Banca Popolare di Sondrio

CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 31 MARCH 2017

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Founded in 1871

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Società cooperativa per azioni
Head office and general management: I - 23100 Sondrio SO - Piazza Garibaldi 16
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 24 June 2016:
  - Long-term: BBB
  - Short-term: F3
  - Viability Rating: bbb
  - Outlook: Negative

- 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 Strenght 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

The Financial Reporting Officer 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 31 March 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 31 March 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 bank:

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

Group companies:

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

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

Factorit spa - Milan.

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

Sinergia Seconda Srl – Milan.

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

Popso Covered Bond srl – Conegliano

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

SCOPE AND METHODS OF CONSOLIDATION

The consolidated interim report on operations presents the financial position as at 31 March 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 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:

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

* equity investments not included in the banking group

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:

Name	Head office	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) it has a representative on the Board of Directors or the equivalent body of the affiliate;

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

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

Insignificant 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 to 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 11 May 2017 that would require any adjustments thereto, and nothing of significance has occurred that would require the provision of supplementary information.

SUMMARY OF RESULTS

(in millions of euro)	2017	2016*	% Change
Balance sheet			
Loans and receivables with customers	26,586	25,313	5.03
Loans and receivables with banks	990	1,787	-44.61
Financial assets	9,486	7,877	20.42
Equity investments	212	209	1.82
Total assets	39,864	37,196	7.17
Direct funding from customers	29,745	30,934	-3.84
Indirect funding from customers	29,145	28,409	2.59
Direct funding from insurance premiums	1,281	1,266	1.18
Customer assets under administration	60,171	60,609	-0.72
Other direct and indirect funding	9,719	6,127	58.62
Equity	2,592	2,588	0.15
Income statement			
Net interest income	118	128	-7.76
Total income	226	208	8.53
Profit from continuing operations	46	31	50.02
Profit for the period	30	22	33.42
Key ratios (%)			
Cost/income	55.46	57.12	
Net interest income/Total assets	0.30	0.37	
Net financial income/Total assets	0.42	0.42	
Net interest income/Total income	52.03	61.22	
Administrative expenses/Total income	60.19	61.99	
Profit for the period/Total assets	0.07	0.06	
Non-performing loans/Loans and receivables with customers	2.93	3.03	
Loans and receivables with customers/Direct funding from customers	89.38	81.83	
Capital ratios (%)			
CET1 Capital ratio	10.82%	11.09%	
Total Capital ratio	13.13%	13.58%	
Free capital	1,221	1,294	
Other information			
Number of employees	3,167	3,156	
Number of branches	357	356	

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

INTERNATIONAL BACKGROUND

The global economy has basically performed quite well in the recent past. Among the advanced countries, the US economy has been rather lively. In terms of the emerging economies, China and India have apparently confirmed strong growth, while Brazil and Russia are still experiencing serious difficulties.

This said, continuation of the dangerously heightened geopolitical tensions has obviously not facilitated trade, fuelling the uncertainty of financial operators. The oil price has continued to fluctuate around 50 dollars a barrel.

In the Euro area, multiple uncertainties following Brexit have been compounded by the shaky start to the negotiations between the United Kingdom and the European Union; however, the outcome of the French elections seems to have reinforced the reasons for staying together. The financial markets responded positively.

For its part, the ECB has continued to pursue its expansionary monetary policy in support of economic recovery, resulting in a much desired upturn in inflation.

Turning to Italy, early 2017 has essentially confirmed the durability of a noticeable recovery that, however, will certainly not be enough to make the domestic economy strong and secure. Of course, the extent of the problems accumulated over many years during the longest post-war crisis means that they cannot be resolved at a stroke. Using the unemployment rate as an example, the recent reduction by a few decimal points is really just a drop in the ocean.

The improvement in the economy has assisted the banking system by enhancing asset quality. However, the central issue remains whether or not banks - with interest rates still firmly anchored at historical minimums - will be able to generate enough income to remunerate the capital invested.

The Swiss economy remains healthy and sound at the start of 2017, with good prospects. Exports are growing well and will lead to an increase in employment there. Forecasts suggest that GDP will rise by 1.5% during the current year, accelerating to 1.9% in 2018. The monetary policy of the Swiss National Bank is still expansionary.

FUNDING

Rates remain at historical minimums and liquidity is still plentiful. Once again, this binome dominated the stage during the period. The resulting search by customers for more remunerative investments has benefited the asset management sector. On the other hand, the negligible interest rate differential has favoured the more liquid instruments over longer-dated maturities.

Direct funding from customers amounts to 29,745 million at 31

March 2017, down by 3.84% since the end of 2016 and up by 6.04% compared with March 2016. The Bank has continued efforts to lower the cost of funding, partly by drawing on the considerable liquidity injected into the system by the ECB and available in the interbank market. Attention has focused on the more costly sources of finance.

Indirect funding from customers totalled 29,145 million at market values, +2.59% since the end of 2016.

Direct funding from insurance premiums came to 1,281 million, +1.18%.

Total funding from customers therefore amounted to 60,171 million (-0.72%).

Amounts due to banks totalled 6,033 million, +140.87%. 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 3,687 million, +1.76%.

