash flows: when a modification of contractual cash flows occurs, an entity must assess whether the modification would lead to derecognition, that is, whether the modification is substantial.

When the modification of contractual cash flows from a financial asset leads to the derecognition of a financial asset in compliance with the present standard, an entity should derecognise the existing financial asset and subsequently recognise the modified financial asset: the modified financial asset is deemed to be a «new» financial asset for the purpose of this standard. (IFRS 9 B5.5.25).

When the modification of contractual cash flows from a financial asset does not lead to the derecognition thereof, an entity should redetermine whether there has been a significant increase in credit risk and/or whether the financial asset should be reclassified to stage 3.

At the time of a modification that does not lead to derecognition, the Group adjusts their carrying amount to the present value of the modified cash flows determined using the original effective interest rate, with a matching entry to the income statement.

3.1 Commitments and guarantees given

Classification

These comprise all the secured and unsecured guarantees given for third-party obligations and commitments to disburse funds.

Recognition and measurement

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

Recognition of components affecting the income statement

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

4. Hedging transactions

Classification and recognition

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

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

The hedging of market risks can take two different forms:

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

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

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

Measurement and recognition of components affecting the income statement

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

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

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

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

- derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged change in cash flows takes place;
- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

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

Derecognition

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

5. Equity investments

Classification

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

Recognition

Reference should be made to Section «Scope and methods of consolidation».

Accounting policies

Reference should be made to Section «Scope and methods of consolidation».

Measurement and recognition of components affecting the income statement

Reference should be made to Section «Scope and methods of consolidation».

Derecognition

Reference should be made to Section «Scope and methods of consolidation».

6. Property, equipment and investment property

Classification

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery. From 1 January 2019, the rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

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.

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

When the asset is made available to the lessee for its use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

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

At the time the contract begins, the lessee recognises:

– an asset consisting of the right to use the asset underlying the lease contract.

The asset is recognised at cost, determined by the sum of:

- the financial liability for the lease;
- payments for the lease paid before or on the date on which the lease takes effect (net of the lease incentives already received);
- initial direct costs;
- any (estimated) costs for the dismantling or restoration of the underlying leased asset;

– a financial liability deriving from the lease agreement corresponding to the present value of the payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise the lessee's incremental borrowing rate is used. If a lease contract contains «non-lease components» (for example services, such as routine maintenance, to be recorded according to the provisions of IFRS 15) the lessee has to account for «lease components» and «non-lease components» separately and split the contract consideration between the various components based on their relative prices.

The lease term is determined by taking into account:

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

Accounting policies

Following initial recognition, property, equipment and investment property are stated at cost net of accumulated depreciation and any permanent impairment of value, except for property held for investment purpose, which are measured at fair value. Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life. Property, equipment and investment property are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying 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.

With regard to lease contracts, the lessee must:

– assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36 «Impairment of assets», adjusted to take into account any restatements of the lease liability;
– increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the incremental borrowing rate and reduce it for payments of principal and interest. In the event of changes in payments due for leases, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

Recognition of components affecting the income statement

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

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

In the lessee's income statement, the payment of the fee, previously shown under «Other administrative expenses», is now accounted for:

– under «Net interest» for the portion of interest expense relating to the financial liability in relation to the lease contract;
– under «Adjustments to property, equipment and investment property and intangible assets» for the depreciation charge relating to the right of use of the asset.

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.

The right of use deriving from lease contracts is eliminated from the financial statements at the end of the lease term.

7. Intangible assets

Classification

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

Intangible assets comprise software and goodwill.

Recognition

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

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

Accounting policies

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any impairment losses. Amortisation is provided on a systematic, straight-line basis over the expected useful lives of the intangible assets concerned. If there is evidence of impairment at the reporting date, the recoverable amount of the asset is estimated: the impairment loss, being the difference between the carrying amount and the recoverable amount, is charged to the income statement.

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

Recognition of components affecting the income statement

Periodic amortisation, impairment losses and writebacks are recorded in the «amortisation and net impairment losses on intangible assets» caption of the income statement. It is not permitted to book any subsequent recoveries in value.

Derecognition

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

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

The Group classifies non-current assets and disposal groups as held for sale if their carrying amount will be recovered principally from sale rather than from continuous use. Non-current assets are only classified in this item when disposal is considered very probable, and the asset or disposal group is available for immediate sale in its current condition, given that management is committed to making the sale, which should be scheduled for completion within one year of the classification date. They are measured at the lower of book value and fair value, net of selling costs. Differences arising on valuation are booked to the income statement.

9. Current and deferred taxation

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

When estimating tax assets and liabilities, any charges deriving from disputes notified by the Tax Authorities and not yet settled or whose outcome is uncertain, as well as any uncertainties connected to the tax treatment adopted by the Company and other Group companies, which may not be ascertained by the Tax Authorities, are taken into account.

If there are deductible or taxable temporary differences at the reporting date between the value of assets and liabilities for tax purposes and the related carrying amounts, the corresponding deferred tax assets and liabilities are recognised using the liability method. Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions: – they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes; – the reversal of taxable temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures can be controlled, and it is probable that such reversal will not occur in the foreseeable future. Deferred tax assets are recognised in relation to all deductible temporary differences, tax credits and unused tax losses available to be carried forward, to the extent it is probable that sufficient taxable income will be available in future to absorb them, with the following exceptions: – the deferred tax assets associated with deductible temporary differences derive from the initial recognition of an asset or liability in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes; - in the case of deductible temporary differences associated with equity investments in subsidiary companies, associated companies and joint ventures, deferred tax assets are only recognised if it is probable that they will reverse in the foreseeable future and that sufficient taxable income will be available to absorb them. No deferred taxes are provided in relation to higher asset values or reserves subject to the deferral of taxation as the conditions for payment of such taxation in the future do not currently apply. Deferred tax assets are only recognised when their recovery in future years is reasonably certain. Deferred tax assets determined on the basis of deductible temporary differences are recorded in the financial statements to the extent that their recovery is probable; this probability is assessed by carrying out a probability test, based on the Group's ability to continue generating positive taxable income or, as a result of the Tax Consolidation option, based on that generated by the tax group member companies. Unrecognised deferred tax assets are reviewed at each reporting date and recognised to the extent that it has become probable that future taxable income will be sufficient to absorb them upon reversal. Deferred tax assets and liabilities are calculated using the tax rates expected to be in force when they reverse or expire, being the rates currently in force or those already communicated or substantially in force at the reporting date. Tax assets and liabilities are usually recorded with matching entries to the income statement, except when they derive from transactions whose effects are attributed directly to comprehensive income or equity; in those cases, they are recognised respectively in the statement of comprehensive income or in equity, consistent with the element to which they relate.

10. Provisions for risks and charges

This caption comprises the following provisions:

- The sub-item «commitments and guarantees given» includes provisions for credit risk in connection with commitments to disburse loans and financial guarantees given that are subject to IFRS 9 impairment rules and provisions for other commitments and other guarantees that are not subject to IFRS 9 impairment rules.
- Sub-item «Pensions and similar obligations» only includes the supplementary defined benefit and defined contributions pension plans classified as internal funds pursuant to current pension legislation, as well as the other «external» supplementary pension funds, if the return of the principal and/or the yield to the beneficiaries has been guaranteed. These include:
  - Parent Company's pension plan. This is classified as an «internal» pension fund and represents a defined-benefit obligation. The Bank is responsible for any unfunded liabilities.
  - Actuarial liabilities pertaining to BPS (Suisse) SA arising from supplementary pension costs for the employees thereof. For further details, see the specific accounting method explained below.
- The sub-item «Other provisions for risks and charges» includes the provision for the long-service bonuses paid to employees with 30 years of service, as well as provisions for liabilities whose timing and amount are uncertain, including legal disputes, which are recognised in the financial statements when the following conditions are met:
  - the bank has a current obligation (legal or implicit) at the reporting date, as a result of a past event;
  - it is likely that settlement of the obligation will involve the use of economic resources;
  - a reliable estimate can be made of the amount necessary to settle the obligation.

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

11. Financial liabilities measured at amortised cost

Classification

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

Recognition

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

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

Accounting policies

Subsequent to initial recognition, financial liabilities are measured at amortised cost, using the effective interest method. Amortised cost is calculated after identifying the acquisition discount or premium and the fees or costs that are an integral part of the effective interest rate. Short-term liabilities are stated at the amount collected.

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

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

Recognition of components affecting the income statement

Interest expense linked to funding instruments are booked to the income statement under «Interest and similar expense». The amortization charged using the effective interest rate is recognised among the financial charges in the income statement. Gains and losses on the repurchase of liabilities are recorded in the income statement under «gains/losses from sale or repurchase of financial liabilities».

Interest expense on the financial liability under the lease contract is recorded in «Interest expense».

Derecognition

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

12. Financial liabilities held for trading

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

13. Financial liabilities measured at fair value

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

14. Currency transactions

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

Recognition

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

Accounting policies

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

Recognition of components affecting the income statement

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise. Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the valuation reserves.

Derecognition

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

15. Post-employment benefits

Post-employment benefits (i.e. 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, for the portion of the amount accrued. Under the projected unit credit method, each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out 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.

The termination indemnities earned after 31 December 2016 are part of defined contributions plans. The contributions payable to these plans are recognised as a liability on an accruals basis, after deducting any contributions already paid to supplementary pension funds and to the INPS treasury fund in relation to the work performed by employees, with a matching entry to the income statement.

16. Other information

Share-based payments – Transactions settled using equity instruments

A share-based compensation plan has been devised for top management, in the context of which any variable remuneration exceeding the threshold of significance determined by the Board of Directors is subject to rules regarding its deferral and payment with financial instruments that are considered suitable for ensuring compliance with the Bank's long-term business objectives. The cost of transactions settled using equity instruments is represented by their fair value at the grant date, as determined using an appropriate method of measurement.

This cost and the corresponding increase in equity is recognised as a payroll cost over the period in which the conditions for achieving the objectives and/or providing the service are satisfied. The transaction costs already accumulated at each reporting date prior to the vesting date are projected forward to the vesting date, together with the best estimate of the number of equity instruments that will actually vest. The cost or income recognised in the income statement represents the change in accumulated cost between the start and the end of the year.

The service or performance conditions are ignored when the fair value of the plan is determined at the grant date. However, the probability that these conditions will be satisfied is considered when estimating the number of equity instruments that will actually vest. Market conditions are reflected in the fair value determined at the grant date. All other plan conditions that do not involve a service obligation are not considered to be vesting conditions. Non-vesting conditions are reflected in the fair value of the plan and result in immediate recognition of the cost of the plan, unless service or performance conditions must also be satisfied.

Revenues from contracts with customers

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

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

The amount of commission recognised on the placement of products is adjusted to take account of any variable revenues that might have to be returned in future. The revenues earned on current accounts are recognised after allocation to the individual products or services comprising the stand-alone package.

Income from dividends

Dividends are recognised when the right to collect them arises.

Treasury shares

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

Covered bonds

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

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

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

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

October 2016, relating to a portfolio of performing loans totalling € 226 million.

A fifth assignment of performing loans for a total of € 308 million took place on 1 October 2017 under the same contract. Given that the Parent Company maintained all of the risks and benefits of the securitised loans, they have not been derecognised and have therefore been retained on the balance sheet.

Interbank Deposit Protection Fund - Voluntary Scheme

In December 2015, the Parent Company joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. The Fund intervened in support of Banca Carige in 2018, resulting in a payment by the Bank of 5.257 million matched by the recognition of a financial asset represented by securities measured at fair value through profit and loss. This financial asset has been written down in full in the 2018 financial statements.

Transfer of financial assets held for trading

As in the previous year, the Parent Company 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.

INFORMATION ON FAIR VALUE

Qualitative information

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

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

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

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

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

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

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

Processes and sensitivity of the measurements

The Group uses various methodologies to determine the fair value of assets and liabilities. Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3. Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis. Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options. The use of present value techniques involves determining:

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

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

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

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

Given the limited weighting of such instruments within the Group's portfolio of financial assets and considering that the Level 3 instruments largely comprise securities carried at cost (for which no quantitative information is required about the sensitivity of their valuation), any changes in unobservable inputs would not have a significant economic impact.

