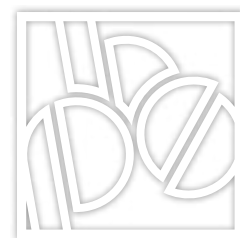




# Banca Popolare di Sondrio



## CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2020



**Banca Popolare  
di Sondrio**

CONSOLIDATED  
I N T E R I M  
F I N A N C I A L  
R E P O R T  
AT 30 JUNE 2020



# Banca Popolare di Sondrio

Founded in 1871

## CONSOLIDATED INTERIM FINANCIAL REPORT AT 30 JUNE 2020

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](mailto:info@popso.it) - Certified e-mail address: [postacertificata@pec.popso.it](mailto:postacertificata@pec.popso.it)

Sondrio Companies Register no. 00053810149 - Official List of Banks no. 842

Official List of Cooperative Banks no. A160536

Parent Company of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0 - Member of the Interbank Deposit Protection Fund

Fiscal code and VAT number: 00053810149

Share capital: € 1,360,157,331 - Reserves: € 1,157,414,409 (Figures approved at the shareholders' meeting of 12 June 2020)

Rating:

- Rating given by Fitch Ratings to Banca Popolare di Sondrio scpa on 19 May 2020:
  - Long-term: BB+
  - Short-term (breve termine): B
  - Viability rating: bb+
  - Outlook: Rating watch negative
  - Long-term Deposit Rating: BBB-
  - Long-term subordinated debt: BB-
- Rating given by DBRS Morningstar to Banca Popolare di Sondrio scpa on 2 April 2020:
  - Long-Term Issuer Rating: BBB (low)
  - Short-Term Issuer Rating: R-2 (middle)
  - Trend (outlook): negative
  - Long-Term Deposit Rating: BBB
  - Short-Term Deposit Rating: R-2 (high)
- Rating given by Scope Ratings to Banca Popolare di Sondrio scpa on 8 April 2020:
  - Issuer rating: 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 ANTONIO LA TORRE ANDREA MONORCHIO
Alternate advisors	DIANA BRACCO CESARE MIRABELLI

## **GENERAL MANAGEMENT**

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

## **Manager responsible for preparing the Company's accounting documents**

MAURIZIO BERTOLETTI

\*\* Members of the Chairman's Committee

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

# BRANCH NETWORK

## BANCA POPOLARE DI SONDRIO

Founded in 1871

### GENERAL MANAGEMENT AND HEAD OFFICE

Sondrio, piazza Giuseppe Garibaldi 16  
tel. +39 0342 528111 - fax +39 0342 528204  
www.popsi.it - info @popsi.it

### FIELD OFFICES

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

### VIRTUAL UNIT

corso Vittorio Veneto 7, Sondrio

### BRANCHES AND TREASURIES

#### PROVINCE OF SONDRIO

ALBOSAGGIA via al Porto 11  
APRICA corso Roma 140  
ARDENNO via Libertà  
BERBENNO DIVALTELLINA - fraz. San Pietro - via Nazionale Ovest 110  
BIANZONE piazza Edo Vannoni 11

#### BORMIO

Head Office, via Roma 131 - ang. via don Evaristo Peccidi  
Branch no. 1, via Roma 64

#### CAMPODOLCINO

BUGLIO IN MONTE piazza della Libertà 1  
CASPOGGIO piazza Milano 13  
CEDRASCO via Vittorio Veneto 15

#### CEPINA VALDISOTTO

CHIAVENNA via Francesco e Giovanni Dolzino 67  
CHIESA IN VALMALENCO via Roma 138

