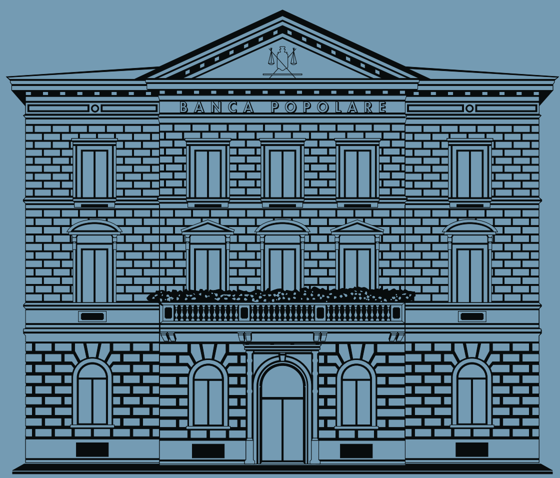
Banca Popolare di Sondrio



CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 30 SEPTEMBER 2019

Banca Popolare di Sondrio

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Banca Popolare di Sondrio

Founded in 1871

CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 30 SEPTEMBER 2019

Società cooperativa per azioni
Head office and general management: Piazza Garibaldi 16, 23100 Sondrio, Italy
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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 Strenght 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

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 2019 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, 6th update of 30 November 2018.

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 effects are explained in detail in the notes to the consolidated interim financial report at 30 June 2019.

Please refer to the consolidated interim financial report at 30 June 2019 also for detailed information on the application of the other accounting standards.

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

Balances at 31 December 2018 have been presented as balance sheet comparatives.

Income statement comparatives are the results for the period ended 30 September 2018.

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, 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.

SCOPE AND METHODS OF CONSOLIDATION

The consolidated interim report on operations presents the financial position as at 30 September 2019 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 EQUITY INVESTMENTS:

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	Sondrio	31,315	100
Pirovano Stelvio spa *	Sondrio	2,064	100
Servizi Internazionali e Strutture Integrate 2000 srl *	Milan	75	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. 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 Spa on 24 June and the exclusion of Adriano SPV Srl, which carried out a securitisation of receivables sold by PrestiNuova Spa and which was closed in advance last May.

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 investments 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 or 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:

EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

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	36.825
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	317	25.237
Lago di Como Gal scrl	Canzo	22	28.953
Acquedotto dello Stelvio srl **	Bormio	21	27.000
Sifas spa **	Bolzano	1,209	21.614
Rent2Go srl	Bolzano	5,400	33.333
Cossi Costruzioni spa	Sondrio	12,598	18.250
Rajna Immobiliare srl	Sondrio	20	50.000

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

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 consolidated equity.

SUBSEQUENT EVENTS

No events have taken place between the reporting date for this consolidated interim report and the date of its approval by the Board of Directors on 8 November 2019 that would require any adjustments thereto, and nothing of significance has occurred that would require the provision of supplementary information.

INTERNATIONAL BACKGROUND

As the months have gone by, 2019 has confirmed more and more that it is a year of slowdown for the world economy with a general contraction in trade. Despite the persistence of very loose monetary policies, translated into a decisive decline in long-term yields, fears related to the tariff war, the slowing of the Chinese economy and Brexit fatigue have prevailed. Brexit is increasingly seen as a process that by now is totally beyond the control of those who initiated it.

The main players on the world stage have suffered a slowdown in growth. This situation has affected the United States, Japan, India and China with varying degrees of intensity.

As far as the European Union is concerned, the weakness of industry, especially in Germany, is particularly worrying, partially linked to the protectionist impulses that are making trade more difficult. For its part, the ECB has given a new boost to its expansionary policies, aimed at restoring growth and contrasting persistent deflationary tendencies.

In Italy, economic activity remained essentially stable during the summer. The weakness of industrial production was affected above all by the declining trend in that of the entire Euro-zone. On the other hand, there seems to have been a slight expansion in household consumption, which is positive. As regards the labour market, there has been an increase in the number of people in employment, but a decrease in the number of hours worked, a symptom that there are still underlying problems, which for the time being have still not been resolved.

Even Switzerland has been affected by the slowdown, with the result that the growth forecasts for 2019 have been gradually revised downwards, so this year's GDP should increase by around 0.8%. Among the reasons, the stagnation of foreign demand and, in particular, the lack of dynamism in Germany, Switzerland's primary trading partner. For its part, the appreciation of the Swiss Franc has undoubtedly helped to slow down exports. The growth in consumption by households, which has benefited from the decidedly positive situation in the labour market, has at least partially offset this situation.

SUMMARY OF RESULTS

(in thousands of euro)

Balance sheet	30/09/2019	31/12/2018*	Change %
Loans to customers	27,455	25,845	6.23
Loans and receivables with customers measured at amortised cost	27,171	25,604	6.12
Loans and receivables with customers measured at fair value through profit or loss	284	241	17.97
Loans and receivables with banks	1,264	1,321	-4.27
Financial assets that do not constitute loans	9,953	11,065	-10.05
Equity investments	288	221	30.49
Total assets	43,632	41,128	6.09
Direct funding from customers	32,402	31,063	4.31
Indirect funding from customers	32,983	30,182	9.28
Direct funding from insurance premiums	1,527	1,410	8.30
Customer assets under administration	66,913	62,655	6.80
Other direct and indirect funding	11,721	10,524	11.37
Equity	2,837	2,651	7.02
Income statement	**30/09/2019**	**30/09/2018**	**Change %**
Net interest income	341	372	-8.34
Total income	676	620	8.97
Profit from continuing operations	182	108	68.98
Profit of the period	123	78	57.13
Key ratios (%)			
Cost/income ratio	57.09	61.01	
Net interest income/Total assets	0.78	0.89	
Net financial income/Total assets	1.25	1.13	
Net interest income/Total income	50.40	59.91	
Administrative expenses/Total income	58.37	63.68	
Profit for the period/Total assets	0.28	0.19	
Non-performing loans/Loans and receivables with customers	2.64	3.06	
Loans to customers/Direct deposits	84.73	82.90	
Texas ratio	61.44	76.63	
Capital ratios (%)			
CET1 Capital ratio	15.55%	12.03%	
Total Capital ratio	18.35%	13.61%	
Free capital	1,760	1,228	
Other information on the banking group			
Number of employees	3,305	3,254	
Number of branches	365	362	

FUNDING

The period in question saw the continuation of a monetary situation characterised by an abundance of liquidity which seems destined to remain in the coming months as well.

