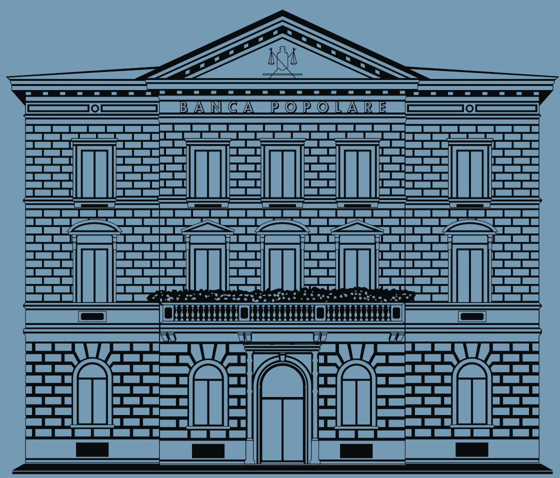
Banca Popolare di Sondrio



CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 30 SEPTEMBER 2017

Banca Popolare di Sondrio

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Banca Popolare di Sondrio

Founded in 1871

CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 30 SEPTEMBER 2017

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

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Official List of Cooperative Banks no. A160536
Parent Company of the Banca Popolare di Sondrio Group,
Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331 – Reserves: € 947,325,264 (Figures approved at the shareholders' meeting of 29 April 2017)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 20 June 2017:
  – Long-term: BBB-
  – Short-term: F3
  – Viability Rating: bbb-
  – Outlook: Stable

- Rating given by Dagong Europe Credit Rating to Banca Popolare di Sondrio scpa on 16 February 2017:
  – Long-term: BBB
  – Short-term: A-3
  – Individual Financial Strength Assessment: bbb
  – Outlook: Stable

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

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

ADVISORY COMMITTEE

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

GENERAL MANAGEMENT

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

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

* Members of the Chairman's Committee

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

INTRODUCTION

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

As in the past, our Group prefers full disclosure to the market, so we have prepared this interim financial report at 30 September 2017 in accordance with the recognition and measurement criteria of the International Accounting Standards (IAS/IFRS) adopted by the European Community and currently in force.

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

BASIS OF PREPARATION

The financial statements presented in this consolidated interim report on operations comply with the mandatory reporting formats required for statutory reporting purposes by the Bank of Italy Regulation no. 262 dated 22 December 2005 and subsequent updates.

The accounting policies applied during the period under review are consistent with the previous year.

For full details of the accounting policies applied, reference should be made to the disclosure thereof in the consolidated financial statements for the year ended 31 December 2016.

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

Balances at 31 December 2016 have been presented as balance sheet comparatives.

Income statement comparatives are the results for the period ended 30 September 2016.

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

THE BANCA POPOLARE DI SONDRIO BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

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

Group companies:

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

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

Factorit spa - Milan.

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

Sinergia Seconda Srl – Milan

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

Banca della Nuova Terra spa – Milan

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

Popso Covered Bond srl – Conegliano.

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

SCOPE AND METHODS OF CONSOLIDATION

The consolidated interim report on operations presents the financial position as at 30 September 2017 and the results for the period then ended of Banca Popolare di Sondrio Banking Group, which comprises the Parent Company, Banca Popolare di Sondrio (SUISSE) SA, Factorit spa, Sinergia Seconda Srl, Banca della Nuova Terra spa and Popso Covered Bond srl, as well as the entities over which the Group exercises control as defined by IFRS 10.

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

FULLY CONSOLIDATED SHAREHOLDINGS:

Name	Location	Share capital (in thousands)	% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000	100
Factorit spa	Milan	85,000	60.5
Sinergia Seconda srl	Milan	60,000	100
Banca della Nuova Terra spa	Milan	31,315	100
Pirovano Stelvio spa *	Sondrio	2,064	100
Immobiliare San Paolo srl *	Tirano	10 **	100
Immobiliare Borgo Palazzo srl *	Tirano	10 **	100
Popso Covered Bond srl	Conegliano	10	60

* equity investments not included in the banking group
** held by Sinergia Seconda srl

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

The joint venture shown below is valued at equity:

JOINT-VENTURES:

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

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

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

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

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

The ownership percentages are specified in the following table:

Name	Location	Share capital (in thousands)	% held
Alba Leasing spa	Milan	357,953	19.264
Arca Vita spa	Verona	208,279	14.837
Arca Holding spa	Milan	50,000	21.137
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Bormio Golf spa	Bormio	631	25.237
Lago di Como Gal Scrl	Canzo	22	28.953
Servizi Internazionali e Strutture Integrate 2000 srl	Milan	75	33.333
Acquedotto dello Stelvio srl **	Bormio	21	27.000
Sifas spa **	Bolzano	1,209	21.614

* held by Banca Popolare di Sondrio (SUISSE) SA.
** held by Pirovano Stelvio spa.

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

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

As regards the goodwill recorded in the financial statements, with respect to the assumptions used for the impairment test for the 2016 financial statements, no circumstances have arisen that denote the presence of indicators of impairment.

TRANSLATION OF FINANCIAL STATEMENTS IN CURRENCIES OTHER THAN THE EURO

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

SUBSEQUENT EVENTS

No events have taken place between the reporting date for this consolidated interim report and the date of its approval by the Board of Directors on 9 November 2017 that would require any adjustments thereto, and nothing of significance has occurred that would require the provision of supplementary information.

INTERNATIONAL BACKGROUND

During the period under review, the economy world-wide has been going through a process of consolidation, so prospects for the Italian economy in the immediate future are the best they have been for many years.