The Level 3 instruments whose fair value is determined by processing unobservable quantitative inputs largely relate, therefore, to those financial instruments that did not pass the SPPI test envisage in IFRS 9 for classification as financial assets. The fair value of the majority of these financial instruments is determined using a DCF model or, for demand products, stated at the gross exposure net of any impairment due to credit risk.

The economic results do not fluctuate significantly on changes in the unobservable risk parameters.

In particular, the following analyses were carried out:

a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.03% under the adverse scenario and higher by 0.04% under the favourable scenario). The changes were very limited because the credit risk associated with most of these instruments is low.
b) analysis of the sensitivity to changes in the LGD (Loss Given Default) parameter by +/-10%. In both cases, the changes in fair value were very limited (fair value lower by 0.22% on a 10% increase in the LGD and greater by 0.21% on a 10% decrease). Here too, the changes were very limited because the credit risk associated with most of these instruments is low.
c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by 0.48% following an increase in the rate curves and, conversely, increased by 2.10% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The shocked and non-shocked fair value may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low.

Fair value hierarchy

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

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

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

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

Other information

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

QUANTITATIVE INFORMATION

Fair value hierarchy

A.4.5.1 Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

	30/06/2019			31/12/2018		
Financial assets/liabilities carried at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss of which	491,988	34,589	301,744	536,775	31,668	289,627
a) Financial assets held for trading	161,832	34,383	296	219,376	31,668	–
b) Financial assets designated at fair value	–	–	–	–	–	–
c) Other financial assets mandatorily measured at fair value	330,156	206	301,448	317,399	–	289,627
2. Financial assets measured at fair through other comprehensive income	3,008,191	–	76,714	4,306,378	–	117,238
3. Hedging derivatives	–	–	–	–	–	–
4. Property, equipment and investment property	–	–	63,210	–	–	63,077
5. Intangible assets	–	–	–	–	–	–
Total	**3,500,179**	**34,589**	**441,668**	**4,843,153**	**31,668**	**469,942**
1. Financial assets held for trading	1,483	63,489	–	–	57,211	–
2. Financial liabilities designated at fair value	–	–	–	–	–	–
3. Hedging derivatives	–	15,457	–	–	16,826	–
Total	**1,483**	**78,946**	**–**	**–**	**74,037**	**–**

A.4.5.2 Annual changes in assets carried at fair value on a recurring basis (Level 3)

	Financial assets measured at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at al fair value	of which: c) other financial assets mandatorily measured al fair value	Financial assets measured value at fair through other comprehensive income	Hedging derivatives	Property equipment and investment property	Intangible assets
1. Opening balance	**289,627**	**–**	**–**	**289,627**	**117,238**	**–**	**63,077**	**–**
2. Increases	28,167	296	–	27,871	7,846	–	133	–
2.1. Purchases	20,920	296	–	20,624	1,500	–	–	–
2.2. Income booked to:	6,409	–	–	6,409	3,811	–	133	–
2.2.1. Income statement	6,409	–	–	6,409	–	–	133	–
- of which realized gains	5,152	–	–	5,152	–	–	133	–
2.2.2. Equity	–	X	X	–	3,811	–	–	–
2.3 Transfers from other levels	–	–	–	–	2,413	–	–	–
2.4 Other increases	838	–	–	838	122	–	–	–
3. **Decreases**	**16,050**	**–**	**–**	**16,050**	**48,370**	**–**	**–**	**–**
3. Decreases	117	–	–	117	–	–	–	–
3.2. Reimbursements	2,773	–	–	2,773	129	–	–	–
3.3. Losses booked to:	11,561	–	–	11,561	7,740	–	–	–
3.3.1 Income statement	11,561	–	–	11,561	–	–	–	–
- of which realized losses	11,537	–	–	11,537	–	–	–	–
3.3.2. Equity	–	X	X	–	7,740	–	–	–
3.4 Transfers from other levels	–	–	–	–	–	–	–	–
3.5 Other decreases	1,599	–	–	1,599	40,501	–	–	–
4. **Closing balance**	**301,744**	**296**	**–**	**301,448**	**76,714**	**–**	**63,210**	**–**

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

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

A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at value on a non-recurring basis	30/06/2019				31/12/2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	33,747,360	6,172,452	–	29,007,083	32,873,554	5,832,354	–	28,220,875
2. Investment property	–	–	–	–	–	–	–	–
3. Non-current assets and measured at amortised cost	–	–	–	–	–	–	–	–
Total	**33,747,360**	**6,172,452**	**–**	**29,007,083**	**32,873,554**	**5,832,354**	**–**	**28,220,875**
1. Financial liabilities measured at amortised cost	37,974,863	2,875,279	280,501	34,817,410	37,228,347	2,156,641	268,788	34,796,143
2. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–
Total	**37,974,863**	**2,875,279**	**280,501**	**34,817,410**	**37,228,347**	**2,156,641**	**268,788**	**34,796,143**

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

The «day one profit/loss» provided for in IFRS 7 and IAS 9 para. B5.1.2 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».

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

Financial assets held for trading: breakdown by sector

	Total 30/06/2019			Total 31/12/2018		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. **Cash assets**						
1. Fixed-yield securities	97,777	–	–	126,131	–	–
1.1 Structured securities	2,050	–	–	1,925	–	–
1.2 Other fixed-yield securities	95,727	–	–	124,206	–	–
2. Variable-yield securities	49,025	–	–	83,095	–	–
3. Mutual funds	14,177	–	–	10,150	–	–
4. Loans	–	–	–	–	–	–
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A	**160,979**	**–**	**–**	**219,376**	**–**	**–**
B. **Derivatives**	–	–	–	–	–	–
1. Financial derivatives:	852	34,383	296	–	31,668	–
1.1 for trading	852	34,383	296	–	31,668	–
1.2 connected with the fair value option	–	–	–	–	–	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives:	–	–	–	–	–	–
2.1 for trading	–	–	–	–	–	–
2.2 connected with the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total B	**852**	**34,383**	**296**	**–**	**31,668**	**–**
Total (A+B)	**161,831**	**34,383**	**296**	**219,376**	**31,668**	**–**

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

	Total 30/06/2019			Total 31/12/2018		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	**37,173**	**206**	**38,089**	**36,697**	**–**	**41,750**
1.1 Structured securities	–	–	38,089	–	–	41,750
1.2 Other fixed-yield securities	37,173	206	–	36,697	–	–
2. Variable-yield securities	**1**	**–**	**–**	**–**	**–**	**1**
3. Mutual funds	**292,982**	**–**	**45,842**	**280,702**	**–**	**42,653**
4. Loans	**–**	**–**	**217,517**	**–**	**–**	**205,222**
4.1 Repo transactions	–	–	–	–	–	–
4.2 Other	–	–	217,517	–	–	205,222
Total	**330,156**	**206**	**301,448**	**317,399**	**–**	**289,626**

Loans classified under this item are financial instruments that have not passed the SPPI test. The fixed-yield securities classified under this item are instruments that are part of a business model of financial instruments managed at fair value and not held for trading.

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

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

	Total 30/06/2019			Total 31/12/2018		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Fixed-yield securities	**2,987,779**	**–**	**16,123**	**4,305,473**	**–**	**13,274**
1.1 Structured securities	296,594	–	12,402	266,311	–	11,979
1.2 Other fixed-yield securities	2,691,185	–	3,721	4,039,162	–	1,295
2. Variable-yield securities	20,413	–	60,591	907	–	103,964
3. Loans	–	–	–	–	–	–
Total	**3,008,192**	**–**	**76,714**	**4,306,380**	**–**	**117,238**

The fixed-yield securities portfolio is made up mostly of Italian government securities held with the intent of receiving cash flows and benefiting from any gains deriving from their sale. For unlisted equities with unobservable inputs and for which the most recent information available to measure their fair value is insufficient, the best estimate was made considering their adjusted equity value.

Variable-yield securities also include equities held by way of support for the core business and to encourage the development of initiatives in the territories where the Group operates.

Financial assets measured at amortised cost - line item 40

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

Type of transaction/Amounts	Total 30/06/2019					
	Book value			Fair value		
	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
A. Deposits with central banks	**223,878**	**–**	**–**	**–**	**–**	**223,878**
1. Fixed-term deposits	–	–	–	–		
2. Compulsory reserve	221,045	–	–	–	–	–
3 Repo transactions	–	–	–	–	–	–
4. Other	2,833	–	–	–	–	–
B. Loans and receivables with banks	**1,186,529**	**–**	**–**	**237,882**	**–**	**955,057**
1. Loans	810,199	–	–	–	–	810,445
1.1. Current accounts and sight deposits	195,645	–	–	–	–	–
1.2. Fixed-term deposits	388,015	–	–	–	–	–
1.3 Other loans:	226,539	–	–	–	–	–
- Repo transactions	129,731	–	–	–	–	–
- Leases	–	–	–	–	–	–
- Other	96,808	–	–	–	–	–
2. Fixed-yield securities	**376,330**	**–**	**–**	**237,882**	**–**	**144,612**
2.1 Structured securities	12,007	–	–	12,072	–	–
2.2 Other fixed-yield securities	364,323	–	–	225,810	–	144,612
Total	**1,410,407**	**–**	**–**	**237,882**	**–**	**1,178,935**

These receivables are not specifically hedged. The fair value of short-term loans or loans that are repayable on demand is assumed to be the same as their carrying amount.

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

Type of transaction/Amounts	Total 30/06/2019					
	Book value			Fair value		
	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
1. Loans	**24,344,462**	**1,766,746**	**186,379**	**–**	**–**	**27,607,381**
1.1. Current accounts	3,637,959	698,256	73,099	–	–	–
1.2. Repo transactions	1,033,318	–	–	–	–	–
1.3. Mortgage loans	13,210,695	909,027	95,769	–	–	–
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	473,500	12,725	1,034	–	–	–
1.5 Leases	–	–	–	–	–	–
1.6. Factoring	2,270,152	17,368	–	–	–	–
1.7. Other loans	3,718,838	129,370	16,477	–	–	–
2. Fixed-yield securities	**6,225,745**	**–**	**–**	**5,934,570**	**–**	**220,767**
2.1. Structured securities	1,308,463	–	–	1,045,336	–	220,767
2.2. Other fixed-yield securities	4,917,282	–	–	4,889,234	–	–
Total	**30,570,207**	**1,766,746**	**186,379**	**5,934,570**	**–**	**27,828,148**

Total 31/12/2018					
Book value			Fair value		
First and second stage	Third stage	of which: impaired ssets purchased or originated	Level 1	Level 2	Level 3
472,698	**–**	**–**	**–**	**–**	**472,698**
469,600	–	–	–	–	–
–	–	–	–	–	–
3,098	–	–	–	–	–
847,923	**–**	**–**	**75,407**	**–**	**772,865**
772,870	–	–	–	–	772,865
259,107	–	–	–	–	–
426,804	–	–	–	–	–
86,959	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
86,959	–	–	–	–	–
75,053	**–**	**–**	**75,407**	**–**	**–**
–	–	–	–	–	–
75,053	–	–	75,407	–	–
1,320,621	**–**	**–**	**75,407**	**–**	**1,245,563**

Total 31/12/2018					
Book value			Fair value		
First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
23,542,925	**1,833,204**	**184,078**	**–**	**–**	**26,735,780**
3,737,618	741,013	72,857	–	–	–
1,204,429	–	–	–	–	–
12,806,748	916,772	95,848	–	–	–
483,641	13,103	873	–	–	–
–	–	–	–	–	–
2,136,650	20,475	–	–	–	–
3,173,839	141,841	14,500	–	–	–
6,176,804	**–**	**–**	**5,756,947**	**–**	**239,532**
1,313,238	–	–	1,021,503	–	239,532
4,863,566	–	–	4,735.444	–	–
29,719,729	**1,833,204**	**184,078**	**5,756,947**	**–**	**26,975,312**

Receivables are object of a partial specific hedge.

Mortgage loans include € 1,439 million of mortgages, which were the subject of covered bond transactions by the Parent Company.