#### CHIURLO

COLORINA via Roma 84

#### COSIO VALTELLINO - fraz. Regoledo

COSIOVALTELLINO - fraz. Cosio Stazione - piazza San Martino 14

#### DELEBIO

DUBINO - Nuova Olomio - via Spiluga 83

#### GORDONA

GROSIO via Roma 67

#### GROSOTTO

GROSOTTO via Statale 73  
ISOLACCIA VALDIDENTRO via Nazionale 31

#### LANZADA

LIVIGNO

Head Office, via Sant'Antoni 135  
Branch no. 1, via Saroch 728/730

#### LIVIGNO

LIVIGNO via Dala Gesa 557/A

#### MADÉSIMO

MADONNA DI TIRANO piazza Basilica 55

#### MAZZO DI VALTELLINA

MELLO piazza San Fedele 1

#### MONTAGNA IN VALTELLINA

MONTAGNA IN VALTELLINA via Cicol 36

#### MORBEGNO

Head Office, piazza Caduti per la Libertà 7  
Branch no. 1, via V Alpini 172

#### NOVATE MEZZOLA

PASSO DELLO STELVIO località Passo dello Stelvio

#### PIANTEDO

PONTE IN VALTELLINA piazza della Vittoria 1

#### SAMOLACO - fraz. Era

SAN CASSIANO VALCHIAVENNA via Spiluga 108

#### SAN NICOLÒ VALFURVA

SEMOGO VALDIDENTRO via Cima Piazzi 28

#### SONDALO

SONDRIO

Head Office, piazza Giuseppe Garibaldi 16  
Branch no. 1, via Bernina 1

Branch no. 2, via Giacinto Sertorelli 2

Branch no. 3, Ingresso Ospedale Civile - via Stelvio 25

Branch no. 4, piazzale Giovanni Bertacchi 57

Branch no. 5, Galleria Campello 2

TALAMONA via Don Giuseppe Cusini 83/A

TEGLIO piazza Santa Eufemia 2

TEGLIO - fraz. San Giacomo - via Nazionale

#### TIRANO

TRAONA via Valeriana 88/A

#### TRESENDA DI TEGLIO

TRESIVIO piazza San Pietro e Paolo 24

VALFURVA - fraz. Madonna Del Monti  
piazza Madonna Del Carmine 6

#### VILLA DI CHIAVENNA

VILLA DI TIRANO traversa Poppa 25

VERCEIA via Nazionale 118/D

### AUTONOMOUS REGION OF VALLE D'AOSTA

#### AOSTA

corso Battaglione Aosta 79

PONT SAINT MARTIN via Emile Chanoux 45

SAINT-VINCENT via Duca D'Aosta 9

### PROVINCE OF ALESSANDRIA

ALESSANDRIA corso Crimea 21

NOVI LIGURE corso Romualdo Marengo 59

### PROVINCE OF BERGAMO

ALBANO SANT'ALESSANDRO via Vittorio Emanuele II 6

ALME via Campofiori 36

BARIANO via Umberto I 1

#### BERGAMO

Head Office, via Brosetta 64/B

Branch no. 1, via Vittore Ghislandi 4

Branch no. 2, via Guglielmo D'Alzano 3/E

BERGAMO - Ospedale Papa Giovanni XXIII - piazza Oms 1

BONATE SOTTO via Vittorio Veneto - ang. via Antonio Locatelli

BREMBATE via Vittore Tasca 8/10

CARVICO via Giuseppe Verdi 1

CISANO BERGAMASCO via Giuseppe Mazzini 25

COSTA VOLPINO via Nazionale 92

GAZZANIGA via IV Novembre 3

GHISALBA via Roma 41/43

GRUMELLO DEL MONTE via Roma 133

MAPELLO via Giuseppe Bravi 1

MOZZANICA piazza Antonio Locatelli

NEMBRO piazza Umberto I 1

OSIO SOTTO via Monte Grappa 12

ROMANO DI LOMBARDIA via Bailla 20

SARNICO via Giuseppe Garibaldi 1/C

SCANZOSCIATE corso Europa 9

SERIATE piazza Caduti per la Libertà 7

TRESCORE BALNEARIO piazza Cavour 6

TREVIGLIO via Cesare Battisti 8/B

TREVIGLIO - Ospedale - piazzale Ospedale 1

VERDELLINO largo Luigi Einaudi 5

VILMINORE DI SCALVE piazza Vittorio Veneto 8

### PROVINCE OF BOLOGNA

BOLOGNA via Riva di Reno 58/B

### PROVINCE OF BOLZANO

BOLZANO

viale Amedeo Duca d'Aosta 88 / Amedeo Duca D'Aosta Allee 88

MERANO corso della Libertà 16 / Freiheitsstrasse 16

MERANO - Comune di Merano - via Portici 192

### PROVINCE OF BRESCIA

ANGOLO TERME piazza Caduti 3

BERZO DEMO via Nazionale 14

BIENNO via Giuseppe Fantoni 36

BORNO via Vittorio Veneto 25

BRENO piazza Generale Pietro Ronchi 4

#### BRESCIA

Head Office, via Benedetto Croce 22

Branch no. 1, via Crocifissa di Rosa 1

Branch no. 2, via Solferino 61

Branch no. 3, viale Piave 61/A

Branch no. 4, via Fratelli Ugolini 2

CAPO DI PONTE via Aldo Moro 26/A

CEVO via Roma 15

CHIARI via Consorzio Agrario 1 - ang. via Teosa 23/B

COCCAGLIO via Adelchi Negri 12

COLLEBEATO via San Francesco d'Assisi 12

CORTE FRANCA piazza di Franciacorta 7/C

CORTENO GOLGI via Brescia 2

#### DARFO BOARIO TERME

Branch no. 1, corso Italia 10/12

Branch no. 2, piazza Patroli 2

DESENZANO DEL GARDA via Guglielmo Marconi 1/A

EDOLO piazza Martiri della Libertà 16

ERBUSCO via Provinciale 29

ESINE via Chiosi 79

GARDONE VAL TROMPIA via Giacomo Matteotti 300

GIANICO piazza Roma 3

ISEO via Roma 12/E

LONATO DEL GARDA corso Giuseppe Garibaldi 59

LUMEZZANE - fraz. Sant'Apollonio - via Massimo D'Azeglio 108

MALONNO via Valle Camonica 6

MANERBA DEL GARDA via Valtenesi 43

MANERBIO via Dante Alighieri 8

MARONE via Zanardelli 5

MONTE ISOLA frazione SMIANO 116

MONTICHIARI via Mantova - ang. via 3 Innocenti 74

ORZINUOVI piazza Giuseppe Garibaldi 19

OSPITALETTO via Brescia 107/109

PALAZZOLO SULL'OGLIO via Brescia 23

PIAN CAMUNO via Agostino Gemelli 21

PISOGNE via Trento 1

PONTE DI LEGNO piazzale Europa 8

PONTE DI LEGNO - loc. Passo Del Tonale - via Case Sparse 84

REZZATO via Broli 49

SALE MARASINO via Roma 33/35

SALÒ viale Alcide De Gasperi 13

SALÒ via Giuseppe Garibaldi 21

SAREZZO via della Repubblica 99

TOSCOLANO MADERNO piazza San Marco 51

TOSCOLANO MADERNO viale Guglielmo Marconi 9

VEZZA D'OGGIO via Nazionale 116

ZONE via Orti 1

### PROVINCE OF COMO

ALBIOLO via Indipendenza 10

APPIANO GENTILE piazza della Libertà 9

ARREGNO piazza Guglielmo Testi 7

AROSIO piazza Montello 1

BELLAGIO via Valassina 58

BINAGO via Roma 9

BIZZARONE via Roma 14

BREGNANO via Giuseppe Mazzini 22/A

BRUNATE via Alessandro Volta 28

BULGAROGROSSO via Pietro Ferloni 2

CAMPIONE D'ITALIA piazza Roma 1/G

CANTÙ via Milano 47

CANZO via Alessandro Verza 39

CAPIAGO INTIMIANO via Vittorio Emanuele II 7

CARATE URIO via Regina 58

CARIMATE - fraz. Montesolaro - piazza Lorenzo Spillino

CARLAZZO via V° Alpini 59/A

CARUGO via Luigi Cadorna 32

CASNATE CON BERNATE via Roma 7

CASTELMARTE largo Armando Diaz 1

CENTRO VALLE INTELVI via Provinciale 79

#### COMO

Head Office, viale Innocenzo XI 71

Branch no. 1, via Giorgio Giulini 12

Branch no. 2, via Statale per Lecco 70 - fraz. Lora

Branch no. 3, via Aslago 25 - fraz. Tavernola

Branch no. 4, ACSM - via Vittorio Emanuele II 93

DOMASO via Statale Regina 77

DONGO piazza Virgilio Mattèi 14

ERBA via Alessandro Volta 3

FINO MORNASCO via Giuseppe Garibaldi - ang. piazza Odescalchi 5

GARZENO via Roma 32

GERA LARIO via Statale Regina 18

GRAVEDONA ED UNITI piazza Giuseppe Garibaldi 11

GUANZATE via Giuseppe Garibaldi 1

LAMBRUGO piazza Papa Giovanni II 4/7

LANZO INTELVI piazza Lanfrancotti 22

LURAGO D'ERBA via Roma 58

MASLIANICO via XX Settembre 47

MENAGGIO via Annetta e Celestino Lusardi 62

MERONE via San Girolamo Emiliani 5/C

MONTORFANO via Brianza 6/B

MUSSO via Statale Regina 30

OSSUCCIO via Statale 72

PARÈ piazza della Chiesa 5/6

PIANELLO DEL LARIO via Statale Regina 32

PLESIO via Grana 85

PORLEZZA lungolago Giacomo Matteotti 15

PUSIANO via Giuseppe Mazzini - Complesso Pusiano 2000

SALA COMACINA via Statale 14/A

SAN NAZZARO VAL CAVARGNA via Don Luigi Gabbani 237

SAN SIRO via Statale 223

SCHIGNANO via Roma 8

SORICO piazza Cesare Battisti 1/A

TREMEZZO via Regina 26

TURATE via Vittorio Emanuele 14

VALSOLDA - fraz. San Mamete - piazza Roma 7/9

VENIANO via Alessandro Manzoni 5

VERCANA via Vico 3

VILLA GUARDIA via Varesina - ang. via Monte Rosa

### PROVINCE OF CREMONA

CREMA via Giuseppe Mazzini 109

#### CREMONA

Head Office, via Dante Alighieri 149/A

Branch no. 1, piazza Antonio Stradivari 9

PANDINO via Umberto I 1/3

RIVOLTA D'ADDA via Cesare Battisti 8

### PROVINCE OF CUNEO

ALBA viale Torino 4

CUNEO piazza Tancredi Duccio Galimberti 13

### PROVINCE OF GENOVA

BUSALLA via Vittorio Veneto 23

CAMOGU via Cuneo 9

CHIAVARI piazza Nostra Signora dell'Orto 42/B - ang. via Doria

#### GENOVA

Head Office, via XXV Aprile 7

Branch no. 1, piazza Tommaso 7 rosso

Branch no. 2, via Sabotino 32/34 rossi

RAPALLO via Gen. A. Lamarmora 4 - ang. via San Filippo Neri

SANTA MARGHERITA LIGURE piazza Giuseppe Mazzini 40

### PROVINCE OF IMPERIA

IMPERIA viale Giacomo Matteotti 8

### PROVINCE OF LA SPEZIA

LA SPEZIA via XX Settembre 17

### PROVINCE OF LECCO

AIRUNO via San Giovanni 11

ABBADIA LARIANA via Nazionale 140/A

BALLABIO via Ambrogio Confalonieri 6

BARZAGO viale Rimembranze 20

BARZIO via Martiri Patrioti Barziesi 11

BELLANO via Vittorio Veneto 9

BOSISIO PARINI via San Gaetano 4

CALOLZIOCORTE corso Europa 71/A

CASATENOVE via Roma 23

CASSAGO BRIANZA via Vittorio Emanuele II 2

CASTELLO DI BRIANZA via Roma 18

COLICO via Nazionale - ang. via Sacco

COLLE BRIANZA via Carrò 1

DERVIO via Don Ambrogio Invernizzi 2

ESINO LARIO piazza Gulf 2

IMBERSAGO via Contessa Lina Castelbarco 5

#### LECCO

Head Office, corso Martiri della Liberazione 65

Branch no. 1, viale Filippo Turati 59

Branch no. 2, piazza XX Settembre 11

Branch no. 3, corso Emanuele Filiberto 104

Branch no. 4, viale Montegrappa 18

LECCO - Ospedale di Lecco - via dell'Eremo 9



## MANTOVA

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

## PROVINCE OF MILANO

ABBiateGRASSO piazza Giuseppe Garibaldi 2  
BASiglio piazza Monsignor Rossi 1  
BUCCINASCIO via Aldo Moro 9  
CERNUSCO SUL NAVIGLIO viale Assunta 47/49  
CINISELLO BALSAMO via Giuseppe Garibaldi 86  
COLOGNO MONZESE viale Emilia 56  
LEGNANO via Alcide De Gasperi 10  
MELEGNANO piazza Giuseppe Garibaldi 1  
MILANO  
Head Office, via Santa Maria Fulcorina 1  
Branch no. 1, Popolo, via Nicola Antonio Porpora 104  
Branch no. 2, Barona, viale Faenza 22  
Branch no. 3, a2a, corso di Porta Vittoria 4  
Branch no. 4, Regione Lombardia, piazza Città di Lombardia 1  
Branch no. 5, Bovispa, via degli Imbrifanti 54  
Branch no. 6, Convetto, via Marco d'Agiate 11  
Branch no. 7, Caneva, via Monte Genio 50  
Branch no. 8, Quarto Oggiaro, via M. Lessona - ang. via F. De Roberto  
Branch no. 9, A.L.E.R., viale Romagna 24  
Branch no. 10, Solari, via Andrea Solari 15  
Branch no. 11, Università Bocconi, via Ferdinando Bocconi 8  
Branch no. 12, Baggio, via delle Forze Armate 260  
Branch no. 13, Repubblica, viale Monte Santo 8  
Branch no. 14, Palazzo di Giustizia, via Colonneta 5 - ang. via C. Battisti  
Branch no. 15, Murat, via Gioacchino Murat 76  
Branch no. 16, Ortomercato, via Cesare Lombroso 54  
Branch no. 17, Monumentale, piazzale Cimitero Monumentale 23  
Branch no. 18, Fiera, viale Edo Bellario 1  
Branch no. 19, Giambellino, via Giambellino 39  
Branch no. 20, Sempione, via Antonio Canova 39  
Branch no. 21, Politecnico, via Edoardo Bonardi 4  
Branch no. 22, Sfozza, via F. Sforza 48 - ang. corso di Porta Romana  
Branch no. 23, Certosa, viale Certosa 62  
Branch no. 24, Plave, viale Plave 1  
Branch no. 25, Zaria, viale Zaria 13  
Branch no. 26, Lodi, corso Lodi - ang. via S. Gerolamo Emiliani 1  
Branch no. 27, Don Gnocchi, via Alfonso Capecepatto 66  
Branch no. 28, Corsica, via privata Sanremo - ang. viale Corsica 81  
Branch no. 29, Bicocca, piazza della Trivulziana 6 - edificio 6  
Branch no. 30, De Angeli, piazza Ernesto De Angeli 9  
Branch no. 31, Isola, via Carlo Farini 47  
Branch no. 32, Venezia, viale Luigi Majno 42 - viale Plave 43  
Branch no. 33, Porta Romana, corso di Porta Romana 120  
Branch no. 34, San Babila, via Cino del Duca 12  
Branch no. 35, Loreto, piazzale Loreto 1 - ang. viale Brianza  
Branch no. 36, Monti, via Vincenzo Monti 41  
Branch no. 37, Vercelli, corso Vercelli 38  
Branch no. 38, Università Cattolica del Sacro Cuore, largo A. Gemelli 1  
Branch no. 39, Gruppo AZIMUT - Sportello interno - corso Venezia 48  
MILANO - CIAA di Milano - via Meravigli 9/B  
MILANO - Istituto Nazionale Tumori - via Giacomo Venezian 1  
MILANO - ASP Golgi Redaelli - via Bartolomeo D'Alvano 78  
MILANO - Bicocca - piazza dell'Ateneo Nuovo 1 - Edificio U 6  
MILANO - Istituto Neurologico - via Giovanni Celoria 11  
MILANO - I.U.L.M. - via Carlo Bo 1  
MILANO - Pio Albergo Trivulzo - via Antonio Tolomeo Trivulzo 15  
MILANO - Pirelli - via Fabio Filzi 22

PERO via Mario Greppli 13

SEGRATE via Roma 96

SEGRATE via Fratelli Cervi 13 - Residenza Botteghe

## SESTO SAN GIOVANNI

Branch no. 1, piazza Martiri di Via Fani 93

Branch no. 2, piazza della Resistenza 52

TREZZO SULL'ADDA via Antonio Gramsci 10

TURBIGO via Altea Comunale 17

VIZZOLLO PREDABISSI - A.S.S.T. Melegnano e della Martesana via Pandina 1

## PROVINCE OF MONZA E BRIANZA

ALBIATE via Trento 35

BELLUSCO via Bergamo 5

BERNAREGGIO via Michelangelo Buonarroti 6

BRIOSCO piazza della Chiesa 5

BOVISIO MASCIAGO via Guglielmo Marconi 7/A

CARATE BRIANZA via Francesco Cusani 10

DESIO via Porticetto - ang. via Pio XI

GIUSSANO via Cavour 19

## LISSONE

Head Office, via Dante Alighieri 43

Branch no. 1, via Trieste 33

MACHERIO via Roma 17

MEDA via Yuri Gagarin - ang. corso della Resistenza

## MONZA

Head Office, via Galileo Galilei 1

Branch no. 1, via Alessandro Manzoni 33/A

NOVA MILANESE via Antonio Locatelli

## SEREGNO

Head Office, via Cavour 84

Branch no. 1, via Cesare Formentti 5

SEVESO via San Martino 20

VAREDO corso Vittorio Emanuele II 53

VILLASANTA - fraz. San Floriano - via Amatore Antonio Sciesa 7/9

VIMERCATE piazza Papa Giovanni Paolo II 9

## PROVINCE OF NOVARA

ARONA via Antonio Gramsci 19

NOVARA via Andrea Costa 7

## PROVINCE OF PADOVA

PADOVA via Ponte Molino 4

## PROVINCE OF PARMA

PARMA  
Branch no. 1, via Emilia Est 3/A

Branch no. 2, via Antonio Gramsci 28/A

FIDENZA piazza Giuseppe Garibaldi 24

## PROVINCE OF PAVIA

BELGIOIOSO piazza Vittorio Veneto 23

BRONI via Giuseppe Mazzini 1

CANNETO PAVESE via Roma 15

CASTEGGIO piazza Cavour 4

CILAVEGNA via Giuseppe Mazzini 2/8

MEDE corso Italia 2

MORTARA via Roma 23

## PAVIA

Head Office, piazzale Ponte Coperto Ticino 11

Branch no. 1, corso Strada Nuova 75

PAVIA - DEA - via Privata Campeggi 40

PAVIA - Policlinico San Matteo - viale Camillo Golgi 19

RIVANAZZANO TERME piazza Comaggia 41

ROBBIO piazza della Libertà 33

STRADELLA via XXV Aprile 56

VIGEVANO piazza IV Novembre 8

VOGHERA via Emilia 70

## PROVINCE OF PIACENZA

CASTEL SAN GIOVANNI corso Giacomo Matteotti 27

## PIACENZA

Head Office, via Raimondo Palmerio 11

Branch no. 1, via Cristoforo Colombo 18

Branch no. 2, piazzale Torino 16

## PROVINCE OF ROMA

CIAMPINO viale del Lavoro 56

FRASCATI via Cairolì 1

GENZANO DI ROMA viale Giacomo Matteotti 14

GROTTAFERRATA via XXV Luglio

MONTE COMPATRI piazza Marco Mastrofini 11

## ROMA

Head Office, Eur, viale Cesare Pavese 336

Branch no. 1, Monte Sacro, via Val Santemo 27

Branch no. 2, Ponte Marconi, via Silvestro Gherardi 45

Branch no. 3, Prati Trionfale, via Trionfale 22

Branch no. 4, Bravetta, piazza Biagio Pace 1

Branch no. 5, Portonaccio, piazza S. Maria Consolatrice 16/B

Branch no. 6, Appio Latino, via Cesare Baronio 12

Branch no. 7, Aurelio, via Baldo degli Ubaldi 267

Branch no. 8, Africano Vescovio, viale Somalia 255

Branch no. 9, Casal Palocco, piazzale Filippo II Macedone 70/75

Branch no. 10, Laurentina, via Laurentina 617/619

Branch no. 11, Esquilino, via Carlo Alberto 6/A

Branch no. 12, Boccea, circoscrivazione Cornelia 295

Branch no. 13, Tuscolano, via Folgino 51/A

Branch no. 14, Garbatella, largo delle Sette Chiese 6

Branch no. 15, Famesina, via della Famesina 154

Branch no. 16, Monte Sacro Alto/Talent, via Nomentana 925/A

Branch no. 17, San Lorenzo, piazza dei Sanetti 10/11

Branch no. 18, Infemeto, via Ermanno Wolf Ferrari 348

Branch no. 19, Nuovo Salario, piazza Fiat terra 24

Branch no. 20, Tuscolano/Appio Claudio, via Calo Camuleo 29

Branch no. 21, Nomentano, via Fiamano Nardini 25

Branch no. 22, WPP - Sportello interno - via Cesare Giulio Viola 68/70

Branch no. 23, Ostia, via Carlo Del Greco 1

Branch no. 24, San Clemente/Cobseo, via di S. Giovanni in Laterano 51/A

Branch no. 25, Parioli, viale dei Parioli 39/B

Branch no. 26, Tritone, via del Tritone 207

Branch no. 27, Prati, piazza Cavour 7

Branch no. 28, Prenestino/Tomignattara, piazza della Marranella 9

Branch no. 29, FAO - Sportello interno - viale delle Terme di Caracalla 1

Branch no. 30, IFAD - Sportello interno - via Paolo Di Dono 4

Branch no. 31, Campus Bio-Medico di Roma - Policlinico, via A. del Portillo 200

Branch no. 32, Monteverde Vecchio, via Anton Giulio Barrilli 50/H

Branch no. 33, Itastevere, piazza Sidney Sonnino 40

Branch no. 34, Gregorio VII, via Gregorio VII 348 - ang. piazza Pio XI 40

Branch no. 35, Parioli, corso Vittorio Emanuele II 139

Branch no. 36, CONSOB - Sportello interno - via G. B. Martini 3

Branch no. 37, Trionfale/Salaria, via Tagliamento 37

Branch no. 38, Gruppo AZIMUT - Sportello interno - via Flaminia 133

ROMA - Biblioteca Nazionale Centrale - viale Castro Pretorio 105

ROMA - Università Foro Italo - piazza Lauro De Bosis 15

## PROVINCE OF SAVONA

ALASSIO via Giuseppe Mazzini 55

ALBISSOLA MARINA via del Ceramisti 29

SAVONA via Antonio Gramsci 54

VARAZZE via Goffredo Mameli 19

## PROVINCE OF TORINO

CANDIOLIO via Torino 3/A

## TORINO

Head Office, via XX Settembre 37

Branch no. 1, via Luigi Cibrario 17/A bis

## PROVINCE OF TRENTO

ARCO via delle Garberle 31

CLES piazza Navarino 5

RIVA DEL GARDA viale Dante Alighieri 11

ROVERETO corso Antonio Rosmini 68 - ang. via Fontana

TRENTO piazza di Centa 14

## PROVINCE OF TREVISO

TREVISO corso del Popolo 50 - angolo via Giuseppe Toniolo

## PROVINCE OF VARESE

AEROPORTO DI MALPENSA 2000 Terminal 1 - FERNO

BESNATE via Libertà 2

BISUSCHIO via Giuseppe Mazzini 80

BRUSIMPIANO piazza Battaglia 1/A

BUSTO ARSIZIO piazza Trento e Trieste 10

CARNAGO via Guglielmo Marconi 2

CASTELLANA corso Giacomo Matteotti 2

CUGLIATE FABIASCO via Paggiolo 25

GALLARATE via Torino 15

GAVIRATE via Guglielmo Marconi 13/A

LAVENA PONTE TRESA via Luigi Colombo 19

LONATE POZZOLO via Vittorio Veneto 27

LUINO via XXV Aprile 31

MARCHIROLO via Cavaller Emilio Busetti 7/A

PORTO CERESIO via Giacomo Matteotti 12

SARONNO via San Giuseppe 59

SESTO CALENDE piazza Giuseppe Mazzini 10

SOLBIATE OLONA via Vittorio Veneto 5

SOMMA LOMBARDO via Milano 13

## VARESE

Head Office, viale Belforte 151

Branch no. 1, piazza Monte Grappa 6

Branch no. 2, via San Giusto - ang. via Malta

VEDuggIO OLONA via Giacomo Matteotti - ang. via Cavour 12

VIGGIO via Salfitro 2

## PROVINCE OF VENEZIA

VENEZIA Sestiere Santa Croce, Fondamenta Santa Chiara 520/A

## PROVINCE OF VERBANO-CUSIO-OSOLA

CANNOBIO viale Vittorio Veneto 2/bis

DOMODOSSOLA piazza Repubblica dell'Ossola 4

GRAVELLONA TOCCE corso Guglielmo Marconi 95

VERBANIA - Intra, piazza Daniele Ranzoni 27

VERBANIA - Pallanza, largo Vittorio Tonolli 34

## PROVINCE OF VERCELLI

VERCELLI piazza B. Mazzucchelli 12

## PROVINCE OF VERONA

BARDOLINO via Mirabello 15

PESCHIERA DEL GARDA via Venezia 40/A

VERONA corso Cavour 45

VILLAFRANCA DI VERONA corso Vittorio Emanuele II 194

## PROVINCE OF VICENZA

VICENZA corso Santi Felice e Fortunato 88

## TEMPORARY BRANCHES

MILANOCITY FIERA - piazzale Carlo Magno - pad. 3 piano quota +7.1

NUOVO POLO FIERISTICO - corso Italia Est

Strada Statale del Sempione 38 - Rho/Però - tel. 02 45402082

## MOBILE BRANCH

Autobanca

## DESKS ABROAD C/O EXTERNAL PARTNERS

ARGENTINA (Buenos Aires and Mendoza) - AUSTRALIA (Perth and Sydney)

- BELGIUM (Brussels) - BRAZIL (Belo Horizonte and Sao Paulo) - BULGARIA

(Sofia) - CANADA (Toronto and Vancouver) - CHILE (Santiago) - CHINA

(Shanghai and Hong Kong) - CZECH REPUBLIC (Prague) - DENMARK (Aarhus)

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- LUXEMBOURG (Luxembourg) - MALTA (Valletta) - MEXICO (Mexico City)

- MONGOLIA (Ulaanbaatar) - NETHERLANDS (Amsterdam) - PERU (Lima)

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- ROMANIA (Bucharest) - RUSSIA (Moscow) - SERBIA (Belgrade) - SINGAPORE

(Singapore) - SOUTH AFRICA (Johannesburg) - SOUTH KOREA (Seoul) - SPAIN

(Madrid) - SWEDEN (Stockholm) - THAILAND (Bangkok) - TUNISIA (Tunis)

- TURKEY (Istanbul) - UNITED ARAB EMIRATES (Dubai) - UNITED KINGDOM

(London) - UNITED STATES OF AMERICA (Chicago, Los Angeles and Miami)

- UZBEKISTAN (Tashkent) - VIETNAM (Ho Chi Minh City)

## BANCA POPOLARE DI SONDRIO (SUISSE)

### SWITZERLAND

www.bps-suisse.ch - contact@bps-suisse.ch

### GENERAL MANAGEMENT

Lugano, via Giacomo Luvinì 2a tel. +41 58 855 30 00

fax +41 58 855 30 15

### HEAD OFFICE

Lugano, via Maggio 1 tel. +41 58 855 31 00

### BRANCHES AND AGENCIES

LUGANO - LUGANO Cassarate - BASEL - BELLINZONA - BERN -

BIASCA - CASTASEGNA - CELERINA - CHIASSO - CHUR - LOCARNO -

MARTIGNY - NEUCHÂTEL - PONTRESINA - POSCHIAVO - ST. MORITZ

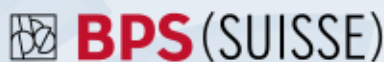
- VERBIER - ZÜRICH

Principality of Monaco: MONACO

### FACTORIT SPA



# THE BANKING GROUP IN

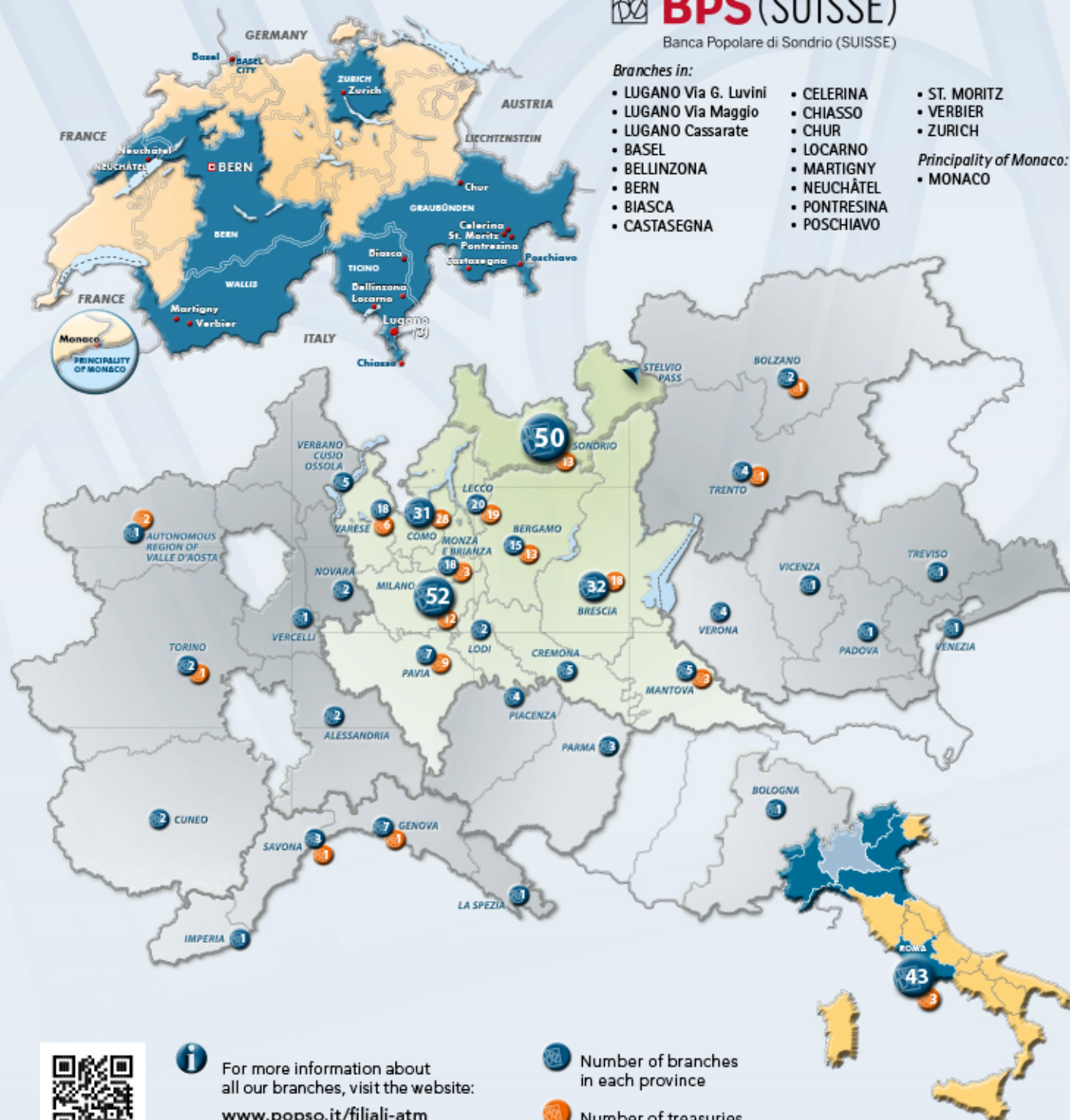


Banca Popolare di Sondrio (SUISSE)