Total funding from customers and banks therefore came to 69,891 million, +4.73%.

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	31-03-2017	%	31-12-2016	%	% Change
Savings deposits	535,912	1.80	540,046	1.75	-0.77
Certificates of deposit	3,232	0.01	3,264	0.01	-0.98
Bonds	2,980,446	10.02	3,150,367	10.18	-5.39
Repo transactions	90,866	0.31	610,237	1.97	-85.11
Bank drafts and similar	75,990	0.26	78,150	0.25	-2.76
Current accounts	22,757,582	76.50	23,641,895	76.43	-3.74
Time deposit accounts	773,886	2.60	355,475	1.15	117.70
Current accounts in foreign currency	2,527,055	8.50	2,554,701	8.26	-1.08
Total	**29,744,969**	**100.00**	**30,934,135**	**100.00**	**-3.84**

TOTAL FUNDING

(in thousands of euro)	31-03-2017	%	31-12-2016	%	% Change
Total direct funding from customers	29,744,969	42.56	30,934,135	46.35	-3.84
Total indirect funding from customers	29,145,401	41.70	28,409,167	42.57	2.59
Total direct funding from insurance premiums	1,280,784	1.83	1,265,888	1.90	1.18
Total	**60,171,154**	**86.09**	**60,609,190**	**90.82**	**-0.72**
Due to banks	6,032,638	8.63	2,504,510	3.75	140.87
Indirect funding from banks	3,686,778	5.28	3,622,959	5.43	1.76
Grand total	**69,890,570**	**100.00**	**66,736,659**	**100.00**	**4.73**

Considering the individual components, current accounts in euro and foreign currency dropped to 25,285 million, -3.48%, and make up 85% of all direct funding. Time deposit accounts have grown to 774 million, +117.70%. Bonds have declined by 5.39%, to 2,980 million. Repo transactions also fell to 91 million, -85.11%; the decline in savings deposits to 536 million, -0.77%, was marginal. Certificates of deposit did not change at 3 million, and remain entirely marginal. Bank drafts amount to 76 million, -2.76%.

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

LENDING

The improvement, albeit limited, in the general economic situation and the historically low rates for loans to businesses and households has facilitated the expansion of lending; nevertheless, supply continues to distinguish between asset classes and the size of borrowers. In particular, the demand for home mortgages has been lively.

Asset quality has benefited from the macroeconomic situation, as reflected in a marked reduction in the flow of new impaired loans.

The Group focuses primarily on providing support to the economies of the territories served, while seeking to validate borrowers carefully and to remunerate properly the risks taken.

Loans and receivables with customers come to 26,586 million, +5.03% since the start of the year and +10.95%, compared with 12 months earlier.

The various types have contributed to total customer loans to a different extent.

The change in other unsecured loans was significant: +9.09% to 5,760 million, being 21.67% of the amount due from customers. By contrast, mortgage loans increased by 1.36% to 9,599 million or 36.10% of total lending. This line item includes loans assigned but not derecognised of 1,337 million in relation to the issue of covered bonds. These loans were not derecognised because the requirements of IAS 39 were not met. Current accounts performed well, +4.22% to 5,038 million, representing 18.95% of total loans, as did factoring, +16.81% to 2,137 million. Advances rose by 9.46% to 446 million; advances subject to collection increased by 6.67% to 210 million; personal loans, +2.75% to 226 million. Foreign currency loans declined to 1,045 million, -11.09%. Debt securities amounted to 357 million, -0.79%, and relate to customer loan securitisations executed by the investees Banca della Nuova Terra spa and Alba Leasing spa. Repo transactions, representing the temporary employment of liquidity with institutional counterparties, increased considerably, from 699 to 916 million, +31.12 %. The ratio of loans and receivables with customers to amounts due to customers has risen to 89.38% from 81.83% at the end of 2016.

LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	31-03-2017	%	31-12-2016	%	% Change
Current accounts	5,038,307	18.95	4,834,195	19.10	4.22
Foreign currency loans	1,045,268	3.93	1,175,623	4.64	-11.09
Advances	446,144	1.68	407,575	1.61	9.46
Advances subject to collection	210,463	0.79	197,294	0.78	6.67
Discounted portfolio	4,084	0.02	4,537	0.02	-9.98
Artisan loans	37,945	0.14	40,513	0.16	-6.34
Agricultural loans	28,108	0.11	26,950	0.11	4.30
Personal loans	225,954	0.85	219,897	0.87	2.75
Other unsecured loans	5,760,327	21.67	5,280,407	20.86	9.09
Mortgage loans	9,599,073	36.10	9,470,151	37.41	1.36
Non-performing loans	779,707	2.93	767,900	3.03	1.54
Repo transactions	916,477	3.45	698,937	2.76	31.12
Fixed-yield securities	357,285	1.34	360,145	1.42	-0.79
Factoring	2,136,908	8.04	1,829,340	7.23	16.81
Total	**26,586,050**	**100.00**	**25,313,464**	**100.00**	**5.03**

As mentioned, the improvement in the general economic situation has benefited both asset quality and the dynamics of impaired 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 impaired loans (non-performing loans, unlikely-to-pay loans and past due and/or impaired overdrawn exposures) amounted to 2,370 million, -0.54%, representing 8.91% of loans and receivables with customers, compared with 9.41% at the end of 2016. Writedowns of impaired loans totalled 2,094 million, representing 46.91% of the gross amount, compared with 46.17% at the end of 2016. The table gives an overview of impaired and performing loans.