The securities issued under the covered bond programme were placed with institutional customers.

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

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

	Gross value				Total adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Partial total write-off
Fixed-yield securities	6,605,428	9,735	–	–	3,354	–	–	–
Loans	21,844,352	–	3,635,572	3,887,209	47,039	54,348	2,120,463	333,985
Total 30/06/2019	**28,449,780**	**9,735**	**3,635,572**	**3,887,209**	**50,393**	**54,348**	**2,120,463**	**333,985**
Total 31/12/2018	**28,344,793**	**–**	**2,795,500**	**4,145,061**	**49,193**	**50,747**	**2,311,858**	**193,888**
of which: impaired financial assets purchased or originated	–	–	40,858	246,721	–	351	100,848	7,121

At 30 June 2019, adjustments to financial assets measured at amortised cost do not show significant changes at the individual stage level compared with the beginning of the period, except for impaired positions where write-offs of impaired exposures and related provisions have been made.

Equity investments - line item 70

Equity investments: changes during the year

	Total 30/06/2019	Total 31/12/2018
A. **Opening balance**	**220,957**	**217,634**
B. **Additions**	**8,744**	**8,365**
B.1 Purchases	3,299	1,800
B.2 Write-backs	–	–
B.3 Revaluations	–	40
B.4 Other changes	5,448	6,525
C. **Decreases**	**1,727**	**5,042**
C.1 Disposals	1,299	–
C.2 Adjustments	–	–
C.3 Writedowns	–	–
C.4 Other changes	428	5,042
D. **Closing balance**	**227,977**	**220,957**
E. **Total revaluations**	**–**	–
F. **Total adjustments**	**(447)**	**(447)**

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

Purchases and sales refer to the acquisition of the investment in Cossi S.p.A. and subsequent adjustment of the shareholding.

Property, equipment and investment property - line item 80

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

Assets/Values	Total 30/06/2019	Total 31/12/2018
1. **Owned assets**	**264,247**	**265,084**
a) land	70,330	69,678
b) buildings	176,485	177,376
c) furniture	5,293	5,230
d) IT equipment	2,396	2,174
e) other	9,743	10,626
2. **Rights of use acquired through leases**	**233,746**	**–**
a) land	–	–
b) buildings	233,290	–
c) furniture	–	–
d) IT equipment	240	–
e) other	216	–
Total	**497,993**	**265,084**
of which: obtained by enforcing guarantees received	–	–

Investment property: analysis of assets carried at fair value

	Total 30/06/2019			Total 31/12/2018		
Items/Amounts	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. **Owned assets**	**–**	**–**	**63,210**	**–**	**–**	**63,077**
a) land	–	–	–	–	–	–
b) buildings	–	–	63,210	–	–	63,077
2. **Rights of use acquired through leases**	**–**	**–**	**–**	**–**	**–**	**–**
a) land	–	–	–	–	–	–
b) buildings	–	–	–	–	–	–
Total	**–**	**–**	**63,210**	**–**	**–**	**63,077**
of which: obtained by enforcing guarantees received	–	–	–	–	–	–

Intangible assets - line item 90

Intangible assets: breakdown by type

Assets/Values	Total 30/06/2019 Finite life	Total 30/06/2019 Indefinite life	Total 31/12/2018 Finite life	Total 31/12/2018 Indefinite life
A.1 **Goodwill**		**12,632**		**12,632**
A.1.1 Attributable to the banking group		12,632		12,632
A.1.2 Attributable to non-controlling interests		–		–
A.2 **Other intangible assets:**	**20,193**	**–**	**20,627**	**–**
A.2.1 Carried at cost	20,193	–	20,627	–
a) Intangible assets generated internally	58	–	–	–
b) Other assets	20,135	–	20,627	–
A.2.2 Carried at fair value:	–	–	–	–
a) Intangible assets generated internally	–	–	–	–
b) Other assets	–	–	–	–
Total	**20,193**	**12,632**	**20,627**	**12,632**

Intangible assets comprise € 20.193 million for the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years and goodwill for € 12.632 million. The accounting treatment of goodwill is in accordance with IFRS 3 on business combinations. This standard requires that the acquisition and therefore the first consolidation of the acquired entity has to take place on the date when the purchaser effectively obtains control over the other business.

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

It is particularly important to identify as accurately as possible the fair value of the assets and liabilities so that only the residual portion of the purchase cost that cannot be allocated to specific assets or liabilities gets booked as goodwill; for this reason, the standard makes it possible to book goodwill on a provisional basis by the end of the year in which the combination takes place. A definitive value then has to be booked within 12 months of the acquisition date. Goodwill concerns:

- Factorit S.p.A., acquired in 2010. On first-time recognition, the Parent Company booked a provisional figure of € 7.847 million as goodwill.
- Prestinuova S.p.A., acquired on 23 July 2018. This company operates in the granting of loans repayable by assigning a fifth of one's salary or pension. The acquisition took place on payment of a consideration of € 53 million. The company's equity on acquisition amounted to € 40 million with a difference of € 14 million.

After an initial recognition in the consolidated interim report at 30 September 2018 of a provisional goodwill of € 14 million, in the months following the acquisition, the Group carried out the activities to determine the fair value of assets and liabilities, which led to the recognition of effective goodwill of € 4.785 million on the acquisition.

After 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 the various items of goodwill that had been booked.

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

Other assets - line item 120

	30/06/2019	31/12/2018
Advances paid to tax authorities	53,372	51,954
Withholdings on interest due to customers	–	152
Tax credits and related interest	4,625	8,291
Current account cheques drawn on third parties	15,048	26,368
Current account cheques drawn on Group banks	172	1,005
Transactions in customers' securities	19,669	1,637
Inventories	37,037	33,110
Costs pertaining to the subsequent year	–	2,647
Advances to suppliers	928	1,377
Advances to customers awaiting collections	20,371	14,101
Miscellaneous debits in transit	24,830	57,429
Liquidity of pension fund	16,588	3,972
Accrued expenses not allocated	27,872	43,597
Prepayments not allocated	33,456	21,565
Differences on elimination	1,168	1,836
Residual items	67,636	79,323
Total	**322,772**	**348,364**

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

Liabilities and equity

Financial liabilities measured at amortised cost - line item 10

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

	Total 30/06/2019				Total 31/12/2018			
		Fair Value				Fair Value		
Type of transaction/amounts	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. **Due to central banks**	**4,601,185**	**-**	**-**	**-**	**4,613,420**	**-**	**-**	**-**
2. **Due to banks**	**1,756,932**	**-**	**-**	**-**	**1,552,416**	**-**	**-**	**-**
2.1. Current accounts and sight deposits	489,443	-	-	-	412,348	-	-	-
2.2. Fixed-term deposits	690,045	-	-	-	701,075	-	-	-
2.3 Loans	575,020	-	-	-	436,211	-	-	-
2.3.1 Repo transactions	100,067	-	-	-	100,034	-	-	-
2.3.2 Other	474,953	-	-	-	336,177	-	-	-
2.4 Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
2.5 Payables for leases	227	-	-	-	-	-	-	-
2.6 Other payables	2,197	-	-	-	2,782	-	-	-
Total	**6,358,117**	**-**	**-**	**6,358,117**	**6,165,836**	**-**	**-**	**6,165,836**

These payables are not specifically hedged.

Amounts due to central banks comprise two loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO II): one of € 1.100 million, obtained in June 2016, repayable in June 2020 and a second obtained in 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» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

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

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

	30/06/2019				31/12/2018			
		Fair value				Fair value		
Type of transaction/amounts	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
1. **Current accounts and sight deposits**	**27,183,945**	**-**	**-**	**-**	**27,482,070**	**-**	**-**	**-**
2. **Fixed-term deposits**	**978,577**	**-**	**-**	**-**	**1,046,988**	**-**	**-**	**-**
3. **Loans**	**7,537**	**-**	**-**	**-**	**7,085**	**-**		**-**
3.1 Repurchase agreements	800	-	-	-	100	-	-	-
3.2 Other	6,737	-	-	-	6,985	-	-	-
4. **Payables for commitments to repurchase own equity instruments**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. **Payables for leases**	**232,626**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
6. **Other payables**	**56,609**	**-**	**-**	**-**	**94,164**	**-**	**-**	**-**
Total	**28,459,294**	**-**	**-**	**28,459,294**	**28,630,307**	**-**	**-**	**28,630,307**

These payables are not specifically hedged.

The fair value is assumed to be the same as the book value as the amounts are short-term or due on demand. Lease liabilities are the present value of the lease payments not yet made at that date and recognised in accordance with the provisions of IFRS 16, which came into force on 1 January 2019.

Financial liabilities measured at amortised cost: breakdown of securities issued

	Total 30/06/2019				Total 31/12/2018			
		Fair value				Fair value		
Type of security/Amounts	BV	Level 1	Level 2	Level 3	BV	Level 1	Level 2	Level 3
A. **Securities**								
1. Bonds	3,055,747	2,875,279	178,795	-	2,349,650	2,156,641	186,234	-
1.1 structured	631,527	496,025	130,574	-	137,239	-	137,239	-
1.2 others	2,424,220	2,379,254	48,221	-	2,212,411	2,156,641	48,995	-
2. other securities	101,705	-	101,706	-	82,554	-	82,554	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**3,157,452**	**2,875,279**	**280,501**	**-**	**2,432,204**	**2,156,641**	**268,788**	**-**

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

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

Financial liabilities held for trading - line item 20

Financial liabilities held for trading: breakdown by sector

Type of transaction/Amounts	Total 30/06/2019					Total 31/12/2018				
		Fair value					Fair value			
	NV	Level 1	Level 2	Level 3	Fair Value*	NV	Level 1	Level 2	Level 3	Fair Value*
A. **Cash liabilities**										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Fixed-yield securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	–	–	–	–	–	–
3.1.2 Other bonds	–	–	–	–	–	–	–	–	–	–
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	–	–	–	–	–	–
3.2.2 Other	–	–	–	–	–	–	–	–	–	–
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. **Derivatives**										
1. Financial derivatives	–	1,483	63,489	–	–	–	–	57,211	–	–
1.1 For trading	–	1,483	63,489	–	–	–	–	57,211	–	–
1.2 Connected with the fair value option	–	–	–	–	–	–	–	–	–	–
1.3 Other	–	–	–	–	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–	–	–	–	–
2.1 For trading	–	–	–	–	–	–	–	–	–	–
2.2 Connected with the fair value option	–	–	–	–	–	–	–	–	–	–
2.3 Other	–	–	–	–	–	–	–	–	–	–
Total B	**–**	**1,483**	**63,489**	**–**	**–**	**–**	**–**	**57,211**	**–**	**–**
Total (A+B)	**–**	**1,483**	**63,489**	**–**	**–**	**–**	**–**	**57,211**	**–**	**–**

FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date.
NV = Nominal or notional value.

Hedging derivatives - line item 40

Hedging derivatives: breakdown by type of hedge and by level

	NV	Fair Value 30/06/2019			NV	Fair Value 31/12/2018		
	30/06/2019	Level 1	Level 2	Level 3	**31/12/2018**	Level 1	Level 2	Level 3
A. **Financial derivatives**	**324,638**	**-**	**15,457**	**-**	**412,814**	**-**	**16,826**	**-**
1) Fair value	324,638	-	15,457	-	412,814	-	16,826	-
2) Financial flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. **Credit derivatives**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Financial flows	-	-	-	-	-	-	-	-
Total	**324,638**	**-**	**15,457**	**-**	**412,814**	**-**	**16,826**	**-**

Other liabilities - line item 80

10.1 Other liabilities: breakdown

	30/06/2019	**31/12/2018**
Amounts at the disposal of third parties	410,398	341,039
Taxes to be paid on behalf of third parties	76,417	49,449
Taxes to be paid	1,314	2,313
Employee salaries and contributions	29,060	14,447
Suppliers	22,132	13,693
Transit accounts for sundry entities	5,161	17,376
Invoices to be received	1,651	14,823
Credits in transit for financial transactions	2,196	7,014
Value date differentials on portfolio transactions	7,128	162,854
Directors’ and statutory auditors’ emoluments	218	1,236
Loans disbursed to customers to be finalised	11,601	6,847
Miscellaneous credit items being settled	180,517	28,924
Accrued expenses not allocated	21,207	13,865
Deferred income not allocated	16,189	14,891
Differences on elimination	929	4,280
Residual items	114,436	67,040
Total	**900,554**	**760,091**

The increase of 18.48% essentially relates to «miscellaneous credit items being settled».