### Branches in:

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

Principality of Monaco:  
• MONACO



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



Number of branches in each province



Number of treasuries

# THE HEART OF THE ALPS



**Banca Popolare  
di Sondrio**

FOUNDED IN 1871

## BRANCHES by province:

- 50 SONDRIO and 13 Treasuries
- 2 ALESSANDRIA
- 15 BERGAMO and 13 Treasuries
- 2 BOLZANO and 1 Treasury
- 32 BRESCIA and 18 Treasuries
- 31 COMO and 28 Treasuries
- 5 CREMONA
- 2 CUNEO
- 7 GENOVA and 1 Treasury
- 20 LECCO and 19 Treasuries
- 2 LODI
- 5 MANTOVA and 3 Treasuries
- 52 MILANO and 12 Treasuries
- 18 MONZA E BRIANZA and 3 Treasuries
- 2 NOVARA
- 3 PARMA
- 7 PAVIA and 9 Treasuries
- 4 PIACENZA
- 43 ROMA and 3 Treasuries
- 3 SAVONA and 1 Treasury
- 2 TORINO and 1 Treasury
- 4 TRENTO and 1 Treasury
- 18 VARESE and 6 Treasuries
- 5 VERBANO CUSIO OSSOLA
- 4 VERONA
- 1 in BOLOGNA, IMPERIA, LA SPEZIA, PADOVA, TREVISO, VENEZIA, VERCELLI and VICENZA
- 1 in the Autonomous Region of Valle d'Aosta and 2 Treasuries

## DESKS ABROAD C/O EXTERNAL PARTNERS:

- ARGENTINA (Buenos Aires and Mendoza) • AUSTRALIA (Perth and Sydney) • BELGIUM (Brussels) • BRAZIL (Belo Horizonte and Sao Paulo)
- BULGARIA (Sofia) • CANADA (Toronto and Vancouver) • CHILE (Santiago) • CHINA (Shanghai and Hong Kong) • CZECH REPUBLIC (Prague)
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- GUATEMALA (Guatemala City) • HUNGARY (Budapest) • INDIA (Mumbai) • ISRAEL (Tel Aviv) • JAPAN (Tokyo) • LUXEMBOURG (Luxembourg)
- MALTA (Valletta) • MEXICO (Mexico City) • MONGOLIA (Ulaanbaatar) • NETHERLANDS (Amsterdam) • PERU (Lima) • POLAND (Warsaw)
- PORTUGAL (Lisbon) • REPUBLIC OF MOLDOVA (Chisinau) • ROMANIA (Bucharest) • RUSSIA (Moscow) • SERBIA (Belgrade)
- SINGAPORE (Singapore) • SOUTH AFRICA (Johannesburg) • SOUTH KOREA (Seoul) • SPAIN (Madrid) • SWEDEN (Stockholm)
- THAILAND (Bangkok) • TUNISIA (Tunis) • TURKEY (Istanbul) • UNITED ARAB EMIRATES (Dubai) • UNITED KINGDOM (London) • UNITED STATES OF AMERICA (Chicago, Los Angeles and Miami) • UZBEKISTAN (Tashkent) • VIETNAM (Ho Chi Minh City)



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Popolare di Sondrio's branches and at its  
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### Headquarter:

Milano, via Cino del Duca 12

[www.factorit.it](http://www.factorit.it)

[info@factorit.it](mailto:info@factorit.it)



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or pension and facilities to advance subsidies  
of the Community Agricultural Policies**

### Offices in:

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- REGGIO CALABRIA • PRATO

Corner in the branches  
of the Banca Popolare di Sondrio  
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Operating at Banca Popolare di Sondrio's  
branches and at its partner banks' counters.

Head Office: Roma, via Baldo degli Ubaldi 267

[www.bancanuovatterra.it](http://www.bancanuovatterra.it)

[infobanca@bancanuovatterra.it](mailto:infobanca@bancanuovatterra.it)

## SINERGIA SECONDA

## POPSO COVERED BOND



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SNOWBOARD UNIVERSITY  
L'UNIVERSITÀ DELLA MONTAGNA

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Bormio - SO

"Pirovano" Apartments  
(CIR: 014009-REC-00017)

"Chalet Felse" Apartments  
(CIR: 014009-REC-00018)

Registered and Administrative Office  
**Information and Booking Office**  
via Delle Prese 8 - Sondrio

[www.pirovano.it](http://www.pirovano.it)

[info@pirovano.it](mailto:info@pirovano.it)

# AL CENTRO DELLE ALPI



# INFORMATION ON OPERATIONS

***Note.** The figures contained in this interim report on operations are stated in euro; the percentage changes refer to comparable balance sheet data at the end of 2019 and to comparable income statement data for the period to 30 June 2019, unless specified otherwise.*

*Because most of the figures in the text and tables are rounded to the nearest million or thousand euro, the percentages may differ marginally from those that would result from a comparison of amounts expressed in different units.*





# INTERIM REPORT ON OPERATIONS AT 30 JUNE 2020

## INTRODUCTION

The condensed consolidated interim financial report at 30 June 2020 has been prepared pursuant to article 154 ter, paras 2, 3 and 4 of Legislative Decree 58 of 24 February 1998 and in accordance with the recognition and measurement criteria of the international accounting standards (IAS/IFRS) adopted by the European Community and currently in force, as explained in the notes.

The Condensed Consolidated Interim Financial Statements have been prepared in compliance with IAS 34.

Accordingly, the interim report gives priority to information prepared at a consolidated level. Given the predominance of Banca Popolare di Sondrio S.C.p.A. within the Group, most of the comments are on its activities.

The accounting policies applied during the period under review are consistent with those of the prior year, except for the adoption of amendments that came into force during the period.

## THE BANCA POPOLARE DI SONDRIO BANKING GROUP

The Banca Popolare di Sondrio Banking Group comprises:

*Parent Company:*

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

*Group companies:*

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

The Parent Company holds all the capital of Banca Popolare di Sondrio (SUISSE) SA, CHF 180,000,000, which is fully paid-up.

Factorit spa - Milan.

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

Sinergia Seconda Srl – Milan.

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

Banca della Nuova Terra spa - Sondrio.

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

Popso Covered Bond srl - Conegliano (TV).

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



## FULLY CONSOLIDATED EQUITY INVESTMENTS:

Name	Head office	Share capital (in thousands)	% held
Banca Popolare di Sondrio (SUISSE) SA	Lugano	(CHF) 180,000	100
Factorit 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 for supervisory purposes

\*\* held by Sinergia Seconda srl

## EQUITY INVESTMENTS MEASURED USING THE EQUITY METHOD:

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	34.715
Unione Fiduciaria spa	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Sofipo SA *	Lugano	(CHF) 2,000	30.000
Rent2Go srl	Bolzano	11,400	33.333
Cossi Costruzioni spa	Sondrio	12,598	18.250
Rajna Immobiliare srl	Sondrio	20	50.000

\* held by Banca Popolare di Sondrio (Suisse) SA.

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

## SUMMARY OF RESULTS

(in thousands of euro)

<b>Balance sheet</b>	<b>30/06/2020</b>	<b>31/12/2019</b>	<b>Change %</b>
Loans to customers	28,726	27,387	4.89
Loans and receivables with customers measured at amortised cost	28,358	27,096	4.66
Loans and receivables with customers measured at fair value through profit or loss	368	291	26.26
Loans and receivables with banks	3,167	1,067	196.69
Financial assets that do not constitute loans	10,174	9,723	4.65
Equity investments	291	295	-1.23
Total assets	46,157	41,146	12.18
Direct funding from customers	31,789	32,622	-2.55
Indirect funding from customers	34,619	33,764	2.53
Direct funding from insurance premiums	1,672	1,608	4.02
Customer assets under administration	68,080	67,993	0.13
Other direct and indirect funding	15,445	10,068	53.40
Equity	2,853	2,842	0.41
<b>Income statement</b>	<b>30/06/2020</b>	<b>30/06/2019</b>	<b>Change %</b>
Net interest income	233	230	1.30
Total income*	373	429	-13.06
Profit from continuing operations	22	68	-68.46
Profit for the period	14	47	-69.35
<b>Key ratios</b>			
Cost/income ratio	70.90%	57.32%	
Net interest income/Total assets	0.50%	1.12%	
Net financial income/Total assets**	0.59%	1.67%	
Net interest income/Total income**	62.47%	50.97%	
Administrative expenses/Total income**	71.59%	58.17%	
Non-performing loans/Loans and receivables with customers	1.53%	2.44%	
Loans to customers/Direct deposits	90.36%	83.95%	
<b>Capital ratios</b>			
CET 1 capital ratio	15.69%	15.75%	
Total capital ratio	18,23%	18,64%	
Free capital	1,809	1,832	
<b>Other information on the banking group</b>			
Number of employees	3,286	3,299	
Number of branches	366	365	

\* Total income has been shown as per the summary reclassified income statement

\*\* The ratios indicated were calculated using the figures shown in the summary reclassified income statement

## INTERNATIONAL ASPECTS

The effects of the pandemic have weighed heavily on the international economy, especially in the countries hit the worst, where there has been a significant fall in gross domestic product. The sharp contraction in international trade – the decline in the first quarter of the year was more than 11% – still helped to spread the recession to all the main areas of the world.

China was the first to be penalised, but with the progressive spread of Covid-19 and the adoption of measures to protect public health, all the major economies of the globe suffered, from Europe to the United States, from Japan to South America.

The contraction in the economy was very significant in the United States, where the spread of the pandemic, after an initial slowdown, accelerated again towards the end of the period, in Japan and the United Kingdom. It should be noted that while China was already showing considerable resilience in the second quarter of the year, with industrial production returning to growth in April and further strengthened in May, the economic situation remained very critical in the other main countries. The United States, in particular, recorded a 9.5% decline in the second quarter compared with the previous three months.

Facing a crisis with completely unforeseen characteristics and disruptive effects on a global scale, central banks have significantly upped their game to support liquidity and credit. The monetary authorities of the United States, Japan, the United Kingdom and China, to recall just the main ones, have implemented a series of interventions in support of their respective economies, to mitigate the recessionary effects of the pandemic.

In the Euro-zone, there was sharp contraction in the first quarter (GDP -3.6%), followed by a precipitous drop in April with only a partial recovery in May and June. Suffice to say that Germany's GDP fell by more than 10% in the second quarter. The effects on employment were made tolerable by extensive use of income support by the Government.

For its part, the European Central Bank has repeatedly adopted expansionary measures, further easing monetary conditions. Among other things, the Pandemic Emergency Purchase Programme (PEPP), a programme to buy public and private securities, was launched with a budget of up to 1,350 billion.

The European Union has also introduced a series of interventions aimed at: mitigating the risks of unemployment linked to the health emergency (Support to mitigate Unemployment Risks in an Emergency, or SURE); supporting loans to businesses through the European Investment Bank; meeting the public expense involved in the fight against the pandemic through the European Stability Mechanism.

The effects of Covid-19 on international financial markets gradually diminished starting from the end of the first quarter of the year, thanks to the expansionary measures adopted by the various monetary authorities and a reduction in the restrictive measures needed to counter the spread of the virus.

It is clear that a genuine relaunch of the world economic cycle remains subject to the risk of a second wave of the epidemic in the autumn.

## **THE SCENARIO FOR OUR GROUP**

### **Italy**

As the first European country to be significantly affected by the pandemic, Italy immediately suffered a sharp fall in economic activity, which continued in the first part of the second quarter, causing a contraction in GDP that is put at around 10%. In fact, if the drastic measures adopted to protect public health helped to contain the infection, the repercussions on the production system were heavy and there was only a positive reaction in May and, even more so, in June.

An unprecedented situation, which has seen entire sectors completely at a standstill – suffice to think of tourism, catering and entertainment – but in fact it has had an impact on almost the entire production system.

As mentioned earlier, the situation has been improving along with the progressive removal of the restrictive measures on the various activities, but the consequences are still heavy, with companies struggling to work out how their business is likely to evolve, including the extent to which capital investment will probably be reduced. For households there was a significant contraction in disposable income which, together with the situation of uncertainty, led to a significant drop in consumption, which lasted much longer than the period of lockdown.

Government measures to manage the health emergency, support the economic cycle, mitigate the effects of the pandemic on businesses and households have naturally had a serious impact on public accounts, so much so that public borrowing requirement in 2020 is expected to rise above 10%, with a debt/GDP ratio of more than 155%.

As for the banking sector, the measures implemented by the ECB and the Government have made it possible to satisfy the sharp increase in companies' liquidity needs. Funding has shown a positive trend, together with a reduction in the cost of debt. In the first few months of the year there was no deterioration in asset quality, with the flow of new non-performing loans stable compared with total loans.

### **Switzerland**

Switzerland suffered from the effects of the pandemic too.

The health policy measures adopted in mid-March to contain the spread of Covid-19 forced many companies to limit or suspend their activities. As a result, GDP already suffered a sharp decline in the first quarter of 2020 (-2.6%), which became worse in the first part of the second quarter, and then decreased in the following months. For the whole of 2020, forecasts indicate a reduction in GDP of more than 6%, with average annual unemployment



rising to 3.8%. Almost all sectors of the economy have had significant difficulties, but the hotel and restaurant sectors, retailing, transport and communications were particularly penalised.

For its part, the Swiss National Bank has maintained an expansionary monetary policy, aiming, among other things, at stabilising the exchange rate and granting loans to the economy on favourable terms.

## THE ITALIAN BANKING MARKET

In a financial context dominated by interventions to respond to the health crisis by the monetary and government authorities, with a view to supporting liquidity in the real economy, even though the reference rate of the ECB is already zero, the cost of funding from households and non-financial companies still fell, for Italian banks, from 0.63% in June 2019 to 0.56% twelve months later.

However, as the yield on interest-bearing assets dropped at the same time from 2.20 to 1.72%, mainly due to the collapse in securities, from 1.37 to 0.32%, the spread narrowed significantly, from 1.57 to 1.16%.

The trend in volumes was positive, at least as regards the adjustments made to take account of technicalities, such as securitisations. If, on the lending side, public and private support measures aimed mainly at businesses posted an annual change of +2.8%, on the funding side, the uncertainty that induced households to save as much as possible provided support for deposits, which rose by 4.7%.

The fact that deposits of non-financial companies also increased leaves room for hope about the future of asset quality: even though it will inevitably decline, in May there was still a good result in the non-performing loans/lending ratio, which fell to 1.51 from 1.87% a year earlier. However, even though the NPL ratio is expected to stop its downward trend, nor is it expected to shoot up again, thanks to further securitisations.

While on the one hand the banking supervisory authorities have blocked the distribution of dividends to strengthen the assets of institutions, on the other, they have loosened certain constraints, even encouraging the use of available capital and liquidity so as not to hinder the disbursement of loans.

After all this, there are bound to be repercussions on banks' income statements this year.

Paradoxically, given that the crisis involves support for volumes intermediated by banks and a reduction in funding cost by the ECB, the crisis may end up helping net interest income. However, the negative change in other revenues will probably offset that partial relief in terms of overall income. Even without jeopardising a reduction in operating costs, the emergency will still bring with it a burden in the form of adjustments to be charged. The final result can only be a significant drying up of profits, already expected to be modest, though as far as it is possible to imagine today, we should not go back to years of losses like those experienced in the not so distant past.

## FUNDING

During the period, the dynamics of bank funding in Italy were supported essentially by two factors: a strong expansion of liabilities towards the Eurosystem, thanks in particular to the targeted refinancing operations implemented by the European Central Bank, and the growth in household deposits. This latter element is directly related to the pandemic: on the one hand, it reduced costs due to the containment measures introduced while, on the other, it led to greater «precautionary» savings because of the situation of general uncertainty.

As for our Group, direct funding from customers at 30 June 2020 amounted to 31,789 million, down by 2.55% on year-end 2019, but up on June 2019 by +0.54%.