Net non-performing loans, after writedowns, total 780 million, +1.54%, or 2.93% of total customer loans, compared with 3.03% at 31 December 2016 and 3% at 31 March 2016. The growth in non-performing loans has continued to slow, confirming the established trend and inducing cautious optimism about the effects of the economic recovery, even though it is still weak.

To cover estimated losses on non-performing loans in the portfolio, value adjustments rose to 1,377 million, +10.99% compared with 31 March 2016 and +3.39% on December of the same year, with a degree of coverage of 63.85%, compared with 63.43% at the end of 2016. The level of coverage reflects our prudent provisioning policy and positions the Group among those with the highest level of coverage in Italy.

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31-03-2017	31-12-2016	(+/-)	% Change
Impaired loans	Gross exposure	4,463,330	4,425,892	37,438	0.85
	Adjustments	2,093,747	2,043,501	50,246	2.46
	Net exposure	**2,369,583**	**2,382,391**	**-12,808**	**-0.54**
- Non-performing loans	Gross exposure	2,156,694	2,099,717	56,977	2.71
	Adjustments	1,376,987	1,331,817	45,170	3.39
	Net exposure	**779,707**	**767,900**	**11,807**	**1.54**
- Unlikely to pay loans	Gross exposure	2,031,095	1,987,517	43,578	2.19
	Adjustments	677,341	664,922	12,419	1.87
	Net exposure	**1,353,754**	**1,322,595**	**31,159**	**2.36**
- Past due and/or impaired overdrawn exposures	Gross exposure	275,541	338,658	-63,117	-18.64
	Adjustments	39,419	46,762	-7,343	-15.70
	Net exposure	**236,122**	**291,896**	**-55,774**	**-19.11**
Performing loans	Gross exposure	24,357,783	23,070,964	1,286,819	5.58
	Adjustments	141,316	139,891	1,425	1.02
	Net exposure	**24,216,467**	**22,931,073**	**1,285,394**	**5.61**
Total loans and receivables with customers	Gross exposure	28,821,113	27,496,856	1,324,257	4.82
	Adjustments	2,235,063	2,183,392	51,671	2.37
	Net exposure	**26,586,050**	**25,313,464**	**1,272,586**	**5.03**

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 73.32%.

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 have come in at 1,354 million, +2.36%, or 5.09% of total loans and receivables with customers compared with 5.22% at the end of 2016, while the related adjustments amount to 677 million, +1.87%, with a level of coverage of 33.35% compared with 33.45% at the end of 2016.

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 236 million, -19.11%, and represent 0.89% of the total compared with 1.15% at the end of 2016.

The performing loans amounted to 24,216 million, +5.61%, and writedowns came to 141 million, corresponding to 0.58% of them.

Total adjustments come to 2,235 million (+2.37%).

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 154 million, local and state-owned enterprises for 659 million and to various other entities for 221 million.

TREASURY AND TRADING OPERATIONS

The Group and the system as a whole were highly liquid throughout the period, because of the expansionary action of the ECB, not least via the long-term refinancing operations (TLTRO II), and due to the continued purchase of government securities.

Cash and liquid assets total 1,333 million, compared with 790 million at the end of December 2016.

Net interbank borrowing by the Group at 31 March 2017 amounts to 5,043 million, up sharply from 718 million at the end of 2016 due, in the main, to the funding received from the ECB at the end of March as part of its refinancing operations (TLTRO II).

Net of Targeted Longer-Term Refinancing Operations (TLTRO II), arranged by the Parent Company with the ECB totalling 4,600 million, net interbank borrowing would have been 443 million. As mentioned, the Group has benefited from good liquidity throughout the period.

The volume of treasury activities remained high, with a good increase with respect to Q1 2016 and a marked preference for lending transactions rather than funding operations.

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

The 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 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 portfolio of assets eligible for refinancing which, net of haircuts, amounts to 9,170 million, +18.05% on the end of 2016.

The total of all portfolios of financial assets amounts to 9,486 million at 31 March 2017, an increase of 20.42% compared with the end of 2016 when it came to 7,877 million, and an increase of 18.83%

compared with 12 months ago, when it came to 7,983 million.

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

FINANCIAL ASSETS

(in thousands of euro)	31-03-2017	31-12-2016	% Change
Financial assets held for trading (HFT - Held For Trading)	895,310	1,019,712	-12.20
of which, derivatives	43,366	56,581	-23.36
Financial assets carried at fair value (CFV - Carried at Fair Value)	101,951	96,303	5.86
Available-for-sale financial assets (AFS - Available For Sale)	8,393,188	6,644,437	26.32
Held-to-maturity investments (HTM - Held to Maturity)	95,916	117,023	-18.04
Total	**9,486,365**	**7,877,475**	**20.42**

The overall increase is essentially attributable to the dynamics of the AFS portfolio, while the HFT portfolio declined and there were only marginal changes in the HTM portfolio and in the financial assets carried at fair value. The overall volume of trading was greater than in the same period of last year. Management policies reflect long-standing guidelines and, as always, have given preference to Government bonds, which represent the bulk of the portfolio. We sold securities, mainly government bonds, resulting in the recognition of substantial trading/disposal gains and the subsequent purchase of newly issued securities. New investments mainly involved BTPs and CTZs, giving preference to securities with a relatively short duration. The composition of the portfolio remains dominated by government securities, with a duration of just over 4 years and 6 months, slightly up on the end of 2016.