Accrued expenses and deferred income that have not been allocated mainly refer to charges to be paid that cannot be attributed to a specific liability item, but which are recognised in accordance with the matching principle

Post-employment benefits - line item 90

Post-employment benefits: changes during the year

	30/06/2019	31/12/2018
A. **Opening balance**	**43,222**	**45,491**
B. **Additions**	**5,869**	**7,758**
B.1 Provisions for the period	3,681	7,711
B.2 Other changes	2,188	47
C. **Decreases**	**(4,535)**	**(10,027)**
C.1. Payments made	(1,101)	(1,630)
C.2 Other changes	(3,434)	(8,397)
D. **Closing balance**	**44,556**	**43,222**
Total	**44,556**	**43,222**

Provisions for risks and charges - line item 100

Provisions for risks and charges: breakdown

Items/Components	Total 30/06/2019	Total 31/12/2018
1. **Provisions for credit risk related to commitments and financial guarantees given**	**21,915**	**22,615**
2. **Provisions on other commitments and other guarantees given**	**18,139**	**23,548**
3. **Pension and similar obligations**	**178,455**	**160,734**
4. **Other provisions for risks and charges**	**35,975**	**41,953**
4.1 Legal disputes	23,415	22,503
4.2 Personnel expenses	9,678	16,706
4.3 Other	2,882	2,744
Total	**254,484**	**248,850**

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 362 employees and 284 pensioners.

Pursuant to current internal agreements, employees hired after 28/04/1993 have been given the chance to enrol in an open-ended supplementary pension fund, for which Arca Previdenza F.P.A. had been chosen.

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

The adequacy of the fund with respect to the present value of the obligations at the reference date is 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 30/06/2019 as the discount rate.

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

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

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

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling € 1,360.157 million. Shares in circulation have dividend and voting rights from 1 January 2019.

At the period-end, the Parent Company held treasury shares with a carrying value of € 25.370 million.

Other information

1. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given				
	First stage	Second stage	Third stage	**Total 30/06/2019**	**Total 31/12/2018**
Commitments to make loans	**11,567,302**	**1,469,602**	**140,002**	**13,176,906**	**13,188,800**
a) Central banks	–	–	–	–	–
b) Public administrations	399,348	1,069	22	400,439	665,335
c) Banks	322,351	17,550	–	339,901	99,524
d) Other financial companies	827,523	133,120	2,452	963,095	912,127
e) Non-financial companies	9,080,838	1,031,670	130,167	10,242,675	10,275,503
f) Households	937,242	286,193	7,361	1,230,796	1,236,311
Financial guarantees given	**487,651**	**64,848**	**24,543**	**577,042**	**594,911**
a) Central banks	–	–	–	–	–
b) Public administrations	7,386	–	–	7,386	8,992
c) Banks	17,082	417	–	17,499	14,248
d) Other financial companies	166,844	46	212	167,102	175,521
e) Non-financial companies	237,323	52,552	23,460	313,335	325,369
f) Households	59,016	11,833	871	71,720	70,781

2. Other commitments and other guarantees given

	Nominal value **Total 30/06/2019**	Nominal value **Total 31/12/2018**
Other guarantees given	**2,815,035**	**2,835,823**
of which: impaired loans	68,952	74,807
a) Central banks	–	–
b) Public administrations	31,105	32,300
c) Banks	97,211	86,560
d) Other financial companies	47,827	58,885
e) Non-financial companies	2,475,774	2,486,849
f) Households	163,118	171,229
Other commitments	**3,187,887**	**3,155,958**
of which: impaired loans	92,041	90,999
a) Central banks	–	–
b) Public administrations	50,970	52,135
c) Banks	165,491	75,836
d) Other financial companies	56,693	45,811
e) Non-financial companies	2,838,306	2,911,719
f) Households	76,427	70,457

6. Management and intermediation for third parties

Type of service	**Amount 30/06/2019**
1. **Execution of orders on behalf of customers**	**517,489**
a) purchases	287,092
1. settled	283,520
2. not settled	3,572
b) sales	230,397
1. settled	228,373
2. not settled	2,024
2. Portfolio management	1,541,743
a) Individual	1,541,743
b) Collective	–
3. **Custody and administration of securities**	**50,110,364**
a) third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	1,995,802
1. securities issued by consolidated companies	–
2. other securities	1,995,802
b) third-party securities on deposit (excluding portfolio management): other	17,771,409
1. securities issued by consolidated companies	2,220,735
2. other securities	15,550,674
c) third-party securities on deposit with third parties	20,052,844
d) own securities on deposit with third parties	10,290,309
4. Other transactions	**–**

Information on the consolidated income statement

Interest - line items 10 and 20

Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	**Total 30/06/2019**	**Total 30/06/2018**
1. **Financial assets measured at fair value through profit or loss**	**876**	**2,275**	**–**	**3,151**	**2,644**
1.1. Financial assets held for trading	373	–	–	373	231
1.2. Financial assets designated at fair value	–	–	–	–	–
1.3. Other financial assets mandatorily measured at fair value	503	2,275	–	2,778	2,413
2. **Financial assets measured at fair value through other comprehensive income**	**8,406**	**–**	**–**	**8,406**	**10,442**
3. **Financial assets measured at amortised cost**	**16,537**	**252,183**	**–**	**268,720**	**282,963**
3.1. Loans and receivables with banks	–	5,145	–	5,145	5,443
3.2. Loans and receivables with customers	16,537	247,038	–	263,575	277,520
4. **Hedging derivatives**	**–**	**–**	**–**	**–**	**–**
5. **Other assets**	**–**	**–**	**–**	**–**	**13**
6. **Financial liabilities**	**–**	**–**	**–**	**10,744**	**12,703**
Total	**25,819**	**254,458**	**–**	**291,021**	**308,765**
of which: interest and similar income on impaired financial assets	–	24,226	–	24,226	36,854
of which: interest income on finance leases	–	–	–	–	

Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	**Total 30/06/2019**	**Total 30/06/2018**
1. **Financial liabilities measured at amortised cost**	**(23,506)**	**(25,314)**	**–**	**(48,820)**	**(47,112)**
1.1. Due to central banks	(76)	–	–	(76)	(67)
1.2. Due to banks	(6,752)	–	–	(6,752)	(3,924)
1.3. Due to customers	(16,678)	–	–	(16,678)	(17,403)
1.4. Securities issued	–	(25,314)	–	(25,314)	(25,718)
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
3. **Financial liabilities designated at fair value**	**–**	**–**	**–**	**–**	**–**
4. **Other liabilities and funds**	**–**	**–**	**–**	**–**	**–**
5. **Hedging derivatives**	**–**	**–**	**(3,774)**	**(3,774)**	**(4,572)**
6. **Financial assets**	**–**	**–**	**–**	**(8,364)**	**(7,379)**
Total	**(23,506)**	**(25,314)**	**(3,774)**	**(60,958)**	**(59,063)**
of which: interest expense relating to lease liabilities	(1,977)	–	–	(1,977)	–

Following the entry into force of IFRS 16 - Leases, which replaces the previous IAS 17 from 1 January 2019, interest expense includes the interest on lease liabilities. The figures for the comparative period are therefore not entirely comparable.

Differentials on hedging transactions

Items	Total 30/06/2019	Total 30/06/2018
A. Positive differentials on hedging transactions:	–	–
B. Negative differentials on hedging transactions:	(3,774)	(4,572)
C. Balance (A-B)	**(3,774)**	**(4,572)**

Commissions - line items 40 and 50

Fee and commission income: breakdown

Type of service/Amounts	Total 30/06/2019	Total 30/06/2018
a) **guarantees given**	**12,251**	**13,893**
b) **credit derivatives**	**–**	**–**
c) **management, intermediation and consultancy services:**	**43,054**	**42,329**
1. trading in financial instruments	1,597	1,915
2. trading in foreign currencies	–	–
3. portfolio management	4,929	5,250
3.1 individual	4,929	5,250
3.2 collective	–	–
4. custody and administration of securities	3,925	3,800
5. custodian bank	1,859	1,659
6. placement of securities	16,035	15,105
7. order receipt and transmission	4,475	5,439
8. consultancy	–	15
8.1 investments	–	15
8.2 corporate finance	–	–
9. distribution of third-party services	10,234	9,146
9.1 portfolio management	–	–
9.1.1 individual	–	–
9.1.2 collective	–	–
9.2 insurance products	8,648	7,949
9.3 other products	1,586	1,197
d) **collection and payment services**	**43,706**	**41,851**
e) **services for securitisation transactions**	**–**	**–**
f) **services for factoring transactions**	**11,226**	**10,458**
g) **tax collection services**	**–**	**–**
h) **management of multilateral trading systems**	**–**	**–**
i) **management of current accounts**	**17,640**	**17,511**
j) **other services**	**35,574**	**37,252**
Total	**163,451**	**163,294**

The sub-item «other services» is essentially made up of loan commissions and commissions generated by the foreign currency exchange activities. The figures for the comparative period have been adjusted to make them comparable.

Fee and commission expense: breakdown

Services/Amounts	Total 30/06/2019	Total 30/06/2018
a) **guarantees received**	**(340)**	**(331)**
b) **credit derivatives**	**–**	**–**
c) **management and intermediation services:**	**(2,055)**	**(1,975)**
1. trading in financial instruments	(920)	(849)
2. trading in foreign currencies	–	–
3. portfolio management	–	–
3.1 own	–	–
3.2 delegated to third parties	–	–
4. custody and administration of securities	(1,135)	(1,126)
5. placement of financial instruments	–	–
6. door-to-door distribution of financial instruments, products and services	–	–
d) **collection and payment services**	**(4,932)**	**(5,092)**
e) **other services**	**(3,555)**	**(2,503)**
Total	**(10,882)**	**(9,901)**

Dividends and similar income - line item 70

Dividends and similar income: breakdown

	Total 30/06/2019		Total 30/06/2018	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,378	–	1,498	87
B. Other financial assets mandatorily measured at fair value	–	635	–	412
C. Financial assets measured at fair value through other comprehensive income	1,106	13	1,155	13
D. Equity investments	36	–	30	–
Total	**2,520**	**648**	**2,683**	**512**

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)] 30/06/2019**
1. **Financial assets held for trading**	**13,335**	**19,323**	**(1,621)**	**–**	**31,037**
1.1 Fixed-yield securities	1,876	1,047	–	–	2,923
1.2 Variable-yield securities	1,729	6,820	(1,551)	–	6,998
1.3 Mutual funds	15	110	(70)	–	55
1.4 Loans	–	–	–	–	–
1.5 Other	9,715	11,346	–	–	21,061
2. **Financial liabilities held for trading**	**–**	**–**	**–**	**–**	**–**
2.1 Fixed-yield securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
Other financial assets and liabilities: exchange differences	**–**	**–**	**–**	**–**	**(18)**
3. **Derivatives**	**2,235**	**9,021**	**(2,816)**	**(6,702)**	**1,738**
3.1. Financial derivatives:	2,235	9,021	(2,816)	(6,702)	1,738
– On debt securities and interest rates	1,085	6,141	(1,330)	(6,226)	(330)
- On equities and equity indices	1,150	2,386	(1,486)	–	2,050
- On currency and gold	–	–	–	–	–
- Other	–	493	–	(476)	17
3.2 Credit derivatives	–	–	–	–	–
of which: natural hedges linked to the fair value option	–	–	–	–	–
Total	**15,570**	**28,344**	**(4,437)**	**(6,702)**	**32,756**

Net trading income passes from € 17.282 million to € 32.756 million, with a decrease in net trading income on securities from € 10.024 million to € 7.977 million and an overall positive imbalance on securities and currency of 11.714 million compared with a negative balance of 7.348 million in the comparative period.