SUMMARY OF RESULTS

(in millions of euro)	2017	2016*	% change
Balance sheet			
Loans and receivables with customers	25,414	25,313	0.40
Loans and receivables with banks	1,201	1,787	-32.80
Financial assets	11,703	7,877	48.56
Equity investments	206	209	-1.00
Total assets	40,386	37,196	8.58
Direct funding from customers	30,333	30,934	-1.94
Indirect funding from customers	29,802	28,409	4.90
Direct funding from insurance premiums	1,327	1,266	4.83
Customer assets under administration	61,462	60,609	1.41
Other direct and indirect funding	10,172	6,127	66.00
Equity	2,682	2,588	3.63
Income statement			
Net interest income	358	363	-1.45
Total income	665	657	1.17
Profit from continuing operations	169	147	14.57
Profit of the period	112	105	6.74
Capital ratios (%)			
Cost/income ratio	52.59	52.14	
Net interest income / Total assets	0.89	1.02	
Net financial income / Total assets	1.25	1.35	
Net interest income / Total income	53.81	55.24	
Administrative expenses / Total income	57.74	56.35	
Profit for the period / Total assets	0.28	0.30	
Non-performing loans / Loans and receivables with customers	3.02	3.03	
Loans and receivables with customers / Direct funding from customers	83.78	81.83	
Capital ratios (%)			
CET1 Capital ratio	11.59%	11.09%	
Total Capital ratio	13.77%	13.58%	
Free capital	1,312	1,294	
Other information on the banking group			
Number of employees	3,192	3,153	
Number of branches	359	356	

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

The economic cycle is on the up-turn in the main advanced countries: while the USA has posted strong progress, Japan has also seen a good improvement in its growth trend. Emerging companies have been able to achieve higher than expected increases, with China expanding at close to 7%.

So the general picture is positive, also reflected in the dynamics of international trade, while consumer inflation has continued to remain below expectations.

There are obviously risks associated with the tensions that exist at geopolitical level, but for the moment optimism seems to prevail on the markets.

The euro area has been an active part of the international development process, with GDP growth steadily improving. All of this in a situation of weak inflation, partly because of moderate wage pressure and partly because the prices of petroleum products are still low.

It is also for this reason that the ECB has persevered in its expansive economic policy. For its part, the euro has appreciated considerably against both the dollar and the yen.

In Italy too, the economic cycle has strengthened progressively over the course of the year. The trend in domestic demand, driven by household consumption and companies' willingness to invest, has led to GDP growth that is higher than expected. The increase in the number of people in employment is positive, as it has returned to pre-crisis levels, while inflation has continued to remain at low levels.

The banking system has also benefited from this general trend. In particular, there has been a more rapid decline in the proportion of non-performing loans to total loans.

The economic recovery has strengthened over the course of the year in Switzerland as well and prospects are good, even more so for next year. Above all, exports have gained momentum, favouring industrial activity. The Swiss National Bank's monetary policy is still expansive with the aim of supporting economic activity, while at the same time facilitating an adequate level of inflation.

FUNDING

The underlying scenario has basically stayed the same during the year. As we have already said on other occasions, all-time low interest rates and abundant liquidity have affected investors' behaviour. Within bank funding, preference has gone to the more liquid components at the expense of bonds, while the flow of resources to asset management schemes has continued.

Direct funding from customers amounts to 30,333 million at 30 September 2017, down by 1.94% since the end of 2016 and up by 5.30% compared with September 2016. Given this interest rate situation, the Group has been forced to continue holding down the cost of funding, helped by the considerable amount of liquidity injected into the system by the ECB.

Indirect funding from customers totalled 29,802 million at market values, +4.90% since the end of 2016.

Direct funding from insurance premiums came to 1,327 million, +4.83%.

Total funding from customers therefore amounted to 61,462 million (+1.41%).

Amounts due to banks total 6,250 million, +149.53%. They include the refinancing operations with the European Central Bank for a total of 4,600 million, as explained in the chapter on «Treasury and trading operations».

Indirect deposits from banks amount to 3,922 million, +8.25%.

Total funding from customers and banks therefore came to 71,633 million, +7.34%.

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	30-09-2017	%	31-12-2016	%	% change
Savings deposits	530,467	1.75	540,046	1.75	-1.77
Certificates of deposit	2,820	0.01	3,264	0.01	-13.60
Bonds	2,880,819	9.50	3,150,367	10.18	-8.56
Repo transactions	9,954	0.03	610,237	1.97	-98.37
Bank drafts and similar	96,323	0.32	78,150	0.25	23.25
Current accounts	23,749,817	78.29	23,641,895	76.43	0.46
Time deposit accounts	732,764	2.42	355,475	1.15	106.14
Foreign currency accounts	2,330,193	7.68	2,554,701	8.26	-8.79
Total	**30,333,157**	**100.00**	**30,934,135**	**100.00**	**-1.94**

TOTAL FUNDING

(in thousands of euro)	30-09-2017	%	31-12-2016	%	% change
Total direct funding from customers	30,333,157	42.35	30,934,135	46.35	-1.94
Total indirect funding from customers	29,801,523	41.60	28,409,167	42.57	4.90
Total direct funding from insurance premiums	1,327,026	1.85	1,265,888	1.90	4.83
Total	**61,461,706**	**85.80**	**60,609,190**	**90.82**	**1.41**
Due to banks	6,249,605	8.72	2,504,510	3.75	149.53
Indirect funding from banks	3,922,032	5.48	3,622,959	5.43	8.25
Grand total	**71,633,343**	**100.00**	**66,736,659**	**100.00**	**7.34**

Considering the individual components, current accounts in euro and foreign currency dropped to 26,080 million, -0.45%, and make up 85.97% of all direct funding. Time deposit accounts have grown to 733 million, +106.14%. Bonds have declined by 8.56%, to 2,881 million. Repo transactions also fell to 10 million, -98.37%, as did savings deposits to 530 million, -1.77%.

Certificates of deposit did not change at 3 million, and remain entirely marginal.

Bank drafts amount to 96 million, +23.25%.

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

LENDING

Stronger economic progress and very convenient rates of interest for households and companies have favoured the trend in loans. The former were above all to purchase a home and finance consumption. Among the latter, medium and large companies, both in manufacturing and services, proved to be more dynamic. Business in the building industry, on the other hand, continued to be weak.

For our part, providing support to the economies of the territories that we serve has gone hand in hand with rigorous selection of borrowers and the proper remuneration of the risks taken on.

Loans and receivables with customers come to 25,414 million, +0.40% since the start of the year and +4.17% compared with 12 months ago. The various types have contributed to total customer loans to a different extent. The main component is mortgage loans, which posted an increase of 0.90% to 9,556 million, representing 37.59% of total loans.