In accordance with the requirements of Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that these portfolios include bonds that form part of the sovereign debt (i.e. issued by local and central governments) totalling 8,195 million, almost entirely relating to issues made by the Italian Government.

Financial assets held for trading

Held-for-trading financial assets (HFT), details of which are shown in the following table, amount to 895 million, a further decrease of 12.20% as a result of sales of government securities close to maturity and the criteria used in the allocation to various portfolios of similar securities, but with longer maturities, which replaced the previous ones.

(in thousands of euro)	31-03-2017	31-12-2016	% Change
Floating-rate Italian government securities	370,033	398,469	-7.14
Fixed-rate Italian government securities	60,987	54,438	12.03
Bank bonds	185,301	212,690	-12.88
Bonds of other issuers	33,143	33,236	-0.28
Bonds of other issuers in foreign currency (USD)	14,062	11,383	23.54
Securitisations	26,966	27,507	-1.97
Variable-yield securities and mutual funds	161,452	225,408	-28.37
Net book value of derivative contracts	43,366	56,581	-23.36
Total	**895,310**	**1,019,712**	**-12.20**

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 431 million, making up 48.14% of the portfolio. Of these securities, 370 million were floating rate, down by 7.14%, and 61 were fixed rate - BOT, BTP and CTZ -, which were increased by 12.03%. The former account for 41.33% of the portfolio, while the latter account for 6.81%.

The derivatives component has declined from 57 to 43 million, -23.36%.

The corporate bonds held are all of high standing, comprising bank bonds of 185 million, -12.88%, bonds of other issuers of 33 million, substantially unchanged, and dollar-denominated bonds of 14 million. Securities deriving from securitisations have decreased by 1.97% to 27 million and are all classified as senior. The component represented by equities and mutual funds remains marginal with respect to the portfolio as a whole, amounting to 161 million, -28.37%.

Financial assets at fair value through profit or loss

Financial assets carried at fair value through profit or loss (CFV), which entirely consist of units in mutual funds, amount to 102 million, +5.86%, with a slight 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 substantially from 6,644 million to 8,393 million, +26.32%. The increase was linked to the purchase of securities in order to place temporarily the liquidity obtained by the Group from the ECB refinancing operations (TLTRO II). More specifically, with effect from 29 March, the pre-existing loan of 1,100 million is now accompanied by the loan of 3,500 million arranged on 23 March, as stated above.

Available-for-sale financial assets comprise Italian Government securities amounting to 6,799 million, +24.99%; Foreign government securities amount to 901 million, +10.54%; bank bonds, 325 million compared with 23 million; funds and sicavs, 225 million, -2.90%; bonds of other issuers, 37 million, +16.29%; equities of 105 million, +2.92%. The portfolio includes 20 million relating to the quotas held in the Atlante fund set up to stabilise the Italian banking system. As discussed below, these quotas have been written down even further. The total commitment of the Parent Company is 50 million.

The portfolio also includes 3 million, net of the write-down recorded in 2016, paid into the Voluntary Support Fund in order to support Cassa di Risparmio di Cesena via a private capital increase. Impairment adjustments totalled 7.656 million, including 6.336 million in relation to the quotas held in the Atlante fund, 0.967 million relating to listed and unlisted securities, and 0.353 million with regard to mutual funds.

(in thousands of euro)	31-03-2017	31-12-2016	% Change
Floating-rate Italian government securities	1,461,505	1,421,013	2.85
Fixed-rate Italian government securities	5,337,361	4,018,660	32.81
Foreign government securities	901,190	815,246	10.54
Bank bonds	325,421	23,283	1297.68
Other bonds	37,259	32,039	16.29
Variable-yield securities	105,251	102,268	2.92
Mutual funds in euro	225,201	231,928	-2.90
Total	**8,393,188**	**6,644,437**	**26.32**

Held-to-maturity investments

The HTM portfolio, comprising solely fixed-yield securities, has decreased to 96 million, -18.04%, as a result of redemptions. Unrealised gains at the end of March amount to 14.5 million.

ASSET MANAGEMENT

The asset management industry continued to perform well during the period, taking advantage of both the continuation of historically-low interest rates, which has induced customers to seek investments with potentially better returns, and positive sentiment in the financial markets. As for our Group, the various types of asset management amounted to 5,082 million at the end of March, an increase of 5.67% since December 2016. Arca Fondi SGR spa now offers Individual Savings Plans to customers, which were well received from the start.

EQUITY INVESTMENTS

Equity investments were up by 3 million to 212 million. The increase was attributable to the measurement under the equity method.