The income from trading in «other financial assets» of 11.346 million is made up principally of exchange gains.

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

Net hedging gains (losses) - line item 90

Net hedging gains (losses): breakdown

Income items/Amounts	Total 30/06/2019	Total 30/06/2018
A. **Income from:**		
A.1 Fair value hedging derivatives	1,464	3,296
A.2 Hedged financial assets (fair value)	–	–
A.3 Hedged financial liabilities (fair value)	–	–
A.4. Cash-flow hedges	–	–
A.5 Assets and liabilities in foreign currency	–	–
Total income from hedging activities (A)	**1,464**	**3,296**
B. **Charges from:**		
B.1 Fair value hedging derivatives	–	–
B.2 Hedged financial assets (fair value)	(1,456)	(3,219)
B.3 Hedged financial liabilities (fair value)	–	–
B.4 Cash-flow hedges	–	–
B.5 Assets and liabilities in foreign currency	–	–
Total charges from hedging activities (B)	**(1,456)**	**(3,219)**
C. **Net hedging gains (losses) (A-B)**	**8**	**77**
of which: hedging result on net positions	–	–

Income include € 1.464 million for the valuation at fair value of hedging derivatives, versus a negative valuation of the loans being hedged of € 1.456 million at fair value. The net result of measuring the hedging structure at fair value is a negative balance of € 0.008 million.

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

Gains (Losses) on sale or repurchase: breakdown

	30/06/2019			30/06/2018		
Items/income items	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
Financial assets						
1. **Financial assets measured at amortised cost**	**2,603**	**–**	**2,603**	**2,240**	**–**	**2,240**
1.1. Loans and receivables with banks	–	–	–	–	–	–
1.2. Loans and receivables with customers	2,603	–	2,603	2,240	–	2,240
2. **Financial assets measured at fair value through other comprehensive income**	**3,215**	**(392)**	**2,823**	**11,432**	**(1,198)**	**10,234**
2.1 Fixed-yield securities	3,215	(392)	2,823	11,432	(1,198)	10,234
2.2 Loans	–	–	–	–	–	–
Total assets (A)	**5,818**	**(392)**	**5,426**	**13,672**	**(1,198)**	**12,474**
Financial liabilities measured at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**
1. **Due to banks**	**–**	**–**	**–**	**–**	**–**	**–**
2. **Due to customers**	**–**	**–**	**–**	**–**	**–**	**–**
3. **Securities issued**	**306**	**(3)**	**303**	**19**	**(155)**	**(136)**
Total liabilities (B)	**306**	**(3)**	**303**	**19**	**(155)**	**(136)**

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

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

Transactions/Income items	Gains (A)	Gains on disposal (B)	Losses (C)	Losses on disposal (D)	**Profit (loss) [(A+B)-(C+D)] 30/06/2019**
1. **Financial assets**	**14,971**	**2,036**	**(11,760)**	**(153)**	**5,094**
1.1 Fixed-yield securities	18	1,812	(2,030)	(134)	(334)
1.2 Variable-yield securities	–	98	–	–	98
1.3 Mutual funds	9,831	126	(1,565)	(19)	8,373
1.4 Loans	5,122	–	(8,165)	–	(3,043)
2. **Financial assets: exchange differences**	**–**	**–**	**–**	**–**	**(288)**
Total	**14,971**	**2,036**	**(11,760)**	**(153)**	**4,806**

The gains and losses recognised mainly concern mutual funds and Italian government securities. This line item also includes the change in fair value of loans which did not pass the SPPI test.

Net adjustments for credit risk - line item 130

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

Transactions/Income items	Adjustments (1)			Write-backs (2)			
	First and second stage	Third stage		First and second stage	Third stage	**Total 30/06/2019**	**Total 30/06/2018**
		Write-off	Other				
A. **Loans and receivables with banks**	**(600)**	**–**	**–**	**352**	**–**	**(248)**	**(49)**
- Loans	(510)	–	–	351	–	(159)	(49)
- Fixed-yield securities	(90)	–	–	1	–	(89)	–
of which: impaired loans acquired or originated	–	–	–	–	–	–	–
B. **Loans and receivables with customers**	**(47,108)**	**(17,680)**	**(222,107)**	**53,634**	**126,818**	**(106,443)**	**(88,261)**
- Loans	(46,930)	(17,680)	(222,107)	53,337	126,818	(106,562)	(88,449)
- Fixed-yield securities	(178)	–	–	297	–	119	188
of which: impaired loans acquired or originated	(90)	–	(10,047)	6,938	5,475	2,277	–
Total	**(47,708)**	**(17,680)**	**(222,107)**	**53,986**	**126,818**	**(106,691)**	**(88,310)**

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

Transactions/Income items	Adjustments (1)			Write-backs (2)			
	Third stage		First and second stage	Third stage	First and second stage	**Total 30/06/2019**	**Total 30/06/2018**
	Write-off	Other					
A. **Debt securities**	**–**	**–**	**–**	**1,031**	**–**	**1,031**	**2,777**
B **Loans**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
- Customers	–	–	–	–	–	–	–
- Banks	–	–	–	–	–	–	–
of which: impaired loans acquired or originated	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**1,031**	**–**	**1,031**	**2,777**

Adjustments concern the measurement of credit risk on debt securities classified as financial assets measured at fair value through other comprehensive income.

Gains/losses on contractual changes not resulting in derecognition - line item 140

Gains (losses) on contractual changes: breakdown

Contractual changes not resulting in derecognition amounted to 1.462 million, with respect to 0.724 million in the comparative period.

Administrative expenses - line item 190

Personnel expenses: breakdown

Type of expense/Amounts	Total 30/06/2019	Total 30/06/2018
1) **Employees**	**(123,919)**	**(118,195)**
a) Wages and salaries	(79,317)	(77,142)
b) Social security contributions	(19,970)	(19,613)
c) Post-employment benefits	(11)	(13)
d) Pension expenses	(2,544)	(2,328)
e) Provision for employee termination indemnities	(3,681)	(3,533)
f) Provision for pension and similar obligations:	(5,649)	(3,034)
- defined contribution	–	
- defined benefits	(5,649)	(3,034)
g) Payments to external supplementary pension funds:	(1,859)	(1,808)
- defined contribution	(1,856)	(1,808)
- defined benefits	(3)	–
h) Costs deriving from payment agreements based on own capital instruments	–	–
i) Other personnel benefits	(10,888)	(10,724)
2) **Other working personnel**	**(140)**	**(150)**
3) **Directors and Statutory Auditors**	**(1,320)**	**(1,214)**
4) **Retired personnel**	**–**	**–**
Total	**(125,379)**	**(119,559)**

Average number of employees by category

	Total 30/06/2019	Total 30/12/2018
1) **Employees**	**3,232**	**3,208**
a) Managers	40	38
b) Officials	695	783
c) Other employees	2,497	2,387
2) **Other personnel**	**4**	**5**

	Total 30/06/2019	Total 31/12/2018
- Actual number of employees	3,292	3,257
- Other personnel	4	4
BRANCHES	**362**	**363**

Other administrative expenses: breakdown

Type of service/amounts	30/06/2019	30/06/2018
Telephone, post and data transmission	(7,529)	(7,889)
Maintenance of property, equipment and investment property	(4,744)	(4,909)
Rent of buildings	(2,387)	(13,113)
Security	(2,534)	(3,084)
Transportation	(1,751)	(1,802)
Professional fees	(20,367)	(17,789)
Office materials	(1,053)	(1,215)
Electricity, heating and water	(2,708)	(2,456)
Advertising and entertainment	(1,905)	(1,765)
Legal	(8,191)	(7,579)
Insurance	(932)	(969)
Company searches and information	(3,504)	(3,542)
Indirect taxes and dues	(27,336)	(27,664)
Software and hardware rental and maintenance	(10,343)	(8,642)
Data entry by third parties	(1,046)	(942)
Cleaning	(3,037)	(2,878)
Membership fees	(1,108)	(982)
Services received from third parties	(4,159)	(3,027)
Outsourced activities	(11,368)	(11,245)
Deferred charges	(408)	(384)
Goods and services for employees	(704)	(570)
Other	(31,810)	(29,329)
Total	**(148,924)**	**(151,775)**

The figures are not comparable as a result of the entry into force from 1 January 2019 of IFRS 16 - Leases which introduced new methods of accounting for leases.

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

Net accruals to provisions for risks and charges: breakdown

The line item amounts to € 0.680 million.

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

Net gains (losses) on equity investments: breakdown

Income item/Segments	30/06/2019	30/06/2018
1) **Joint-ventures**		
A. Income	9	7
1. Revaluations	9	7
2. Gains on disposal	–	–
3. Write-backs	–	–
4. Other income	–	–
B. Charges	(221)	(55)
1. Write-down	(221)	(55)
2. Impairment adjustments	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**(212)**	**(48)**
2) **Associated companies**		
A. Income	9,977	10,265
1. Revaluations	9,977	9,464
2. Gains on disposal	–	801
3. Write-backs	–	–
4. Other income	–	–
B. Charges	(224)	–
1. Write-downs	(224)	–
2. Impairment adjustments	–	–
3. Losses on disposal	–	–
4. Other charges	–	–
Profit (loss)	**9,753**	**10,265**
Total	**9,541**	**10,217**

Net gains on sale of investments - line item 280

Net gains on sales of investments: breakdown

Income item/amount	Total 30/06/2019	Total 30/06/2018
A. **Buildings**	**–**	**–**
- Gains on disposal	–	–
- Losses on disposal	–	–
B. **Other assets**	**13**	**11**
– Gains on disposal	14	13
– Losses on disposal	(1)	(2)
Profit (loss)	**13**	**11**

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.

	30/06/2019	30/06/2018
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.

	30/06/2019	30/06/2018
basic EPS	0.104	0.164
diluted EPS	0.104	0.164

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 31/12/2018. With reference to impaired financial assets, please refer to the information in the report on operations, in the paragraph on «Lending», and in the notes, in the «Financial assets measured at amortised cost» section.

QUANTITATIVE INFORMATION

Asset quality

Impaired and performing loans: size and adjustments

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

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Impaired past due exposures	Performing past due exposures	Other performing exposures	**Total**
1. Financial assets measured at amortised cost	721,742	956,076	88,929	355,578	31,625,036	33,747,361
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	3,003,901	3,003,901
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	–	31,967	2,176	6,777	252,065	292,985
5. Financial assets being sold	–	–	–	–	–	–
Total 30/06/2019	**721,742**	**988,043**	**91,105**	**362,355**	**34,881,002**	**37,044,247**
Total 31/12/2018	**760,412**	**1,006,089**	**84,656**	**415,638**	**35,209,175**	**37,475,970**

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

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

Portfolio/quality	Impaired				Performing			Total (Net exposure)
	Gross exposure	Total adjustments	Net exposure	Total partial write-offs	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortised cost	3,887,479	2,120,732	1,766,747	334,110	32,085,343	104,733	31,980,610	33,747,361
2. Financial assets measured at fair value through other comprehensive income	–	–	–	–	3,005,517	1,616	3,003,901	3,003,901
3. Financial assets designated at fair value	–	–	–	–	–	–	–	–
4. Other financial assets mandatorily measured at fair value	46,162	12,019	34,143	–	–	–	258,842	292,985
5. Financial assets being sold	–	–	–	–	–	–	–	–
Total 30/06/2019	**3,933,641**	**2,132,751**	**1,800,890**	**334,110**	**35,090,860**	**106,349**	**35,243,353**	**37,044,247**
Total 31/12/2018	**4,172,101**	**2,320,945**	**1,851,156**	**194,014**	**35,461,680**	**102,579**	**35,624,814**	**37,475,970**