Indirect funding from customers amounted to 34,619 million, +2.53% on the end of 2019.

Direct funding from insurance premiums increased to 1,672 million, +4.02%.

Total funding from customers therefore amounted to 68,080 million (+0.13%).

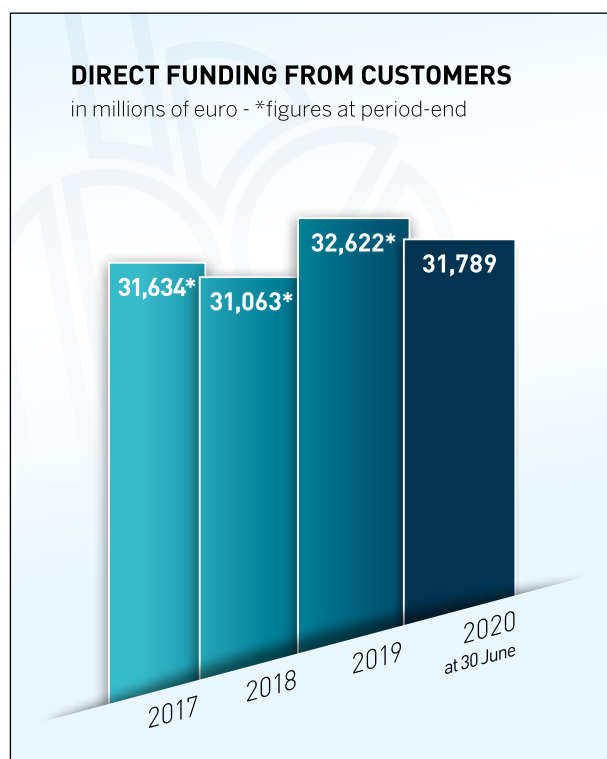
Amounts due to banks totalled 9,754 million, +125.38%. The substantial increase is essentially due to the refinancing operations arranged with the European Central Bank, which rose from 2,700 million at the end of 2019 to Euro 8,068 million. This is explained in the chapter on Treasury and Trading Operations.

Indirect funding from banks amounts to 5,691 million, -0.87%.



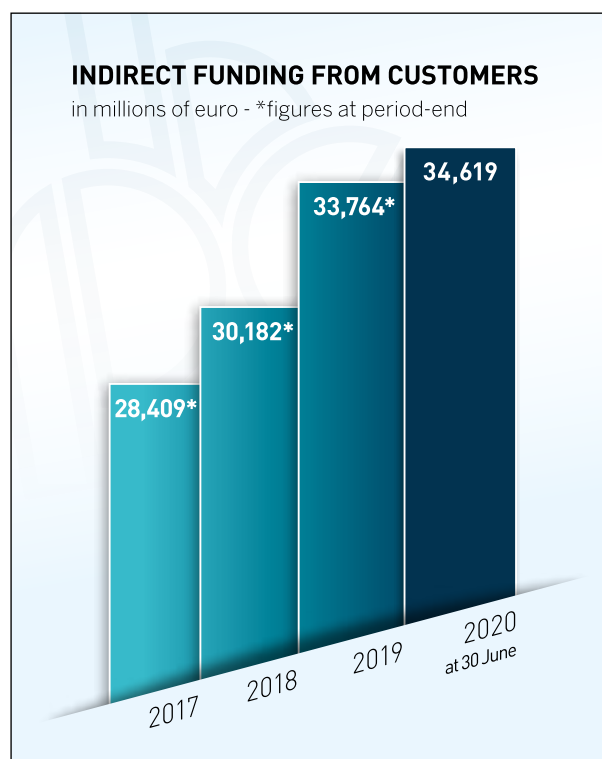
## DIRECT FUNDING FROM CUSTOMERS

in millions of euro - \*figures at period-end



## INDIRECT FUNDING FROM CUSTOMERS

in millions of euro - \*figures at period-end



## DIRECT FUNDING FROM CUSTOMERS

(in thousands of euro)	30/06/2020	%	31/12/2019	%	Change %
Savings deposits	529,496	1.67	518,948	1.59	2.03
Certificates of deposit	1,293	0.00	1,391	0.00	-7.05
Bonds	2,700,835	8.50	2,711,880	8.31	-0.41
Repo transactions	100	0.00	509,383	1.56	-99.98
Bank drafts and similar	126,827	0.40	91,482	0.28	38.64
Current accounts	24,857,450	78.20	25,259,856	77.44	-1.59
Time deposit accounts	845,900	2.66	945,335	2.90	-10.52
Foreign currency accounts	2,513,336	7.91	2,358,120	7.22	6.58
Lease liability	213,707	0.66	225,354	0.70	-5.17
<b>Total</b>	<b>31,788,944</b>	<b>100.00</b>	<b>32,621,749</b>	<b>100.00</b>	<b>-2.55</b>

## TOTAL FUNDING

(in thousands of euro)	30/06/2020	%	31/12/2019	%	Change %
Total direct funding from customers	31,788,944	38.06	32,621,749	41.79	-2.55
Total indirect funding from customers	34,618,500	41.45	33,763,873	43.25	2.53
Total direct funding from insurance premiums	1,672,229	2.00	1,607,591	2.06	4.02
<b>Total</b>	<b>68,079,673</b>	<b>81.51</b>	<b>67,993,213</b>	<b>87.10</b>	<b>0.13</b>
Due to banks	9,753,899	11.68	4,327,709	5.55	125.38
Indirect funding from banks	5,690,931	6.81	5,740,763	7.35	-0.87
<b>Grand total</b>	<b>83,524,503</b>	<b>100.00</b>	<b>78,061,684</b>	<b>100.00</b>	<b>7.00</b>

Total funding from customers and banks therefore came to 83,525 million, +7%.

The «Direct funding from customers» table shows the various components in greater detail than in the notes.

Considering the individual components, current accounts in euro and foreign currency dropped to 27,371 million, -0.89%, and make up 86.10% of all direct funding. Bonds have slightly decreased to 2,701 million, -0.41%. Savings deposits amounted to 529 million, +2.03%. Time deposit accounts amounted to 846 million, -10.52%. Repo transactions are virtually non-existent, while certificates of deposit come to 1.3 million and remain entirely marginal. Bank drafts amounted to 127 million, +38.64%. Lease liabilities, recognised in accordance with IFRS 16, amounted to 214 million, -5.17%.

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

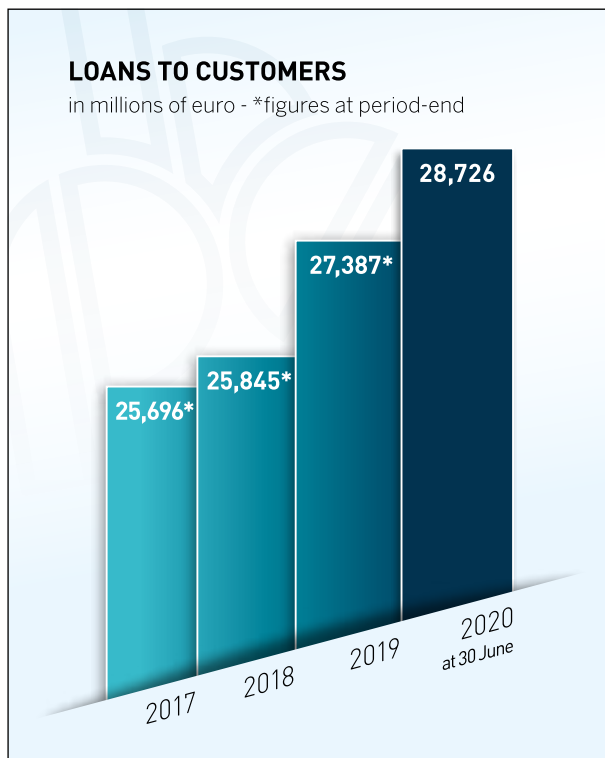
## LOANS TO CUSTOMERS

The effects of the pandemic, which of 2020 began to be transmitted to the economy in the first quarter, spread in the following months with greater intensity and a broader impact.

The measures gradually introduced by the government and local administrations to contain the spread of the infection inevitably had serious repercussions on the economy. The month of April, in particular, was heavily affected by the almost total blockage of numerous activities, with only a partial recovery in May and June.

In this difficult situation, our Group was also called upon to face unusual complexities, but was still able to ensure significant support for families and businesses. The Parent Company promptly activated a series of interventions for the benefit of customers and the territories served in compliance with the government measures introduced mainly by the Cura Italia and Liquidity Decrees, with initiatives promoted by ABI at the banking system level and, lastly, on a voluntary basis for the benefit of certain categories and contractual relationships, mostly without the characteristics to access the two types of concessions mentioned above.

The main initiatives include the granting of moratoria/suspensions on loans for the benefit of households and businesses: starting from March and up to 30 June, a total of more than 23,000 loans were granted for a residual debt of over 4,300 million, mostly attributable to the Cura Italia decree in support of SMEs (61% of the residual debt) and to households (17% of the residual debt). Also worth noting is the immediate activation of short-term personal loans and temporary cash lines to replace unused self-liquidating lines of credit, as well as loans and rescheduling of payments of sector contributions for professionals enrolled in pension funds agreed with the Parent Company. The aim was to buffer urgent liquidity needs, often resulting from the forced closure of companies imposed by the Authorities. A survey was also launched at the end of March to identify the economic sectors most



affected by the crisis, with in-depth analyses at the level of credit portfolio area by area.

Joining the agreement to regulate the granting of advances of amounts owed by INPS to workers laid off temporarily as a result of the health emergency should also be mentioned. Subsequently, with the introduction of the Liquidity Decree in April, all of the types of financing were activated for the benefit of companies envisaged by article 13 (Central Guarantee Fund for SMEs) and by art. 1 (SACE).

Particular emphasis is placed on the substantial numbers relating to the loans referred to in art. 13: as a whole, at 30 June, there were almost 13 thousand proposals made by the branches for a total of over 1,100 million, including loans fully guaranteed by the Government for an amount up to 30,000 euro (10,800 cases for 218 million), also issued through Confidi, mainly for the province of Sondrio, and ISMEA. In addition, the Parent

Company has always continued to provide ordinary credit to support the financial needs of businesses and households, reflecting its ongoing attention and proximity to its area of origin, even more so in the critical situation experienced by the country as a whole.

With reference to the Bank of Italy's communication of 30 June 2020, which implements the European Banking Authority's «Guidelines on Covid-19 measures reporting and disclosure» (EBA/GL/2020/07), please refer to the paragraph in the notes entitled «Significant accounting policies and uncertainties about the use of estimates when preparing the consolidated financial statements», which explains the accounting treatment of these exposures, and to the Third Pillar public disclosure published on the Company's website for the additional information, also of a quantitative nature, requested by the Banking Authority.

In accordance with IFRS 9, it has been necessary to take account of this state of affairs when assessing loans to customers, even if at present it is difficult to evaluate the impact and duration of the crisis on business activities.

In continuity with what was done in the first quarter, an approach was adopted which, compared with the scenarios used previously, takes into account the worsening of the forecast scenarios to be used in the process of quantifying credit risk adjustments, according to the most recent projections of how the macroeconomic context is likely to evolve, even if reliable models relating to the Italian and European banking sector are not currently available. In the current context, it is difficult to find models that can fully analyse the various scenarios and provide reliable data. The need to carry out correct



assessments of the ECL (Expected Credit Loss) in compliance with the accounting standards is accompanied by the need that the moratoria granted to customers should not be considered as a generalised increase in credit risk; also considering the fact that it is not yet easy to evaluate the effects of the measures introduced by the Government in support of businesses and households.

At a system level, customer loans increased significantly, both on an annual basis and compared with 31 December 2019. This is partly attributable to the effects of the various extraordinary measures introduced by the Government and the ECB and to the greater use of credit lines by companies, in conjunction with the increased liquidity needs as a result of the health emergency and the related reduction in turnover. Competition between banks also contributed to this expansion. There is still a situation of particularly low interest rates applied to businesses and households. The incidence of non-performing loans to the total decreased slightly, both gross and net of adjustments, while the coverage ratio remained substantially unchanged.

For our Group, lending amounted to 28,727 million, up 4.89%. The ratio of loans to deposits is 90.36% compared with 83.95% last year.

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

The trend in other unsecured transactions and loans was positive, reaching 8,017 million, +26.35%; these make up the second largest component of loans to customers with 27.91%. There was a moderate increase in mortgage loans, 10,961 million, +2.84%, which represent the main item of loans with 38.16%. The trend in residential mortgage loans by the subsidiary Banca Popolare di Sondrio (SUISSE) SA was particularly dynamic.

Current accounts decreased by 7.64%, from 3,929 million to 3,629 million. The same applies to factoring transactions, which fell by 19.03%, from 2,222 million to 1,799 million.

Repo transactions, which are a temporary investment of liquidity with institutional counterparties, also decreased from 1,099 million to 1,004 million, -8.69%, as did personal loans, -3.29%, from 478 to 462 million; the same goes for advances subject to collection, -14.40% from 240 to 205 million, and foreign currency loans, -2.89% from 989 to 961 million. Debt securities, which amounted to 206 million at the end of 2019, increased by 223.30% to 666 million; they derive from the securitisation of loans to customers carried out by Banca della Nuova Terra spa and Alba Leasing spa, also including the securities issued by the SPV Diana and held by the bank.

Total loans include loans assigned but not derecognised of 1,600 million in relation to the issue of covered bonds. These loans have not been derecognised because the chosen structure does not meet the requirements of IFRS 9. Advances increased to 500 million, +6.92%.



## LOANS TO CUSTOMERS

(in thousands of euro)	30/06/2020	%	31/12/2019	%	Change %
Current accounts	3,628,964	12.63	3,929,023	14.35	-7.64
Foreign currency loans	960,890	3.34	989,436	3.61	-2.89
Advances	499,656	1.74	467,330	1.71	6.92
Advances subject to collection	205,262	0.71	239,783	0.88	-14.40
Discounted portfolio	3,463	0.01	4,738	0.02	-26.91
Artisan loans	68,031	0.24	59,767	0.22	13.83
Agricultural loans	12,959	0.05	21,079	0.08	-38.52
Personal loans	462,012	1.61	477,733	1.74	-3.29
Other unsecured loans	8,016,598	27.91	6,344,987	23.17	26.35
Mortgage loans	10,960,904	38.16	10,658,264	38.92	2.84
Bad loans	438,963	1.53	668,068	2.44	-34.29
Repo transactions	1,003,556	3.49	1,099,082	4.00	-8.69
Factoring	1,799,260	6.26	2,222,085	8.11	-19.03
Fixed-yield securities	666,079	2.32	206,022	0.75	223.30
<b>Total</b>	<b>28,726,597</b>	<b>100.00</b>	<b>27,387,397</b>	<b>100.00</b>	<b>4.89</b>

Total gross NPLs fell by 25.31% to 2,788 million, while net NPLs fell to 1,274 million, -19.04%, compared with 1,574 million; in 2019 they decreased by 14.96%. The latter represent 4.44% (formerly 5.75%) of loans to customers.

The decrease was mainly due to the sale of customer loans, but also to the ongoing policy of strengthening the structures responsible for the disbursement, management and monitoring of credit.

The adjustments recorded for NPLs total 1,513 million, -29.88%, representing 54.29% of the gross amount compared with 57.83% last year and 55.63% at the end of 2018. The reduction derives from the derecognition mentioned above. The adjustments for the period are lower than those of the previous year.

The table gives an overview of non-performing and performing loans.

## LOANS TO CUSTOMERS – NON-PERFORMING AND PERFORMING LOANS

(in thousands of euro)		30/06/2020	31/12/2019	(+/-)	% change
<b>Non-performing loans</b>	Gross exposure	2,787,573	3,732,063	-944,490	-25.31
	Adjustments	1,513,300	2,158,087	-644,787	-29.88
	<b>Net exposure</b>	<b>1,274,273</b>	<b>1,573,976</b>	<b>-299,702</b>	<b>-19.04</b>
- Bad loans	Gross exposure	1,404,632	2,264,503	-859,871	-37.97
	Adjustments	965,669	1,596,444	-630,775	-39.51
	<b>Net exposure</b>	<b>438,963</b>	<b>668,059</b>	<b>-229,096</b>	<b>-34.29</b>
- Unlikely to pay loans	Gross exposure	1,305,805	1,401,400	-95,595	-6.82
	Adjustments	536,954	552,225	-15,271	-2.77
	<b>Net exposure</b>	<b>768,851</b>	<b>849,175</b>	<b>-80,324</b>	<b>-9.46</b>
- Impaired past due and/or overdrawn exposures	Gross exposure	77,136	66,160	10,976	16.59
	Adjustments	10,677	9,417	1,260	13.37
	<b>Net exposure</b>	<b>66,459</b>	<b>56,742</b>	<b>9,717</b>	<b>17.12</b>
<b>Performing</b>	Gross exposure	27,597,945	25,937,252	1,660,692	6.40
	Adjustments	145,621	123,831	21,790	17.60
	<b>Net exposure</b>	<b>27,452,324</b>	<b>25,813,421</b>	<b>1,638,903</b>	<b>6.35</b>
<b>Total loans and receivables with customers</b>	Gross exposure	30,385,518	29,669,315	716,203	2.41
	Adjustments	1,658,921	2,281,918	-622,997	-27.30
	<b>Net exposure</b>	<b>28,726,597</b>	<b>27,387,397</b>	<b>1,339,200</b>	<b>4.89</b>

Net bad loans, after adjustments, amount to 439 million, -34.29% (-12.15% in December 2019), corresponding to 1.53% of total loans and receivables with customers, compared with 2.44% at 31 December 2019. The significant reduction is essentially due to the completion of the sale of bad loans (Diana Project) which took place on 17 June, which involved the derecognition of gross bad loans for 872 million; this operation is explained in the notes. Net bad loans stood at percentages in line with the system. As usual, substantial adjustments were made in application of the extremely prudent criteria recommended in the past by the Supervisory Authorities during the various inspections, especially with regard to positions secured against property. In particular, loans that fall within the scope of the sale operation currently being structured are valued in this light.