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets total 346 million, +0.38%.

The former totalled 321 million, +0.14%, the second category amounted to 25 million, +3.67% 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 31 March 2017.

PROVISIONS

These comprise employee severance indemnities of 45 million, -0.17%, and the provisions for risks and charges totalling 186 million, +2.35%.

HUMAN RESOURCES

At 31 March 2017 the Banking group had 3,164 employees with an increase of 11 on the end of 2016, to which should be added 3 employees of the subsidiary Pirovano Stelvio spa.

CAPITAL AND RESERVES

Consolidated shareholders' equity at 31 March 2017, inclusive of valuation reserves and the profit for the period, amounts to 2,591.657

million, being an increase of 3.901 million, +0.15%.

This aggregate does not reflect the effects of distributing the 2016 profit reported by the Parent Company. 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 dividend will be paid on 24 May 2017, going ex-coupon on 22 May.

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 25.372 million, +0.09%.

Reserves have risen to 1,133.833 million, +9.72%, essentially following allocation of the results for 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 14.532 million, down 65.34% from the positive balance of 41.927 million reported at the end of 2016. The decrease is mainly to do with reversals to the income statement on the sale of securities in the AFS portfolio.

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 (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 3,126.352 million at 31 March 2017. Risk-weighted assets totalled 23,818.629 million.

Set out below are the Group's adequacy requirements at 31 March 2017 and the minimum requirements for the current year:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	10.82%	7.25%
Tier 1 Capital Ratio	10.85%	7.25%*
Total Capital Ratio	13.13%	10.75%

* minimum requirements

The leverage ratio at 31 March 2017 came to 5.80%, applying the Phased In transitional criteria in force for 2017 and 5.78% 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 Texas Ratio is 92.31%.

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

– *capital/direct funding from customers*
8.71% v. 8.37%

– *capital/customer loans*
9.75% v. 10.22%

– *capital/financial assets*
27.32% v. 32.85%

– *capital/total assets*
6.50% v. 6.96%

– *net non-performing loans/capital*
30.09% v. 29.67%

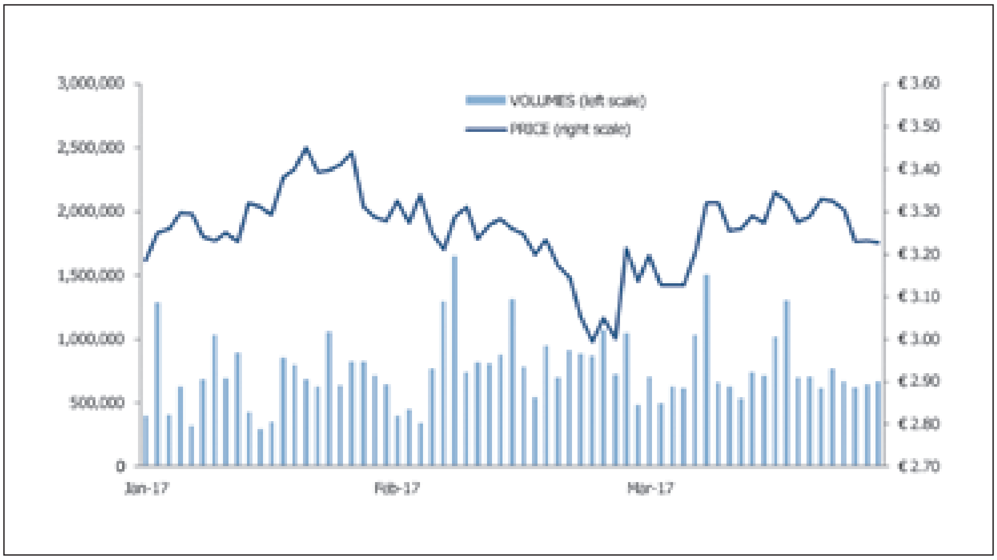
BPS STOCK

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 price of 3.228 euro on 31 March 2017 was up 3.20% from 3.128 euro at the end of 2016. This compared with rises of 7.79% in the main FTSE Italia All Share Index and 6.98% in the FTSE Italia All Share Banks Index.

As the following chart shows, the price trends reflect the improvement in the climate of confidence in the market and, in particular, in the financial sector, despite the ongoing geopolitical uncertainties at international level.

The volume of securities traded on the MTA was lower than in the first quarter of 2016, falling from about 85 million to 56 million shares, with a reduction in the average daily volume from 1.38 to 0.86 million shares.

BPS stock - MTA segment



The Parent Company holds 3,650,000 treasury shares, which is unchanged since the end of 2016 and with respect to one year ago. There are also 14,609 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies.

A total of 25.322 million has been drawn from the reserve for the purchase of treasury shares in the Parent Company, out of the 35,000,000 euro available.

Shareholder base comprises 178,150 shareholders, down by 4,647 during the first quarter of 2017 and by 6,644 since 31 March 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 24 June 2016.

