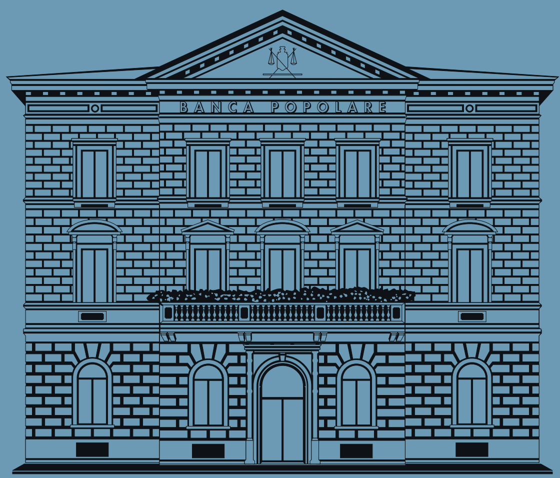
Banca Popolare di Sondrio



CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 31 MARCH 2018

Banca Popolare
di Sondrio

CONSOLIDATED
INTERIM REPORT
ON OPERATIONS
AT 31 MARCH 2018

Banca Popolare di Sondrio

Founded in 1871

CONSOLIDATED INTERIM REPORT ON OPERATIONS AT 31 MARCH 2018

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

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842
Official List of Cooperative Banks no. A160536
Parent Company of the Banca Popolare di Sondrio Group,
Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331 – Reserves: € 1,034,954,284 (Figures approved by the shareholders' meeting of 28 April 2018)

Rating:

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

- Rating given by Dagong Europe Credit Rating to Banca Popolare di Sondrio scpa on 7 February 2018:
  – Long-term: BBB
  – Short-term: A-3
  – Individual Financial Strength Assessment: bbb
  – Outlook: Stable

BOARD OF DIRECTORS

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

BOARD OF STATUTORY AUDITORS

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

ADVISORY COMMITTEE

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

GENERAL MANAGEMENT

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

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 2018 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, 5th update of 22 December 2017.

The accounting policies adopted for the period are consistent with those of the prior year, except for the adoption as from 1 January 2018 of the International Financial Reporting Standards IFRS 9 (Financial instruments) and IFRS 15 (Revenue from contracts with customers).

For full details of the other accounting policies applied, reference should be made to the consolidated financial statements for the year ended 31 December 2017.

IFRS 9 introduced significant changes in the areas of «classification and measurement», «impairment» and «hedge accounting» of financial instruments.

With regard to the first area, new rules for the classification and measurement of financial instruments are provided through:

- the introduction of the concepts of «Business Model» and «SPPI Test» (Solely Payments of Principal and Interest Test), an assessment aimed at analysing the contractual characteristics of the instruments' cash flows; combining these elements provides guidance on how to classify the assets correctly;

- the identification of three new accounting categories: assets measured at amortised cost, assets measured at fair value and recognised through profit or loss, assets measured at fair value and recognised in equity.

With reference to the impairment model for the quantification of value adjustments on loans valued at amortised cost, the approach to the calculation of write-downs has changed, going from the criterion of «incurred losses» (as required by the previous IAS 39) to «expected losses» (so based on reasonably available prospective information).

Another important change concerns the time horizon for determining the Expected Credit Loss, also linked to identification of the so-called «significant increase in credit risk»: specifically, if the credit quality of an instrument has not undergone a «significant» deterioration with respect to its initial measurement, the new standard requires an estimate of expected losses over a time horizon of only twelve months; or if there is objective evidence of impairment, the calculation has to refer to the entire residual life of the instrument.

This distinction introduces a new model of segmentation of the portfolio of financial instruments into different «stages», based on the credit quality observed from time to time:

– Stage 1: this includes the assets that did not show a significant increase in credit risk from the time of their initial recognition or that present a low credit risk at the reference date;

– Stage 2: this includes the instruments that showed a significant increase in credit risk since their initial recognition, but that do not present objective evidence of impairment at the reference date;

– Stage 3: this includes the assets that show objective evidence of impairment at the reference date.

As regards hedge accounting, the regulatory changes concern the so-called «General Hedge» and are linked to the possibility of adopting the new IFRS 9 or, alternatively, continuing to follow the rules laid down in IAS 39.

The main accounting classifications introduced by the adoption of IFRS 9 are:

1) financial assets measured at fair value through profit or loss comprise financial assets held for trading, financial assets designated at fair value under the fair value option and financial assets mandatorily measured at fair value; the latter include assets that do not meet the requirements for classification at amortised cost or at fair value through other comprehensive income given that they do not pass the contractual cash flow characteristics test (SPPI test), as well as variable-yield securities and mutual funds (that are not held for trading) and debt instruments held within a fair value business model. Such assets are recognised at fair value and are subsequently measured at the reporting date at fair value;

2) financial assets measured at fair value through other comprehensive income include fixed-yield securities and loans held within a collect & sell business model that pass the SPPI test and variable-yield securities on recognition of which the fair value through other comprehensive income option has been irrevocably exercised. Such assets are initially recognised at fair value. At each reporting date, fixed-yield securities are subject to impairment testing based on an impairment calculation framework similar to that designed for financial instruments measured at amortised cost, while this is not necessary for variable-yield securities, the change in fair value of which is recognised in the «Valuation reserve»;

3) financial assets measured at amortised cost include financial assets held within a held to collect model that have passed the SPPI test. They consist of amounts due from banks and from customers. These assets are recognised at fair value on their settlement date and are subsequently measured at amortised cost using the effective interest method. For measurement purposes, financial assets carried at amortised cost are classified in one or more stages and are measured based on expected losses. Financial assets measured at amortised cost are subject to impairment testing at the reporting date. To this end, upon initial recognition, the assets are classified in one of 3 different stages that reflect the extent of deterioration in credit quality and, at each reporting date, the entity assesses whether there has been a significant change in credit risk subsequent to initial recognition (such a case would result in a transfer between stages). The measurement of financial assets carried at amortised cost is based on a computation of expected losses;

4) financial liabilities measured at amortised cost include amounts due to banks and due to customers other than those recognised in «Financial liabilities held for trading» and «Financial liabilities designated at fair value». These liabilities are recognised at fair value and are subsequently measured at amortised cost using the effective interest method;

5) financial liabilities held for trading continue to be included in derivative instruments, except for hedging instruments with a negative fair value.

Endorsement loans consist of all secured and unsecured guarantees given for third-party obligations and are measured based on the riskiness of this particular category of exposure, taking into account the creditworthiness of the borrower. Impairment losses, and subsequent reversals, are booked to the income statement under «net provisions for risks and charges» with a contra-entry to «Provisions for risks and charges - a) Commitments and guarantees given».