The adjustments to cover estimated losses on bad loans have decreased to 966 million, -39.51%, representing 68.75% of the gross amount of such loans compared with 70.50% last year. It is a physiological reduction, the effect of the sale mentioned previously; the coverage percentage is still in line with the highest at national level. Considering the amounts written off in prior years against bad loans that are still tracked by the Bank, in view of possible future recoveries, the coverage of such loans amounts to 83.46%.

Unlikely-to-pay loans are made up of exposures, other than bad loans and for which the debtor is unlikely to settle in full without the bank having to enforce guarantees or similar forms of protection. Net of adjustments, these have decreased to 769 million, -9.46%, corresponding to 2.68% of total

loans to customers, compared with 3.10% the previous year. The related adjustments, which ensure a coverage ratio of 41.12%, amounted to 537 million, -2.77% on the comparative period, when they amounted to 552 million; the coverage ratio was 39.41% last year.

The decrease in unlikely-to-pay loans is due to the transfer to non-performing loans of the positions at greatest risk and to the reduction of incoming flows with respect to those outgoing.

Impaired past due and/or overdrawn exposures, other than those classified as bad or unlikely to pay loans, which, at the reporting date, have remained unpaid and/or overdrawn continuously for more than 90 days and which exceed a set materiality threshold, amount to 66 million, +17.12%, and represent 0.23% of total loans to customers compared with 0.21% the previous year.

Performing loans amounted to 27,452 million, +6.35%, and the related reserves totalled 146 million compared with 124 million, 0.53% of them, compared with 0.48% the previous year. The increase in these adjustments is affected by the worsening of the scenarios due to Covid-19.

Adjustments totalled 1,659 million overall, -27.30%.

## TREASURY AND TRADING OPERATIONS

The considerable turbulence seen in the first quarter, which pushed share prices down, caused large swings in government bond yields in a context of reduced liquidity and increased risk aversion in a climate of high volatility, returned in the second quarter due to the interventions of the monetary authorities and various Governments, not helped by a certain relaxation of the measures taken to contain the pandemic. In the Euro-zone, there were positive effects on share prices and interest rates following the strengthening of the ECB's purchase programme.

The proposal by the European Commission of an instrument called Next Generation EU to finance the recovery of the European Union also contributed to the positive sentiment.

After having fluctuated at relatively high levels, the yields on Italian government bonds have fallen on all maturities since mid-May.

At 30 June 2020, the net interbank position showed a negative balance of 6,587 million, compared with one of 3,261 million at the end of 2019. Cash and liquid assets total 3,070 million, compared with 1,826 million.

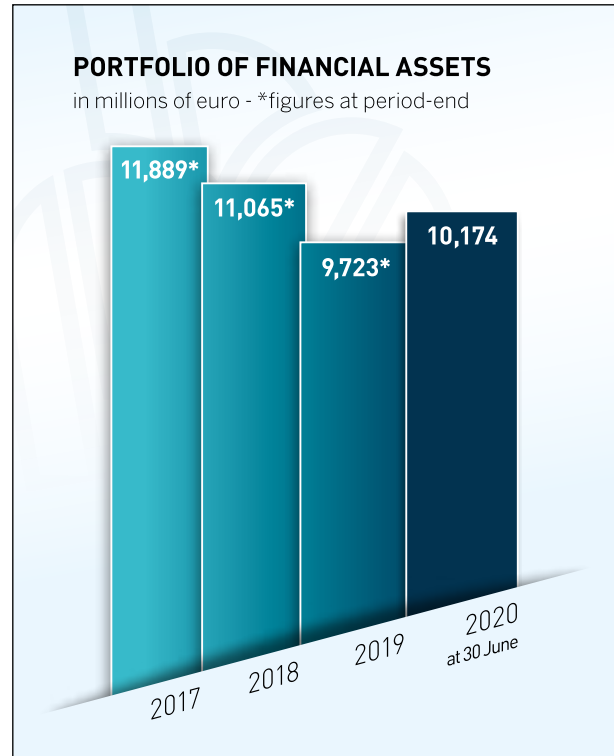
At the end of the period, the Parent Company arranged three T-LTROs with the ECB for a total of 8,068 million. The first operation still outstanding was launched with 1,600 million on 18 December 2019, expiring on 21 December 2022 and with the option of quarterly early repayment starting from September 2021. The second one was completed on 25 March 2020 for the amount of 2,100 million with expiry on 29 March 2023 with the option of voluntary early repayment from September 2021. The third, of 4,368 million, began on 24 June 2020 and expires on 28 June 2023, also with the option of early repayment from September 2021.

All transactions have a zero interest rate, but accrue negative interest in favour of the Parent Company if the loans disbursed exceed the target assigned by the ECB. However, negative remuneration is expected for the period from 24/6/2020 to 23/6/2021. On 25 March, the residual loan of 1,100 million relating to the T-LTRO-II refinancing programme was repaid. So, without these operations, the net interbank position would have been positive for 1,481 million.

The liquidity situation remained good throughout the period, though to a lesser extent than in the comparative period, and became abundant after participating in the new T-LTRO refinancing mentioned above. The exposure to liquidity risk is monitored both in the short term, taking a 3-month view every day, and over the long term with a monthly check. The ratios required by Basel 3, being the short-term Liquidity Coverage Ratio and the structural Net Stable Funding Ratio, are also calculated. Both are higher than the established minimums. The stock of high quality financial assets eligible for refinancing with the ECB, net of haircuts, amounted to 14,254 million, of which 5,538 free and 8,716 committed.

As ever, drawing on the abundant liquidity of the Bank and that flooding the system as an effect of the expansionary actions of the ECB, internal treasury management was intensive with a preponderance of lending operations. Following introduction last year of the ECB tiering mechanism, which allows banks to deposit with ECB up to 6 times the mandatory reserve at a favourable fixed rate of 0%, the use of this deposit facility has been downsized. The volume of repo operations in the MMF market – guaranteed by the Central Clearing House (CCG) – has grown significantly.

The portfolios of financial assets comprising securities total 10,174 million at 30 June 2020, up by 4.65% on 2019. The increase is also due to the purchases made to use part of the liquidity deriving from the funds borrowed from the ECB last June as part of the T-LTRO programme. The increases concerned both government and corporate securities, mainly senior financial securities, and involved the HTC segment. The following table summarises the various amounts involved and the percentage changes.





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

(in thousands of euro)	30/06/2020	31/12/2019	Change %
Financial assets held for trading <i>of which, derivatives</i>	224,439 42,607	214,466 32,161	4.65 32.48
Other financial assets mandatorily measured at fair value	390,793	399,779	-2.25
Financial assets measured at fair value through other comprehensive income	2,284,371	2,591,229	-11.84
Financial assets measured at amortised cost	7,274,880	6,517,073	11.63
<b>Total</b>	<b>10,174,483</b>	<b>9,722,547</b>	<b>4.65</b>

As in the past, the portfolio mostly comprises domestic government securities, despite the decrease due to the disposals of securities near to maturity. There was a good volume of inflows and outflows during the first half, with substantial increases on the comparison period, with most transactions involving the HTCS portfolio.

The sales carried out during the period mainly concerned this portfolio, while significant capital losses were still recorded, reflecting the increased volatility of the markets, albeit in sharp decline compared with the previous quarter.

As already mentioned, the purchases were made to use the liquidity deriving from the ECB's T-LTRO operations and with a view to portfolio diversification. The average duration of the portfolio is around three and a half years, in line with the prior year.

### Financial assets held for trading

The trading portfolio, which is not significant compared with the total security portfolio (2.2%), amounts to 224 million, up by 4.65% on 214 million in the comparison period.

(in thousands of euro)	30/06/2020	31/12/2019	Change %
Floating-rate Italian government securities	36,822	17,590	109.33
Fixed-rate Italian government securities	35,131	65,108	-46.04
Bank bonds	6,157	-	-
Variable-yield securities	65,389	57,212	14.29
Mutual funds	38,333	42,395	-9.58
Net book value of derivative contracts	42,607	32,161	32.48
<b>Total</b>	<b>224,439</b>	<b>214,466</b>	<b>4.65</b>

The composition of the portfolio is still simple and transparent. Equities, amounting to 65 million compared with 57 million in the same period of last year (+14.29%), represent 29.13% of the portfolio versus 26.67%; the presence

of Italian government securities has fallen to 71.953 million, -12.99%. The change in the portfolio recorded an increase in securities at floating rates, 36.822 million, and a decline in those at fixed-rate, 35.131 million, -46.04%.

### Other financial assets mandatorily measured at fair value

The financial assets mandatorily measured at fair value have decreased by 2.25% to 391 million from 400 million.

The portfolio relates almost entirely to various types of funds and Sicavs.

(in thousands of euro)	30/06/2020	31/12/2019	Change %
Bank bonds	17,231	17,061	1.00
Other bonds	28,712	29,992	-4.27
Variable-yield securities	-	1	-
Mutual funds in euro	314,994	323,173	-2.53
Mutual funds in foreign currency (USD)	29,856	29,552	1.03
<b>Total</b>	<b>390,793</b>	<b>399,779</b>	<b>-2.25</b>

### Financial assets measured at fair value through other comprehensive income

The portfolio of financial assets measured at fair value through other comprehensive income (HTCS) showed a reduction in line with that already seen in the first quarter, coming in at 2,284 million, -11.84%. Sales of Italian government securities with short maturities went on during the period, as part of a process that began in the second quarter of 2018 and continued during 2019, with a view to mitigating the exposure to Italy's sovereign risk. Bonds decreased mainly because of the sale of covered bank bonds. Holdings of Italian government securities fell by 15.95% to 1,207 million, from 1,436 million previously; they still represent the principal component (52.84%), with diversification represented by fixed-income Spanish and French government securities totalling 425 million. In accordance with established operational practices, this portfolio contains part of the invested liquidity in order to contain, if only partially, the impact on the income statement of the volatility always found in the markets. However, the negative performance by financial markets with the increase in the interest rate spread led to significant capital losses which were recognised to equity.

(in thousands of euro)	30/06/2020	31/12/2019	Change %
Floating-rate Italian government securities	814,001	650,637	25.11
Fixed-rate Italian government securities	393,017	785,471	-49.96
Foreign government securities	424,950	304,715	39.46
Bank bonds	417,406	639,045	-34.68
Other bonds	143,638	123,909	15.92
Variable-yield securities	91,359	87,452	4.47
<b>Total</b>	<b>2,284,371</b>	<b>2,591,229</b>	<b>-11.84</b>

## Financial assets measured at amortised cost

Securities measured at amortised cost are included in financial assets measured at amortised cost (HTC) and total 7,275 million, compared with 6,517 million, +11.63%. With regard to the composition of the portfolio, there was an increase of 309 million in Italian government bonds, 134 million in foreign government bonds and 116 million in bank bonds. During the first half of the year, the percentage of bonds compared with Italian and foreign government bonds increased, going from 9.95% to 13.23%. The overall duration of these securities is about three and a half years.

(in thousands of euro)	30/06/2020	31/12/2019	Change %
<b>LOANS AND RECEIVABLES WITH BANKS</b>	<b>597,357</b>	<b>480,402</b>	<b>24.35</b>
Italian bank bonds	436,684	324,241	34.68
Foreign bank bonds	160,673	156,161	2.89
<b>LOANS AND RECEIVABLES WITH CUSTOMERS</b>	<b>6,677,523</b>	<b>6,036,671</b>	<b>10.62</b>
Floating-rate Italian government securities	1,005,115	808,060	24.39
Fixed-rate Italian government securities	3,735,851	3,623,653	3.10
Foreign government securities	1,571,134	1,436,621	9.36
Other bonds	365,423	168,337	117.08
<b>Total</b>	<b>7,274,880</b>	<b>6,517,073</b>	<b>11.63</b>

## Asset management

After a very positive 2019 for financial markets, which allowed the asset management industry to reach a new historical record, the drama of the pandemic and the collapse of the markets meant that the 1st quarter of 2020 was characterised by a downward trend, followed by a promising recovery in the second quarter, which made it possible to offset, at least partially, the losses that had been incurred. In the mutual funds sector, a repositioning of portfolios is underway towards less risky products such as monetary funds, while there has been a shift out of bond and flexible funds; balanced and equity funds, on the other hand, turned positive again.

Our Group was also affected by this situation, gradually benefiting from the improvement in sentiment, even if the effects of the health emergency



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Banca Popolare di Sondrio



are still present; assets under management, while recovering compared with March 2020, still remain lower than in December 2019, with total assets under management down by 3.06%, from 5,840 million to 5,661 million. The Group's managed portfolios increased to 1,563 million, +8.58%, while mutual funds and Sicavs, including Popso (SUISSE) Investment Fund Sicav, stood at 4,098 million, -3.41%.

## EQUITY INVESTMENTS

At 30 June 2020, equity investments amounted to 291 million, down by 4 million. The reduction derives from the difference between the valuation at equity of the subsidiaries and the decrease due to sales. During the period, 2.11% of the interest held in Arca Holding spa was sold for 7.279 million as part of agreements made to facilitate the company's growth, involving other banking entities in the shareholders' structure.

## TRANSACTIONS WITH ASSOCIATED COMPANIES

(in thousands of euro)	Associated companies of the parent company		Associated companies of subsidiaries	
	30/06/2020	31/12/2019	30/06/2020	31/12/2019
ASSETS	520,105	590,550	74,187	81,004
LIABILITIES	195,882	339,134	1,081	601
GUARANTEES AND COMMITMENTS	304,289	277,166	82,306	105,761
Guarantees given	41,556	39,466	81,517	92,070
Commitments	262,733	237,700	789	13,690

### Related-party transactions

Transactions with related parties are governed by the «Regulation on related-party transactions» issued by Consob with resolution no. 17221 dated 12 March 2010 and subsequent amendments (the information required by this regulation is provided below) and by the Bank of Italy's circular 285/2013.

Related-party transactions, as identified in accordance with IAS 24 and the Consob Regulation, form part of the banking Group's ordinary operations and are settled on market terms or, in the absence of suitable parameters, on the basis of the costs incurred.

In compliance with the disclosure obligations laid down in article 5 of the Consob Regulation, during the period 1 January to 30 June 2020, the Parent Company's corporate bodies alone approved the following transactions of greater relevance:

- Release spa, associated company; renewal of lines of credit totalling €

- 92,000,000 repayable on demand; resolution of 07/02/2020;
- Banca della Nuova Terra spa, subsidiary; grant of a credit line in the finance area of € 320,000,000 expiring 21/12/2022; renewal of lines of credit totalling € 6,000 repayable on demand; resolutions of 27/02/2020;
  - Banca Popolare di Sondrio (SUISSE) SA, subsidiary; grant of currency conversion facilities of € 1,600,000,000; renewal of lines of credit totalling € 620,916,197 repayable on demand; resolutions of 29/05/2020.

During the period 1 January-30 June 2020, no transactions of greater or lesser relevance were carried out with related parties, which could have had a significant impact on the banking Group's balance sheet or results. We would also point out that there have not been any developments or modifications that had or could have a significant effect on the first half of 2020 or results of the Banking Group with regard to the related-party transactions carried out during 2019; in any case none were atypical, unusual or not on market terms.

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

During the first half of 2020 and in the current period, no positions or transactions deriving from atypical and/or unusual operations have arisen. According to Consob Circular DEM/1025564 of 6 April 2001, atypical and/or unusual transactions are those – not arising in the ordinary course of business – that may raise doubts about the completeness of the disclosures in the financial statements, conflicts of interests, the protection of the corporate assets or the safeguarding of the shareholders, by virtue of their magnitude, the nature of the counterparties, the methods for determining the transfer price or the timing of the transaction.

## **PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY AND INTANGIBLE ASSETS**

Property, equipment and investment property and intangible assets total 566 million, compared with 579 million at the end of 2019. The former totalled 535 million, -2.47%, the second category amounted to 31 million, substantially stable.

Intangible assets include 13 million of goodwill.

Goodwill is subjected to annual impairment testing to check for any loss of value. The test was performed when preparing the consolidated financial statements at 31 December 2019. However, since the Covid-19 epidemic triggered off impairment indicators pursuant to IAS 36, impairment tests were carried out as of 30 June 2020. These tests were carried out in the manner described in the notes and showed that there is no need for write-downs.



## PROVISIONS

These comprise employee severance indemnities of 43 million, -2.75%, and the provisions for risks and charges totalling 272 million, +0.55% compared with the figure at the end of 2019.