FITCH RATINGS – issued on 24 June 2016

	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.	**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 d, for a total of 11 levels.	**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 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».	**Negative**

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 STRENGHT 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 of the period
Equity of the Parent Company as of 31.3.2017	2,338,840	21,127
Consolidation adjustments	-1,887	-1,887
Difference with respect to carrying values of equity investments in:		
– companies consolidated on a line-by-line basis	237,579	6,500
– companies valued using the equity method	27,125	3,762
Balance as of 31.3.2017, as reported in the consolidated financial statements	**2,591,657**	**29,502**

INCOME STATEMENT

The early months of the year suggest that consolidation of the economic recovery is underway, supported by domestic demand and an upturn in inflation that reduces the risks of deflation. Credit expansion has accelerated as financial market conditions have become more relaxed. This scenario, overall positive despite the difficulties that afflict the banking system, has enabled the Group to earn a healthy profit of 29.502 million, compared with 22.112 million in the first quarter of 2016, +33.42%. The good results generated by the securities portfolio and the reduced impairment of loans both contributed significantly to this outcome.

Looking at the various components of income, net interest income has continued to decline. Continuation of the ECB's expansionary monetary policy and low rates has had an additional adverse effect on net interest income, which fell by 7.76% to 117.616 million from 127.505 million. As mentioned, the expansionary element of the above policy has further reduced the rates of interest charged on loans to customers, as well as the yields on government and other debt securities, which have even become negative for short-term maturities.

At the same time, the reduction in interest expense - albeit greater, in percentage terms, than that in interest income - has been insufficient to counterbalance the decline in the latter.

Net fee and commission income increased to 73.494 million, +2.81%. In particular, the reduction in commissions on guarantees given, currency exchange and loans granted was more than offset by those earned from the placement of financial products.

Dividends totalling 0.443 million were collected, compared with 0.142 million.

The results from transactions in securities, foreign exchange and derivatives totalled 34.485 million, compared with 9.139 million. The comparative period was adversely affected by heavy trading losses, while results were fairly good during the first quarter of 2017. The results of foreign exchange transactions also improved well.

Income from banking activities therefore amounts to 226.038 million, compared with 208.272 million, +8.53%. Within this aggregate, the weighting of net interest income was 52.03% compared with 61.22%.

The improvement in the economic situation, albeit limited, was reflected favourably in the trend in impaired loans, which is decelerating, and in the related adjustments; as always, the latter are recorded after careful assessment by the offices concerned.

Net adjustments to loans, available-for-sale financial assets, held-to-maturity investments and other financial transactions came to 58.188 million compared with 62.158 million (-6.39%). Adjustments in relation to loans to customers amounted to 50.938 million, -14.84%; without being over optimistic, given the macroeconomic situation and the extreme volatility of many sectors and areas, this reduction possibly represents light at the end of the tunnel. 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 0.77% from 1% at 31 March 2016 and 0.99% at 31 December 2016.

Adjustments for the impairment of securities amounted to 7.656 million, mainly reflecting the further write-down - in addition to that recorded in the prior year - of the quotas held in the Atlante fund, considering the serious losses of the two banks controlled by that fund. In addition, a number of shares and closed-end mutual funds were also written down. The adjustments to other financial transactions involved the release of earlier provisions totalling 0.406 million, as well as the recognition of a new provision for the period of 0.277 million.

Net financial income therefore amounted to 167.850 million, +14.88%.

Operating costs totalled 125.364 million, up by 5.39% due, in the main, to a rise in other administrative expenses. The ratio of operating costs/income from banking activities, known as the «cost income ratio», is 55.46% compared with 55.31% at the end of 2016 and 57.12% at 31 March 2016. Analysing each item, after reclassifying the deferral of income earned by the fund for post-employment benefits, administrative expenses were 3.82% higher at 133.925 million. Personnel expenses totalled 58.853 million, +3.04%. Other administrative expenses increased from 71.879 to 75.072 million, +4.44%. This rise was partly physiological and partly due to increases in IT and legal costs and required contributions. Other administrative expenses include an estimate of the period cost, 12.5 million, relating to the standard contribution to the support funds.

The net provisions for risks and charges include the release of 0.500 million recorded in prior years, as well as a new provision of 0.136 million relating to the period.

Depreciation and amortisation amounted to 7.358 million, +3.55%.

Other operating income, net of charges, declined to 15.419 million, -10.79%, due to the reduction in non-recurring income and the commissions charged for the rapid approval of loan applications.

The operating profit therefore came to 42.486 million, +56.43%.

Profits/losses on equity and other investments show a positive balance of 3.596 million, +1.07%.

Profit before income taxes therefore totalled 46.082 million, +50.02%.

After deducting income taxes of 15.023 million, +96.20%, and the non-controlling interest of 1.557 million, the profit for the year amounted to 29.502 million, compared with 22.112 million, +33.42%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 32.60% compared with 24.93% in the comparative period.