IFRS 15, published on 28 May 2014, introduces a new model for the recognition of revenues deriving from contracts with customers, and replaces the current standards on the subject, being IAS 18, IAS 11 and the related interpretations. Entities are required to recognise revenues based on the remuneration expected from the products or services provided, which is calculated in five steps: identification of the contract, identification of the individual obligations arising under the contract, determination of the price of the transaction, allocation of the price to each of the individual obligations and recognition of the revenue when control over the product or service is transferred to the customer.

The impact of the FTA of the new standard is not significant in terms of the impact on the carrying amount of equity, as is also the case thereafter, and relates mainly to the recognition of liabilities reflecting the impact of certain contractual clauses on revenue.

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

The balance sheet comparatives consist of amounts presented by the balance sheet included in the financial statements for the year ended 31 December 2017 restated to comply with the new format required by the 5th update to Law 262/2005 of 22 December 2017.

The income statement comparatives consist of amounts presented by the income statement for the period ended 31 March 2017 restated to comply with the new format required by the 5th update to Law 262/2005.

As far as the balance sheet and income statement are concerned, no restatement has been made of comparative amounts to apply the requirements of IFRS 9 as permitted by paragraph 7.2.15 thereof. Accordingly, the 2017 comparative amounts coincide with those approved and have been presented using the new financial statement format required by the 5th update to Law 262/2005.

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

THE BANCA POPOLARE DI SONDRIO BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

Parent Company:

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

Group companies:

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

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

Factorit spa - Milan.

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

Sinergia Seconda Srl – Milan.

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

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 2018 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:

Name	Head office	Share capital (in thousands)		% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000		100
Factorit spa	Milan	85,000		60.5
Sinergia Seconda srl	Milan	60,000		100
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 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 investees over which the Parent Company exercises a significant influence, that is, where the holding therein, directly or indirectly, is between 20% and 50% or, even in cases where the equity interest is lower, 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) 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 period pertaining to the bank 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
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	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

* 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 2017 financial statements, no circumstances have arisen that denote the presence of indicators of impairment.

TRANSLATION OF FINANCIAL STATEMENTS IN CURRENCIES OTHER THAN THE EURO

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

SUBSEQUENT EVENTS

No events have taken place between the reporting date for this consolidated interim report and the date of its approval by the Board of Directors on 11 May 2018 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)	2018	2017*	% Change
Balance sheet			
Loans and receivables with customers	25,876	25,696	0.70
Loans and receivables with banks	970	1,920	-49.48
Financial assets	12,042	11,889	1.28
Equity investments	222	218	2.21
Total assets	41,592	41,586	0.01
Direct funding from customers	31,240	31,634	-1.25
Indirect funding from customers	30,461	30,119	1.14
Direct funding from insurance premiums	1,364	1,336	2.10
Customer assets under administration	63,065	63,089	-0.04
Other direct and indirect funding	10,191	10,164	0.27
Equity	2,695	2,634	2.30
Income statement			
Net interest income	120	118	2.22
Total income	211	226	-6.50
Profit from continuing operations	56	46	21.35
Profit of the period	43	30	45.11
Key ratios (%)			
Cost/income ratio	61.64	55.28	
Net interest income/Total assets	0.29	0.28	
Net financial income/Total assets	0.44	0.40	
Net interest income/Total income	56.89	52.03	
Administrative expenses/Total income	67.23	60.19	
Profit for the period/Total assets	0.10	0.07	
Non-performing loans/Loans and receivables with customers	2.96	2.90	
Loans and receivables with customers/Direct funding from customers	82.83	81.23	
Capital ratios (%)			
CET1 Capital ratio	11.57%	11.60%	
Total Capital ratio	13.47%	13.66%	
Free capital	1,238	1,287	
Other information			
Number of employees	3,203	3,196	
Number of branches	363	363	

* The balances and capital ratios at 31 December 2017 reflect the application of IFRS 9, while the income statement amounts for the period ended 31 March 2017 have not been adjusted.

INTERNATIONAL BACKGROUND

In the period just ended, the world economy continued along the path of well-established sustained growth. Certain risks were encountered along the way, particularly those associated with the protectionist measures being introduced by the US administration.

The economies of the major advanced countries continued to follow a very positive trend: that of the United States experienced robust growth, that of Japan followed a dynamic trend and the UK economy experienced a slight downturn. As far as the emerging economies are concerned, China and India have experienced expeditious growth; there were also improvements in Brazil and Russia.

Overall, the scenario has been more than positive, with higher than expected growth in international trade, while consumer price inflation remained low.

The euro area confirmed itself to be an active player in the growth process, albeit with a slight deceleration compared to the growth recorded towards the end of 2017. Inflation was again lower than what the monetary authority had hoped for.

Given this situation, the European Central Bank confirmed that a high level of monetary accommodation remained necessary. For its part, the Euro strengthened against the US Dollar, while there was an opposite trend against the Japanese Yen.

The economic cycle remained positive in Italy in the first quarter, although with a lower growth rate than that recorded at December 2017. This would appear to have been attributable, in particular, to a virtual stagnation in industrial output. It must be said, however, that business confidence was confirmed.

As regards the banking sector, the increased demand for credit and the consolidation of the economy have favoured the rate of expansion of loans to businesses as well as credit quality, which has continued to improve. Credit conditions have remained good, thus benefiting households, in particular.

Economic recovery in Switzerland has gradually continued to strengthen and the outlook appears good. Industrial activity has increased and has benefited from a growing trend in exports. The various components of domestic demand have been satisfactory. Inflation is expected to rise slightly, while the outlook for the labour market is very positive.

FUNDING

The European Central Bank's continued expansionary monetary policy has confirmed the structural elements on which the underlying long-standing scenario is based, that is, interest rates at historic lows and abundant liquidity. Italy's sovereign risk premium has not been impacted by the difficult political situation. At system level, bank funding has continued to grow, but with a clear gap between the trend in short-term funding, which has grown, and that of medium/long-term funding, which has contracted.

Direct funding from customers at 31 March 2018, which consists of amounts due to customers (line item 10 b) and debt securities in issue (line item 10 c), amounted to 31,239 million, down by 1.25% on the 2017 year end balance and up by 5.03% on the March 2017 balance. The containment of funding costs, which was driven by the aforementioned situation concerning interest rates, has made it possible to leverage the considerable amount of liquidity injected into the system by the ECB.

Indirect funding from customers totalled 30,461 million at market values, +1.14% since the end of 2017.

Insurance premium income came to 1,364 million, +2.10%.

Total funding from customers therefore amounted to 63,065 million (-0.04%).

Amounts due to banks totalled 6,301 million, +1.55%. They include the refinancing operations with the European Central Bank for a total of 4,600 million, as explained in the chapter on «Treasury and trading operations».

Indirect funding from banks amounted to 3,890 million, -1.75%.

Total funding from customers and banks therefore came to 73,256 million, substantially unchanged.

DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	31-03-2018	%	31-12-2017	%	% Change
Savings deposits	527,846	1.69	531,271	1.68	-0.64
Certificates of deposit	1,878	0.01	2,101	0.01	-10.61
Bonds	2,719,703	8.71	2,723,980	8.61	-0.16
Repo transactions	194,019	0.62	356,725	1.13	-45.61
Bank drafts and similar	69,513	0.22	107,277	0.34	-35.20
Current accounts	24,488,931	78.39	24,451,274	77.29	0.15
Time deposit accounts	935,359	2.99	1,122,442	3.55	-16.67
Foreign currency accounts	2,302,728	7.37	2,339,214	7.39	-1.56
Total	**31,239,977**	**100.00**	**31,634,284**	**100.00**	**-1.25**

TOTAL FUNDING

(in thousands of euro)	31-03-2018	%	31-12-2017	%	% Change
Total direct funding from customers	31,239,977	42.65	31,634,284	43.18	-1.25
Total indirect funding from customers	30,461,407	41.58	30,119,036	41.12	1.14
Total direct funding from insurance premiums	1,363,654	1.86	1,335,569	1.82	2.10
Total	**63,065,038**	**86.09**	**63,088,889**	**86.12**	**-0.04**
Due to banks	6,300,852	8.60	6,204,835	8.47	1.55
Indirect funding from banks	3,890,496	5.31	3,959,663	5.41	-1.75
Grand total	**73,256,386**	**100.00**	**73,253,387**	**100.00**	**–**

Considering the individual components, current accounts in euro and foreign currency amounted to 26,792 million, substantially unchanged, and make up 85.76% of all direct funding. Bonds have remained fairly stable at 2,720 million, -0.16%, as has also been the case for savings deposits: 528 million, -0.64%. Time deposit accounts amounted to 935 million, -16.67%. Repo transactions fell sharply to 194 million, -45.61%. Certificates of deposit amounted to 2 million, and remain entirely marginal. Bank drafts amount to 70 million, -35.20%.

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

LOANS AND RECEIVABLES WITH CUSTOMERS

The trend in bank loans has remained positive and has been influenced by the moderate upturn in the economic cycle. The increased demand by businesses has been accompanied by a rise in mortgage loan applications by households, while the credit quality improvement process has continued.

As far as our Group is concerned, we have continued to support the economy in the territories served, based on a criterion involving a rigorous selection of borrowers.

Loans and receivables with customers, as shown in the table below, constitute a restatement of the balances reported in the balance sheet and consist solely of loans, with the exclusion of securities, except for those securities, which, due to the nature thereof, do not constitute a financial investment. They equate to the sum of 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 and receivables with customers amounted in total to 25,876 million, up by 0.70% on the 2017 balance as restated on the FTA of IFRS 9. The comparative figure differs from the amount of loans and receivables with customers at 31 December 2017 by 60 million, consisting of negative adjustments recognised on the FTA of IFRS 9.

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

The main component is mortgage loans, which posted an increase of 0.56% to 9,562 million, representing 36.95% of total loans. This line item includes loans assigned but not derecognised in relation to the issue of covered bonds. These loans were not derecognised because the requirements of IAS 39 were not met. Other transactions and unsecured loans have risen by 3.24% to 5,539 million, corresponding to 21.42% of total customer loans. Current accounts have increased to 4,521 million, +3.72%. Repo transactions, representing the temporary employment of liquidity with

LOANS AND RECEIVABLES WITH CUSTOMERS

(in thousands of euro)	31-03-2018	%	31-12-2017 IFRS 9	%	% Change
Current accounts	4,520,846	17.47	4,358,569	16.96	3.72%
Foreign currency loans	860,958	3.33	894,508	3.48	-3.75%
Advances	471,611	1.82	449,264	1.75	4.97%
Advances subject to collection	210,987	0.82	210,606	0.82	0.18%
Discounted portfolio	5,935	0.02	17,376	0.07	-65.84%
Artisan loans	57,906	0.22	47,743	0.19	21.29%
Agricultural loans	24,517	0.09	23,746	0.09	3.25%
Personal loans	246,477	0.95	239,096	0.93	3.09%
Other unsecured loans	5,538,804	21.42	5,365,052	20.89	3.24%
Mortgage loans	9,561,544	36.95	9,508,459	37.00	0.56%
Non-performing loans	766,075	2.96	745,676	2.90	2.74%
Repo transactions	1,027,728	3.97	1,221,596	4.75	-15.87%
Factoring	2,262,366	8.74	2,276,836	8.86	-0.64%
Fixed-yield securities	320,334	1.24	337,534	1.31	-5.10%
Total	**25,876,088**	**100.00**	**25,696,061**	**100.00**	**0.70%**

institutional counterparties, have decreased from 1,222 to 1,028 million, -15.87%, as have foreign currency loans, 861 million, -3.75%, and factoring transactions, 2,262 million, -0.64%. Advances show a positive trend, +4.97% to 472 million, as do personal loans, +3.09% to 246 million. Advances subject to collection have remained stable at 211 million. Debt securities amounted to 320 million, -5.10%, and relate to customer loan securitisations carried out by Banca della Nuova Terra spa, a subsidiary, and by Alba Leasing spa, an affiliate. The ratio of loans and receivables with customers to amounts due to customers has risen to 82.83% from 81.23%.

As already mentioned, the asset quality and the trend in non-performing loans have benefited from the generally positive economic cycle. Despite this, further substantial provisions have been made against impaired loans, albeit less than in the comparative period, and the overall level of coverage has been increased.

Total net impaired loans – consisting of non-performing loans, unlikely-to-pay loans and past due and/or impaired overdrawn exposures – amounted to 2,022 million, -0.74%, representing 7.81% of loans and receivables with customers, compared with 7.93% at the end of 2017, as restated to reflect negative adjustments recognised on the FTA of IFRS 9. Writedowns of impaired loans come to a total of 2,228 million, representing 52.42% of the gross amount, compared with 51.79%. The table provides an overview of impaired and performing loans, with comparative amounts at 31 December

LOANS AND RECEIVABLES WITH CUSTOMERS - IMPAIRED AND PERFORMING LOANS

(in thousands of euro)		31-03-2018	31-12-2017 IFRS 9	(+/-)	% Change
Impaired loans	Gross exposure	4,249,329	4,224,890	24,439	0.58%
	Adjustments	2,227,704	2,188,132	39,572	1.81%
	Net exposure	**2,021,625**	**2,036,758**	**-15,133**	**-0.74%**
- Non-performing loans	Gross exposure	2,366,205	2,301,388	64,817	2.82%
	Adjustments	1,600,130	1,554,981	45,149	2.90%
	Net exposure	**766,075**	**746,407**	**19,667**	**2.64%**
- Unlikely to pay loans	Gross exposure	1,752,481	1,768,596	-16,115	-0.91%
	Adjustments	613,422	613,228	194	0.03%
	Net exposure	**1,139,059**	**1,155,368**	**-16,309**	**-1.41%**
- Past due and/or impaired overdrawn exposures	Gross exposure	130,643	154,906	-24,263	-15.66%
	Adjustments	14,152	19,923	-5,771	-28.97%
	Net exposure	**116,491**	**134,983**	**-18,492**	**-13.70%**
Performing loans	Gross exposure	23,980,030	23,787,359	192,671	0.81%
	Adjustments	125,567	128,056	-2,489	-1.94%
	Net exposure	**23,854,463**	**23,659,303**	**195,160**	**0.82%**
Total loans and receivables with customers	Gross exposure	28,229,359	28,012,249	217,110	0.78%
	Adjustments	2,353,271	2,316,188	37,083	1.60%
	Net exposure	**25,876,088**	**25,696,061**	**180,027**	**0.70%**

2017, as restated to reflect adjustments recognised on the FTA of the aforementioned standard.