At system level, funding increased, +3.7% on the previous year, confirming the gap between the positive trend in deposits and the contraction in bonds. The propensity of investors to restructure their portfolios in favour of assets less exposed to risk continued to weigh on the latter.

As for our Group, direct funding from customers amounted to 32,402 million, +4.31%.

Indirect funding from customers amounted to 32,983 million, +9.28%.

Direct funding from insurance premiums came to 1,527 million, +8.30%.

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	30/09/2019	%	31/12/2018	%	Change %
Savings deposits	524,959	1.62	527,859	1.70	-0.55
Certificates of deposit	1,390	–	1,594	0.01	-12.82
Bonds	2,727,159	8.42	2,349,650	7.56	16.07
Repo transactions	1,600	–	100	–	–
Bank drafts and similar	101,396	0.31	128,439	0.40	-21.05
Current accounts	25,811,887	79.67	24,944,658	80.31	3.48
Time deposit accounts	574,550	1.77	806,856	2.60	-28.79
Current accounts in foreign currency	2,430,954	7.49	2,303,356	7.42	5.54
Lease liability	228,475	0.72	–	–	–
Total	**32,402,370**	**100.00**	**31,062,511**	**100.00**	**4.31**

TOTAL FUNDING

(in thousands of euro)	30/09/2019	%	31/12/2018	%	Change %
Total direct funding from customers	32,402,370	41.20	31,062,511	42.44	4.31
Total indirect funding from customers	32,983,099	41.95	30,182,455	41.24	9.28
Total direct funding from insurance premiums	1,527,267	1.94	1,410,179	1.93	8.30
Total	**66,912,736**	**85.09**	**62,655,146**	**85.61**	**6.80**
Due to banks	6,300,484	8.01	6,165,836	8.43	2.18
Indirect funding from banks	5,420,905	6.89	4,358,442	5.96	24.38
Grand total	**78,634,125**	**100.00**	**73,179,422**	**100.00**	**7.45**

Total funding from customers therefore amounted to 66,913 million, +6.80%.

Amounts due to banks total 6,300 million, +2.18%. As in prior years, this total includes the refinancing operations arranged with the European Central Bank, which amounted to 4,600 million. Indirect funding from banks rose from 4,358 million to 5,421 million, +24.38%.

Total deposits from customers and banks therefore came to 78,634 million (+7.45%).

Considering the individual components, current accounts in euro and foreign currency rose to 28,243 million, +3.65%, and make up 87.16% of all direct funding. Bonds showed an increase of 16.07% to 2,727 million due to the issue of 4 bonds for 294 million, of the issue on 28 March 2019, as part of the EMTN programme, of the first unsecured senior preferred bond for 500 million, which was followed on 30 July, again as part of this programme, a subordinated loan of 200 million. Time deposit accounts have fallen to 575 million, -28.79%. Repo transactions amounted to 2 million; savings deposits decreased slightly to 525 million, -0.55%. Certificates of deposit stood at 1 million, on the levels of the comparative period, and remain entirely marginal. Bank drafts amount to 101 million, -21.05%. The new item represented by the lease liabilities as required by IFRS 16, amounting to 228 million, is significant.

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

LOANS TO CUSTOMERS

The lack of vitality in the general economic cycle was reflected in the trend of bank loans, which recorded an annual increase of less than 1%, the result of a solid trend in terms of households, both in the mortgage component for first home purchases and in the consumer credit component, whereas there was a decline on the business front linked to the modest trend in investments. The improvement in credit quality continued during the period. Overall, supply conditions have remained flat, linked to the widespread decline in yields.

The long-standing function of supporting the economy of the territories that we serve has been at the heart of our Group's activities, which we have done according to a rigorous and professional selection of borrowers.

For our Group, lending amounted to 27,455 million, up 6.23% on the end of 2018 and 5.77% on 30 September 2018. The ratio of loans to direct deposits from customers is 84.73% 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».

LOANS TO CUSTOMERS

(in thousands of euro)	30/09/2019	%	31/12/2018	%	Change %
Current accounts	4,266,262	15.54	4,252,855	16.46	0.32%
Foreign currency loans	781,350	2.85	855,104	3.31	-8.63%
Advances	678,780	2.47	469,429	1.82	44.60%
Advances subject to collection	230,813	0.84	230,584	0.89	0.10%
Discounted portfolio	4,404	0.02	5,801	0.02	-24.08%
Artisan loans	57,360	0.20	58,858	0.23	-2.55%
Agricultural loans	21,897	0.08	20,764	0.08	5.46%
Personal loans	479,126	1.75	494,795	1.91	-3.17%
Other unsecured loans	6,222,772	22.67	5,155,908	19.95	20.69%
Mortgage loans	10,468,820	38.13	9,915,925	38.37	5.58%
Non-performing loans	725,375	2.64	760,412	2.94	-4.61%
Repo transactions	1,257,886	4.58	1,204,429	4.66	4.44%
Factoring	2,041,208	7.43	2,156,486	8.34	-5.35%
Fixed-yield securities	219,227	0.80	263,374	1.02	-16.76%
Total	**27,455,280**	**100.00**	**25,844,724**	**100.00**	**6.23%**

Mortgage loans performed well, coming in at 10,469 million, +5.58%; they are the main component of loans to customers with 38.13%. Other unsecured loans increased significantly: 6,223 million, +20.69%, equal to 22.67% of loans to customers. Current accounts increased by 0.32%, from 4,253 to 4,266 million. Advances have gone up to 679 million, +44.60%. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, went from 1,204 to 1,258 million, +4.44 %. Personal loans decreased, -3.17%, from 495 to 479 million, as did currency loans, -8.63%, 781 million, and factoring transactions, -5.35%, 2,041 million. Advances subject to collection were substantially stable: 231 million, +0.10%. Debt securities, which amounted to 263 million at the end of 2018, are down significantly, -16.76% to 219 million; they derive from the securitisation of loans to customers made by Banca della Nuova Terra spa and Alba Leasing spa.