This item includes loans assigned but not derecognised of 1,234 million in relation to the issue of covered bonds. These loans have not been derecognised because the requirements of IAS 39 were not met. Other

LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	30-09-2017	%	31-12-2016	%	% change
Current accounts	4,628,440	18.21	4,834,195	19.10	-4.26
Foreign currency loans	944,491	3.72	1,175,623	4.64	-19.66
Advances	474,239	1.87	407,575	1.61	16.36
Advances subject to collection	223,643	0.88	197,294	0.78	13.36
Discounted portfolio	3,333	0.01	4,537	0.02	-26.54
Artisan loans	41,321	0.16	40,513	0.16	1.99
Agricultural loans	24,151	0.10	26,950	0.11	-10.39
Personal loans	233,733	0.92	219,897	0.87	6.29
Other unsecured loans	5,326,404	20.96	5,280,407	20.86	0.87
Mortgage loans	9,555,766	37.59	9,470,151	37.41	0.90
Non-performing loans	766,640	3.02	767,900	3.03	-0.16
Repo transactions	1,098,266	4.32	698,937	2.76	57.13
Fixed-yield securities	351,293	1.38	360,145	1.42	-2.46
Factoring	1,742,745	6.86	1,829,340	7.23	-4.73
Total	**25,414,465**	**100.00**	**25,313,464**	**100.00**	**0.40**

transactions and unsecured loans have risen by 0.87% to 5,326 million, corresponding to 20.96% of total customer loans. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, have increased considerably, from 699 to 1,098 million, +57.13%. Advances show a positive trend, +16.36% to 474 million, as do advances subject to collection, +13.36% to 224 million, and personal loans, +6.29% to 234 million. Current accounts are down, 4,628 million, -4.26%, as are currency loans, 944 million, -19.66%, and factoring transactions, 1,743 million, -4.73%. Debt securities amounted to 351 million, -2.46%, and relate to customer loan securitisations carried out by Banca della Nuova Terra spa, a subsidiary, and by Alba Leasing spa, an affiliate. The ratio of loans and direct funding to amounts due to customers has risen to 83.78% from 81.83% at the end of 2016.

The asset quality and the trend in non-performing loans have benefited from the generally positive economic cycle. If this tendency consolidates, as everyone hopes, it will also benefit the activities of the specialist structures set up to recover non-performing and unlikely-to-pay loans. Despite this, further substantial provisions have been made against impaired loans, albeit less than in the comparative period, and the overall level of coverage has been increased.

Total net impaired loans (non-performing loans, unlikely-to-pay loans and past due and/or impaired overdrawn exposures) amounted to 2,207 million, -7.34%, representing 8.69% of loans and receivables with customers, compared with 9.41% at the end of 2016. Write-downs of impaired loans totalled 2,112 million, representing 48.90% of the gross amount, compared with 46.17% at the end of 2016. The table gives a overview of impaired and performing loans.

Net non-performing loans, after write-downs, total 767 million, -0.16%, or 3.02% of total loans and receivables with customers, compared with 3.03% at 31 December 2016 and 3.14% at 30 September 2016. Inflows of net non-performing loans are slowing down, which confirms the trend that was already under way.

To cover estimated losses on non-performing loans in the portfolio, value adjustments rose to 1,443 million, +10.86% compared with 30 September 2016 and +8.33% on December of the same year, with a degree of coverage of 65.30%, compared with 63.43% at the end of 2016. The level of coverage reflects our prudent provisioning policy and positions the Group among those with the highest level of coverage in Italy.

Considering the amounts written off in prior years against non-performing loans that are still on the books in the hope of future recoveries, the coverage of such loans amounts to 74.54%.

Unlikely-to-pay loans are credit exposures, other than non-performing loans, for which it is deemed improbable that the obligor will pay its credit obligations in full without recourse to measures such as the enforcement of guarantees. They amount to 1,260 million, -4.70%, or 4.96% of total loans and receivables with customers, compared with 5.22% at the end of 2016, while the related adjustments amount to 635 million, -4.51%, with a level of coverage of 33.50% compared with 33.45% at the end of 2016.

LOANS AND RECEIVABLES WITH CUSTOMERS – IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		30-09-2017	31-12-2016	(+/-)	% change
Impaired loans	Gross exposure	4,319,774	4,425,892	-106,118	-2.40
	Adjustments	2,112,359	2,043,501	68,858	3.37
	Net exposure	**2,207,415**	**2,382,391**	**-174,976**	**-7.34**
– Non-performing loans	Gross exposure	2,209,454	2,099,717	109,737	5.23
	Adjustments	1,442,814	1,331,817	110,997	8.33
	Net exposure	**766,640**	**767,900**	**-1,260**	**-0.16**
– Unlikely-to-pay loans	Gross exposure	1,895,359	1,987,517	-92,158	-4.64
	Adjustments	634,941	664,922	-29,981	-4.51
	Net exposure	**1,260,418**	**1,322,595**	**-62,177**	**-4.70**
– Past due and/or impaired overdrawn exposures	Gross exposure	214,961	338,658	-123,697	-36.53
	Adjustments	34,604	46,762	-12,158	-26.00
	Net exposure	**180,357**	**291,896**	**-111,539**	**-38.21**
Performing loans	Gross exposure	23,335,864	23,070,964	264,900	1.15
	Adjustments	128,814	139,891	-11,077	-7.92
	Net exposure	**23,207,050**	**22,931,073**	**275,977**	**1.20**
Total loans and receivables with customers	Gross exposure	27,655,638	27,496,856	158,782	0.58
	Adjustments	2,241,173	2,183,392	57,781	2.65
	Net exposure	**25,414,465**	**25,313,464**	**101,001**	**0.40**

Past due exposures and/or impaired overdrawn accounts, other than non-performing loans or unlikely-to-pay loans, which, at the reporting date, have remained unpaid and/or overdrawn for more than 90 continuous days and which exceed a set materiality threshold, amount to 180 million, -38.21%, and represent 0.71% of the total compared with 1.15% at the end of 2016.

Performing loans amounted to 23,207 million, +1.20%, and write-downs came to 129 million, 0.55% of them.

Total adjustments come to 2,241 million (+2.65%).

In accordance with the terms established by Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that the amount of loans to customers included loans made to central and local government for 69 million, local and state-owned enterprises for 458 million and to various other entities for 246 million.

TREASURY AND TRADING OPERATIONS

The positive performance by financial markets that characterised the first half of the year continued in the third quarter.