Net non-performing loans, after writedowns, total 766 million, +2.64%, or 2.96% of total customer loans, as at 31 December 2017.

To cover estimated losses on non-performing loans, adjustments rose to 1,600 million, +2.90% compared with the comparative figure, providing coverage of 67.62%, compared with 67.57%. The level of coverage reflects our prudent provisioning policy and positions the Group among those with the highest level of coverage in Italy.

Considering the amounts written off in prior years against non-performing loans that are still on the books in the hope of future recoveries, the coverage of such loans amounts to 76.11%.

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 1,139 million, -1.41%, or 4.40% of total loans and receivables with customers, compared with 4.50%, while the related adjustments amount to 613 million, +0.03%, with a level of coverage of 35% compared with 34.67%.

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 116 million, -13.70%, and represent 0.45% of the total compared with 0.53% at the end of 2017.

Performing loans amounted to 23,854 million, +0.82%, with writedowns of 126 million, corresponding to 0.52% of them, compared with 0.54%.

Total adjustments come to 2,353 million (+1.60%).

TREASURY AND PORTFOLIO OF FINANCIAL ASSETS

In the first quarter of 2018, growth in international markets came to an end, as far as equity markets are concerned, and they were marked by weakness in bond markets, which were affected, among other things, by uncertainty as to growth and developments concerning monetary policies in certain advanced economies.

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

At 31 March 2018, interbank borrowing, net of the Group's securities portfolio, amounted to 5,331 million, up by 1,047 million from 4,284 million at the end of 2017.

At 31 March 2018, there were two TLTRO II transactions outstanding with ECB, totalling 4,600 million, the first one was stipulated for 1,100 million on 23 June 2016 and maturing on 24 June 2020, with an early redemption option from 27 June 2018. The second one was stipulated in March 2017, for 3,500 million in order to take part in the last operation aimed at refinancing the TLTRO 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.

Net of the aforementioned operations, arranged by the Parent Company with the ECB totalling 4,600 million, net interbank borrowing would have been 731 million. The Group remained still highly liquid throughout the first three months of the year. Treasury activity remained intensive throughout the period, albeit with a decrease in volumes, with a preference for lending transactions over funding transactions.

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

The latest available short and medium to long term liquidity indicators, respectively the Liquidity Coverage Ratio (LCR) and the Net Stable Funding

Ratio (NSFR) came in well over the minimum requirements. In addition, the Group can always rely on a substantial portfolio of assets eligible for refinancing which, net of haircuts, amounts to 12,674 million, up by 0.88% on the end of 2017, of which 7,358 million available and 5,316 million committed.

Following the entry into force of IFRS 9 on financial instruments, the Group has applied the new requirements as from 1 January 2018. The decisions taken have not led to any significant reclassifications of the components of the financial instruments portfolio based on their accounting categories. In detail, the bulk of the portfolio measured at amortised cost continues to be accounted for in this way, whereas, a marginal portion of financial instruments (held to maturity and loans and receivables) has been subjected to a change in accounting treatment, from measurement at amortised cost to measurement at fair value through profit and loss.

More specifically, the mutual fund units, closed-end funds and open-end funds, if not «held for trading», have been reclassified as financial assets that have to be measured at fair value through profit or loss, also as a result of in-depth analyses and accounting interpretations made at national and international level.

Within the securities portfolio, the debt instruments previously classified as «held to maturity» have been traced back to the portfolio of financial assets valued at amortised cost, with the exception of those securities which, not passing the SPPI test, have been traced back to the portfolio of financial assets that have to be measured at fair value through profit or loss.

Debt securities previously classified as «available for sale» have been included in the «held to collect and sell» business model, and therefore put in the portfolio of financial assets valued at fair value through profit or loss with an impact on comprehensive income, except for certain bonds that are included in the portfolio valued at amortised cost.

The portfolio of financial assets valued at fair value through profit or loss with an impact on comprehensive income also includes the majority of debt securities previously classified in the «held-for-trading» portfolio, always subject to passing the SPPI test. For most of the variable-yield securities already classified in the AFS portfolio, the «Fair Value OCI Option» was chosen.

Held-for-trading financial assets include debt securities denominated in foreign currencies, as well as variable-yield securities and mutual funds units held for trading. The portfolio of financial assets measured at fair value according to IAS 39 was entirely reclassified, given that the new standard limits the cases and possibilities for exercising the «Fair Value Option», it was decided not to exercise it for now.

The portfolio of financial assets that have to be measured at fair value through profit or loss includes some securitisations, in addition to the financial assets already mentioned previously and the debt instruments that have not passed the SPPI test.

Total financial assets consisting of securities held in portfolio amounted to 12,042 million at 31 March 2018, a slight increase of 1.26% compared with the balance of 11,893 million at the end of 2017 and +1.28% on the same amount as restated to reflect adjustments and reclassifications recognised on the first-time adoption of IFRS 9.

As previously stated, the increase in the total portfolio was low in comparison to the significant increases reported in 2017 that were partly due to the use of the substantial liquidity available.

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

The composition of the portfolio remains dominated by government securities, with a duration of about four years, down on the end of 2017.

FINANCIAL ASSETS

(in thousands of euro)	31-03-2018	31-12-2017 IFRS 9	% Change
Financial assets held for trading	325,689	372,590	-12.59
of which: derivatives	74,423	97,983	-24.04
Financial assets mandatorily measured at fair value through profit and loss	363,511	390,209	-6.84
Financial assets valued at fair value through profit or loss with an impact on comprehensive income	6,424,754	6,886,971	-6.71
Financial assets valued at amortised cost	4,928,142	4,239,671	16.24
Total	**12,042,096**	**11,889,441**	**1.28**

There are no longer any assets designated at fair value following decisions made regarding the recomposition of the securities portfolio on the aforementioned FTA.

In accordance with the requirements of Consob Communication no. DEM/RM11070007 of 5 August 2011, we inform you that the exposure to sovereign debt, that is, securities issued by local and central governments and government entities and loans thereto, amount in total to 11,872 million, largely relating to issues made by the Italian Government.