Total loans include loans assigned but not derecognised of 1,426 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 net impaired loans fell by 6.86% to 1,724 million and are equal to 6.28% (formerly 7.16%) of loans to customers. A downward trend in line with the system, which reflects the work performed and the efforts made to limit them.

Writedowns of impaired loans totalled 2,151 million, -7.34%, representing 55.51% of the gross amount, compared with 55.63% at the end of 2018 and 51.79% in 2017. The reduction, albeit limited, in the coverage ratio compared with the end of 2018 largely follows the write-offs made to positions that were already non-performing. The table gives an overview of impaired and performing loans.

LOANS TO CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		30/09/2019	31/12/2018	(+/-)	Change %
Impaired loans	Gross exposure	3,874,423	4,171,707	-297,284	-7.13%
	Adjustments	2,150,667	2,320,944	-170,277	-7.34%
	Net exposure	**1,723,756**	**1,850,763**	**-127,007**	**-6.86%**
– Non-performing loans	Gross exposure	2,322,468	2,481,444	-158,976	-6.41%
	Adjustments	1,597,093	1,721,031	-123,938	-7.20%
	Net exposure	**725,375**	**760,413**	**-35,038**	**-4.61%**
– Unlikely to pay loans	Gross exposure	1,466,435	1,585,177	-118,742	-7.49%
	Adjustments	544,115	579,483	-35,368	-6.10%
	Net exposure	**922,320**	**1,005,694**	**-83,374**	**-8.29%**
– Past due and/or impaired overdrawn exposures	Gross exposure	85,520	105,086	-19,566	-18.62%
	Adjustments	9,459	20,430	-10,971	-53.70%
	Net exposure	**76,061**	**84,656**	**-8,595**	**-10.15%**
Performing loans	Gross exposure	25,849,887	24,111,603	1,738,284	7.21%
	Adjustments	118,363	117,644	719	0.61%
	Net exposure	**25,731,524**	**23,993,959**	**1,737,565**	**7.24%**
Total loans and receivables with customers	Gross exposure	29,724,310	28,283,312	1,440,998	5.09%
	Adjustments	2,269,030	2,438,588	-169,558	-6.95%
	Net exposure	**27,455,280**	**25,844,724**	**1,610,556**	**6.23%**

Net non-performing loans amount to 725 million, -4.61%, corresponding to 2.64% 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 1,597 million, -7.20%, representing 68.77% 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 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, on 8 August 2019, when the consolidated interim report at 30 June 2019 was approved, the Board of Directors of the Parent Company resolved to proceed with the sale of 1 billion of 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 decline in total adjustments is also 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 79.64%.

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 922 million, -8.29%, corresponding to 3.36% of total loans and receivables with customers, compared with 3.89% in the previous year. The related adjustments, which ensure a coverage ratio of 37.10%, amounted to 544 million, -6.10% 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 76 million, -10.15%, and represent 0.28% of total loans and receivables with customers compared with 0.33% in the comparison period, with a coverage ratio of 11.06%. The related adjustments amounted to 9 million, -53.70%.

In addition to the adjustments made to impaired loans, provisions for performing loans totalled 118 million, +0.61%, giving coverage of 0.46%, compared with 0.49% in the comparison period. Adjustments totalled 2,269 million overall, -6.95%.

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, which continued in the third quarter, albeit in the presence of a certain volatility, particularly in the first half of August. Yields on Italian government bonds and the spread have fallen considerably, given a significant reduction in uncertainty regarding national budget policies and more accommodating monetary conditions.

At 30 September 2019, the Group's net interbank position was as a borrower for 5,036 million, up by 191 million from 4,845 million at the end of 2018.

Cash and liquid assets total 3,797 million, compared with 1,577 million. The Group and the system as a whole were highly liquid throughout the period, thanks to the expansionary measures already in place and those announced by the ECB. 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, arranged for 1,100 million on 23 June 2016, with repayment on 24 June 2020 and a right to early repayment from 27 June 2018, is a zero rate operation (subject to reduction in the event of an increase in eligible lending, with respect to the assigned benchmark). 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 target of stimulating the real economy, guaranteeing further liquidity to the banking system. It was not considered appropriate to participate in the first of a new series of quarterly operations for longer-term refinancing. Excluding these T-LTRO II operations, the net balance of loans and receivables with banks less amounts due to banks would have been negative for 436 million.

The Italian market for debt instruments during 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, which was followed by a subordinated issue of 200 million in July.

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 11,549 million, compared with 11,923 million, of which 6,410 available and 5,139 committed.

At 30 September 2019 the portfolios of financial assets consisting of securities amounted to a total of 9,953 million, a decrease of 1.1% compared with 10,064 million at 30 June 2019, -10.05% compared with 11,065 million at 31 December 2018 and -12.72% compared with 11,404 million at 30 September 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 in the second part of 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 and subordinated 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)	30/09/2019	31/12/2018	Change %
Financial assets held for trading	217,563	251,044	-13.34
of which, derivatives	35,027	31,668	10.61
Other financial assets mandatorily measured at fair value	393,335	366,287	7.38
Financial assets measured at fair value through other comprehensive income	2,885,797	4,423,618	-34.76
Financial assets measured at amortised cost	6,456,757	6,024,006	7.18
Total	**9,953,452**	**11,064,955**	**-10.05**

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 and trading portfolios. 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 slightly higher than last year's figure of three-and-a-half years.

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 218 million, down 13.34% from 251 million previously.