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

At 30 September 2017, the Group's net interbank borrowing amounts to 5,049 million, up by 4,331 million from 718 million at the end of 2016.

Net of Targeted Longer-Term Refinancing Operations (T-LTROs), which the Parent Company has entered into with the ECB and which amount to 4,600 million, the balance would have been a net negative interbank position of 449 million. The Group remained highly liquid throughout the first nine months of the year. Treasury activity remained intensive throughout the period, albeit with a decrease in volumes, with a preference for lending transactions over funding transactions.

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

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

The latest available short and medium to long term liquidity indicators, respectively the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) came in well over the minimum requirements. In addition, the Group can always rely on a substantial portfolio of assets eligible for refinancing which, net of haircuts, amounts to 12,262 million, up by 57.85% on the end of 2016, of which 6,992 million available and 5,270 million committed.

The total of all portfolios of financial assets amounts to 11,703 million at 30 September 2017, a significant increase of 48.56% compared with the end of 2016 when it came to 7,877 million, and an increase of 47.39% compared with 12 months ago (7,940 million).

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

The large increase in the portfolio is essentially attributable to purchases, made above all in the second quarter, of Italian, Spanish and French government securities that mainly affect the AFS portfolio. The surplus liquidity arising from the TLTRO refinancing operations at the end of March was used for this purpose. Management policies reflect long-standing guidelines and, as always, have given preference to Government bonds, which represent the bulk of the portfolio. The overall volume of trading had increased steadily compared to the comparative period, resulting in the recognition of substantial trading/disposal gains, albeit lower than those recognised in the previous year, and the subsequent purchase of newly issued securities. New investments mainly involved BTPs, CTZs, CCTs and Spanish and French government securities, which have a relatively short maturity. The composition of the portfolio remains dominated by government securities, with a duration of about 3 years and 9 months, down on the end of 2016.

FINANCIAL ASSETS

(in thousands of euro)	30-09-2017	31-12-2016	% change
Financial assets held for trading (HFT - Held For Trading)	862,852	1,019,712	-15.38
of which, derivatives	95,997	56,581	69.66
Financial assets carried at fair value (CFV - Carried at Fair Value)	108,400	96,303	12.56
Available-for-sale financial assets (AFS - Available For Sale)	10,632,435	6,644,437	60.02
Held-to-maturity investments (HTM - Held to Maturity)	99,295	117,023	-15.15
Total	**11,702,982**	**7,877,475**	**48.56**

In accordance with the requirements of Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that these portfolios include bonds that form part of the sovereign debt (i.e. issued by local and central governments) totalling 10,356 million, largely relating to issues made by the Italian Government.

Financial assets held for trading

Financial assets held for trading (HFT), details of which are shown in the following table, amount to 863 million, down by 15.38% as a result of sales of government securities close to maturity and the different criteria used in the allocation to various portfolios of similar securities, but with longer maturities, which partially replaced the previous ones.

There have not been any substantial changes in the structure of the HFT portfolio, which has remained quite straightforward. Preference has again been given to Italian government securities: despite the fact that they have decreased as a result of sales, at the end of the period they amounted to 283 million, making up 32.74% of the portfolio. Of these

(in thousands of euro)	30-09-2017	31-12-2016	% change
Floating-rate Italian government securities	262,427	398,469	-34.14
Fixed-rate Italian government securities	20,085	54,438	-63.10
Foreign government securities designated in foreign currencies	84,411	14	–
Bank bonds	146,969	212,690	-30.90
Bonds of other issuers	30,735	33,236	-7.52
Bonds of other issuers in foreign currency (USD)	14,081	11,369	23.85
Securitisations	23,673	27,507	-13.94
Variable-yield securities and mutual funds	184,474	225,408	-18.16
Net book value of derivative contracts	95,997	56,581	69.66
Total	**862,852**	**1,019,712**	**-15.38**

securities, 263 million were floating rate, down by 34.14%, and 20 were fixed rate (BTPs) which were also down by 63.10%, given that sales were higher than the replacements of newly issued securities. As for their composition, the former account for 30.41% of the portfolio, while the latter account for 2.33%.

The derivatives component has increased from 57 to 96 million, +69.66%.

Moving against the general trend, foreign government securities rose to 98 million versus 11 million at the year end.

The corporate bonds held are all of high standing, comprising bank bonds of 147 million, -30.90%, and bonds of other issuers of 31 million, -7.52%. Securities deriving from securitisations have decrease by 13.94% to 24 million and are all classified as senior. The component represented by equities and mutual funds decreased to 184 million, -18.16%.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (CFV), which entirely consist of units in mutual funds, amount to 108 million, +12.56%, with this increase being mainly attributable to period end measurement.

Available-for-sale financial assets

The portfolio of available-for-sale financial assets (AFS) – in which certain securities are classified with the objective of containing, at least in part, the impact on the income statement of any volatility affecting the securities portfolio as a result of turbulence in financial markets – rose to 10,632 million compared with 6,644 million, +60.02%.

The sharp increase is due to the allocation to this portfolio of Italian, French and Spanish government securities that were purchased using a substantial part of the abundant liquidity available to the Parent Company in the period and which largely arose from participation in the refinancing operation arranged by the ECB in March. As always, the portfolio was impacted by intense movements both in and out due to disposals, with positive results, albeit significantly lower than in the comparative period.

Available-for-sale financial assets were also comprised of Italian Government securities amounting to 8,079 million, +48.52%; foreign government securities amount to 1,814 million, +122.48%; funds and sicavs, 211 million, -8.96%; bank bonds, 373 million; bonds of other issuers of 55 million, +73.08%; equities of 100 million, -2.71%.

Impairment write-downs were recognised for 31.871 million: 26.022 related to the write-down of the units held by the Parent Company in Fondo Atlante as a consequence of the liquidation of Banca Popolare di Vicenza and Veneto Banca, almost all of the shares of which had been held by Fondo Atlante; 1.194 related to the voluntary action by the IDPF in favour of Cassa di Risparmio di Cesena; the remainder related to unlisted shares and various real estate funds.