## RISK MANAGEMENT

The worldwide spread of Covid-19 has in a few months caused a very serious health emergency and an economic crisis that is unprecedented in modern history. It is an event of unprecedented scope that has led many countries to limit personal freedom of movement and physical interaction and to temporarily close various production activities in an attempt to contain the pandemic. The economic support measures taken were crucial during the initial phase of the emergency to mitigate the costs of the crisis; more structural measures, financed with European aid, are being studied to raise the potential for recovery and mitigate the inevitable repercussions to the economy, counteracting social unrest and any widening of the inequality gap.

The banking industry was called upon to play a leading role in ensuring that emergency interventions could fully deploy their effects for the benefit of the entire community, cooperating in the pursuit of the national emergency management policy. Banca Popolare di Sondrio did not shy away from what was a moral imperative as much as a legal one, wanting to translate into reality what is established in the regulations passed by the Government and limit as much as possible the unfavourable effects on the many businesses and households brought to their knees by the crisis. We were also convinced adherents to the protocols for the suspension of mortgage loan repayments for individuals and other measures of economic support promoted through the banking system (loans with public guarantees or counter-guarantees, voluntary moratoria, etc.).

More generally, on the operational front, the Parent Company has undertaken a series of initiatives in response to the problems that emerged because of the pandemic, coordinated by a specific cross-functional task force to manage the emergency within a framework of cautious and balanced risk taking.

Thanks to this action, the provision of services to customers, albeit with some inevitable inconvenience, continued to be guaranteed in compliance with new operating methods: first of all, the use of remote working from home to safeguard the health of employees, as well as the extension of forms of remote transactions or via home-banking to limit physical movement in the area and encourage compliance with the social distancing rules.

The banking authorities are carefully supervising the implications of the health emergency on the stability and corporate soundness of the supervised entities. Institutions were asked, first on a weekly basis and then on a monthly basis, for further reporting with respect to the usual reporting and disclosure requirements to the Supervisory Bodies, introduced

exceptionally to keep under close observation the effects of Covid-19 on the balance sheet figures and financial statements, on the main risk profiles and on the aspects of business continuity of intermediaries.

Drawing on this reporting system, an internal dashboard was developed to inform management on the evolution of economic scenarios and on the dynamics of the bank's operational, financial and risk data.

On the other hand, the Regulators have lightened up on a series of operational requirements borne by credit institutions, including extensions to deadlines and to the «road maps» envisaged for certain obligations, while also easing the capital and liquidity requirements previously in force. Overall, such relief was intended to grant banks greater flexibility in managing the emergency, facilitating their business activities to focus efforts on their primary objective, namely to mitigate the intensity of the epidemic's impact on the economy.

However, this has not prevented certain routine tasks being carried out according to schedule, such as the final annual report of the capital adequacy assessment processes (ICAAP) and the liquidity situation (ILAAP) of the Group. This year, they focused on analysing possible scenarios for the pandemic crisis and the contributions given to the Resolution Authorities during the periodic review of the crisis recovery programmes applicable in the event of the Group's financial failure. The purpose was also to recalibrate the so-called MREL (Minimum Requirement for own funds and Eligible Liabilities), imposed on every significant entity with a view to pre-establishing capital reserves and liability provisions capable of absorbing losses in an irreversible crisis.

Worth noting is the extraordinary capital solidity achieved by the Parent Company, which places it at the top of the Italian ranking and in a good position at European level. The Bank is therefore addressing the economic uncertainties triggered by the pandemic and the fears of new unfavourable financial market developments with an important protective cushion.

Below are some brief considerations on the risk management steps taken in this delicate period.

## **Credit and counterparty risk**

The ordinary credit risk monitoring activity was necessarily intensified given the emergency situation. To manage the urgency, a dedicated «Covid task force» was set up, responsible, among other things, for supporting the network in telling the difference between situations of temporary difficulty that individuals and companies affected by the crisis are experiencing - therefore deserving of liquidity support to get back on top - and more structural problems that could prove hard to resolve in the medium to long term. For the occasion, daily monitoring of the financial support measures adopted by the Parent Company in response to the pandemic was also instituted, accompanied by constant observation of how the market and the various sectors of the economy were evolving, all with a view to producing constantly updated estimates of the impacts of this difficult situation on business.

As communicated to the market last June, despite the moment of great complexity, we successfully concluded according to plan the mass sale of a portfolio of non-performing loans with a gross value of approximately one billion euro, in line with the strategy of de-risking and optimisation of credit quality pursued by the bank in recent years. The accounting deconsolidation following the securitisation of this large package of loans made it possible to see in the half-yearly figures a distinct drop in problem items as a percentage of total loans (NPL ratio).

This operation forms part of a more extensive series of interventions to handle the burden of NPLs, not only with the aim of lightening the current amounts in the balance sheet, but also of stemming the inflows of new exposures towards a state of default. This is the reasoning behind the initiatives to strengthen the organisational areas dedicated to this specific sector and the strengthening of the system of tools and models for the early reporting of credit anomalies (so-called «early warning systems»), enriched from a procedural point of view following the adoption of a set of indicators designed to spot the first symptoms of trouble and hence to prevent the migration of positions towards categories that are riskier and, therefore, more exposed to impairment.

As regards credit relationships with customers that are considered performing but are showing initial signs of irregularity, there have been significant developments in the monitoring systems and the introduction of specific decision-making powers for the structures operating in the anomalous credit management chain. Specific sustainability indicators have also been developed that employees are required to take into consideration when granting new credit or when agreeing changes to the original agreement, in order to assess whether the customer has documented cash flows to meet the financial commitments that they intend to take on versus the bank.

A campaign was also started to limit the impact of implementing the new EU concept of «credit default», which is extremely penalising in terms of the classification of non-performing loans. The legislation in question, which will be fully operational at the beginning of next year, also required the start of a project to recalibrate the credit risk parameters calculated by the AIRB (Advanced Internal Rating Based) models. Being widespread in scope, the adjustments brought about by the change in definition will be subject to in-depth verification by the European Supervisor before they are applied in practice. These extraordinary activities were then followed by the more physiological ones of monitoring and updating, linked to some suggestions by the Supervisory Authorities, aimed generally at making our rating systems even more robust and effective. Furthermore, new refinements to the models are in progress as regards further changes to the regulatory framework that will be in force in the months to come.

## **Market risk**

In the difficult economic and financial context that emerged following the spread of the pandemic, which has a particular impact on securities

trading activities, careful monitoring of the bank's exposure to market risk continued, conducted as always on a daily basis but using methods that have been reinforced given the exceptional nature of the period.

The exaggerated volatility seen as a result of the crisis, combined with a general decline in market trading in a phase of marked uncertainty about the economic consequences of the contagion at national and global level, was reflected in the risk indices of proprietary financial instruments based on the statistical measurement of Value at Risk (VaR). More recently, with the easing of the grip of the contagion, there has been a progressive re-absorption of the risk parameters, as well as the amount of capital losses, both actual (on accounting portfolios valued at fair value) and theoretical (on accounting portfolios valued at amortised cost) accumulated over the period, capable of affecting both the results of the income statement and the size of the equity reserves required after the valuation of the securities.

Strong market turbulence has put under considerable tension the system of limits on the risk exposure of the trading portfolio, as well as on the banking book, with episodes of violation concentrated mainly in March and April. A restructuring of the system of internal limits and more reassuring news on the evolution of the epidemic in Italy helped to calm the situation in the latter part of the period.

The fact that the extreme scenarios, both historical and hypothetical, usually used for the stress tests on the VaR of portfolios, proved to be less severe than the shock actually observed on the markets at moments of greatest turbulence gives an idea of the extraordinary nature of the times we are going through.

## **Interest-rate risk**

Monitoring of the risk caused by fluctuations in interest rate levels continued during the half year; trends were not particularly affected by the emergency. The measurements rely on monthly analyses of the sensitivity of the Company's economic value to unexpected changes in market rates («Sensitivity Analysis») and the sensitivity of the interest income generated by the volumes of assets and liabilities in the balance sheet («Interactive Simulation»), supplemented if necessary by targeted impact studies.

Significant progress is being made in the methodological and calculation systems. The parameters on which the behavioural models of «sight items» are based – models that aim to quantify the persistence of the mass of assets and liabilities on deposit with no maturity and their elasticity in adapting to movements in market rates – are being recalibrated through the use of more sophisticated statistical techniques, which are able to include more extensive samples of historical data. With the update, it will be possible to have an enriched information base that allows us, through model simulations, to gather increasingly robust interpretative elements on the conduct of depositors as interest rate conditions vary.

Also worth noting are the interventions in relation to the so-called «pre-payment» models aimed at representing the repayment profile of

medium/long-term loans taking into account situations of early termination of credit relationships, partial pre-payment and modification of contractual conditions (nominal rate, spread on the base rate, optionality).

## **Liquidity risk**

The abundant liquidity that is available, not significantly affected by the pandemic, maintains risk exposure at low levels. The substantial stock of securities – sovereign ones in particular – that are readily negotiable on the market or transferable, if necessary, as collateral for refinancing operations, acts as an important reservoir.

The monitoring tools and techniques developed over the years, designed specifically to assist management's control of the main risk factors, confirm their validity. The short-term (so-called «operational») liquidity situation is checked through daily measurements of the cash flow dynamics typical of treasury operations, as well as the availability of reserves (known as the «Counterbalancing Capacity») consisting of funds deposited with central banks and revenues potentially obtainable from the disposal of assets on the market. The state of medium/long-term liquidity (known as «structural liquidity») is measured on a monthly basis to verify that there is a reasonable balance between funding and lending items by maturity bands. The evolution of intraday liquidity and intragroup funding are also monitored.

The regulatory parameters of short and long term liquidity – the Liquidity Coverage Ratio (LCR), quantified monthly, and the Net Stable Funding Ratio (NSFR), measured quarterly – did not show signs of tension during the period; indeed they are positioned at levels of absolute tranquillity, well above the minimum requirements. Other obligations towards the Supervisory Authority were also carried out regularly, namely by producing dedicated monthly reports that provided a wide range of liquidity indicators (so-called «Additional Liquidity Monitoring Metrics») and an annual summary of the ILAAP (Internal Liquidity Adequacy Assessment Process).

## **Operational and IT risk**

The Coronavirus emergency has clearly had a significant impact on the conduct of business, requiring a rapid adaptation of operating practices.

The physical limitations imposed to contain the pandemic and the need to ensure adequate levels of business continuity led to the introduction of teleworking as a new way for staff to work, while it also encouraged the use of digital channels by customers. Specific attention was therefore directed to strengthening the application and infrastructural safeguards designed to mitigate the risks associated with a more intensive use of technological and ICT devices.

In this regard, it should be noted that, even in these particular circumstances, the IT systems – already adequately equipped to make the bank's IT services and operating procedures accessible remotely – the internet

banking and, with it, the security systems necessary to guarantee the verification of authorised users and the profiling and tracking of transactions were more than adequate to support the greater workloads of the remote channels and to respond to the work reorganisation needs that arose during the emergency. Among the services used to significantly streamline traditional business communications, it is worth mentioning those of fast messaging and, in particular, the use of video-conferencing systems, which made it possible to hold business meetings effectively without the need for the participants to be physically present in the same place.

In order to quantify and respond to the Supervisory Authorities' requests for information, taking action where necessary, the internal structures ordinarily involved in the collection and recording of data on operational losses collaborated in the detection of extraordinary disbursements relating to the emergency situation caused by the pandemic. Among these, worth noting are the expenses incurred by the bank to ensure more stringent health and safety standards in the workplace, as well as the costs involved in upgrading technology and IT networks in order to maintain adequate levels of operational efficiency, especially during the lockdown.

During the period, the incisiveness of risk control also benefited from important evolutionary refinements in the definitional, methodological and organisational structures for managing IT risks: on the one hand, through the creation of a dedicated specialist committee, made up of various multifunctional skills able to guarantee an integrated approach to operations; on the other, by strengthening synergies with the governance and control processes of the more general exposure to operational risks, to which ICT risk inherently belongs.

## **Reputational and money laundering risk**

The emergency experienced in recent months has shown, today even more than in the past, how essential it is to promote an approach to «banking» that is attentive to the relationship with the surrounding community and the financial needs of customers, as an essential element to ensure that the company's reputation is adequately enhanced. This is like creating a protective buffer against all those detrimental effects that could result from a poorer perception of the company's image by stakeholders (shareholders, customers, suppliers, counterparties, investors, sector authorities, etc.) who are involved in operations in various capacities or who are interested in its results.

Despite the difficult situation, the bank took prompt action to ensure operational continuity and accessibility to banking services, favouring the use of electronic channels, at the same time keeping the network of branches accessible in compliance with the restrictions as prescribed. To confirm our traditional mutualistic vocation, tangible measures to support the community were also activated, always ensuring a careful assessment of the risks involved.

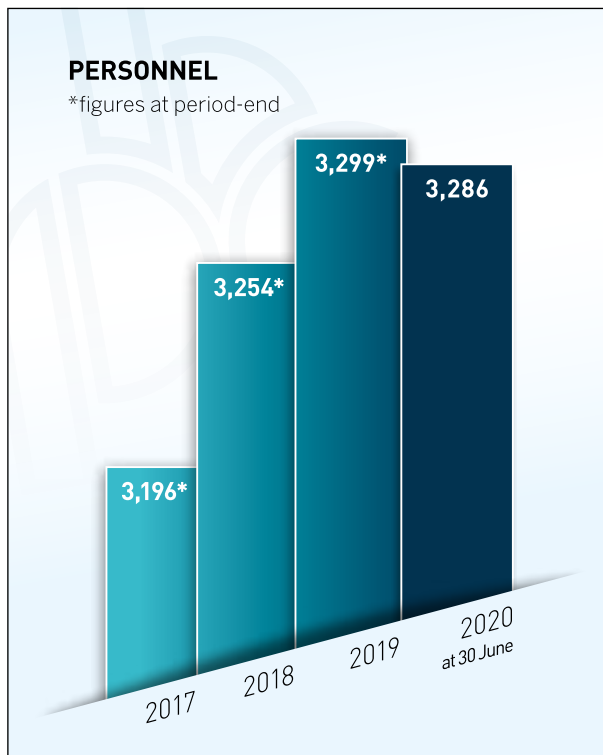
Despite the difficult period, our Anti-Money Laundering Function also



continued to supervise with rigour and competence correct observance of regulatory requirements and governance of the risks deriving from the repercussions of money laundering and terrorist financing, including reputational risk. Given the obligation to identify the beneficial ownership of the business relationships maintained by the bank with all customers other than individuals, without exception, introduced with the implementing measures of the IV European Anti-Money Laundering Directive, the Function has issued clarifications for an appropriate identification of beneficial owners in the presence of executive and insolvency procedures, public administrations, condominiums, ecclesiastical bodies, inheritances, curatorships, providing practical indications on the regularisation of previous relationships in the name of these subjects. Also noteworthy is the promotion of a series of IT interventions in the general registry systems aimed at facilitating the fulfilment of customer due diligence obligations, made even more stringent by the latest regulatory innovations.

Furthermore, in consideration of the emergency situation brought about by Covid-19 and the risks of illicit behaviour to which the financial system is consequently exposed, the Function has implemented the recommendations of the Authorities on the prevention of financial crimes connected with the emergency by putting in place specific controls, in addition to those already performed by the line structures, in order to mitigate the risks in question.

### Regulatory non-compliance risk



Also from the point of view of regulatory compliance, the period just ended was marked by the epidemiological situation.

The check activity ensured by the Compliance Function was constant, following the measures issued in rapid succession by the Central Government and the Lombardy Region to deal with the most acute phase of the health crisis and boost the economic recovery after the lockdown, in order to ascertain the scope of the various provisions, verify their repercussions on company processes and favour correct implementation. The reference goes, in particular, to issues relating to access to support measures for households and businesses by the so-called «Liquidity» and «Cura Italia» decrees.

As part of the interventions to strengthen the bank's organisational, governance and control structures promoted in acknowledgement of the indications provided in November 2019 by the

Supervisory Authority, concrete actions have been launched to strengthen the activity of the Function which are inspired by the results of an independent analysis carried out by external consultants appointed specifically for the purpose.

The action plan drawn up on the basis of the final results of the assessment will also be implemented in the months to come according to schedule.

The consultancy activity ensured by the Function has again been significant, expressed through the issue of visas and compliance opinions requested by the company structures in the face of issues having implications of regulatory compliance, the preparation of preliminary assessments for the launch of new products or services and the outsourcing of activities, the transmission of alerts to report regulatory innovations to the organisational units concerned.

## **HUMAN RESOURCES**

At the end of the semester, the Banking Group's workforce consisted of 3,286 people, of whom 2,757 are employed by the Parent Company, 337 by Banca Popolare di Sondrio (SUISSE) SA, 169 by Factorit spa and 23 by BNT spa.

The total number of employees has increased by 24 (+0.74%) compared with 30 June 2019.

These figures are significant given the current trend in the banking sector, usually in the opposite direction.

At 30 June 2020, 68% of the Banking Group's staff operated in the distribution network with the rest employed at the central offices of the respective companies. The average age was 42 years, with an average period of service of 16 years.

In addition to the Banking Group's staff, there is also the personnel of the subsidiary Pirovano Stelvio spa: 13 people at 30 June 2020, 10 of whom are employed seasonally.