(in thousands of euro)	30/09/2019	31/12/2018	Change %
Floating-rate Italian government securities	84,168	59,089	42.44
Fixed-rate Italian government securities	20,440	54,008	-62.15
Bank bonds	-	11,109	-100.00
Bonds of other issuers	2,138	1,925	11.06
Variable-yield securities	61,738	83,095	-25.70
Mutual funds	14,052	10,150	38.44
Net book value of derivative contracts	35,027	31,668	10.61
Total	**217,563**	**251,044**	**-13.34**

The composition of the trading portfolio is simple and transparent. Sales of financial assets have continued, with shares falling to 62 million from 83 million in the prior year (-25.70%), which represents 28.38% of the portfolio compared with 33.10%. Despite a reduction in the size of the portfolio, it was possible to increase the profit from trading activity, while the more relaxed climate on financial markets has positively influenced the net balance of unrealised gains and losses, which turned from negative to positive.

The overall net trading result has therefore increased by 147.68% to 53.869 million compared with 21.749 million in 2018.

Other financial assets mandatorily measured at fair value

The other financial assets mandatorily measured at fair value have increased by 7.38% to 393 million from 366 million. The portfolio mainly includes various types of funds and sicavs and, to a residual extent, bank and corporate bonds. The increase is due to the higher amount of UCITS in the portfolio.

(in thousands of euro)	30/09/2019	31/12/2018	Change %
Bank bonds	16,107	8,988	79.21
Other bonds	30,928	33,943	-8.88
Variable-yield securities	–	2	-100.00
Mutual funds in euro	312,612	301,084	3.83
Mutual funds in foreign currency (USD)	33,688	22,270	51.27
Total	**393,335**	**366,287**	**7.38**

Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS) totalled 2,886 million, -34.76%. The decrease is due to substantial sales of Italian government securities, fixed-income ones in particular. Among these, Italian government securities have decreased by 47.21% to 1,843 million; they represent the principal component, accompanied by fixed-income Spanish and French government securities for 307 million (+12.14%), 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 an increase in the bond component, made up of bank bonds for 579 million, +19.67%, and corporate bonds for 74 million, +4.80%. Variable-yield securities fell by 20.42% to 83 million. With regard to this last component, during the period 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)	30/09/2019	31/12/2018	Change %
Floating-rate Italian government securities	651,788	592,896	9.93
Fixed-rate Italian government securities	1,191,271	2,898,339	-58.90
Foreign government securities	306,545	273,356	12.14
Bank bonds	579,213	483,996	19.67
Other bonds	73,526	70,160	4.80
Variable-yield securities	83,454	104,871	-20.42
Total	**2,885,797**	**4,423,618**	**-34.76**

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 6,457 million, compared with 6,024 million, +7.18%. 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 416 million, and in corporate bonds, 168 million, +39.11%, while Italian and foreign government bonds recorded slight increases, +0.57% to 4,435 million and +1.37% to 1,438 million, respectively.

(in thousands of euro)	30/09/2019	31/12/2018	Change %
LOANS AND RECEIVABLES WITH BANKS	**416,168**	**75,059**	**454.45**
Italian bank bonds	260,068	15,744	–
Foreign bank bonds	156,100	59,315	163.17
LOANS AND RECEIVABLES WITH CUSTOMERS	**6,040,589**	**5,948,947**	**1.54**
Floating-rate Italian government securities	809,821	809,779	0.01
Fixed-rate Italian government securities	3,624,873	3,599,927	0.69
Foreign government securities	1,437,885	1,418,467	1.37
Other bonds	168,010	120,774	39.11
Total	**6,456,757**	**6,024,006**	**7.18**

ASSET MANAGEMENT

After a profoundly negative trend for the asset management industry in the latter part of 2018, stabilisation of financial markets favoured a return of interest in the sector during the first half of 2019, which in the third quarter saw a further strengthening.

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 5,705 million at the end of September, up by 5.60% since December 2018, of which 4,136 million, +10.59%, relates to the mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav; the Group's asset management schemes came to 1,569 million, -5.63%.

INFORMATION ON EXPOSURE TO SOVEREIGN DEBT

CONSOB with communication no. DEM/11070007 of 05/08/2011, and more recently with communication of 31/10/2018, 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 September 2019 amounted to 9,128 million and was structured as follows:

a) Loans and securities to public administrations: 8,205 million;

b) Loans and securities to state-owned or local government-owned enterprises: 666 million;

c) Loans and securities to other public administrations and miscellaneous entities: 257 million.

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

EQUITY INVESTMENTS

Equity investments amounted to 288 million, up 67 million mainly due to the increase in interest in Arca Holding spa with an outlay of 54 million. They were also positively affected by the valuation of affiliates at equity.

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets total 589 million, compared with 361 million at the end of 2018. The former totalled 558 million, +70.16% and the second category amounted to 31 million, -5.78%. 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 September 2019.

PROVISIONS

These comprise employee severance indemnities of 45 million, +3.62%, and the provisions for risks and charges totalling 264 million, +5.91% compared with the figure at the end of 2018.

HUMAN RESOURCES

At 30 September 2019 the Banking group had 3,305 employees, compared with 3,254 at the end of 2018. Of these, 2,780 are employed by the Parent Company, 335 by Banca Popolare di Sondrio (SUISSE) SA, 169 by Factorit spa and 21 by BNT spa. The total number of employees has increased by 51 (+1.57%) compared with 31 December 2018 and by 50 (+1.54%) compared with 30 September 2018.

In addition to the Banking Group's staff, there is also the personnel of the subsidiary Pirovano Stelvio spa: 28 people at 30 September 2019, 25 of whom are employed seasonally.

EQUITY

Consolidated shareholders' equity at 30 September 2019, inclusive of valuation reserves and the profit for the period of 123.243 million, amounts to 2,837.033 million, +7.02%.