(in thousands of euro)	30-09-2017	31-12-2016	% change
Floating-rate Italian government securities	1,625,760	1,421,013	14.41
Fixed-rate Italian government securities	6,453,437	4,018,660	60.59
Foreign government securities	1,813,719	815,246	122.48
Bank bonds	373,415	23,283	–
Other bonds	55,454	32,039	73.08
Variable-yield securities	99,495	102,268	-2.71
Mutual funds in euro	211,155	231,928	-8.96
Total	**10,632,435**	**6,644,437**	**60.02**

Held-to-maturity investments

The HTM portfolio, comprising solely fixed-yield securities, largely attributable to the employee pension fund, has decreased to 99 million, -15.15%, as a result of redemptions and disposals due to regulatory changes relating to pension fund securities. Unrealised gains at the end of September amount to 13.2 million.

ASSET MANAGEMENT

During the third quarter, the positive trend in the asset management industry continued, favoured by the persistence of low interest rates, a situation that encouraged customers to look for alternative forms of investment compared with traditional deposits, also as part of a logic of growing diversification. At the end of September, the various forms of assets under management amounted to 5,292 million, +10.06% on December 2016, having benefited from the general growth of the segment. The most recent instruments placed, which were well received by customers, include individual savings plans, which offer subscribers the possibility to benefit from significant tax advantages.

EQUITY INVESTMENTS

Equity investments were down by 2 million to 206 million. The change is due to the effect of their valuation at net equity and the exclusion of the investment in Banca della Nuova Terra spa, as it was fully consolidated.

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets total 351 million, +1.84%. The former totalled 326 million, +1.61%, the second category amounted to 25 million, +4.98% and includes goodwill of 8 million. Goodwill is subjected to annual impairment testing to check for any loss of value. The most recent test was performed when preparing the consolidated financial statements at 31 December 2016. It was not deemed necessary to repeat the procedure at 30 September 2017.

PROVISIONS

These comprise employee severance indemnities of 44 million, -2.56%, and the provisions for risks and charges totalling 179 million, -1.52%..

HUMAN RESOURCES

At 30 September 2017 the Banking group had 3,192 employees with an increase of 39 compared with 3,153 at the end of 2016 to which should be added 28 employees of the subsidiary Pirovano Stelvio spa, of which 25 are hired as seasonal workers.

CAPITAL AND RESERVES

Consolidated shareholders' equity at 30 September 2017, inclusive of valuation reserves and the profit for the period, amounts to 2,681.661 million, +3.63%.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares with a par value of 3 euro, amounts to 1,360.157 million, unchanged with respect to the comparative period.

The share premium reserve remained unchanged at 79.005 million, whereas the line item Treasury Shares rose slightly to 25.378 million.

Reserves increased to 1,084.088 million +4.90%, primarily due to the allocation of a significant amount of profit for 2016. The Ordinary Shareholders' Meeting of 29 April 2017 approved the distribution of a dividend of 0.06 euro for each of the 453,385,777 shares outstanding at 31 December 2016.

The valuation reserves, representing the net unrealised gains and losses recorded on AFS financial assets and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a net positive balance of 71.448 million, +70.41% from the positive balance of 41.927 million reported at the end of 2016.

As regards capital adequacy, the new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (CRR) and EU Directive 2013/36 EU (CRD IV) came into force from 1 January 2014. Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios that, when fully implemented (January 2019), will be 7% for the CET1 Ratio, 8.50% for the Tier 1 Capital Ratio and 10.50% for the Total Capital Ratio.

These coefficients are lower in 2017 and 2018, during the transition phase. Using the information gathered during the prudential review and assessment process, the ECB has the authority to set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the Parent Company was informed in December of the decision made by the Supervisory Board regarding the new minimum coefficients applicable from 1 January 2017 for the current year.

The new minimum capital levels required of our Banking Group are:

– a minimum requirement of Common Equity Tier 1 ratio of 7.25%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.25%), and an additional Second Pillar requirement (1.50%);

– a minimum requirement of total capital ratio of 10.75%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (1.25%) and an additional Second Pillar requirement (1.50%).

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

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

Consolidated own funds for supervisory purposes, including the share of profit for the period, amount to 3,130 million at 30 September 2017. Risk-weighted assets totalled 22,736 million.

Set out below are the Group's adequacy requirements at 30 September 2017 and the minimum requirements for the current year:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	11.59%	7.25%
Tier 1 Capital Ratio	11.62%	7.25%*
Total Capital Ratio	13.77%	10.75%*

* Minimum requirements

The leverage ratio at 30 September 2017 came to 5.922%, applying the Phased In transitional criteria in force for 2017 and 5.916% based on the Fully Phased criteria.

The Texas ratio is 83.09%.

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

– *capital/direct funding from customers*
8.84% v. 8.37%

– *capital/customer loans*
10.55% v. 10.22%

– *capital/financial assets*
22.91% v. 32.85%

– *capital/total assets*
6.64% v. 6.96%

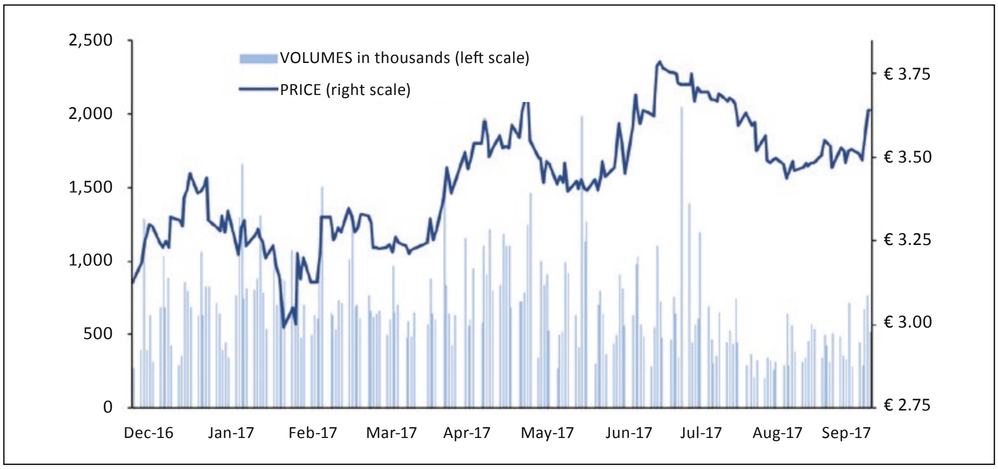
– *net non-performing loans/capital*
28.59% v. 29.67%

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 nine months of 2017 with a performance of +16.37%, marking a reference price at 29 September 2017 of 3.64 euro, compared with 3.128 euro at the end of 2016. The FTSE Italia All-Share general index went up by 19.53% during the period and the FTSE Italia All-Share Banks sector index went up by 28.41%, thanks to improved confidence in the banking sector once the banks that were in difficulty had been rescued.