Financial assets held for trading

Financial assets held for trading, which had already decreased significantly in 2017 compared with 2016 (-32.20%) due to the reformulation of the portfolios, have again decreased. Following the reclassifications made on the FTA of IFRS 9, the portfolio fell from 691 million at 31 December 2017 to 373 million, without almost any Italian government bonds and bank bonds. It fell again in the quarter just ended due to disposals to 326 million.

The following table shows the composition thereof.

(in thousands of euro)	31-03-2018	31-12-2017 IFRS 9	% Change
Fixed-rate Italian government securities	1	–	
Foreign government securities designated in foreign currencies	80,964	83,232	-2.72
Variable-yield securities	132,497	151,870	-12.76
Mutual funds	37,804	39,505	-4.31
Net book value of derivative contracts	74,423	97,983	-24.04
Total	**325,689**	**372,590**	**-12.59**

Other financial assets mandatorily measured at fair value

Other financial assets mandatorily measured at fair value include the financial assets shown below, as decided by management or because they consist of assets that did not pass the SPPI test.

They amounted to 364 million, compared with 390 million, having decreased by 6.84%.

The following table shows the composition thereof, a feature of which is the prevalence of mutual funds.

(in thousands of euro)	31-03-2018	31-12-2017 IFRS 9	% Change
Bank bonds	16,183	49,790	-67.50
Other bonds	24,245	54,100	-55.18
Variable-yield securities	400	820	-51.22
Mutual funds in euro	300,077	262,215	14.44
Mutual funds in foreign currency (USD)	22,606	23,284	-2.91
Total	**363,511**	**390,209**	**-6.84**

Financial assets valued at fair value through profit or loss with an impact on comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (line item 30) amounted to 6,425 million compared with 6,887 million at the end of 2017 post IFRS 9 adoption, -6.71%. Included in this portfolio are fixed-yield securities, consisting mostly of government bonds, which were previously classified in the portfolio of available for sale financial assets.

This portfolio, which under IFRS 9, corresponds to the held to collect and sell portfolio, includes fixed-yield securities that give rise to cash flows that are solely payments of principal and interest and that are held for treasury management purposes, or for sale.

Financial assets measured at fair value through other comprehensive income include Italian government bonds amounting to 5,278 million, -3.3% in the period; foreign government bonds amounting to 536 million, -31.66%; bank bonds amounting to 426 million, -8.59%; bonds of other issuers amounting to 81 million, +3.09%; equities amounting to 104 million, +3.69 %.

in thousands of euro)	31-03-2018	31-12-2017 IFRS 9	% Change
Floating-rate Italian government securities	708,804	788,044	-10.06
Fixed-rate Italian government securities	4,568,934	4,669,642	-2.16
Foreign government securities	536,176	784,532	-31.66
Bank bonds	425,893	465,939	-8.59
Other bonds	80,885	78,458	3.09
Variable-yield securities	104,062	100,356	3.69
Total	**6,424,754**	**6,886,971**	**-6.71**

Financial assets valued at amortised cost

Securities measured at amortised cost form part of the line item «Financial assets measured at amortised cost» that comprises loans and receivables due from banks and customers consisting of securities and loans classified as held to collect (HTC) under IFRS 9. The balance consists almost entirely of amounts due from customers (4,922 million) and just a minor part consists of amounts due from banks (6 million).

They mostly consist of predominantly fixed-rate Italian government bonds and foreign government bonds and amount in total to 4,928 million compared with 4,240 at the end of 2017 post IFRS 9 adoption, having increased by 16.24%.

The following table shows the composition thereof.

(in thousands of euro)	31-03-2018	31-12-2017 IFRS 9	% Change
LOANS AND RECEIVABLES WITH BANKS	**6,015**	**6,829**	**-11.92**
Bank bonds	6,015	6,829	-11.92
LOANS AND RECEIVABLES WITH CUSTOMERS	**4,922,127**	**4,232,842**	**16.28**
Floating-rate Italian government securities	646,332	400,624	61.33
Fixed-rate Italian government securities	3,027,213	2,804,936	7.92
Foreign government securities	1,201,352	980,398	22.54
Other bonds	47,230	46,884	0.74
Total	**4,928,142**	**4,239,671**	**16.24**

ASSET MANAGEMENT

In the period just ended, the positive trend in the asset management industry continued, favoured by the persistence of low interest rates, a situation that encouraged customers to look for alternative forms of investment compared with traditional deposits, also as part of a logic of growing diversification.

At the end of March, the various forms of assets under management by the Group amounted to 5,513 million, +1.38% on December 2017, having benefited from the general growth of the segment.

EQUITY INVESTMENTS

Equity investments were up by 5 million to 222 million. The change was attributable to the measurement thereof under the equity method.

PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS

Property, equipment and investment property and intangible assets total 351 million, substantially stable. The former totalled 326 million, -0.50%, the second category amounted to 25 million, +5.03% 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 2017. It was not deemed necessary to repeat the procedure at 31 March 2018.

PROVISIONS

These comprise employee severance indemnities of 45 million, -0.29%, and the provisions for risks and charges totalling 239 million, +1.95% compared with the figure at the end of 2017, which has been restated on a comparable basis.

HUMAN RESOURCES

At 31 March 2018, the Banking group had 3,203 employees, having increased by 7 on the figure of 3,196 at the end of 2017, to which should be added 3 employees of the subsidiary Pirovano Stelvio spa.

CAPITAL AND RESERVES

Consolidated shareholders' equity at 31 March 2018, inclusive of valuation reserves and the profit for the period, amounts to 2,694.653 million.

Following the entry into force of IFRS 9 on 1 January 2018, equity at 31 December 2017, which amounted to 2,678.920 million, was adjusted on the FTA of IFRS 9 via the recognition of a negative FTA reserve of 45.118 million. Accordingly, on a comparable basis, equity increased in the period January-March 2018 by 60.851 million.

This aggregate does not reflect the effects of distributing the 2017 profit reported by the Parent Company. The Ordinary Shareholders' Meeting of 28 April 2018 approved the distribution of a dividend of 0.07 euro for each of the 453,385,777 shares outstanding at 31 December 2017. The dividend will be paid on 24 May 2018, going ex-coupon on 22 May.

The Parent Company's share capital, which consists of 453,385,777 ordinary shares, amounts to 1,360.157 million, which amount has remained 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 25.387 million.

Reserves increased to 1,180.686 million; the increase is mostly attributable to the sum of 2017 profit for the year and the negative reserve of 52.876 million, net of the provisional tax effect recognised on the FTA of IFRS 9.

Valuation reserves, consisting of net gains and losses recognised on financial assets measured at fair value through other comprehensive income and net actuarial gains and losses on defined benefit plans arranged for employees, amounted to a net positive balance of 57.383 million, having more than doubled compared to the net positive balance of 28.478 million at the end of 2017 that reflects the positive impact of the FTA of IFRS 9 of 7.758 million.