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 increased by 137.862 million to 1,298.545 million, +11.88%, due to the allocation of a significant portion of the profit for 2018 and the inclusion of capital gains on variable-yield securities sold that are already in the valuation reserves. The Ordinary Shareholders' Meeting of 27 April 2019 approved the distribution of a dividend of 0.05 euro, paid on 22 May 2019, 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 positive net balance of 1.447 million, higher than at the end of 2018, when they had a negative balance of 34.452 million, despite the reversal of part of the valuation reserve to other reserves following disposals, as mentioned above. These were also 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 25.364 million.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force pursuant to Regulation (EU) no. 575/2013 (CRR) and 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 new 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 significant increase in our capital ratios.

Consolidated own funds for supervisory purposes, including the share of profit for the first half of 2019, amounted to 3,120 million, while risk-weighted assets totalled 17,044 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 September 2019, defined in accordance with current legislation (Phased In), and the minimum requirements are given below.

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	15.55%	9.25%
Tier 1 Capital Ratio	15.60%	10.75%
Total Capital Ratio	18.35%	12.75%

The above ratios determined according to the Fully Phased criteria are the following:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	15.53%	9.25%
Tier 1 Capital Ratio	15.58%	10.75%
Total Capital Ratio	18.32%	12.75%

If a portion of the profit at 30 September 2019 was included in own funds, after deducting a dividend forecast in line with the policies normally followed by the Group, the same ratios (Phased In) would be 15.92% for the CET 1 Ratio; 15.97% for the Tier 1 Capital Ratio; 18.72% for the Total Capital Ratio.

The leverage ratio is 5.56%, applying the Phased In transitional criteria in force for 2019, and 5.55% based on the Fully Phased criteria. These figures rank among the best when compared with those of the main Italian and European banking groups.

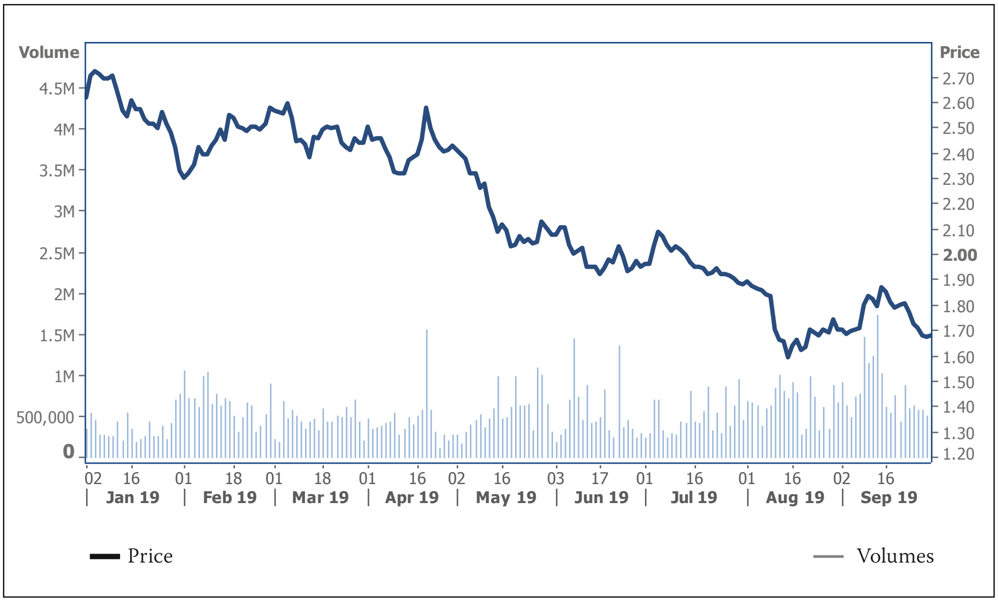
The following ratios of capital (and reserves, including profit for the period) to the principal balance sheet aggregates are shown with comparative figures at 31 December 2018:

– *equity/direct funding from customers*
  8.76% v. 8.53%;
– *equity/loans to customers*
  10.33% v. 10.26%
– *equity/financial assets*
  28.50% v. 23.96%;
– *equity/total assets*
  6.50% v. 6.44%;
– *net non-performing loans/equity*
  25.57% 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 nine months of 2019 with a performance of -36.17%, marking a reference price at 30 September 2019 of 1.68 euro, compared with 2.632 euro at the end of 2018. During the current year, the stock recorded an intraday low of 1.58 euro on 14 August and an intraday high of 2.76 euro on 8 January. The average daily volume of securities traded on the MTA market of Borsa Italiana in the first nine months of the year was 564 thousand, down from 765 thousand in the same period of 2018.

BANCA POPOLARE DI SONDRIO stock – MTA segment of Borsa Italiana



Source: THOMSON REUTERS

The shareholder base at 30 September 2019 consists of 168,109 members, a decrease of 2,562 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 25.364 million, of which 25.322 million 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 period were examined by the Board of Directors in accordance with the law and the articles of association (as per art. 2528, last para., of the Italian Civil Code). In particular, art. 9 of the articles of association states that: «The Board of Directors decides on applications for admission as a member by adopting a suitably-reasoned resolution, having regard for the interests of the bank, the spirit of the cooperative movement and the requirements of the articles of association», taking into account the guidelines laid down by the Board.

RATINGS

The solvency of the Banca Popolare di Sondrio Banking Group, as shown is greater detail in the following tables, has been assessed by 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 coefficient that reflects the vulnerability of uninsured deposits to default. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	BBB-
SENIOR PREFERRED DEBT It is a coefficient that reflects the probability of default of Senior Preferred bonds 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 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 BANK 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 for the period
Equity of the Parent Company as of 30.09.2019	2,519,587	95,592
Consolidation adjustments	-8,888	-8,888
Difference with respect to the carrying amounts of equity investments in:		
- companies consolidated on a line-by-line basis	276,389	21,671
- companies valued using the equity method	49,945	14,868
Balance as of 30.09.2019, as reported in the Group consolidated financial statements	**2,837,033**	**123,243**

INCOME STATEMENT

The slowdown in the economic cycle, already noted in the first half of the year, continued well into the period under review and is reflected in the words recently expressed by the President of the European Central Bank, as well as in the latest economic figures. Italy has found itself having to cope with a situation of substantial stagnation, without being able to count, as it could in the past, on the dynamism of Italy's traditional trading partner, i.e. Germany, which is also going through a difficult time. On the other hand, the situation on the financial markets has clearly improved, as evidenced by the marked decline in the spread between Italian government bonds and German Bunds, with positive effects on the prices of the former.