## **PROMOTIONAL AND CULTURAL ACTIVITIES**

During the period, our Banking Group continued to enhance its territory, with particular attention to cultural aspects. Inevitably, some initiatives have been downsized due to the Covid-19 pandemic, but we have still maintained a high level of commitment.

The four-monthly publication «Notiziario», the pride and joy of our publishing business, has allowed readers to divert their thoughts from negative events to free their hearts and minds with readings that have brought a wave of memories of good times past, reflections, hopes, all aimed at uplifting their culture and spirit. The magazine, now at issue no. 142, includes various interesting articles including the story «Salvatore and the Exhibition of the

Marine Imaginary» by the illustrious writer and Germanist Claudio Magris, our guest on several occasions in the past as a speaker at our public conferences. The publication also transcribes the texts that give life to the monograph dedicated to Le Corbusier, also included in the 2019 Annual Report of the Swiss subsidiary.

Our Luigi Credaro library has continued to make its book heritage available to numerous subscribers and visitors.

The activity of our subsidiary Pirovano at the Stelvio Pass, better known as the University of Skiing and Mountains, has also suffered a significant slowdown due to the coronavirus. The usual sporting events could not take place following the directives issued to combat the pandemic. However, it represents a point of reference for all lovers of summer skiing and the mountains, who can regenerate themselves in the protected nature of the Stelvio National Park.

## EQUITY

Shareholders' equity at 30 June 2020, inclusive of valuation reserves and the profit for the period, amounts to 2,853.351 million. Compared with the total at 31 December 2019 of 2,841.780 million, this represents an increase of 11.571 million. The change essentially derives from the accounting of the result of the period under review, as well as from the decrease in valuation reserves following the negative performance of the financial markets.

The Shareholders' Meeting held on 12 June 2020, called to approve the 2019 financial statements and allocation of the profit for the year, passed a resolution to transfer all of the profit to reserves, in accordance with the ECB's recommendation. With a recommendation dated 28 July 2020, the ECB extended the deadline for the suspension of dividends until 1 January 2021; the Board of Directors took note of the fact.

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

The share premium reserve remained unchanged at 79.005 million.

Equity reserves rose to 1,444.031 million, +11.30%; thanks to the profit for the year 2019.

The valuation reserves, representing the net unrealised gains and losses recorded on financial assets measured at fair value through other comprehensive income (FVOCI) and the net actuarial gains and losses on the defined benefit plans arranged for employees, have a negative net balance of 18.878 million, while at the end of 2019 they were negative for 6.885 million, a clear improvement compared with the end of the first quarter, when they were negative for 55.649 million. This is due to the recovery by financial markets, even if it is not yet complete. Treasury shares in portfolio remained essentially unchanged at 25.373 million. With regard to capital adequacy, the harmonised legislation for banks (Regulation (EU) no.

575/2013 (CRR) and Directive 2013/36 EU (CRD IV) and subsequent updates) and Circular no. 285/13 of the Bank of Italy define the general limits on capital ratios, which are equal to 7% for the CET1 Ratio, 8.50% for the Tier1 Capital Ratio and 10.50% for Total Capital Ratio. In the context of its powers, the ECB has the authority, using the information gathered during the prudential review and assessment process, to set customised capital and/or liquidity coefficients for each intermediary subject to EU supervision. In this regard, the bank was informed in a communication dated 13 December 2019 of the Supervisory Board decision regarding the new minimum coefficients applicable from 1 January 2020.

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

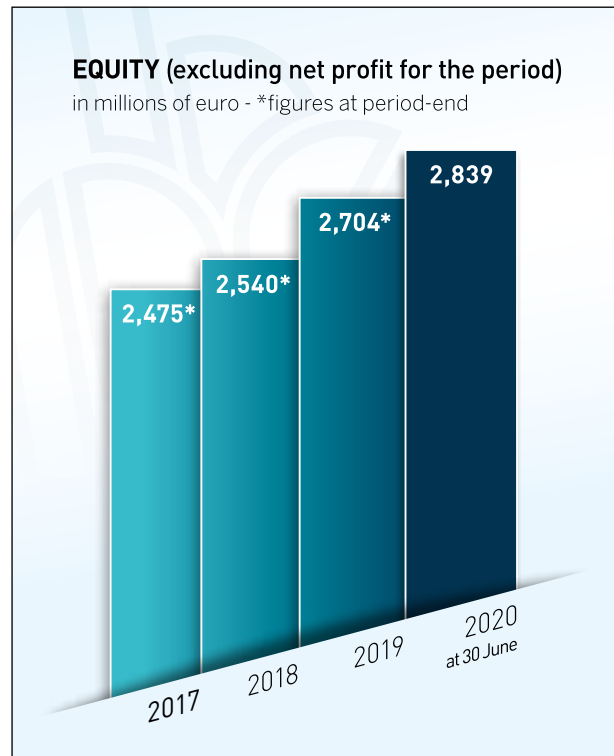
- a minimum requirement of Common Equity Tier1 Ratio of 10%, calculated as the sum of the First Pillar regulatory minimum requirement (4.5%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (3%);
- Tier 1 Capital ratio of 11.5%, being the sum of the Pillar 1 regulatory minimum (6%), the Capital Conservation Buffer (2.5%) and an additional Pillar 2 requirement (3%);
- a minimum requirement of Total Capital Ratio of 13.5%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (3%).

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.

By subsequent communication on 8 April 2020, given the Covid-19 emergency, the ECB said that from 12 March 2020 the additional Pillar 2 requirement (P2R) had to be met for a minimum of 56.25% from CET1 and 75% from Tier 1. Following the revision of the distribution of this item, the minimum Common Equity Tier 1 Ratio requirement is now 8.69%, the minimum Tier 1 Capital Ratio requirement is 10.75%, while the minimum requirement of Total Capital Ratio remains unchanged at 13.50%.

At the same time, the possibility of operating temporarily under the Capital Conservation Buffer has been foreseen as an additional measure of flexibility.

Since 2017, the ECB has been providing the bank with «Pillar 2



Guidance», which acts a guide to the future evolution of the Group's capital. 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.

The Parent Company uses the AIRB internal rating system to measure capital requirements for credit risk.

Consolidated own funds for supervisory purposes amount to 3,225 million.

Consolidated risk-weighted assets totalled 17,693 million.

In the interests of full disclosure, the Group decided to take advantage of Regulation (EU) 2017/2395, which allows supervised intermediaries to include, temporarily, in the calculation of their Tier1 capital an additional amount aimed at «neutralising» the effects of the higher accounting provisions required on immediate adoption of IFRS9, which came into force on 1 January 2018. With Regulation (EU) 2020/873 of 24 June 2020, changes were made to these transitional provisions, both with regard to the time frame and the computability percentages. The additional adjustments related to the entry into force of IFRS 9 will continue to be calculated on the basis of the percentages already provided, while for those related to the Covid-19 emergency, they will be applied to the value of CET1 assets taking into account a percentage of declining computability over time, from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023, 25% in 2024, until it reaches zero in 2025.

Group ratios at 30 June 2020 are reported below:

Group's capital ratios	Phased-in	Fully Phased
CET1 Ratio	15.69%	15.59%
Tier1 Capital Ratio	15.73%	15.64%
Total Capital Ratio	18.23%	18.13%

The leverage ratio is 5.50%, applying the Phased In transitional criteria in force for 2020, and 5.46% based on the Fully Phased criteria.

The following ratios of capital and reserves, including profit for the period, to the principal balance sheet aggregates are presented in comparison with those 31 December 2019:

- *capital/direct funding from customers*  
8.98% v. 8.71%
- *capital/loans and receivables with customers*  
9.93% v. 10.38%
- *capital/financial assets*  
28.04% v. 29.23%
- *capital/total assets*  
6.18% v. 6.91%
- *net bad loans/capital*  
15.38% v. 23.51%

## BPS STOCK

BPS stock is listed on the Screen-Traded Market (MTA) operated by Borsa Italiana and is a component of the FTSE Italia All Share Index. The stock closed the first six months of 2020 with a performance of -20.26%, marking a reference price at 30 June 2020 of 1.681 euro, compared with 2.108 euro at the end of 2019. During the first half of the year, the stock recorded an intraday low of € 1.171 on 20 May and an intraday high of € 2.74 on 19 February.

The average daily volume of securities traded on the MTA market of Borsa Italiana in the first six months of the year was 1.285 million, up from 0.514 million in the same period of 2019.

### BANCA POPOLARE DI SONDRIO stock - MTA segment of Borsa Italiana



The shareholder base at 30 June 2020 consists of 164,118 members, a decrease of 1,864 members compared with the end of 2019.

Transactions in treasury shares are carried out in accordance with the specific shareholders' resolution. The Parent Company held 3,650,000 treasury shares, which is unchanged since the end of 2019. There are also 29,959 shares held by Banca Popolare di Sondrio (SUISSE) SA under the share-based compensation plan foreseen in the Group Remuneration Policies. Their carrying amount is 25.373 million, of which 25.322 involves use of the reserve for purchase of treasury shares of the Parent Company of 30 million.

## 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, DBRS Morningstar and Scope Ratings.





Those from Fitch Ratings are updated to 19 May 2020, while those from DBRS Morningstar and Scope Ratings were issued on 2 April 2020 and 8 April 2020 respectively.

## FITCH RATINGS – 19/05/2020

	RATING
<b>LONG – TERM</b>	
Measures 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.	<b>BB+ *</b>
<b>SHORT – TERM</b>	
It measures the ability of the organisation to which the rating is assigned to meet payments due in the short term, i.e. within the next 13 months. The scale includes seven levels (F1, F2, F3, B, C, RD and D).	<b>B</b>
<b>VIABILITY RATING</b>	
Aims to assess what the situation would be if the bank 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.	<b>bb+ *</b>
<b>SUPPORT</b>	
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 SA1 (best) to SA4 (worst).	<b>5</b>
<b>SUPPORT RATING FLOOR</b>	
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%).	<b>No Floor</b>
<b>LONG-TERM DEPOSIT RATING</b>	
Coefficient that reflects the vulnerability of uninsured deposits to default. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).	<b>BBB- *</b>
<b>SHORT-TERM DEPOSIT RATING</b>	
This is a coefficient that reflects the vulnerability of uninsured short-term deposits to default. It is expressed on a scale similar to the one used for the short-term rating (F1, F2, F3, B, C, RD and D).	<b>F3 *</b>
<b>LONG-TERM SENIOR PREFERRED DEBT</b>	
This is a coefficient that reflects the probability of default of Senior Preferred bonds expressed using a scale from AAA to D.	<b>BB+ *</b>
<b>LONG-TERM SUBORDINATED DEBT</b>	
This is a coefficient that reflects the probability of default of subordinate bonds expressed on a scale from AAA to D.	<b>BB- *</b>
<b>Note:</b> The ratings marked with an asterisk were placed on negative rating watch (RWN) in the rating review of 24/03/2020 which was performed to take into account the negative effects of the pandemic. These ratings were subsequently confirmed in RWN in the annual rating review of 19/05/2020. Based on the methodology adopted by Fitch, the RWN indicates a greater probability of a rating downgrade in the short term.	



## DBRS Morningstar – 02/04/2020

RATING

### LONG – TERM

It is a measure of the probability of default and reflects the bank's ability to repay medium/long-term loans. Expressed on a scale from AAA to D.

**BBB (low)**

### 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 (R-1; R-2; R-3; R-4; R-5 and D).

**R-2 (middle)**

### INTRINSIC ASSESSMENT

Reflects the opinion of DBRS on the intrinsic fundamentals of the bank, considering both quantitative and qualitative elements. Expressed on a scale from AAA to CCC.

**BBB (low)**

### SUPPORT ASSESSMENT

Reflects the opinion of DBRS on the probability and likelihood of timely external support for the bank, in case of need. The scale has four levels from 1 (best) to 4 (worst).

**SA3**

### TREND

Prospective assessment of possible changes in the long-term rating over a period of 1-2 years.

**Negative**

### LONG-TERM DEPOSIT RATING

Coefficient that reflects the vulnerability of uninsured medium/long-term deposits to default. It is expressed on a scale similar to that used for the long-term rating (from AAA to D).

**BBB**

### SHORT-TERM DEPOSIT RATING

Coefficient that reflects the vulnerability of uninsured short-term deposits to default. Expressed on a scale similar to that used for the short-term rating (R-1; R-2; R-3; R-4; R-5 and D).

**R-2 (high)**

### LONG-TERM SENIOR DEBT

It is a coefficient that reflects the probability of default of Senior Preferred bonds expressed using a scale from AAA to D.

**BBB (low)**

### SHORT-TERM DEBT

It is a coefficient that reflects the probability of default of a short term bonds expressed on a scale from R-1 to D.

**R-2 (middle)**

## Scope Ratings – 08/04/2020

RATING

### ISSUER RATING

Represents a rating of the ability of a bank to meet its contractual financial commitments on a timely and complete basis. Expressed on a scale from AAA to D.

**BBB-**

### OUTLOOK

Prospective assessment of possible changes in the rating assigned to the issuer over a period of 12-18 months.

**Stable**

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

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

(in thousands of euro)	Equity	of which: Profit for the period
Equity of the Parent Company as of 30.06.2020	2,510,029	1,725
Consolidation adjustments	-19,076	-19,076
Difference with respect to the carrying amounts of equity investments in:		
- companies consolidated on a line-by-line basis	293,652	17,907
- companies valued using the equity method	68,746	13,853
<b>Balance as of 30.06.2020, as reported in the consolidated financial statements</b>	<b>2,853,351</b>	<b>14,409</b>

## INCOME STATEMENT

The severe economic shock caused by the Covid-19 pandemic and the exceptional containment measures of the virus have had a severe impact on the economy. Businesses have faced supply chain disruptions, temporary closures and reduced demand, while households have often faced falling income and rising unemployment. The financial markets reflected this situation with high volatility in the first quarter, partly recovered in the second in light of the interventions adopted by Governments and various public authorities to support the economy.

The above inevitably had negative repercussions also for the business of our Group, which achieved a profit for the period of 14.409 million, down by 69.35% on 47.007 million of the first six months of 2019, largely attributable to the marked contraction in the results associated with trading in securities and the loss realised on the sale of NPLs.

The negative evolution of the macroeconomic context has led to the need for interventions by the ECB to favour and support the economic recovery. Its expansionary monetary policy has therefore continued, and the intention is that it will go on for as long as is necessary. Targeted longer-term refinancing operations and bond purchases helped to keep interest rates at low levels, while government bond yields remained heavily penalised. On the other hand, the reduction in interest rates applied to loans and advances to businesses and individuals continued, despite the increased need for liquidity, due to the persistence of high competitive pressure between credit institutions.

Net interest income was inevitably affected by this situation, even if the negative trend in the second quarter was less pronounced than in the first

quarter and it was possible to see an inversion in the trend, albeit very slight. At 30 June 2020, net interest income therefore amounted to 233.058 million compared with 230.063 million, +1.30%; in March 2020, it fell by 6.68%. The decrease in interest income was in fact offset by a higher decrease, in absolute terms, in the cost of funding. Interest income also included negative interest on the funds received from the ECB as part of the refinancing operations (T-LTRO), as the trend in credit disbursements at 30 June 2020 reasonably suggests that the thresholds to which the payment of negative interest is linked will be largely exceeded.

Net fee and commission income showed a slightly downward trend, coming in at 152.195 million, -0.25%. The good performance in the first two months of the year was followed by a slowdown in the following months resulting from the contraction in economic activities. In particular, commissions on collections and payments were affected. An improvement was recorded in May and June with the gradual resumption of business activities.

Dividends totalling 2.950 million were collected, compared with 3.168 million.

The net profit from securities, foreign exchange and derivatives operations (the sum of income statement line items 80, 90, 100 and 110, reclassified as indicated in the following table) was a loss of 15.155 million, compared with a profit of 43.299 million.

After the high volatility recorded in the first quarter, as already mentioned, financial markets took on a positive tone in the second, having benefited from the monetary authorities' interventions and a relaxation of the measures adopted to deal with the epidemic emergency. There was a generalised decline in long-term yields and risk prices in the Euro area due to the prospect of greater monetary accommodation, while Italian stock exchange prices increased. The markets therefore recovered the losses recorded in the first quarter, albeit not totally.

Net trading income, line item 80, was a loss of 18.663 million compared with a profit of 32.756 million and recorded a negative balance between revaluations and write-downs of securities compared with a positive balance in the comparative period. The result of the activity in derivatives on securities was also negative, while the net proceeds of the activity in foreign exchange and currencies were positive and rising.

Profits on disposal or repurchase were positive for 11.819 million compared with 5.729 million and are net of 45.105 million of losses on disposal reclassified to adjustments to loans and financial assets. They include profits that derive for 4.703 from financial assets valued at amortised cost, for 7.112 million from assets at fair value with an impact on comprehensive income and for 4 thousand euro from financial liabilities. The net loss on other financial assets measured at fair value through profit or loss, line item 110, amounted to 8.307 million compared with a gain of 4.806 million.

The result from hedging activities resulted in a net loss of 4 thousand euro.

Total income therefore fell to 373.048 million, compared with 429.099 million, -13.06%.

Within this aggregate, the contribution made by net interest income to total income was 62.47% compared with 53.62%.