As regards capital adequacy, as of 1 January 2014 new harmonised rules for banks and investment firms came into force as implemented by Regulation (EU) no. 575/2013 (CRR) and by EU Directive 2013/36 (CRD IV). Based on this, Bank of Italy Circular 285/13 introduced new limits for capital ratios that, 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 ratios are expected to be lower in 2018, which is still part of 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 on 28 November 2017 of the decision made by the Supervisory Board regarding the new minimum coefficients applicable from 1 January for 2018.

The new minimum capital ratios to be met by the Banking group are indicated below:

– a minimum requirement of Common Equity Tier 1 ratio of 8.375%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (1.875%), and an additional Second Pillar requirement (2%);
– Total Capital ratio of 11.875%, being the sum of the Pillar 1 regulatory minimum (8%), the Capital Conservation Buffer (1.875%) and an additional Pillar 2 requirement (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, is added to the two ratios. This parameter is confidential, by contrast with the two minimum requirements, and - based on guidelines issued by the ECB - is not deemed relevant for the determination of distributable dividends.

Consolidated own funds for supervisory purposes, which, in the absence of limited audit procedures performed on the financial position at 31 March 2018 and on the results for the period then ended, do not include the attributable portion of profit for the period, amounted to 3,047 million. Risk-weighted assets totalled 22,624 million.

Taking account of the attributable portion of profit for the period, in line with the Group's established dividend policy, the CET 1 ratio, the Tier 1 Ratio and the Total Capital Ratio (on a phased in basis) come to 11.72%, 11.76% and 13.63%, respectively. Excluding the attributable portion of profit for the period, these ratios would come to 11.57%, 11.60% and 13.47%, respectively.

Set out below are the Group's capital ratios at 31 March 2018 for prudential purposes compared with the ECB's minimum requirements for the current period:

	Group's capital ratios	Minimum capital ratio requirement
CET 1 Ratio	11.57%	8.375%
Tier 1 Capital Ratio	11.60%	8.375%
Total Capital Ratio	13.47%	11.875%

The implementation of these new requirements and the reclassification of financial instruments have given rise to the recognition of a consolidated negative equity reserve initially estimated to be 45.118 million, net of the tax effect and with an estimated impact on the CET 1 ratio of approximately 29 basis points.

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 class 1 primary capital an additional amount aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of the new standard. This additional amount will be applied to CET1 capital at a decreasing percentage each year, from 95% in 2018 to 25% in 2022, until it is completely eliminated in 2023. The expected impact on capital ratios calculated under the transitional (or «phase in») rules is therefore more limited.

The leverage ratio at 31 March 2018, taking account of the aforementioned inclusion of the attributable portion of profit in Tier 1 and applying the phased in transitional criteria in force for 2018, comes to 5.83%; whereas, on a fully phased basis, it comes to 5.76%. Excluding the attributable portion of profit for the period, the ratio would come to 5.75% and 5.69%, respectively. The Texas Ratio is 75.72%.

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2017:

– *capital/direct funding from customers*
  8.63% v. 8.47%
– *capital/customer loans*
  10.41% v. 10.40%
– *capital/financial assets*
  22.38% v. 22.52%
– *capital/total assets*
  6.48% v. 6.44%
– *net non-performing loans/capital*
  28.43% v. 29.10%

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 three months of 2018 with a performance of +5.72%, marking a reference price at 29 March 2018 of 3.218 euros, compared with 3.044 euros at the end of 2017. The general FTSE Italia All-Share index recorded an increase in the period of 1.94%, whereas the FTSE Italia All-Share Banks sector index rose by 7.11%.

The average daily volume of securities traded on the MTA market of Borsa Italiana in the first three months of the year was 761 thousand, practically unchanged when compared with 760 thousand in the same period of 2017.

BANCA POPOLARE DI SONDRIO stock - MTA segment of Borsa Italiana

The Parent Company holds 3,650,000 treasury shares, which is unchanged since the end of 2017 and with respect to one year ago. There are also 19,953 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 30,000,000 euro available.

The shareholder base at 31 March 2018 consists of 174,435 members, a decrease of 1,112 members compared with the end of 2017.

Applications for admission as a member received during the year were examined by the Board of Directors in accordance with the law and the articles of association (as per art. 2528, last para., of the Italian Civil Code). 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 7 February 2018 and to the periodic review by Fitch Ratings on 20 June 2017. Fitch's assessment differs from its previous one due to a downward revision of the long term outlook (previously BBB), which reflected the downgrade assigned to Italy and the improvement of the outlook from negative to stable.

FITCH RATINGS – issued on 20 June 2017

	RATING
LONG-TERM	
It is a measure of the probability of default and reflects the bank's ability to repay medium/long-term loans. It is expressed on a scale from AAA to D, 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 «No Floor» (NF), indicates that according to Fitch it is unlikely that aid could come from an external source (probability of support lower than 40%).	**No Floor**
OUTLOOK It is a prospective evaluation regarding possible changes in the long-term rating over a period of 1-2 years. It can be «positive», «stable» or «negative».	**Stable**

DAGONG EUROPE CREDIT RATING – issued on 7 February 2018

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

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

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

	Equity	of which: Profit of the period
Equity of the Parent Company as of 31/12/2017	2,429,824	31,110
Consolidation adjustments	-2,609	-2,609
Difference with respect to carrying values of equity investments in:		
- companies consolidated on a line-by-line basis	225,323	9,292
- companies valued using the equity method	42,115	5,016
Balance as of 31/3/2018, as reported in the consolidated financial statements	**2,694,653**	**42,809**

INCOME STATEMENT

The improvement in the general economic situation seen in 2017 has continued in the opening months of 2018, although there have been some signs of moderation of growth. Credit conditions have continued to be accommodative, favouring the granting of loans to businesses and households, in line with a monetary policy that continues to be, using the term used by Draghi, the ECB President, «cautious». Asset quality has continued to improve.

In this overall positive context, our Group managed to improve the result for the period, which came to 42.809 million, having increased by 45.11% on 29.502 million reported for the first three months of 2017.

With respect to the comments provided on the various income statement components and the changes therein that have been impacted by the entry into force of IFRS 9 and IFRS 15, it should be borne in mind that the amounts for the period ended 31 March 2017 have not been rendered comparable. However, if the amounts involved are significant, reclassifications have been made.

Looking at the various components, it is worth noting that net interest income has slightly improved, despite the continuation of a situation that shows little sign of improvement in the normalisation of monetary policy. The fall in interest payable to customers was not sufficient to offset interest receivable therefrom and, consequently, the interest spread has also fallen slightly, but this was met with an increased return on financial assets. Continuation of the ECB's policy of buying securities, which is expected to continue for much of 2018, and targeted longer-term refinancing operations have kept interest rates at all-time lows. Government bond yields have remained extremely poor, when not negative. On the other hand, 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 120.228 million, compared with 117.616 million, +2.22%.