In this context, our Group achieved a more than satisfactory result: 123.243 million, up 57.13% on 78.434 million in the first nine months of 2018.

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.

Looking at the various components, it is worth noting how net interest income is still showing the negative trend already recorded in the previous quarters of the year. Interest income from customers suffered a decline, which was not offset by the reduction in interest expense. As a consequence, the interest spread has also fallen. On the other hand, the continuation of the ECB's expansive monetary policy, which will continue in the coming months, and the targeted longer-term refinancing operations, already carried out and those announced, have kept rates at all-time lows. Investors' search for certainty has favoured bonds, at least in part, by reducing returns to their lowest level once again. Lastly, reduced margins continued to be applied to loans granted to businesses and individuals due to increased competition among banks. Net interest income therefore came in at 340.565 million, compared with 371.543 million, -8.34%.

Net fee and commission income has shown a slightly positive trend: 230.034 million, +0.88%, in particular due to the good performance of those deriving from the placement of asset management and insurance products, as well as those related to current accounts and collections and payments. On the other hand, there has been a decline in commission income on guarantees given, acceptance of instructions and loans.

Dividends totalling 3.339 million were collected, compared with 3.992 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 101.844 million, compared with 16.628 million, with growth of about six times. The good result follows a more relaxed climate on financial markets.

Analysing the individual portfolios, the trading one showed a result of 53.869 million, +147.68%. An increase in trading gains was accompanied by a significant positive imbalance between capital gains and losses which, on the contrary, was strongly negative in the comparative period.

Gains on disposal or repurchase of financial assets also recorded a good increase and amounted to 27.967 million, +247.50%. Analysing its component parts, gains from financial assets measured at amortised cost came to 19.575 million and gains from disposal or repurchase of financial assets measured at fair value through other comprehensive income to 8.015 million, while a gain was recognised on financial liabilities of 0.377 million. Lastly, the result from hedging activities resulted in a net profit of 0.043 million. The net gain on other financial assets measured at fair value through profit or loss amounted to 19.965 million compared with a loss of 13.164 million.

Income from banking activities therefore rose to 675.782 million, compared with 620.180 million, +8.97%.

Within this aggregate, the weighting of net interest income was 50.40% compared with 59.91%.

Despite a general economic scenario with a scarce inclination to growth, the trend in impaired loans is still slowing down. 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 127.260 million, compared with 147.951 million, -13.99%. 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 128.758 million, compared with 151.867 million. The decrease is particularly significant considering that loans that it was assumed would be sold on the basis of last August's Board resolution were assessed in this light. For these positions, we then used models to estimate the potential recovery value of these receivables and, on this basis, formulate a selling price, also taking into account the peculiarities of the market where these assets will probably be sold. Substantial adjustments have been needed as a result. Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income consisted of reversals of 1.498 million relating to fixed-yield securities, while in the comparative period, reversals of 3.916 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 strongly to 0.63% from 0.93% at 31 December 2018.

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 2.219 million in the reporting period, compared with 0.684 million.

This leads to net financial income of 546.303 million, compared with 471.545 million (+15.85%).

Operating costs came to 385.827 million, +1.97%, an increase for physiological reasons. The increase is essentially due to personnel. The ratio of operating costs/income from banking activities, known as the «cost/income ratio», is 57.09% compared with 58.06% at the end of 2018 and 61.01% at 30 September 2018.

Analysing each item, after reclassifying the deferral of income earned by the fund for post-employment benefits, administrative expenses were 0.99% lower at 387.867 million; personnel expenses rose to 182.199 million, +3.07%. In turn, other administrative expenses have gone from 214.955 million to 205.668 million, -4.32%. 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. Administrative expenses still posted an increase in contributions incurred or expected for the Interbank Deposit Guarantee and Single Resolution Funds, which went from 25.924 million to 27.813 million, +7.29%.

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	30/09/2019	30/09/2018	(+/-)	Change %
Net interest income	340,565	371,543	-30,978	-8.34
Dividends	3,339	3,992	-653	-16.36
Net fee and commission income	230,034	228,017	2,017	0.88
Result of financial activities	101,844	16,628	85,216	512.48
Total income	**675,782**	**620,180**	**55,602**	**8.97**
Net adjustments to loans and financial assets	-127,260	-147,951	20,691	-13.99
Gains/losses on contractual amendments not resulting in derecognition	-2,219	-684	-1,535	224.42
Net financial income	**546,303**	**471,545**	**74,758**	**15.85**
Personnel costs	-182,199	-176,778	-5,421	3.07
Other administrative expenses	-205,668	-214,955	9,287	-4.32
Other operating income/expense	49,318	45,487	3,831	8.42
Net accruals to provisions for risks and charges	-6,034	-7,992	1,958	-24.50
Adjustments to property, equipment and investment property and intangible assets	-41,244	-24,121	-17,123	70.99
Operating costs	**-385,827**	**-378,359**	**-7,468**	**1.97**
Operating profit (loss)	**160,476**	**93,186**	**67,290**	**72.21**
Net gains (losses) on equity investments and other investments	21,393	14,444	6,949	48.11
Profit (loss) before tax	**181,869**	**107,630**	**74,239**	**68.98**
Income taxes	-57,178	-26,670	-30,508	114.39
Profit (loss)	**124,691**	**80,960**	**43,731**	**54.02**
Profit (loss) attributable to non-controlling interests	-1,448	-2,526	1,078	-42.68
Profit (loss) attributable to the Parent Company	**123,243**	**78,434**	**44,809**	**57.13**

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 € 6.614 million

Substantial increases in consulting fees, fees for the use of interbank networks, as well as IT costs relating to constantly changing regulations also had an impact.