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	31/03/2017	31/03/2016	(+/-)	% Change
Net interest income	117,616	127,505	-9,889	-7.76
Dividends	443	142	301	211.97
Net fee and commission income	73,494	71,486	2,008	2.81
Results of financial activities	34,485	9,139	25,346	277.34
Total income	**226,038**	**208,272**	**17,766**	**8.53**
Net adjustments to loans and financial assets	-58,188	-62,158	3,970	-6.39
Net financial income	**167,850**	**146,114**	**21,736**	**14.88**
Personnel costs	-58,853	-57,118	-1,735	3.04
Other administrative expenses	-75,072	-71,879	-3,193	4.44
Other operating income/expense	15,419	17,284	-1,865	-10.79
Net accruals to provisions for risks and charges	500	-136	636	-467.65
Adjustments to property, equipment and investment property and intangible assets	-7,358	-7,106	-252	3.55
Operating costs	**-125,364**	**-118,955**	**-6,409**	**5.39**
Operating profit (loss)	**42,486**	**27,159**	**15,327**	**56.43**
Net gains (losses) on equity investments and other investments	3,596	3,558	38	1.07
Profit (loss) before tax	**46,082**	**30,717**	**15,365**	**50.02**
Income taxes	-15,023	-7,657	-7,366	96.20
Profit (loss)	**31,059**	**23,060**	**7,999**	**34.69**
Profit pertaining to minority interests	-1,557	-948	-609	64.24
Profit pertaining to the Parent Company	**29,502**	**22,112**	**7,390**	**33.42**

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

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 9.55% of direct funding from customers and 13.33% of loans and receivables with customers, generating 7.51% of net fee and commission income and 12.12% of net interest income.

SUBSEQUENT EVENTS AND OUTLOOK FOR OPERATIONS

Looking ahead, the expansionary monetary policy of the ECB, with rates still at current levels, will further squeeze net interest income. Given the high level of liquidity in the system, this situation may facilitate a further reduction in the cost of funding and, in particular, help to reduce the more onerous components.

Further improvements in asset quality are also expected, not least due to the recovery in general conditions. Continuation of the more relaxed climate in the financial markets should also help to improve operating results.

Overall, it is reasonable to express cautious optimism about the likely results for the year.

Sondrio, 11 May 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 31 March 2017 agrees with the underlying documents, registers and accounting entries.

The Financial
Reporting Officer
Maurizio Bertoletti

CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT AT 31 MARCH 2017

CONSOLIDATED BALANCE SHEET

(in thousand of euro)

ASSET ITEMS			31-03-2017		31-12-2016
10.	CASH AND CASH EQUIVALENTS		**1,333,484**		**789,612**
20.	FINANCIAL ASSETS HELD FOR TRADING		**895,310**		**1,019,712**
30.	FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS		**101,951**		**96,303**
40.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		**8,393,188**		**6,644,437**
50.	HELD-TO-MATURITY INVESTMENTS		**95,916**		**117,023**
60.	LOANS AND RECEIVABLES WITH BANKS		**989,738**		**1,786,732**
70.	LOANS AND RECEIVABLES WITH CUSTOMERS		**26,586,050**		**25,313,464**
100.	EQUITY INVESTMENTS		**212,361**		**208,575**
120.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**321,360**		**320,922**
130.	INTANGIBLE ASSETS		**24,744**		**23,869**
	of which:				
	- goodwill	7,847		7,847	
140.	TAX ASSETS		**478,062**		**484,698**
	a) current	68,179		73,251	
	b) deferred	409,883		411,447	
	b1) of which as per Law 214/2011	353,000		360,592	
160.	OTHER ASSETS		**431,710**		**390,978**
	TOTAL ASSETS		**39,863,874**		**37,196,325**