The new rules for the recognition of interest accrued on impaired financial assets included in stage 3 have had a limited impact on net interest income.

Net fee and commission income has shown a positive trend, coming in at 76.290 million, +3.80%, due, in particular, to the positive trend in fees and commissions on the sale of asset management and insurance products, as well as those related to current accounts, loans and collections and payments. There has been a fall, however, on commission on guarantees given.

Dividends totalling 0.551 million were collected, compared with 0.443 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 14.266 million, compared with 34.485 million, -58.63%. The favourable result from securities trading in 2017 was possible due to the realisation of previously unrealised gains.

Analysing the individual portfolios, the trading one showed a result of 11.343 million. The contribution made by financial assets measured at amortised cost amounted to 1.221 million.

Gains on disposal or repurchase of financial assets measured at fair value through other comprehensive income amounted to 3.586 million, while a loss was recognised on financial liabilities of 0.048 million. Lastly, net hedging losses amounted to 0.013 million, while the net loss on other financial assets and liabilities at fair value through profit and loss amounted to 1.823 million.

Income from banking activities therefore fell to 211.335 million, compared with 226.038 million, -6.50%.

Within this aggregate, the weighting of net interest income was 56.89% compared with 52.03%.

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

Net adjustments for credit risk (income statement line item 130) amounted to 29.295 million, compared with 58.594 million, -50%. 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 31.806; adjustments to loans to customers, which is the most significant component, amounted to 32.8 million. This figure, if compared to the prior year balance of loans to customers, despite not being comparable due to differences in recognition methods between IFRS 9 and IAS39, highlights a substantial decrease in adjustments, even though the new impairment model for loans measured at amortised cost and the approach for the computation of adjustments are more conservative under the new accounting regime, providing confirmation of a significant improvement in the credit quality of the portfolio. Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income consisted of reversals of 2.511 million relating to fixed-yield securities, while in the comparative period, impairment adjustments to available for sale financial assets amounted to 7,656 million that mostly related to writedowns of units in Fondo Atlante.

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 0.52% from 0.90% at 31 December 2017.

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, reported a loss for the period just ended of 0.871 million.

This leads to net financial income of 181.169 million, compared with 167.444 million (+8.20%).

Operating costs came to 130.274 million, +4.25%, partly for physiological reasons and partly due to an increase in consulting and IT costs, despite the

SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	31/03/2018	31/03/2017	(+/-)	% Change
Net interest income	120,228	117,616	2,612	2.22
Dividends	551	443	108	24.38
Net fee and commission income	76,290	73,494	2,796	3.80
Results of financial activities	14,266	34,485	-20,219	-58.63
Total income	**211,335**	**226,038**	**-14,703**	**-6.50**
Net adjustments to loans and financial assets	-29,295	-58,594	29,299	-50.00
Gains/losses on contractual amendments not resulting in derecognition	-871	–	–	–
Net financial income	**181,169**	**167,444**	**13,725**	**8.20**
Personnel costs	-59,791	-58,853	-938	1.59
Other administrative expenses	-81,365	-75,072	-6,293	8.38
Other operating income/expense	15,180	15,419	-239	-1.55
Net accruals to provisions for risks and charges	3,110	906	2,204	243.27
Adjustments to property, equipment and investment property and intangible assets	-7,408	-7,358	-50	0.68
Operating costs	**-130,274**	**-124,958**	**-5,316**	**4.25**
Operating profit (loss)	**50,895**	**42,486**	**8,409**	**19.79**
Net gains (losses) on equity investments and other investments	5,027	3,596	1,431	39.79
Profit (loss) before tax	**55,922**	**46,082**	**9,840**	**21.35**
Income taxes	-12,072	-15,023	2,951	-19.64
Profit (loss)	**43,850**	**31,059**	**12,791**	**41.18**
Profit pertaining to minority interests	-1,041	-1,557	516	-33.14
Profit attributable to the Parent Company	**42,809**	**29,502**	**13,307**	**45.11**

Notes: 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, netting them off against the proceeds of the post-employment benefits fund of € 0.930 million

trend in «accruals to provisions for risks and charges» which included a release of surplus provisions of 3.110 million. The ratio of operating costs/income from banking activities, known as the «cost income ratio», is 61.64% compared with 55.28% at 31 March 2017.

Analysing each item, after reclassifying the deferral of income earned by the fund for post-employment benefits, administrative expenses were 5.40% higher at 141.156 million; personnel expenses rose to 59.791 million, +1.59%. In turn, other administrative expenses have gone from 75.072 million to 81.365 million, +8.38%. They include an estimate of the cost for ordinary contributions to the National Resolution Fund cost and to the Interbank Deposit Protection Fund of 17 million. The recurring increases in consulting fees, as well as IT costs relating to constantly changing regulations also had an impact.

As mentioned above, net accruals to provisions for risks and charges included a release of provisions of 3.110 million, compared with a release of 0.906 million. This now includes provisions for credit risk relating to commitments and guarantees given (that previously had been allocated to income statement line item 130).

Depreciation and amortisation amounted to 7.408 million, +0.68%.

Other operating income, net of charges, comes to 15.180 million, a reduction of 1.55%.

The operating profit therefore came to 50.895 million, +19.79%.

Net profits on equity and other investments amounted to 5.027 million, compared with 3.596 million, +39.79%. Profit before income taxes therefore totalled 55.922 million, +21.35%.

After deducting income taxes of 12.072 million, -19.64%, and the non-controlling interest of 1.041 million, the profit for the year comes to 42.809 million, +45.11%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 21.59% compared with 32.60% in the comparative period.

DISTRIBUTION BY GEOGRAPHICAL AREA

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

The contribution made to the Group by this subsidiary is summarised by the following statistics: the «Suisse» holds 8.26% of direct funding from customers and 11.10% of loans and receivables with customers, generating 6.66% of net fee and commission income and 10.99% of net interest income.

SUBSEQUENT EVENTS AND OUTLOOK FOR OPERATIONS

As announced in the press release of 3 May, to which reference should be made, the Parent Company has entered into an agreement with Banca Popolare di Vicenza Spa (in compulsory liquidation proceedings) for the acquisition by Banca Popolare di Sondrio of 100% of the share capital of PrestiNuova Spa.

As regards the outlook for operations, on account of the positive economic situation, it is legitimate to expect an improvement in net interest income, in fee and commission income and in credit quality.

As far as financial markets are concerned, there is no lack of uncertainty at national and international level. Trading operations will be affected by the trend in market performance.

Barring unforeseeable events, particularly in relation to the aforementioned market uncertainty, it is reasonable to assume that the upward trend in the Group's earnings will continue.

Sondrio, 11 May 2018

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 2018 agrees with the underlying documents, registers and accounting entries.