Net new provisions for risks and charges totalled 6.034 million, -24.50%.

Depreciation and amortisation amounted to 41.244 million, +70.99%, largely attributable to the new accounting rules for leases according to IFRS 16.

Other operating income, stated after the above reclassification, net of charges, comes to 49.318 million, +8.42%.

The operating profit therefore came to 160.476 million, +72.21%.

Net profits on equity and other investments amounted to 21.393 million, compared with 14.444 million, +48.11%.

Profit before income taxes therefore totalled 181.869 million, +68.98%.

After deducting income taxes of 57.178 million, +114.39%, and the non-controlling interest of 1.448 million, the profit for the period comes to 123.243 million, +57.13%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 31.44% compared with 24.78% 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 9.21% of direct funding from customers and 10.01% of loans and receivables with customers, generating 6.71% of net fee and commission income and 12.07% of net interest income.

SUBSEQUENT EVENTS AND OUTLOOK FOR OPERATIONS

As announced in the press release of 17 October, to which reference should be made, in the context of discussions between the Parent Company and the European Central Bank regarding the procedure for the approval of the amendments to the articles of association approved by the Shareholders' Meeting of Banca Popolare di Sondrio on 27 April 2019 with a view to implementing the agreements signed with Fondazione Cassa di Risparmio di Cento and Holding CR Cento S.p.A. for the acquisition of control of Cassa di Risparmio di Cento, priority had to be given to derisking initiatives already underway to reduce the stock of non-performing loans – maintaining the substantial capital buffer which Banca Popolare di Sondrio prudently has at its disposal for such initiatives – as well as to strengthening the governance and risk management structures. Because of these priorities, the ECB was of the opinion that there were not the conditions to issue such an authorisation. Due to the assessments impeding the acquisition in the above terms, not all of the conditions for the agreements with the Fondazione and Holding CRC relating to the acquisition of Cassa di Risparmio di Cento have been fulfilled. The agreements in question have therefore ceased to apply.

During the quarter, the Parent Company continued preparations for the sale of non-performing loans for a target amount of approximately € 1 billion, before adjustments, through a securitisation guaranteed with GACS, whose completion is expected to take place in the first few months of 2020. To this end, Banca IMI and Societé Generale were appointed as co-arrangers of the transaction and Prelios Credit Servicing (Prelios Group) was appointed as master servicer.

As regards the outlook for operations, it is reasonable to assume that during the rest of the current year, maintaining a relaxed climate on financial markets, the Group will be able to achieve profits in line with the trend recorded so far this year.

Sondrio, 8 November 2019

THE BOARD OF DIRECTORS

Certification of the Manager responsible for preparing the company's accounting documents

The Manager responsible for preparing the company's accounting documents, 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 2019 agrees with the underlying documents, registers and accounting entries.

The Manager responsible for preparing
the company's accounting documents
Maurizio Bertoletti

CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT AT 30 SEPTEMBER 2019

PRESENTATION OF COMPARATIVE AMOUNTS

In the financial statements, the comparative balance sheet amounts at 31/12/2018 and the income statement comparatives for the period ended 30/09/2018 have simply been restated.

This means that the balance sheet amounts at 31 December 2018 and the income statement amounts for the period ended 30 September 2018, which do not reflect the impact of applying IFRS 16, are not comparable on a like-for-like basis with the figures presented in the period under review

CONSOLIDATED BALANCE SHEET

(in thousands of euro)

ASSET ITEMS		30/09/2019	31/12/2018
10.	Cash and cash equivalents	3,797,209	1,577,163
20.	Financial assets measured at fair value through profit or loss	894,990	858,069
	a) financial assets held for trading	217,563	251,044
	c) other financial assets mandatorily measured at fair value	677,427	607,025
30.	Financial assets measured at fair value through other comprehensive income	2,885,797	4,423,618
40.	Financial assets measured at amortised cost	34,476,014	32,873,554
	a) loans and receivables with banks	1,264,237	1,320,621
	b) loans and receivables with customers	33,211,777	31,552,933
70.	Equity investments	288,337	220,957
9.	Property, equipment and investment property	558,590	328,161
100.	Intangible assets	31,336	33,259
	of which:		
	- goodwill	12,632	12,632
110.	Tax assets	400,776	465,040
	a) current	23,380	31,834
	b) deferred	377,396	433,206
130.	Other assets	299,426	348,364
	TOTAL ASSETS	**43,632,475**	**41,128,185**

THE CHAIRMAN
Francesco Venosta

THE BOARD OF STATUTORY AUDITORS
Piergiuseppe Forni. Presidente
Laura Vitali - Luca Zoani

EQUITY AND LIABILITY ITEMS		30/09/2019	31/12/2018
10.	Financial liabilities measured at amortised cost	38,702,854	37,228,347
	a) due to banks	6,300,484	6,165,836
	b) due to customers	29,572,425	28,630,307
	c) Securities issued	2,829,945	2,432,204
20.	Financial liabilities held for trading	82,254	57,211
40.	Hedging derivatives	14,296	16,826
60.	Tax liabilities	37,994	29,767
	a) current	3,009	4,252
	b) deferred	34,985	25,515
80.	Other liabilities	1,555,241	760,091
90.	Post-employment benefits	44,787	43,222
100.	Provisions for risks and charges	263,558	248,850
	a) commitments and guarantees given	45,127	46,163
	b) pension and similar obligations	180,523	160,734
	c) other provisions for risks and charges	37,908	41,953
120.	Valuation reserves	1,447	(34,452)
150.	Reserves	1,298,545	1,160,683
160.	Share premium reserve	79,005	79,005
170.	Share capital	1,360,157	1,360,157
180.	Treasury shares (-)	(25,364)	(25,375)
190.	Non-controlling interests (+/-)	94,458	93,049
200.	Profit (loss) for the period (+/-)	123,243	110,804
	TOTAL LIABILITIES AND EQUITY	**43,632,475**	**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)