The stock's performance is shown in the following chart. The average daily volume of securities traded on the MTA market of Borsa Italiana in the first nine months of the year was 0.692 million, down from 0.921 million in the same period of 2016.

BANCA POPOLARE DI SONDRIO stock – MTA segment of Borsa Italiana



As regards the treasury shares held in own securities, the balance at 30 September 2017 is equal to 3,650,000 shares, the same as at the end of 2016. There are also 15,609 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies. The item relating to treasury shares in portfolio amounts to 25,378 million.

The shareholder base at 30 September 2017 consists of 176,915 members, a decrease of 5,882 members compared with the end of 2016.

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

RATINGS

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

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

FITCH RATINGS – issued on 20 June 2017

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

DAGONG EUROPE CREDIT RATING – issued on 16 February 2017

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

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

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

(in thousands of euro)

	Equity	of which: Profit of the period
Equity of the Parent Company as of 30/09/2017	2,424,875	87,330
Consolidation adjustments	-9,602	-9,602
Difference with respect to carrying values of equity investments in:		
– companies consolidated on a line-by-line basis	231,485	22,464
– companies valued using the equity method	34,903	12,149
Balance as of 30/09/2017, as reported in the consolidated financial statements	**2,681,661**	**112,341**

INCOME STATEMENT

The improvement in the general economic situation seen in the first six months of the year gained strength during the third quarter. Credit conditions have continued to be relaxed, favouring a rise in loans to households and businesses. Asset quality has continued to improve at the same time. In this context, which is positive overall, our Group managed to achieve a very respectable result of 112,341 million, an increase of 6.74% on 105,252 million in the first nine months of 2016. All of this, despite the fact that profitability has been heavily influenced by the costs involved in stabilising the Italian banking system. This result was influenced above all by the successful outcome of securities portfolio management and lower loan adjustments.

Looking at the various components, it is worth noting how net interest income has continued to shrink, as the fall in interest expense was not enough to offset that of interest income. Continuation of the ECB's policy of buying securities, which is expected to continue for much of 2018, and targeted longer-term refinancing operations have kept interest rates at all-time lows. Government bond yields have remained extremely poor, sometimes even negative. The reduction in the margins applied to loans to businesses and individuals was also exacerbated by increased competition between banks. Net interest income therefore came to 357.608 million, compared with 362.887 million, a decline of 1.45%. Net interest income does not include the negative interest involved in T-LTROs.

Net fee and commission income has been showing a positive trend, coming in at 221.582 million, +3.68%, thanks above all to the positive trend in fees and commissions on the sale of asset management and insurance products, as well as those related to overdrafts and collections and payments.

Commissions on loans and current accounts, on the other hand, are down.

Dividends totalling 5.043 million were collected, compared with 6.329 million.

The results from transactions in securities, foreign exchange and derivatives totalled 80.404 million, compared with 74.042 million. In 2016, a good result from securities trading was then offset by a hefty negative balance between capital gains and losses; in the period under review, the situation has reversed and there has also been a significant increase in foreign exchange gains.

Analysing the individual portfolios, the trading one showed a result of 52.772 million, compared with 8.009 million. The contribution made by available-for-sale financial assets and financial liabilities amounted to 19.677 million, as against 66.964 million. Lastly, the result from assets carried at fair value through profit or loss was 7.966 million, compared with 1.171 million, and hedging activities resulted in a net loss of 0.011 million, compared with a gain of 0.240 million.

Income from banking activities therefore rose to 664.637 million, compared with 656.975 million, +1.17%.

Within this aggregate, the weighting of net interest income was 53.81% compared with 55.24%.

The improvement in the economic situation was reflected favourably on the trend in impaired loans, which is decelerating, and in the related adjustments. It has also benefited our Group, while continuing to evaluate exposures to customers based on the current rigorous policies.

Net adjustments to loans, available-for-sale financial assets, held-to-maturity investments and other financial transactions came to 161.210 million compared with 177.167 million (-9.01%). The component of loans to customers comes to 129.131 million, compared with 173.441 million, -25.55%; this reduction is to a certain extent due to the overall improvement in the economic picture, but it also reflects all of the steps that the Group taken in terms of monitoring and controlling customer loans at the various stages of disbursement and management.

The ratio of net adjustments to loans to customers to total loans to customers, also known as the cost of credit, has improved strongly to 0.68% from 0.95% at 30 September 2016 and 0.99% at 31 December 2016.

Adjustments to available-for-sale financial assets, which amounted to 4.177 million in the comparison period, have risen to 31.871 million, of which: 26.022 related to the write-down of the units held by the Parent Company in Fondo Atlante as a consequence of the liquidation of Banca Popolare di Vicenza and Veneto Banca, almost all of the shares of which had been held by Fondo Atlante; 1.194 related to the voluntary action by the IDPF in favour of Cassa di Risparmio di Cesena; the remainder refers to certain shares and other closed-end mutual funds. Adjustments to other financial transactions amounted to 0.208 million compared with a release of provisions of 0.451 million.

This leads to net financial income of 503.427 million, +4.92%.

Operating costs came to 349.511 million, +2.03%, partly for physiological reasons and partly helped by the trend in «accruals to provisions for risks and charges», which saw a release of surplus provisions for 4.441 million. The ratio of operating costs/income from banking activities, known as the «cost income ratio», is 52.59% compared with 55.31% at the end of 2016 and 52.14% at 30 September 2016.