The Financial Reporting Officer
Maurizio Bertoletti

CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT AT 31 MARCH 2018

PRESENTATION OF COMPARATIVE AMOUNTS

In the financial statements set out below, the comparative balance sheet amounts at 31/12/2017 and the income statement comparatives for the period ended 31/03/2017 have simply been restated using the financial statement format required by the fifth update to Bank of Italy Circular 262/2005 without any changes in amounts determined via the application of accounting standards prevailing at the time.

Accordingly, balance sheet amounts at 31 December 2017 and income statement amounts for the period ended 31 March 2017, which do not reflect the impact of the application of IFRS 9, have not been prepared on a comparable basis with the amounts presented in the interim report for the period ended 31 March 2018.

CONSOLIDATED BALANCE SHEET

(in thousands of euro)

	ASSET ITEMS		31-03-2018		31-12-2017
10.	CASH AND CASH EQUIVALENTS		**1,266,717**		**699,379**
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS		**855,874**		**895,245**
	a) Financial assets held for trading	325,689		372,542	
	c) Other financial assets mandatorily measured at fair value	530,185		522,703	
30.	FINANCIAL ASSETS VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS WITH AN IMPACT ON COMPREHENSIVE INCOME		**6,424,754**		**6,886,971**
40.,	FINANCIAL ASSETS VALUED AT AMORTISED COST		**31,607,661**		**31,787,099**
	a) Loans and receivables with banks	976,120		1,927,176	
	b) Loans and receivables with customers	30,631,541		29,859,923	
70.	EQUITY INVESTMENTS		**222,446**		**217,634**
90.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		**325,841**		**327,490**
100.	INTANGIBLE ASSETS		**24,912**		**23,720**
	of which:				
	- goodwill	7,847		7,847	
110.	TAX ASSETS		**446,889**		**435,064**
	a) current	43,188		49,618	
	b) deferred	403,701		385,446	
130.	OTHER ASSETS		**416,570**		**352,052**
	TOTAL ASSETS		**41,591,664**		**41,624,654**

THE CHAIRMAN
Francesco Venosta

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

EQUITY AND LIABILITY ITEMS			31-03-2018		31-12-2017
10.	FINANCIAL LIABILITIES VALUED AT AMORTISED COST		**37,540,829**		**37,839,119**
	a) Due to banks	6,300,852		6,204,835	
	b) Due to customers	28,448,882		28,800,925	
	c) Debt securities in issue	2,791,095		2,833,359	
20.	FINANCIAL LIABILITIES HELD FOR TRADING		**34,807**		**31,259**
40.	HEDGING DERIVATIVES		**20,647**		**22,468**
60.	TAX LIABILITIES		**46,637**		**38,855**
	a) current	899		2,705	
	b) deferred	45,738		36,150	
80.	OTHER LIABILITIES		**876,476**		**643,520**
90.	POST-EMPLOYMENT BENEFITS		**45,361**		**45,491**
100.	PROVISIONS FOR RISKS AND CHARGES		**239,011**		**234,429**
	a) commitments and guarantees given	30,224		30,152	
	b) pension and similar obligations	161,177		160,799	
	c) other provisions for risks and charges	47,610		43,478	
120.	VALUATION RESERVES		**57,383**		**28,478**
150.	RESERVES		**1,180,686**		**1,077,440**
160.	SHARE PREMIUM RESERVE		**79,005**		**79,005**
170.	SHARE CAPITAL		**1,360,157**		**1,360,157**
180.	TREASURY SHARES (-)		**(25,387)**		**(25,370)**
190.	MINORITY INTERESTS (+/-)		**93,243**		**90,593**
200.	PROFIT (LOSS) FOR THE PERIOD (+/-)		**42,809**		**159,210**
	TOTAL LIABILITIES AND EQUITY		**41,591,664**		**41,624,654**

THE MANAGING DIRECTOR AND GENERAL MANAGER
Mario Alberto Pedranzini

THE FINANCIAL REPORTING OFFICER
Maurizio Bertoletti

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

ITEMS			31-03-2018		31-03-2017
10.	INTEREST AND SIMILAR INCOME		149,810		153,297
20.	INTEREST AND SIMILAR EXPENSE		(29,582)		(35,681)
30.	**NET INTEREST INCOME**		**120,228**		**117,616**
40.	FEE AND COMMISSION INCOME		80,928		78,094
50.	FEE AND COMMISSION EXPENSE		(4,638)		(4,600)
60.	**NET FEE AND COMMISSION INCOME**		**76,290**		**73,494**
70.	DIVIDENDS AND SIMILAR INCOME		551		443
80.	NET TRADING INCOME		11,343		22,519
90.	NET HEDGING GAINS (LOSSES)		(13)		(50)
100.	GAINS/LOSSES FROM SALES OR REPURCHASES OF:		4,759		5,916
	a) financial assets valued at amortised cost	1,221		-	
	b) financial assets valued at fair value through profit or loss with an impact on comprehensive income	3,586		5,958	
	c) financial liabilities	(48)		(42)	
110.	NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS		(1,823)		6,100
	a) financial assets and liabilities designated at fair value	-		6,100	
	b) other financial assets mandatorily measured at fair value through profit and loss	(1,823)		-	
120.	**TOTAL INCOME**		**211,335**		**226,038**
130.	NET ADJUSTMENTS FOR CREDIT RISK RELATING TO:		(29,295)		(58,594)
	a) financial assets valued at amortised cost	(31,806)		(50,938)	
	b) financial assets valued at fair value through profit or loss with an impact on comprehensive income	2,511		(7,656)	
140.	GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION		(871)		-
150.	**NET FINANCIAL INCOME**		**181,169**		**167,444**
180.	**NET FINANCIAL AND INSURANCE INCOME**		**181,169**		**167,444**
190.	ADMINISTRATIVE EXPENSES:		(142,086)		(136,044)
	a) personnel expenses	(60,721)		(60,972)	
	b) other administrative expenses	(81,365)		(75,072)	
200.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES		3,110		906
	a) commitments for guarantees given	3,860		406	
	b) other net provisions	(750)		500	
210.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY		(4,226)		(4,358)
220.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS		(3,182)		(3,000)
230.	OTHER OPERATING INCOME/EXPENSE		16,110		17,538
240.	**OPERATING COSTS**		**(130,274)**		**(124,958)**
250.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS		5,016		3,594
280.	NET GAINS ON SALES OF INVESTMENTS		11		2
290.	**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**		**55,922**		**46,082**
300.	INCOME TAXES		(12,072)		(15,023)
310.	**POST-TAX PROFIT FROM CONTINUING OPERATIONS**		**43,850**		**31,059**
330.	**PROFIT (LOSS) FOR THE PERIOD**		**43,850**		**31,059**
340.	PROFIT (LOSS) FOR THE PERIOD OF MINORITY INTERESTS		(1,041)		(1,557)
350.	**PROFIT (LOSS) FOR THE PERIOD OF THE PARENT COMPANY**		**42,809**		**29,502**