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

Consolidation for supervisory purposes - Cash and off-balance sheet exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure Impaired	Gross exposure Performing	Total adjustments and provisions	Net exposure	Total partial write-offs *
A. **Cash exposure**					
a) Non-performing loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
b) Unlikely-to-pay loans	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
c) Impaired past due exposures	–	–	–	–	–
- of which: exposures subject to forbearance	–	–	–	–	–
d) Performing past due exposures	–	11,676	5	11,671	–
- of which: exposures subject to forbearance	–	–	–	–	–
e) Other performing exposures	–	1,918,339	707	1,917,632	–
- of which: exposures subject to forbearance	–	–	–	–	–
Total (A)	–	1,930,015	712	1.929,303	–
B. **Off-balance sheet credit exposures**					
a) Impaired	–	–	–	–	–
b) Performing	–	671,878	30	671,848	–
Total (B)	**–**	**671,878**	**30**	**671,848**	**–**
Total (A+B)	**–**	**2,601,893**	**742**	**2,601,151**	**–**

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

Consolidation for supervisory purposes - Cash and off-balance sheet exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure Impaired	Gross exposure Performing	Total adjustments and provisions	Net exposure	Total partial write-offs*
A. **Cash exposure**					
a) Non-performing loans	2,286,919	–	1,565,178	721,741	332,433
- of which: exposures subject to forbearance	201,765	–	117,144	84,621	36,418
b) Unlikely-to-pay loans	1,544,915	–	556,872	988,043	1,677
- of which: exposures subject to forbearance	774,220	–	270,226	503,994	1,114
c) Impaired past due exposures exposures	101,807	–	10,701	91,106	–
- of which: exposures subject to forbearance	18,959	–	716	18,243	–
d) Performing past due exposures	–	358,297	7,613	350,684	–
- of which: exposures subject to forbearance	–	27,514	1,357	26,157	–
e) Other performing exposures	–	33,050,957	96,682	32,954,275	–
- of which: exposures subject to forbearance	–	726,447	15,020	711,427	–
Total (A)	**3,933,641**	**33,409,254**	**2,237,046**	**35,105,849**	**334,110**
B. Off-balance sheet credit exposures					
a) Impaired	325,538	–	31,778	293,760	–
b) Performing	–	19,987,599	8,248	19,979,351	–
Total (B)	**325,538**	**19,987,599**	**40,026**	**20,273,111**	**–**
Total (A+B)	**4,259,179**	**53,396,853**	**2,277,072**	**55,378,960**	**334,110**

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

Significant risks

	30/06/2019	**31/12/2018**
Number of positions	16	13
Exposure	16,856,672	16,116,251
Risk position	4,184,604	3,046,814

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, 7,185 million; risk position, 24 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione Garanzia - Clearing House (nominal exposure, 1,084 million; risk position, nil), principally in relation to lending repo transactions, as well as nominal exposures to Spain and France of 1,744 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 31/12/2018.

Derivative instruments and related hedging policy

Financial derivatives

Financial trading derivatives: notional values at period end

	Total 30/06/2019				Total 31/12/2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
Underlying assets/Type of derivative	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**2,394,720**	**–**	**–**	**–**	**2,401,230**	**–**
a) Options	–	–	22,109	–	–	–	24,346	–
b) Swaps	–	–	2,372,611	–	–	–	2,376,884	–
c) Forward	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**147,092**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	147,092	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**4,117,051**	**–**	**–**	**–**	**4,170,072**	**–**
a) Options	–	–	34,694	–	–	–	26,646	–
b) Swap	–	–	–	–	–	–	–	–
c) Forward	–	–	4,082,357	–	–	–	4,143,426	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**17,519**	**–**	**–**	**–**	**9,368**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**6,676,382**	**–**	**–**	**–**	**6,580,670**	**–**

A.2 Financial trading derivatives: gross positive and negative fair value - breakdown by product

	Total 30/06/2019				Total 31/12/2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
Types of derivatives	Central Counterparties	With settlement agreements	Without settlement agreements	Central markets	Central Counterparties	With settlement agreements	Without settlement agreements	Central markets
1. **Positive fair value**								
a) Options	–	–	1,645	–	–	–	487	–
b) Interest rate swaps	–	–	17,377	–	–	–	12,299	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forward	–	–	16,215	–	–	–	18,621	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	294	–	–	–	261	–
Total	**–**	**–**	**35,531**	**–**	**–**	**–**	**31,668**	**–**
2. Negative fair value								
a) Options	–	–	1,945	–	–	–	451	–
b) Interest rate swaps	–	–	16,975	–	–	–	11,787	–
c) Cross currency swaps	–	–	–	–	–	–	–	–
d) Equity swaps	–	–	–	–	–	–	–	–
e) Forward	–	–	45,771	–	–	–	44,720	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	281	–	–	–	253	–
Total	**–**	**–**	**64,972**	**–**	**–**	**–**	**57,211**	**–**

Financial hedging derivatives

Financial hedging derivatives: notional values at period end

Underlying assets/Type of derivative	Total 30/06/2019				Total 31/12/2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
1. **Fixed-yield securities and interest rates**	**–**	**–**	**324,638**	**–**	**–**	**–**	**412,814**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swap	–	–	324,638	–	–	–	412,814	–
c) Forward	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. **Variable-yield securities and stock indices**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swap	–	–	–	–	–	–	–	–
c) Forward	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. **Currency and gold**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swap	–	–	–	–	–	–	–	–
c) Forward	–	–	–	–	–	–	–	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. **Commodities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. **Other**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**324,638**	**–**	**–**	**–**	**412,814**	**–**

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

Types of derivative	Positive and negative fair value							
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central Counterparties	With settlement agreements	Without settlement agreements	Organised markets
Positive fair value								
a) Options	–	–	–	–	–	–	–	–
b) Interest rate swap	–	–	–	–	–	–	–	–
c) Cross currency swap	–	–	–	–	–	–	–	–
d) Equity swap	–	–	–	–	–	–	–	–
e) Forward	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Negative fair value								
a) Options	–	–	–	–	–	–	–	–
b) Interest rate swap	–	–	15,457	–	–	–	16,826	–
c) Cross currency swap	–	–	–	–	–	–	–	–
d) Equity swap	–	–	–	–	–	–	–	–
e) Forward	–	–	–	–	–	–	–	–
f) Futures	–	–	–	–	–	–	–	–
g) Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**15,457**	**–**	**–**	**–**	**16,826**	**–**

Banking group - Liquidity risk

Qualitative information about liquidity risk is provided in the financial statements at 31/12/2018.

Securitisation transactions and disposal of assets

Covered bond

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

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

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

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

A fifth assignment of performing loans for a total of € 307 million took place on 1 October 2017 under the same contract.

A sixth assignment of performing loans for a total of € 323 million took place on 1 October 2018 under the same contract.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, the operations are not treated as assignments without recourse pursuant to IFRS 9. Therefore, these mortgages were not derecognised.

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

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

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

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

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

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

Series and Class	Series 1
ISIN Code	IT0005039711
Issue date	05/08/2014
Maturity Date	05/08/2019
Extended maturity	05/08/2020
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	1.375%
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 31/12/2018.

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 30/06/2019 amounted to € 9,260 million and was structured as follows:
a) Loans and securities to public administrations: € 8,496 million;
b) Loans and securities to local administrations: € 56 million;
c) Loans and securities to state-owned or local government-owned enterprises: € 468 million;
d) Loans and securities to other public administrations and miscellaneous entities: € 240 million.

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

Information on consolidated equity

Consolidated capital

QUALITATIVE INFORMATION

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

The need for adequate capital has been made even more evident by the crisis and the actions of the Supervisory Authorities, which now operate on a transnational basis. Indeed, the economic/financial crisis has brought the equity levels of banks into sharp focus following the large losses recorded, the explosion of expected losses caused by the recession, the deterioration of loan quality and the uncertain value of assets. Without forgetting the need to support the economy in order to stimulate a recovery.

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of 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 S.p.A with a view to providing specialist tools in support of the real economy. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

The 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.

B.1 Consolidated equity: breakdown

Items/Amounts	Consolidation for supervisory purposes	Insurance companies	Other businesses	Consolidated eliminations and adjustments	**Total**
1. Share capital	**1,393,736**	**–**	**–**	**–**	**1,393,736**
2. Share premium reserve	**83,363**	**–**	**–**	**–**	**83,363**
3. Reserves	**1,313,431**	**–**	**1,702**	**38,228**	**1,353,361**
4. Equity instruments	**–**	**–**	**–**	**–**	**–**
5. (Treasury shares)	**(25,370)**	**–**	**–**	**–**	**(25,370)**
6. Valuation reserves:	**(39,752)**	**–**	**192**	**1,641**	**(37,919)**
- Variable-yield securities measured at fair value through other comprehensive income	37,811	–	–	–	37,811
- Hedge of variable-yield measured at fair value through other comprehensive income	–	–	–	–	–
- Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	(9,718)	–	–	–	(9,718)
- Property, equipment and investment property	–	–	–	–	–
- Intangible assets	–	–	–	–	–
- Hedges of foreign investments	–	–	–	–	–
- Cash-flow hedges	–	–	–	–	–
- Hedging instruments (non-designated elements)	–	–	–	–	–
- Exchange differences	–	–	–	–	–
- Non-current assets and disposal groups held for sale	–	–	–	–	–
- Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)	–	–	–	–	–
- Actuarial profits (losses) on defined-benefit plans	(67,845)	–	–	–	(67,845)
- Share of valuation reserves of equity investments valued at net equity	–	–	–	1,641	1,641
- Special revaluation regulations	–	–	192	–	192
7. Profit (loss)	46,185	–	(176)	1,428	47,437
Total	**2,771,593**	**–**	**1,718**	**41,297**	**2,814,608**

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

Assets/Values	Banking group		Insurance companies		Other businesses		Consolidated eliminations and adjustments		**Total 30/06/2019**	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	12,512	(22,229)	–	–	–	–	–	–	12,512	(22,229)
2. Variable-yield securitie	44,957	(7,147)	–	–	–	–	–	–	44,957	(7,147)
3. Loans	–	–	–	–	–	–	–	–	–	–
Total 30/06/2019	**57,469**	**(29,376)**	**–**	**–**	**–**	**–**	**–**	**–**	**57,469**	**(29,376)**
Total 31/12/2018	**137,118**	**(115,691)**	**–**	**–**	**–**	**–**	**–**	**–**	**137,118**	**(115,691)**

B.3 Valuation reserves of financial assets measured at fair value through other comprehensive income: changes during the year

	Fixed-yield securities	Variable-yield securities	Loans
1. **Opening balance**	**(40,204)**	**61,631**	**–**
2. **Positive changes**	**32,880**	**21,295**	**–**
2.1 Increases in fair value	31,004	21,295	–
2.2 Adjustments for credit risk	57	–	–
2.3 Transfer to income statement of negative reserves from disposals	1,819	–	–
2.4 Transfer to other components of equity (variable-yield securities)	–	–	–
2.5 Other changes	–	–	–
3. **Negative changes**	**(2,394)**	**(45,115)**	**–**
3.1 Reductions in fair value	–	(7,202)	–
3.2 Write-backs for credit risk	(1,088)	–	–
3.3 Transfer to income statement from positive reserves: from disposals	(1,283)	–	–
3.4 Transfer to other components of (variable-yield securities)	–	(37,913)	–
3.5 Other changes	(23)	–	–
4. **Closing balance**	**(9,718)**	**37,811**	**–**

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 € 67.845 million.

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

Capital and capital adequacy ratios

Scope of application of the regulations

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (Capital Requirement Regulation - CRR) and Directive 2013/36 EU (Capital Requirement Directive - CRD IV) came into force on 1 January 2014, adopting in the European

Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

While the CRR Regulation is directly applicable in national law, the CRD IV Directive was implemented by Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to Own Funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the EU instructions.

Bank's own funds

QUALITATIVE INFORMATION

Pursuant to art. 4, para. 1, nos. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR),own funds comprise:

– Tier 1 Capital;
– Tier 2 Capital.

The Tier 1 capital (art. 25 CRR) consists of:

– Common Equity Tier 1 - CET1;
– Additional Tier 1 – AT1.

The Tier 1 capital (CET1) is made up of the following positive and negative components:

– Share capital;
– Share premium reserve;
– Retained earnings;
– 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 arrangements (grandfathering);
– Deductions.

Tier 2 capital (T2) consists of the following positive and negative elements:

– Equity instruments, subordinated loans and related premiums;
– Previous T2 instruments subject to transitional arrangements (grandfathering);
– Deductions.