Analysing each item, after reclassifying the deferral of income earned by the fund for post-employment benefits, administrative expenses were 2.32% higher at 375.926 million; personnel expenses rose to 176.185 million, +2.30%. In turn, other administrative expenses have gone from 195.174 million to 199.741 million, +2.34%. They include the period charge for ordinary contributions to the National Resolution Fund of 10.991 million, an estimate of 4.500 million for the ordinary contribution foreseen for the Interbank Deposit Protection Fund and 0.831 million for the contribution

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	30/09/2017	30/09/2016	(+/-)	% change
Net interest income	357,608	362,887	-5,279	-1.45
Dividends	5,043	6,329	-1,286	-20.32
Net fee and commission income	221,582	213,717	7,865	3.68
Result of financial activities	80,404	74,042	6,362	8.59
Total income	**664,637**	**656,975**	**7,662**	**1.17**
Net adjustments to loans and financial assets	-161,210	-177,167	15,957	-9.01
Net financial income	**503,427**	**479,808**	**23,619**	**4.92**
Personnel costs	-176,185	-172,228	-3,957	2.30
Other administrative expenses	-199,741	-195,174	-4,567	2.34
Other operating income/expense	46,580	49,553	-2,973	-6.00
Net accruals to provisions for risks and charges	4,441	-796	5,237	–
Adjustments to property, equipment and investment property and intangible assets	-24,606	-23,925	-681	2.85
Operating costs	**-349,511**	**-342,570**	**-6,941**	**2.03**
Operating profit (loss)	**153,916**	**137,238**	**16,678**	**12.15**
Net gains (losses) on equity investments and other investments	14,880	10,091	4,789	47.46
Profit (loss) before tax	**168,796**	**147,329**	**21,467**	**14.57**
Income taxes	-50,593	-41,306	-9,287	22.48
Profit (loss)	**118,203**	**106,023**	**12,180**	**11.49**
Profit pertaining to minority interests	-5,862	-771	-5,091	–
Profit pertaining to the Parent Company	**112,341**	**105,252**	**7,089**	**6.74**

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

paid to the FITD Voluntary Scheme. The recurring increases in consulting fees, as well as IT costs relating to constantly changing regulations also had an impact.

The item «net accruals to provisions for risks and charges» has, as mentioned above, released funds of 4.441 million, compared with accruals of 0.796 million.

Depreciation and amortisation amounted to 24.606 million, +2.85%.

Other operating income, net of charges, comes to 46.580 million, a reduction of 6%.

The operating profit therefore came to 153.916 million, +12.15%.

Net profits on equity and other investments amounted to 14.880 million, compared with 10.091 million, +47.46%.

This item includes 2.895 million negative consolidation differences due to the full consolidation of Banca della Nuova Terra spa, whose capital was fully acquired by the Parent Company last September; these differences have been allocated to the income statement on a provisional basis.

Profit before income taxes therefore totalled 168.796 million, +14.57%.

After deducting income taxes of 50.593 million, -22.48%, and the non-controlling interest of 5.862 million, the profit for the year comes to 112.341 million, +6.74%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 29.97% compared with 28.04% in the comparative period.

DISTRIBUTION BY GEOGRAPHICAL AREA

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

The contribution made to the Group by this subsidiary is summarised by the following statistics: the «Suisse» holds 8.75% of direct funding from customers and 13.44% of loans and receivables with customers, generating 7.07% of net fee and commission income and 11.74% of net interest income.

SUBSEQUENT EVENTS AND OUTLOOK FOR OPERATIONS

As announced in the press release of 14 October, to which reference should be made, the Parent Company has signed a letter of intent with the Fondazione Cassa di Risparmio di Cento to look into the possibility of acquiring a controlling interest in the share capital of Cassa di Risparmio di Cento spa.

As regards the outlook for the rest of the year, continuation of the ECB's expansive monetary policy is bound to have an impact on net interest income. Given this situation, a further reduction in funding cost will be necessary.

Given the positive economic situation, it is legitimate to expect confirmation of the improvement in asset quality, as well as an ongoing climate of market confidence.

So barring unforeseeable events, we believe that the last quarter of the year should be in line with the trends shown by the Group to date.

Sondrio, 9 November 2017

THE BOARD OF DIRECTORS

Certification of the Financial Reporting Officer

The Financial Reporting Officer, Maurizio Bertoletti, certifies pursuant to art. 154 bis, para. 2, of the Consolidated Finance Law, that the accounting information contained in this consolidated interim report for the period ended 30 September 2017 agrees with the underlying documents, registers and accounting entries.

The Financial Reporting Officer
Maurizio Bertoletti

CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT AT 30 SEPTEMBER 2017

CONSOLIDATED BALANCE SHEET
(in thousands of euro)

	ASSET ITEMS		30-09-2017		31-12-2016
10.	CASH AND CASH EQUIVALENTS		**746,034**		**789,612**
20.	HELD-FOR-TRADING FINANCIAL ASSETS		**862,852**		**1,019,712**
30.	FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS		**108,400**		**96,303**
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**10,632,435**		**6,644,437**
50.	HELD-TO-MATURITY INVESTMENTS		**99,295**		**117,023**
60.	LOANS AND RECEIVABLES WITH BANKS		**1,200,637**		**1,786,732**
70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**25,414,465**		**25,313,464**
100.	EQUITY INVESTMENTS		**206,492**		**208,575**
120.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**326,077**		**320,922**
130.	INTANGIBLE ASSETS		**25,057**		**23,869**
	of which:				
	- goodwill	7,847		7,847	
140.	TAX ASSETS		**445,798**		**484,698**
	a) current	58,316		73,251	
	b) deferred	387,482		411,447	
	b1) of which as per Law 214/2011	343,960		360,592	
160.	OTHER ASSETS		**318,503**		**390,978**
	TOTAL ASSETS		**40,386,045**		**37,196,325**

THE CHAIRMAN
Francesco Venosta

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

	EQUITY AND LIABILITY ITEMS		30-09-2017		31-12-2016
10.	DUE TO BANKS		**6,249,605**		**2,504,510**
20.	DUE TO CUSTOMERS		**27,353,195**		**27,702,353**
30.	SECURITIES ISSUED		**2,979,962**		**3,231,782**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**43,043**		**73,016**
60.	HEDGING DERIVATIVES		**26,084**		**38,734**
80.	TAX LIABILITIES		**53,272**		**45,636**
	a) current	1,728		2,963	
	b) deferred	51,544		42,673	
100.	OTHER LIABILITIES		**686,246**		**701,529**
110.	POST-EMPLOYMENT BENEFITS		**43,658**		**44,805**
120.	PROVISIONS FOR RISKS AND CHARGES:		**178,799**		**181,552**
	a) pension and similar obligations	137,038		130,874	
	b) other provisions	41,761		50,678	
140.	VALUATION RESERVES		**71,448**		**41,927**
170.	RESERVES		**1,084,088**		**1,033,417**
180.	SHARE PREMIUM RESERVE		**79,005**		**79,005**
190.	SHARE CAPITAL		**1,360,157**		**1,360,157**
200.	TREASURY SHARES (-)		**(25,378)**		**(25,349)**
210.	MINORITY INTERESTS		**90,520**		**84,652**
220.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**112,341**		**98,599**
	TOTAL LIABILITIES AND EQUITY		**40,386,045**		**37,196,325**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