ITEMS			30/09/2019		30/09/2018
10.	INTEREST AND SIMILAR INCOME		434,288		458,199
	of which: interest income calculated using the effective interest method	429,170		453,928	
20.	INTEREST AND SIMILAR EXPENSE		(93,723)		(86,656)
30.	**NET INTEREST INCOME**		**340,565**		**371,543**
40.	FEE AND COMMISSION INCOME		246,114		243,004
50.	FEE AND COMMISSION EXPENSE		(16,080)		(14,987)
60.	**NET FEE AND COMMISSION INCOME**		**230,034**		**228,017**
70.	DIVIDENDS AND SIMILAR INCOME		3,339		3,992
80.	NET TRADING INCOME		53,869		21,749
90.	NET HEDGING GAINS (LOSSES)		43		(5)
100.	GAINS/LOSSES FROM SALES OR REPURCHASES OF:		27,967		8,048
	a) financial assets measured at amortised cost	19,575		2,240	
	b) financial assets measured at fair value through other comprehensive income	8,015		5,849	
	c) financial liabilities	377		(41)	
110.	NET GAINS/LOSSES ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		19,965		(13,164)
	b) other financial assets mandatorily measured at fair value	19,965		(13,164)	
120.	**TOTAL INCOME**		**675,782**		**620,180**
130.	NET ADJUSTMENTS FOR CREDIT RISK RELATING TO:		(127,260)		(147,951)
	a) financial assets measured at amortised cost	(128,758)		(151,867)	
	b) financial assets measured at fair value through other comprehensive income	1,498		3,916	
140.	GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(2,219)		(684)
150.	**NET FINANCIAL INCOME**		**546,303**		**471,545**
180.	**BALANCE OF FINANCIAL AND INSURANCE MANAGEMENT**		**546,303**		**471,545**
190.	ADMINISTRATIVE EXPENSES:		(394,481)		(394,953)
	a) personnel expenses	(188,813)		(179,998)	
	b) other administrative expenses	(205,668)		(214,955)	
200.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		(6,034)		(7,992)
	a) commitments for guarantees given	1,147		(8,652)	
	b) other net provisions	(7,181)		660	
210.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(28,819)		(12,957)
220.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(12,425)		(11,164)
230.	OTHER OPERATING INCOME/EXPENSE		55,932		48,707
240.	**OPERATING COSTS**		**(385,827)**		**(378,359)**
250.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		21,245		14,787
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		15		9
290.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**181,869**		**107,630**
300.	INCOME TAXES		(57,178)		(26,670)
310.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**124,691**		**80,960**
330.	**PROFIT (LOSS) FOR THE PERIOD**		**124,691**		**80,960**
340.	PROFIT (LOSS) OF THE PERIOD OF NON-CONTROLLING INTERESTS		(1,448)		(2,526)
350.	**PROFIT (LOSS) FOR THE PERIOD OF THE PARENT COMPANY**		**123,243**		**78,434**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

(in thousands of euro)

ITEMS		30-09-2019	30-09-2018
10.	**Profit (loss) for the period**	**124,691**	**80,960**
	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	(21,565)	2,871
70.	Defined-benefit plans	(12,454)	(1,191)
90.	Share of valuation reserves of equity investments valued at net equity	(11)	(56)
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
120.	Cash-flow hedges		19
140.	Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	65,566	(105,183)
160.	Share of valuation reserves of equity investments valued at net equity	4,335	(3,936)
170.	**Total other income items net of income taxes**	35,871	(107,476)
180.	**Comprehensive income (Item 10+170)**	160,562	(26,516)
190.	Consolidated comprehensive income attributable to non-controlling interest	(1,419)	(2,541)
200.	**Consolidated comprehensive income attributable to the Parent Company**	159,142	(29,057)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

				Allocation of prior year result			
	Opening balance at 31.12.2018	Change in opening balances	Opening balance at 1.1.2019	Reserves	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	–	16,980	–
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)**	**49,645**	**–**
Equity attributable to non-controlling interest	**93,049**	**–**	**93,049**	**–**	**–**	**–**	**–**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

				Allocation of prior year result			
	Opening balance at 31.12.2017	Change in opening balances	Opening balance at 1.1.2018	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares
Share capital							
a) ordinary shares	1,393,736	–	1,393,736	–	–	–	10
b) other shares	–	–	–	–	–	–	–
Share premium reserve	**83,363**	**–**	**83,363**	**–**	**–**	**–**	**–**
Reserves	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) from earnings	1,119,099	(51,266)	1,067,833	131,267	–	7,074	–
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)**	**7,074**	**–**
Equity attributable to non-controlling interest	**90,593**	**1,610**	**92,203**	**–**	**(2,350)**	**–**	**10**

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 30.09.2019	**Equity attributable to the group at 30.09.2019**	**Equity attributable to non-controlling interest at 30.09.2019**
(10)	–	–	–	–	–	–	**1,360,157**	**33,579**
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	**1,262,651**	**53,279**
–	–	–	–	–	–	–	**35,894**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**35,871**	**1,447**	**(162)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
11	**–**	**–**	**–**	**–**	**–**	**–**	**(25,364)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**124,691**	**123,243**	**1,448**
11	**–**	**–**	**–**	**–**	**–**	**159,142**	**2,837,033**	**–**
(10)	**–**	**–**	**–**	**–**	**–**	**1,419**	**–**	**94,458**

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 30.09.2018	**Equity attributable to the group at 30.09.2018**	**Equity attributable to non-controlling interest at 30.09.2018**
–	–	–	–	–	–	–	**1,360,157**	**33,589**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	**1,156,053**	**50,121**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**(107,476)**	**(71,257)**	**(147)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(18)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,388)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**80,960**	**78,434**	**2,526**
(18)	**–**	**–**	**–**	**–**	**–**	**(29,057)**	**2,580,233**	**–**
–	**–**	**–**	**–**	**–**	**–**	**2,541**	**–**	**92,404**