The supervisory regulations envisaged a transition period, still in progress, with the gradual introduction («phase in») of part of the new rules on own funds and capital requirements, as well as safeguard clauses that allow the partial inclusion, with gradual exclusion by 2021, of previous equity instruments that do not meet all the requirements specified by the CRR for inclusion in CET 1, AT1 or T2.

Following the entry into force of the ECB Regulation, since October 2016 larger banks have to include in or deduct from CET 1, respectively, their unrealised gains and losses arising from exposures to EU central administration classified in the portfolio measured at FVOCI (formerly AFS).

Following the introduction of the new IFRS 9, the Group decided to take advantage of EU

Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, an additional amount in the calculation of their CET1 capital aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of the new standard. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 85% in 2019 to 25% in 2022, until it is completely eliminated in 2023. The expected impact on capital ratios calculated under the transitional (or «Phased in») rules is therefore more limited.

In May 2019, the bank received authorisation from the ECB to use its internal rating system (AIRB) to measure capital requirements on credit risk; this AIRB method was applied for the first time in the context of the prudential reports as of 30 June 2019.

QUANTITATIVE INFORMATION

	30.06.2019	31.12.2018
A. **Common Equity Tier 1-CET1 before the application of prudential filters**	**2,732,119**	**2,652,172**
of which: CET1 instruments subject to transitional arrangements		-
B.1 Prudential filters of CET1 (+/-)		-
C. **CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)**	**2,732,119**	**2,652,172**
D. **Elements to be deducted from CET1**	**139,500**	**50,121**
E. **Transitional instructions - Impact on CET1 (+/-), including minority interest subject to transitional instructions**	**4,396**	**33,645**
F. **Total Common Equity Tier 1-CET1 (C - D +/- E)**	**2,597,015**	**2,635,696**
G. **Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instruction**	**9,583**	**9,042**
of which: AT1 instruments subject to transitional instructions		-
H. **Elements to be deducted from AT1**		**-**
I. **Transitional instructions – Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions**		**–**
L. **Total Additional Tier 1 - AT1 (G - H +/- I)**	**9,583**	**9,042**
M. **Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions**	**304,559**	**350,838**
of which: T2 instruments subject to transitional instructions		–
N. **Elements to be deducted from T2**	**12,987**	**14,715**
O. **Transitional instructions – Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional instructions**		**–**
P. **Total Tier 2 - T2 (M - N +/- O)**	**291,572**	**336,123**
Q. **Total Own funds (F + L + P)**	**2,898,170**	**2,980,861**

The composition of own funds takes account of the profit for the period to 31.03.19, 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 of 4.50%;
- Tier 1 of 6%;
- Total Capital Ratio of 8%.

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

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier

1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; this is currently not implemented but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;
- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global 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 from the current year is as follows:
- CET 1 of 7%;
- Tier 1 of 8.5%;
- Total Capital Ratio of 10.5%.

Banks that do not hold sufficient reserve capital are subject to restrictions on the distribution of resources that would otherwise be included in own funds, such as profits; in addition, they must adopt a capital conservation plan that indicates the measures to be taken in order to re-establish, within a reasonable period, the level of capital needed to maintain the required level of capital reserves.

The European Central Bank used its powers and in February 2019 communicated the Supervisory Board's decision concerning the minimum capital requirements to be maintained at a consolidated level in 2019:
- a minimum requirement of Common Equity Tier 1 ratio of 9.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (2.25%);
- a minimum requirement of Tier 1 Ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (6%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (2.25%);
- a minimum requirement of Total Capital Ratio of 12.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (2.25%).

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

Indeed, on the basis of the evidence collected as part of the Supervisory Review and Evaluation Process (SREP), it is up to the ECB to set the capital ratios and/or cash ratios for each intermediary under its direct supervision, as well as an indication of further qualitative and quantitative considerations and recommendations: similar activities are also carried out by the Bank of Italy for the smaller banks that are under its direct supervision.

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

At 30 June 2019, the parameters of the Group under the new regulations are as follows:
- CET 1 Capital ratio 15.50%;
- Tier 1 Capital ratio 15.56%;
- Total Capital ratio 17.30%.

The same parameters Fully Phased are as follows:
– CET 1 Capital ratio 15.47%;
– Tier 1 Capital ratio 15.53%;
– Total Capital ratio 17.27%.
The leverage ratio required by Basel 3, calculated as the ratio of Tier 1 to total on- and off-balance sheet assets, is 5.63% applying the transitional criteria in force for 2019 and 5.62% under the definitive criteria. The Texas ratio is 66.97%.

QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/ requirements	
	30/06/2019	**31/12/2018**	**30/06/2019**	**31/12/2018**
A. **Assets at risk**				
A.1 Credit and counterparty risk	–	–	–	–
1. Standardised approach	24,156,672	41,553,294	7,505,442	19,868,036
2. Approach based on internal ratings		–		–
2.1 Basic		–		–
2.2 Advanced	23,063,539	–	7,283,785	–
3. Securitisations	234,203	263,375	211,811	234,064
B. **Capital adequacy requirements**				
B.1 Credit and counterparty risk		–	1,200,083	1,608,168
B.2 Loan adjustment risk		–	1,198	864
B.3 Regulation risks		–		–
B.4 Market risks		–		–
1. Standard methodology		–	14,392	18,827
2. Internal models		–		–
3. Concentration risk		–		–
B.5 Operational risk		–		–
1. Basic method		–		–
2. Standardised approach		–	124,760	124,760
3. Advanced method		–		–
B.6 Other calculation elements		–		–
B.7 Total precautionary requirements		–	1,340,433	1,752,618
C. **Risk assets and capital ratios**				
C.1 Risk-weighted assets		–	16,755,408	21,907,727
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)		–	15.50	12.03
C.3 Tier 1 capital/Risk-weighted assets (T1 capital ratio)		–	15.56	12.07
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)		–	17.30	13.61

"The significant increase in capital ratios is due to the authorisation to use the internal rating system for regulatory purposes"

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 and commitments	Guarantees received
Directors	937	7,307	9	10	135	1,254
Statutory auditors	507	238	5	0	434	595
Management	150	923	0	2	425	0
Family members	2,810	12,403	28	22	810	13,338
Subsidiaries	3,740,690	55,300	3,936	160	1,949,809	12,716
Associated companies	700,425	208,305	1,128	184	177,738	1,526
Other	116,052	9,490	334	5	104,140	27,055
Total	**4,561,571**	**293,967**	**5,439**	**383**	**2,233,492**	**56,485**

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA and Factorit S.p.A, while loans to associated companies relate for € 455 million to Alba Leasing S.p.A.; assets with other related parties include loans of € 76 million granted to the affiliate Release S.p.A.

Segment information

Primary format

Distribution by business segment: income statement

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total**	Reconciliation	**Total 30/06/2019**
Interest income	160,263	142,541	–	65,793	368,597	-77,576	291,021
Interest expense	-18,747	-52,124	–	-67,663	-138,534	77,576	-60,958
Net interest income	**141,516**	**90,417**	**–**	**-1,870**	**230,063**	**–**	**230,063**
Fee and commission income	73,139	40,590	44,246	5,468	163,443	8	163,451
Fee and commission expense	-2,963	-4,239	-2,611	-1,010	-10,823	-59	-10,882
Dividends and similar income	–	–	–	3,168	3,168	–	3,168
Net trading income	–	–	–	32,754	32,754	2	32,756
Net hedging gains (losses)	–	215	–	-207	8	–	8
Gains/losses from sales or repurchases	–	–	–	5,729	5,729	–	5,729
Net change in financial assets and liabilities carried at fair value	-3,351	340	–	7,817	4,806	–	4,,806
Total income	**208,341**	**127,323**	**41,635**	**51,849**	**429,148**	**-49**	**429,099**
Adjustments to the net value of financial assets	-86,522	-20,181	–	-419	-107,122	–	-107,122
Net financial income	**121,819**	**107,142**	**41,635**	**51,430**	**322,026**	**-49**	**321,977**
Administrative expenses	-62,815	-82,982	-26,489	-74,344	-246,630	-27,673	-274,303
Provisions for risks and charges	-529	-65	–	-86	-680	–	-680
Depreciation and net impairment losses on property, equipment and investment property	-5,188	-7,691	-2,520	-3,640	-19,039	–	-19,039
Amortisation and net impairment losses on intangible assets	-1,799	-2,608	-843	-1,984	-7,234	–	-7,234
Other operating income/expense	3,297	4,289	-34	2,577	10,129	27,722	37,851
Net gains (losses) on equity investments	–	–	–	9,541	9,541	–	9,541
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	133	133	–	133
Net gains on sales of investments of investments	–	–	–	13	13	–	13
Gross profit	**54,785**	**18,085**	**11,749**	**-16,360**	**68,259**	**–**	**68,259**

Items	Businesses	Individuals and other customers	Securities	Central functions	Total	Reconciliation	**Total 30/06/2018**
Interest income	181,417	135,887	–	58,196	375,500	-66,735	308,765
Interest expense	-18,266	-50,449	–	-57,083	-125,798	66,735	-59,063
Net interest income	**163,151**	**85,438**	**–**	**1,113**	**249,702**	**–**	**249,702**
Fee and commission income	73,936	39,447	44,713	5,549	163,645	-351	163,294
Fee and commission expense	-2,741	-4,632	-2,714	241	-9,846	-55	-9,901
Dividends and similar income	–	–	–	3,195	3,195	–	3,195
Net trading income	–	–	–	16,893	16,893	389	17,282
Net hedging gains (losses)	–	399	–	-322	77	–	77
Gains/losses from sales or repurchases	–	–	–	12,338	12,338	–	12,338
Net change in financial assets and liabilities carried at fair value	-2,957	1,047	–	-858	-2,768	–	-2,768
Total income	**231,389**	**121,699**	**41,999**	**38,149**	**433,236**	**-17**	**433,219**
Adjustments to the net value of financial assets	-85,033	-2,719	–	1,495	-86,257	–	-86,257
Net financial income	**146,356**	**118,980**	**41,999**	**39,644**	**346,979**	**-17**	**346,962**
Administrative expenses	-63,232	-86,340	-27,428	-69,212	-246,212	-25,122	-271,334
Provisions for risks and charges	1,778	-2,230	–	-182	-634	–	-634
Depreciation and net impairment losses on property, equipment and investment property	-2,075	-3,096	-999	-2,347	-8,517	–	-8,517
Amortisation and net impairment losses on intangible assets	-1,863	-2,812	-913	-1,318	-6,906	–	-6,906
Other operating income/expense	3,836	2,775	-91	710	7,230	25,139	32,369
Net gains (losses) on equity investments	–	–	–	10,217	10,217	–	10,217
Net result of fair value measurement of property, equipment and investment property and intangible assets	–	–	–	-352	-352	–	-352
Net gains on sales of investments of investments	–	–	–	11	11	–	11
Gross profit	**84,800**	**27,277**	**12,568**	**-22,829**	**101,816**	**–**	**101,816**

Distribution by business segment: balance sheet

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total 30/06/2019**
Financial assets	16,959,419	11,567,862	–	9,361,282	37,888,563
Other assets	–	–	–	3,617,271	3,617,271
Property, equipment and investment property	127,936	186,878	60,615	185,774	561,203
Intangible assets	4,484	6,403	2,044	19,894	32,825
Financial liabilities	7,725,105	23,922,079	–	6,408,108	38,055,292
Other liabilities	12,234	1,210	–	917,478	930,922
Provisions	107,860	102,343	25,722	63,115	299,040
Guarantees given	2,960,237	317,129	–	114,710	3,392,076
Commitments	13,463,738	2,360,863	34,801	505,392	16,364,794