	ITEMS		30-09-2017		30-09-2016
10.	INTEREST AND SIMILAR INCOME		463,602		500,617
20.	INTEREST AND SIMILAR EXPENSE		(105,994)		(137,730)
30.	**NET INTEREST INCOME**		**357,608**		**362,887**
40.	FEE AND COMMISSION INCOME		235,400		227,613
50.	FEE AND COMMISSION EXPENSE		(13,818)		(13,896)
60.	**NET FEE AND COMMISSION INCOME**		**221,582**		**213,717**
70.	DIVIDENDS AND SIMILAR INCOME		5,043		6,329
80.	NET TRADING INCOME		52,772		8,009
90.	NET HEDGING GAINS (LOSSES)		(11)		240
100.	GAINS/LOSSES FROM SALES OR REPURCHASES OF:		19,677		66,964
	b) available-for-sale financial assets	19,693		67,625	
	d) financial liabilities	(16)		(661)	
110.	NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		7,966		(1,171)
120.	**TOTAL INCOME**		**664,637**		**656,975**
130.	NET IMPAIRMENT LOSSES ON:		(161,210)		(177,167)
	a) loans and receivables	(129,131)		(173,441)	
	b) available-for-sale financial assets	(31,871)		(4,177)	
	d) other financial transactions	(208)		451	
140.	**NET FINANCIAL INCOME**		**503,427**		**479,808**
170.	**NET FINANCIAL AND INSURANCE INCOME**		**503,427**		**479,808**
180.	ADMINISTRATIVE EXPENSES:		(383,771)		(370,204)
	a) personnel expenses	(184,030)		(175,030)	
	b) other administrative expenses	(199,741)		(195,174)	
190.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		4,441		(796)
200.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(13,658)		(13,743)
210.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(10,948)		(10,182)
220.	OTHER OPERATING INCOME/EXPENSE		54,425		52,355
230.	**OPERATING COSTS**		**(349,511)**		**(342,570)**
240.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		14,876		9,898
250.	NET RESULT OF FAIR VALUE MEASUREMENT OF PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS		(5)		160
270.	NET GAINS ON SALES OF INVESTMENTS		9		33
280.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**168,796**		**147,329**
290.	INCOME TAXES		(50,593)		(41,306)
300.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**118,203**		**106,023**
320.	**PROFIT (LOSS) FOR THE PERIOD**		**118,203**		**106,023**
330.	PROFIT (LOSS) FOR THE PERIOD OF MINORITY INTERESTS		(5,862)		(771)
340.	**PROFIT (LOSS) FOR THE PERIOD OF THE PARENT COMPANY**		**112,341**		**105,252**
	BASIC EPS		**0.248**		**0.232**
	DILUTED EPS		**0.248**		**0.232**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items		30/09/2017	30/09/2016
10.	Profit (loss) for the period	118,203	106,023
	Other income items net of income taxes that will not be reclassified to profit or loss		
40.	Defined-benefit plans	1,359	(9,950)
60.	Share of valuation reserves of equity investments valued at net equity	(1)	52
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
100.	Available-for-sale financial assets	28,865	(21,669)
120.	Share of valuation reserves of equity investments valued at net equity	(696)	832
130.	**Total other income items net of income taxes**	**29,527**	**(30,735)**
140.	**Comprehensive income (Item 10+130)**	**147,730**	**75,288**
150.	Consolidated comprehensive income pertaining to minority interests	(5,868)	(714)
160.	**Consolidated comprehensive income pertaining to the Parent Company**	**141,862**	**74,574**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Opening balance at 31.12.2016	Change in opening balances	Opening balance at 1.1.2017	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	–
c) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves							
a) from earnings	1,073,800	–	1,073,800	72,791	–	(20,844)	–
c) other	5,186	–	5,186	–	–	–	–
Valuation reserves	**41,797**	**–**	**41,797**	**–**	**–**	**–**	**–**
Equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**(25,349)**	**–**	**(25,349)**	**–**	**–**	**–**	**–**
Profit of the period	**99,875**	**–**	**99,875**	**(72,791)**	**(27,084)**	**–**	**–**
Equity attributable to the group	**2,587,756**	**–**	**2,587,756**	**–**	**(27,084)**	**(20,844)**	**–**
Equity attributable to minority interests	**84,652**	**–**	**84,652**	**–**	**–**	**–**	**–**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

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

Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% change in interest held	Comprehensive income	Equity attributable to the group at 30.09.2017	Equity attributable to minority interests 30.09.2017
–	–	–	–	–	–	–	**1,360,157**	**33,579**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	**1,080,859**	**44,888**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**(29,527)**	**71,448**	**(124)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(29)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,378)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**118,203**	**112,341**	**5,862**
(29)	**–**	**–**	**–**	**–**	**–**	**141,862**	**2,681,661**	**–**
–	**–**	**–**	**–**	**–**	**–**	**5,868**	**–**	**90,520**

Changes during the period; Equity transactions

Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% change in interest held	Comprehensive income	Equity attributable to the group at 30.09.2016	Equity attributable to minority interests 30.09.2016
–	–	–	–	–	–	–	1,360,157	33,579
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	1,026,468	43,612
–	–	–	–	–	–	–	3,229	1,957
–	**–**	**–**	**–**	**–**	**–**	**(30,735)**	**58,738**	**(163)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(27)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,349)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**106,023**	**105,252**	**771**
(27)	**–**	**–**	**–**	**–**	**–**	**74,574**	**2,607,500**	**–**
–	**–**	**–**	**–**	**–**	**–**	**714**	**–**	**84,114**