THE CHAIRMAN
Francesco Venosta

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

	EQUITY AND LIABILITY ITEMS		31-03-2017		31-12-2016
10.	DUE TO BANKS		**6,032,638**		**2,504,510**
20.	DUE TO CUSTOMERS		**26,685,301**		**27,702,353**
30.	SECURITIES ISSUED		**3,059,668**		**3,231,782**
40.	FINANCIAL LIABILITIES HELD FOR TRADING		**48,510**		**73,016**
60.	HEDGING DERIVATIVES		**36,242**		**38,734**
80.	TAX LIABILITIES		**35,065**		**45,636**
	a) current	1,560		2,963	
	b) deferred	33,505		42,673	
100.	OTHER LIABILITIES		**1,058,036**		**701,529**
110.	POST-EMPLOYMENT BENEFITS		**44,731**		**44,805**
120.	PROVISIONS FOR RISKS AND CHARGES:		**185,817**		**181,552**
	a) pension and similar obligations	132,732		130,874	
	b) other provisions	53,085		50,678	
140.	VALUATION RESERVES		**14,532**		**41,927**
170.	RESERVES		**1,133,833**		**1,033,417**
180.	SHARE PREMIUM RESERVE		**79,005**		**79,005**
190.	SHARE CAPITAL		**1,360,157**		**1,360,157**
200.	TREASURY SHARES (-)		**(25,372)**		**(25,349)**
210.	MINORITY INTERESTS		**86,209**		**84,652**
220.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**29,502**		**98,599**
	TOTAL LIABILITIES AND EQUITY		**39,863,874**		**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			31-03-2017		31-03-2016
10.	INTEREST AND SIMILAR INCOME		153,297		176,734
20.	INTEREST AND SIMILAR EXPENSE		(35,681)		(49,229)
30.	**NET INTEREST INCOME**		**117,616**		**127,505**
40.	FEE AND COMMISSION INCOME		78,094		75,898
50.	FEE AND COMMISSION EXPENSE		(4,600)		(4,412)
60.	**NET FEE AND COMMISSION INCOME**		**73,494**		**71,486**
70.	DIVIDENDS AND SIMILAR INCOME		443		142
80.	NET TRADING INCOME		22,519		(14,639)
90.	NET HEDGING GAINS (LOSSES)		(50)		(285)
100.	GAINS/LOSSES FROM SALES OR REPURCHASES OF:		5,916		28,531
	b) available-for-sale financial assets	5,958		28,859	
	d) financial liabilities	(42)		(328)	
110.	NET GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		6,100		(4,468)
120.	**TOTAL INCOME**		**226,038**		**208,272**
130.	NET IMPAIRMENT LOSSES ON:		(58,188)		(62,158)
	a) loans and receivables	(50,938)		(59,812)	
	b) available-for-sale financial assets	(7,656)		(2,069)	
	d) other financial transactions	406		(277)	
140.	**NET FINANCIAL INCOME**		**167,850**		**146,114**
170.	**NET FINANCIAL AND INSURANCE INCOME**		**167,850**		**146,114**
180.	ADMINISTRATIVE EXPENSES:		(136,044)		(129,109)
	a) personnel expenses	(60,972)		(57,230)	
	b) other administrative expenses	(75,072)		(71,879)	
190.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		500		(136)
200.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(4,358)		(4,358)
210.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(3,000)		(2,748)
220.	OTHER OPERATING INCOME/EXPENSE		17,538		17,396
230.	**OPERATING COSTS**		**(125,364)**		**(118,955)**
240.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		3,594		3,536
270.	NET GAINS ON SALES OF INVESTMENTS		2		22
280.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**46,082**		**30,717**
290.	INCOME TAXES		(15,023)		(7,657)
300.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**31,059**		**23,060**
320.	**PROFIT (LOSS) FOR THE PERIOD**		**31,059**		**23,060**
330.	PROFIT (LOSS) FOR THE PERIOD OF MINORITY INTERESTS		(1,557)		(948)
340.	**PROFIT (LOSS) FOR THE PERIOD OF THE PARENT BANK**		**29,502**		**22,112**
	BASIC EPS		**0.065**		**0.049**
	DILUTED EPS		**0.065**		**0.049**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items/Amounts		31-03-2017	31-03-2016
10.	**Profit (loss) for the period**	**31,059**	**23,060**
	Other income items net of income taxes that will not be reclassified to profit or loss		
60.	Share of valuation reserves of equity investments valued at net equity	–	101
	Other income items net of income taxes that may be reclassified subsequently to profit or loss		
100.	Available-for-sale financial assets	(26,965)	(11,365)
120.	Share of valuation reserves of equity investments valued at net equity	(430)	450
130.	**Total other income items net of income taxes**	**(27,395)**	**(10,814)**
140.	**Comprehensive income (Item 10+130)**	**3,664**	**12,246**
150.	Consolidated comprehensive income pertaining to minority interests	(1,557)	(948)
160.	**Consolidated comprehensive income pertaining to the Parent Bank**	**2,107**	**11,298**

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	99,875	–	1,817	–
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**	**(99,875)**	**–**	**–**	**–**
Equity attributable to the group	**2,587,756**	**–**	**2,587,756**	**–**	**–**	**1,817**	**–**
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	134,277	–	(6,938)	–
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**	**(134,277)**	**(3,223)**	**–**	**–**
Equity attributable to the group	**2,562,829**	**–**	**2,562,829**	**–**	**–**	**(6,938)**	**–**
Equity attributable to minority interests	**86,623**	**–**	**86,623**	**–**	**(3,223)**	**–**	**–**

Changes during the period								
Equity transactions							**Equity**	**Equity**
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% change in interest held	Comprehensive income	**attributable to the group at 31.03.2017**	**attributable to minority interests 31.03.2017**
–	–	–	–	–	–	–	**1,360,157**	**33,579**
–	–	–	–	–	–	–	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	**1,130,604**	**44,888**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**(27,395)**	**14,532**	**(130)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(23)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,372)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**31,059**	**29,502**	**1,557**
(23)	**–**	**–**	**–**	**–**	**–**	**2,107**	**2,591,657**	**–**
–	**–**	**–**	**–**	**–**	**–**	**1,557**	**–**	**86,209**

Changes during the period								
Equity transactions							**Equity**	**Equity**
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% change in interest held	Comprehensive income	**attributable to the group at 31.03.2016**	**attributable to minority interests 31.03.2016**
–	–	–	–	–	–	–	**1,360,157**	**33,579**
–								
–	**–**	**–**	**–**	**–**	**–**	**–**	**79,005**	**4,358**
–	–	–	–	–	–	–	**1,049,406**	**43,612**
–	–	–	–	–	–	–	**3,229**	**1,957**
–	**–**	**–**	**–**	**–**	**–**	**(10,814)**	**78,602**	**(106)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**(25,322)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**23,060**	**22,112**	**948**
–	**–**	**–**	**–**	**–**	**–**	**11,298**	**2,567,189**	**–**
–	**–**	**–**	**–**	**–**	**–**	**948**	**–**	**84,348**