Items	Businesses	Individuals and other customers	Securities	Central functions	**Total 31/12/2018**
Financial assets	16,718,076	11,328,004	–	10,330,118	38,376,198
Other assets	–	–	–	2,390,567	2,390,567
Property, equipment and investment property	56,453	83,232	26,138	162,338	328,161
Intangible assets	4,456	6,549	2,053	20,201	33,259
Financial liabilities	7,468,647	23,534,605	–	6,299,132	37,302,384
Other liabilities	15,563	1,187	–	773,108	789,858
Provisions	109,332	99,785	24,615	58,340	292,072
Guarantees given	2,999,686	330,241	–	100,807	3,430,734
Commitments	13,587,088	2,539,401	42,922	175,347	16,344,758

Secondary format

Distribution by geographical area: income statement

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 30/06/2019**
Interest income	301,096	37,707	31,706	370,509	-79,488	291,021
Interest expense	-115,911	-14,580	-8,937	-139,428	78,470	-60,958
Net interest income	**185,185**	**23,127**	**22,769**	**231,081**	**-1,018**	**230,063**
Fee and commission income	128,002	25,065	11,446	164,513	-1,062	163,451
Fee and commission expense	-6,889	-3,267	-1,353	-11,509	627	-10,882
Dividends and similar income	11,005	–	13	11,018	-7,850	3,168
Net trading income	23,289	–	9,715	33,004	-248	32,756
Net hedging gains (losses)	–	–	215	215	-207	8
Gains/losses from sales or repurchases	5,729	–	–	5,729	–	5,729
Net change in financial assets and liabilities carried at fair value	4,169	638	30	4,837	-31	4,806
Total income	**350,491**	**45,562**	**42,835**	**438,888**	**-9,789**	**429,099**
Adjustments to the net value of financial assets	-74,976	-31,310	-854	-107,140	18	-107,122
Net financial income	**275,515**	**14,252**	**41,981**	**331,748**	**-9,771**	**321,977**
Administrative expenses	-197,798	-20,155	-28,871	-246,824	-27,479	-274,303
Provisions for risks and charges	-7,430	6,837	-104	-697	17	-680
Depreciation and net impairment-losses on property, equipment and investment property	16,885	-1,564	-2,306	-20,755	1,716	-19,039
Amortisation and net impairment losses on intangible assets	-5,448	-548	-593	-6,589	-645	-7,234
Other operating income/expense	10,111	2,139	62	12,312	25,539	37,851
Net gains (losses) on equity investments	–	–	–	–	9,541	9,541
Net result of fair value measurement of property, of property, equipment and investment property and intangible assets	133	–	–	133	–	133
Net gains on sales of investments	13	–	–	13	–	13
Gross profit	**58,210**	**962**	**10,169**	**69,341**	**-1,082**	**68,259**

Items	Northern Italy	Central Italy	Switzerland	**Total**	Reconciliation	**Total 30/06/2018**
Interest income	311,452	33,919	30,021	375,392	-66,627	308,765
Interest expense	-102,729	-14,999	-8,269	-125,997	66,934	-59,063
Net interest income	**208,723**	**18,920**	**21,752**	**249,395**	**307**	**249,702**
Fee and commission income	128,704	25,060	10,948	164,712	-1,418	163,294
Fee and commission expense	-5,981	-3,456	-1,257	-10,694	793	-9,901
Dividends and similar income	18,477	–	13	18,490	-15,295	3,195
Net trading income	9,034	–	8,089	17,123	159	17,282
Net hedging gains (losses)	–	–	399	399	-322	77
Gains/losses from sales or repurchases	12,338	–	–	12,338	–	12,338
Net change in financial assets and liabilities carried at fair value	-3,995	423	848	-2,724	-44	-2,768
Total income	**367,300**	**40,947**	**40,792**	**449,039**	**-15,820**	**433,219**
Administrative expenses	-76,295	-7,738	-1,666	-85,699	-558	-86,257
Net financial income	**291,005**	**33,209**	**39,126**	**363,340**	**-16,378**	**346,962**
Administrative expenses	-198,632	-21,332	-28,333	-248,297	-23,037	-271,334
Provisions for risks and charges	-4,085	3,633	2	-450	-184	-634
Depreciation and net impairment losses on property, equipment and investment property	-7,038	-632	-847	-8,517	–	-8,517
Amortisation and net impairment losses on intangible assets	-5,463	-563	-880	-6,906	–	-6,906
Other operating income/expense	7,584	1,441	411	9,436	22,933	32,369
Net gains (losses) on equity investments	801	–	–	801	9,416	10,217
Net result of fair value measurement of property, equipment and investment property and intangible assets	-352	–	–	-352	–	-352
Net gains on sales of investments	11	–	–	11	–	11
Gross profit	**83,832**	**15,755**	**9,479**	**109,066**	**-7,250**	**101,816**

Distribution by geographical area: balance sheet

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 30/06/2019**
Financial assets	30,927,812	2,869,413	4,091,338	37,888,563
Other assets	2,976,106	–	641,165	3,617,271
Property, equipment and investment property	475,537	38,847	46,819	561,203
Intangible assets	30,336	1,376	1,113	32,825
Financial liabilities	25,806,071	7,845,833	4,403,388	38,055,292
Other liabilities	905,914	4,123	20,885	930,922
Provisions	240,725	31,001	27,314	299,040
Guarantees given	2,649,308	576,794	165,974	3,392,076
Commitments	13,548,429	2,598,033	218,332	16,364,794

Items	Northern Italy	Central-Southern Italy	Switzerland	**Total 31/12/2018**
Financial assets	31,958,887	2,490,941	3,926,370	38,376,198
Other assets	1,753,129	–	637,438	2,390,567
Property, equipment and investment property	295,641	17,665	14,855	328,161
Intangible assets	30,761	1,397	1,101	33,259
Financial liabilities	24,578,687	8,509,719	4,213,978	37,302,384
Other liabilities	760,610	6,350	22,898	789,858
Provisions	230,697	37,039	24,336	292,072
Guarantees given	2,661,823	604,488	164,423	3,430,734
Commitments	13,091,971	3,035,260	217,527	16,344,758

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

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as the Manager responsible for preparing the accounting documents of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of art. 154-bis, paras. 3 and 4, of Legislative Decree 58 of 24 February 1998, confirm:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for the formation of the condensed consolidated interim financial statements for the period 1 January 2019/30 June 2019.

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 2019:

- 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, 7 August 2019

The Managing Director	The Manager responsible for preparing the company's accounting documents
Mario Alberto Pedranzini	Maurizio Bertoletti

Building a better working world

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

Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

Review report on the interim condensed consolidated financial statements
(Translation from the original Italian text)

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

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet as of June 30, 2019, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the period then ended and the related explanatory notes of Banca Popolare di Sondrio S.C.p.A. (the “Bank”) and its subsidiaries (the “Banca Popolare di Sondrio Group”) . The Directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca Popolare di Sondrio Group as of June 30, 2019 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, August 29, 2019

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

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

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

Attachment 1

FINANCIAL STATEMENTS OF THE PARENT BANK AT 30 JUNE 2019

BALANCE SHEET

	ASSET ITEMS	30-06-2019	31-12-2018
10.	CASH AND CASH EQUIVALENTS	2,246,846,536	969,358,505
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	874,420,485	902,816,282
	a) Financial assets held for trading	211,356,878	263,767,542
	c) Other financial assets mandatorily measured at fair value	663,063,607	639,048,740
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS WITH AN IMPACT ON COMPREHENSIVE INCOME	3,084,307,243	4,423,027,149
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST	29,952,856,952	29,409,225,554
	a) Loans and receivables with banks	2,532,563,831	2,217,280,673
	b) Loans and receivables with customers	27,420,293,121	27,191.944,881
70.	EQUITY INVESTMENTS	564,551,650	562,154,499
80.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	412,618,154	186,740,161
90.	INTANGIBLE ASSETS	14,618,450	14,762,412
100.	TAX ASSETS	389,823,038	414,827,084
	a) current	29,255,728	26,977,883
	b) deferred	360,567,310	387,849,201
120.	OTHER ASSETS	256,164,768	283,741,717
	TOTAL ASSETS	**37,796,207,276**	**37,166,653,363**

THE CHAIRMAN
Francesco Venosta

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

	EQUITY AND LIABILITY ITEMS	30-06-2019	31-12-2018
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	34,253,529,269	33,770,793,630
	a) Due to banks	5,477,302,217	5,480,393,123
	b) Customer deposits	25,637,746,907	25,877,854,869
	c) Debt securities in issue	3,138,480,145	2,412,545,638
20.	FINANCIAL LIABILITIES HELD FOR TRADING	49,192,829	42,532,267
60.	TAX LIABILITIES	17,843,110	15,058,256
	b) deferred	17,843,110	15,058,256
80.	OTHER LIABILITIES	786,013,729	710,725,874
90.	POST-EMPLOYMENT BENEFITS	41,956,379	40,637,713
100.	PROVISIONS FOR RISKS AND CHARGES:	225,459,839	220,085,911
	a) commitments and guarantees given	39,400,308	45,018,292
	b) pension and similar obligations	153,804,838	139,028,680
	c) other provisions for risks and charges	32,254,693	36,038,939
110.	VALUATION RESERVES	-18,703,152	-16,195,773
140.	RESERVES	991,521,763	885,551,458
150.	SHARE PREMIUM RESERVE	79,005,128	79,005,128
160.	SHARE CAPITAL	1,360,157,331	1,360,157,331
170.	TREASURY SHARES (-)	-25,321,549	-25,321,549
180.	PROFIT (LOSS) FOR THE YEAR (+/-)	35,552,600	83,623,117
	TOTAL LIABILITIES AND EQUITY	**37,796,207,276**	**37,166,653,363**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

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

INCOME STATEMENT

	ITEMS	30-06-2019	30-06-2018
10.	INTEREST AND SIMILAR INCOME	245,123,850	266,584,024
	of which: interest income calculated using the effective interest method	242,311,466	264,226,645
20.	INTEREST AND SIMILAR EXPENSE	-50,212,225	-50,950,495
30.	**NET INTEREST INCOME**	**194,911,625**	**215,633,529**
40.	FEE AND COMMISSION INCOME	140,761,012	141,905,726
50.	FEE AND COMMISSION EXPENSE	-7,341,580	-7,694,787
60.	**NET COMMISSION INCOME**	**133,419,432**	**134,210,939**
70.	DIVIDENDS AND SIMILAR INCOME	10,969,673	18,446,519
80.	NET TRADING INCOME	23,437,613	9,434,734
100.	GAINS/LOSSES FROM SALES OR REPURCHASES OF:	5,728,667	12,337,573
	a) financial assets measured at amortised cost	2,602,916	2,240,003
	b) financial assets measured at fair value through other comprehensive income	2,822,804	10,233,610
	c) financial liabilities	302,947	-136,040
110.	NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	4,806,811	-3,571,932
	b) other financial assets mandatorily measured at fair value	4,806,811	-3,571,932
120.	**TOTAL INCOME**	**373,273,821**	**386,491,362**
130.	NET ADJUSTMENTS FOR CREDIT RISK RELATING TO:	-100,034,731	-81,336,229
	a) financial assets measured at amortised cost	-101,066,183	-84,112,869
	b) financial assets measured at fair value through other comprehensive income	1,031,452	2,776,640
140.	GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION	1,461,974	723,716
150.	**NET FINANCIAL INCOME**	**271,777,116**	**304,431,417**
160.	ADMINISTRATIVE EXPENSES:	-231,530,546	-231,891,671
	a) personnel expenses	-96,684,279	-92,620,690
	b) other administrative expenses	-134,846,267	-139,270,981
170.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	2,956,721	282,453
	a) commitments for guarantees given	5,617,984	318,491
	b) other net provisions	-2,661,263	-36,038
180.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	-16,611,868	-6,684,893
190.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	-5,819,572	-5,959,096
200.	OTHER OPERATING INCOME/EXPENSE	32,764,316	29,327,860
210.	**OPERATING COSTS**	**-218,240,949**	**-214,925,347**
220.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS	0	800,788
250.	NET GAINS ON SALES OF INVESTMENTS	3,237	7,148
260.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**	**53,539,404**	**90,314,006**
270.	INCOME TAXES	-17,986,804	-24,942,586
280.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**	**35,552,600**	**65,371,420**
300.	**PROFIT (LOSS) FOR THE PERIOD**	**35,552,600**	**65,371,420**