The trend of the economic situation has on the one hand seen non-performing loans still decelerating, but on the other hand it has to deal with particularly adverse macroeconomic scenarios in the future, which do not leave us very optimistic. Despite considering the situation negative, our Group has continued to assess its exposure to customers on the basis of the rigorous policies currently in force, while trying not to lack financial support for businesses and families in these difficult times. The various activities and processes put in place in terms of monitoring and control of loans to customers in the various phases of disbursement and management and in the completion of the «Diana Project» operation for the sale of NPLs helped to reduce the volume of impaired loans still on the books.

Net adjustments to loans and financial assets amounted to 95.193 million, compared with 105.660 million, -9.91%. Following the reclassification mentioned above, this figure includes an amount of 45.105 million resulting from losses on the sale of non-performing loans as part of the operation to sell customer loans (Diana Project) which closed last June and on which ample information has been given in the notes, as well as an amount of 2.651 million of charges, again linked to the same sale. The results of the monitoring and control activity were also positive.

The «Guidelines on the Management of NPLs» published by the ECB invite banks that have accumulated high levels of (gross) non-performing loans to adopt clear and realistic strategies to reduce their stock of them. This can be done internally, through the establishment of dedicated Working Units, or through direct sale on the market. Our Group, which had one of the highest levels of coverage of NPLs in Italy, has set up a dedicated Working Unit in this area. However, this solution means that NPLs stay in the balance sheet with long recovery times compared with selling them on the market, which allows immediate derisking. Selling them on the market makes it possible to improve capital ratios, profitability ratios and risk management immediately; at the same time, making it possible to free up the financial resources that are tied up in frozen assets, while also making available the specialist resources assigned to their recovery. It also helps to improve the Group's reputation thanks to the increased quality of its assets. This second solution was chosen by the Parent Company which completed the sale (the Diana Project) last June, while a second sale is currently being structured. The loans expected to be sold are assessed in this light, recording the related adjustments in the income statement.

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

Without taking into account the reclassifications for the Diana sale, line item 130 of the income statement, which relates to the exposure to

customers and banks in the form of loans and securities, amounted to 47.437 million compared with 105.660 million (which also included provisions relating to the expected sale transaction); it consists of 42.142 million of adjustments relating to financial assets valued at amortised cost, while the net adjustments for credit risk relating to financial assets valued at fair value through other comprehensive income recorded provisions for 5.295 million on debt securities, compared with writebacks for 1.031 million in the comparative period. It should be noted that in preparing the adjustments, the models used also considered forecasts of future scenarios that were not particularly positive.

The ratio of net adjustments to loans to customers to total loans to customers, also known as the cost of credit, has improved to 0.63% from 0.78% at 31 December 2019.

Line item 140, which is used for the recognition of gains/losses on contractual amendments not resulting in derecognition, arising from modifications to contractual cash flows, was negative for 5.389 million in the reporting period, compared with 1.462 million.

This leads to net financial income of 272.466 million, compared with 321.977 million (-15.38%).

A great deal of attention was paid to holding down operating costs, even though they rose from 263.405 to 264.476 million, +0.41%. They were also affected by the strong – and by now habitual – regulatory pressures that have significant impacts in terms of maintaining adequate operating structures, skills and personnel.

The ratio of operating costs to total income, otherwise known as the cost/income ratio, has risen to 70.90%, from 61.39%, while the annualised ratio of operating costs to total assets came to 1.15% from 1.25%.

Looking at costs in more detail, administrative expenses – normalised after excluding the deferral of the proceeds from the post-employment benefits fund, which have a contra-entry of the same amount under operating income/expense – amounted to 267.057 million, -0.93%, of which personnel costs amounted to 121.743 million compared with 120.634 million, +0.92%, while other administrative expenses fell from 148.924 to 145.314 million, -2.42%.

Administrative expenses still posted a strong incidence of contributions incurred or expected for the Interbank Deposit Guarantee and Single Resolution Funds, even though they decreased from 27.924 million to 25.176 million, -9.84%. There have been significant increases in consultancy fees, costs associated with the sale transaction and IT costs. Net accruals to provisions for risks and charges included a provision of 0.507 million, compared with one of 0.680 million, given by the sum of provisions for credit risk relating to commitments and guarantees issued and provisions for other charges.

The depreciation of property, equipment and investment property and the amortisation of software amounted to 26.197 million, -0.29%. Other income, stated after the reclassifications reported in the above table and net of other operating expenses, amounted to 29.285 million, -11.54%.





## SUMMARY CONSOLIDATED INCOME STATEMENT

(in thousands of euro)	30/06/2020	30/06/2019	(+/-)	% change
Net interest income	233,058	230,063	2,995	1.30
Dividends	2,950	3,168	-218	-6.88
Net fee and commission income	152,195	152,569	-374	-0.25
Result of financial activities	-15,155	43,299	-58,454	-
<b>Total income</b>	<b>373,048</b>	<b>429,099</b>	<b>-56,051</b>	<b>-13.06</b>
Net adjustments to loans and financial assets	-95,193	-105,660	10,467	-9.91
Gains/losses on contractual amendments not resulting in derecognition	-5,389	-1,462	-3,927	268.60
<b>Net financial income</b>	<b>272,466</b>	<b>321,977</b>	<b>-49,511</b>	<b>-15.38</b>
Personnel expenses	-121,743	-120,634	-1,109	0.92
Other administrative expenses	-145,314	-148,924	3,610	-2.42
Other operating income/expense	29,285	33,106	-3,821	-11.54
Net accruals to provisions for risks and charges	-507	-680	173	-25.44
Adjustments to property, equipment and investment property and intangible assets	-26,197	-26,273	76	-0.29
<b>Operating costs</b>	<b>-264,476</b>	<b>-263,405</b>	<b>-1,071</b>	<b>0.41</b>
<b>Operating profit (loss)</b>	<b>7,990</b>	<b>58,572</b>	<b>-50,582</b>	<b>-86.36</b>
Net gains (losses) on equity investments and other investments	13,542	9,687	3,855	39.80
<b>Profit (loss) before tax</b>	<b>21,532</b>	<b>68,259</b>	<b>-46,727</b>	<b>-68.46</b>
Income taxes	-5,284	-20,822	15,538	-74.62
<b>Profit (loss)</b>	<b>16,248</b>	<b>47,437</b>	<b>-31,189</b>	<b>-65.75</b>
Profit (loss) attributable to non-controlling interests	-1,839	-430	-1,409	327.67
<b>Profit (loss) attributable to the Parent Company</b>	<b>14,409</b>	<b>47,007</b>	<b>-32,598</b>	<b>-69.35</b>

**Note:** The result of financial activities is made up of the sum of items 80-90-100 and 110 in the income statement, adjusted for the results at 30/06/2020 of the losses on disposal for € 45.105 million included in the income statement under gains/losses from the sale or repurchase of financial assets measured at amortised cost and shown under net adjustments to loans and financial assets. The latter also includes € 2.651 million of expenses involved in the sale, which are included in other operating income/expense.

For comparative purposes, personnel expenses and other operating income at 30/06/2019 have been reclassified, stating them net of the income generated by the post-employment benefits fund of € 4.745 million.

The aggregate profits/losses on equity and other investments shows a positive balance of 13.542 million, compared with 9.687 million, +39.80%. Profit before income taxes therefore totalled 21.532 million, compared with 68.259 million, -68.46%. After deducting income taxes of 5.284 million, versus 20.822 million, and the profit attributable to non controlling interests of 1.839 million, the profit for the period amounted to 14.409 million compared with 47.007 million, -69.35%.

The effective tax rate, i.e. the ratio between income taxes and the result of current operations, is 24.54% compared with 30.50% in the previous year.

## **SIGNIFICANT SUBSEQUENT EVENTS**

In the context of the judicial proceedings relating to the legislation which required co-operative banks with assets exceeding 8 billion to transform themselves into joint stock companies, the Court of Justice of the European Union, with a decision taken on 16 July, remitted the matter to the Council of State.

On 6 July, the Economic and Finance Ministry was sent the request for the GACS – guarantees on the securitisation of non-performing loans – for the sale of NPLs completed in June.

## **OUTLOOK**

As regards the outlook for operations, conditions in the second half of the year for an improvement in the results achieved so far are believed to exist, providing there are no further shocks that are not reflected in the current macroeconomic forecasts.

*Sondrio, 7 August 2020*

THE BOARD OF DIRECTORS



**CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2020**



# CONSOLIDATED BALANCE SHEET

(in thousands of euro)

Asset items	30-06-2020	31-12-2019
10. Cash and cash equivalents	<b>3,070,346</b>	<b>1,826,427</b>
20. Financial assets measured at fair value through profit or loss	<b>983,719</b>	<b>905,705</b>
a) financial assets held for trading	224,439	214,466
c) other financial assets mandatorily measured at fair value	759,280	691,239
30. Financial assets measured at fair value through other comprehensive income	<b>2,284,371</b>	<b>2,591,229</b>
40. Financial assets measured at amortised cost	<b>38,202,971</b>	<b>34,200,066</b>
a) loans and receivables with banks	3,167,338	1,067,458
b) loans and receivables with customers	35,035,633	33,132,608
70. Equity investments	<b>290,835</b>	<b>294,609</b>
90. Property, equipment and investment property	<b>534,616</b>	<b>548,172</b>
100. Intangible assets	<b>31,326</b>	<b>31,186</b>
of which:		
- goodwill	12,632	12,632
110. Tax assets	<b>437,106</b>	<b>419,295</b>
a) current	20,706	4,971
b) deferred	416,400	414,324
130. Other assets	<b>322,012</b>	<b>329,500</b>
<b>Total assets</b>	<b>46,157,302</b>	<b>41,146,189</b>

THE CHAIRMAN  
Francesco Venosta

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

Equity and liability items		30-06-2020	31-12-2019
10.	Financial liabilities measured at amortised cost	<b>41,542,843</b>	<b>36,949,458</b>
	a) due to banks	9,753,899	4,327,709
	b) due to customers	28,959,989	29,816,997
	c) securities issued	2,828,955	2,804,752
20.	Financial liabilities held for trading	<b>57,785</b>	<b>67,019</b>
40.	Hedging derivatives	<b>8,720</b>	<b>11,320</b>
60.	Tax liabilities	<b>28,251</b>	<b>46,050</b>
	a) current	2,973	16,843
	b) deferred	25,278	29,207
80.	Other liabilities	<b>1,255,087</b>	<b>821,434</b>
90.	Post-employment benefits	<b>42,585</b>	<b>43,789</b>
100.	Provisions for risks and charges	<b>271,794</b>	<b>270,298</b>
	a) commitments and guarantees given	47,012	43,411
	b) pension and similar obligations	178,704	179,965
	c) other provisions for risks and charges	46,078	46,922
120.	Valuation reserves	<b>(18,878)</b>	<b>(6,885)</b>
150.	Reserves	<b>1,444,031</b>	<b>1,297,442</b>
160.	Share premium reserve	<b>79,005</b>	<b>79,005</b>
170.	Share capital	<b>1,360,157</b>	<b>1,360,157</b>
180.	Treasury shares (-)	<b>(25,373)</b>	<b>(25,374)</b>
190.	Non-controlling interests (+/-)	<b>96,886</b>	<b>95,041</b>
200.	Profit (loss) for the period (+/-)	<b>14,409</b>	<b>137,435</b>
<b>Total liabilities and equity</b>		<b>46,157,302</b>	<b>41,146,189</b>

THE MANAGING DIRECTOR AND GENERAL MANAGER  
Mario Alberto Pedranzini

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





# CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

		30-06-2020		30-06-2019
10.	Interest and similar income of which: interest income calculated using the effective interest method	282,617		291,021
			279,002	287,870
20.	Interest and similar expense	(49,559)		(60,958)
<b>30.</b>	<b>Net interest income</b>	<b>233,058</b>		<b>230,063</b>
40.	Free and commissioni income	160,535		163,451
50.	Fee and commission expense	(8,340)		(10,882)
<b>60.</b>	<b>Net fee and commission income</b>	<b>152,195</b>		<b>152,569</b>
70.	Dividends and similar income	2,950		3,168
80.	Net trading income	(18,663)		32,756
90.	Net hedging gains (losses)	(4)		8
100.	Gains/losses from sales or repurchases of:	(33,286)		5,729
	a) financial assets measured at amortised cost	(40,402)		2,603
	b) financial assets measured at fair value through other comprehensive income	7,112		2,823
	c) financial liabilities	4		303
110.	Net gains/losses on other financial assets and liabilities measured at fair value through profit or loss	(8,307)		4,806
	b) other financial assets mandatorily measured at fair value	(8,307)		4,806
<b>120.</b>	<b>Total income</b>	<b>327,943</b>		<b>429,099</b>
130.	Net adjustments for credit risk relating to:	(47,437)		(105,660)
	a) financial assets measured at amortised cost	(42,142)		(106,691)
	b) financial assets measured at fair value through other comprehensive income	(5,295)		1,031
140.	Gains/losses on contractual amendments not resulting in derecognition	(5,389)		(1,462)
<b>150.</b>	<b>Net financial income</b>	<b>275,117</b>		<b>321,977</b>
<b>180.</b>	<b>Balance of financial and insurance management</b>	<b>275,117</b>		<b>321,977</b>
190.	Administrative expenses:	(267,057)		(274,303)
	a) personnel expenses	(121,743)		(125,379)
	b) other administrative expenses	(145,314)		(148,924)
200.	Net accruals to provisions for risks and charges	(507)		(680)
	a) commitments and guarantees given	(3,587)		6,113
	b) other net provisions	3,080		(6,793)
210.	Depreciation and net impairment losses on property, equipment and investment property	(18,792)		(19,039)
220.	Amortisation and net impairment losses on intangible assets	(7,405)		(7,234)
230.	Other operating income/expense	26,634		37,851
<b>240.</b>	<b>Operating costs</b>	<b>(267,127)</b>		<b>(263,405)</b>
250.	Net gains (losses) on equity investments	13,960		9,541
260.	Net result of fair value measurement of property, equipment and investment property and intangible assets	(518)		133
280.	Net gains on sales of investments	100		13
<b>290.</b>	<b>Pre-tax profit from continuing operations</b>	<b>21,532</b>		<b>68,259</b>
300.	Income taxes	(5,284)		(20,822)
<b>310.</b>	<b>Post-tax profit from continuing operations</b>	<b>16,248</b>		<b>47,437</b>
<b>330.</b>	<b>Profit (loss) for the period</b>	<b>16,248</b>		<b>47,437</b>
340.	Profit (loss) of the period attributable to non-controlling interests	(1,839)		(430)
<b>350.</b>	<b>Profit (loss) for the period attributable to the parent company</b>	<b>14,409</b>		<b>47,007</b>

## STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

(in thousands of euro)

ITEMS	30/06/2020	30/06/2019
<b>10. Profit (loss) for the period</b>	<b>16,248</b>	<b>47,437</b>
<b>Other income items net of income taxes that will not be reclassified to profit or loss</b>		
20. Variable-yield securities measured at fair value through other comprehensive income	1,248	(23,821)
70. Defined-benefit plans	(2,005)	(11,961)
90. Share of valuation reserves of equity investments valued at net equity	(25)	49
<b>Other income items net of income taxes that may be reclassified subsequently to profit or loss</b>		
110. Exchange differences	(421)	-
140. Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	(9,085)	30,487
160. Share of valuation reserves of equity investments valued at net equity	(1,699)	1,914
<b>170. Total other income items, net of income taxes</b>	<b>(11,987)</b>	<b>(3,333)</b>
<b>180. Comprehensive income (Item 10+170)</b>	<b>4,261</b>	<b>44,104</b>
190. Consolidated comprehensive income attributable to minority interests	(1,845)	(401)
<b>200. Consolidated comprehensive income attributable to the Parent Company</b>	<b>2,416</b>	<b>43,703</b>



## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(in thousands of euro)

	Opening balance at 31.12.2019	Change in opening balances	Opening balance at 1.1.2020	Allocation of prior year result Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares
<b>Share capital</b>							
a) ordinary shares	1,393,736		1,393,736				
b) other shares	-		-				
<b>Share premium reserve</b>	<b>83,363</b>		<b>83,363</b>				
<b>Reserves</b>							
a) from earnings	1,314,827		1,314,827	139,474		9,154	
b) other	37,851		37,851				
<b>Valuation reserves</b>	<b>(7,056)</b>		<b>(7,056)</b>				
<b>Equity instruments</b>	-		-				
<b>Treasury shares</b>	<b>(25,374)</b>		<b>(25,374)</b>				
<b>Profit for the period</b>	<b>139,474</b>		<b>139,474</b>	<b>(139,474)</b>			
<b>Equity attributable to the group</b>	<b>2,841,780</b>		<b>2,841,780</b>			<b>9,154</b>	
<b>Equity attributable to non-controlling interests</b>	<b>95,041</b>		<b>95,041</b>				

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(in thousands of euro)

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



Changes during the period							Comprehensive income at 30.06.2020	Equity attributable to the group at 30.06.2020	Equity attributable to non-controlling interests at 30.06.2020
Equity transactions									
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held				
							<b>1,360,157</b>	<b>33,579</b>	
							<b>79,005</b>	<b>4,358</b>	
							<b>1,408,137</b>	<b>55,318</b>	
							<b>35,894</b>	<b>1,957</b>	
						<b>(11,987)</b>	<b>(18,878)</b>	<b>(165)</b>	
<b>1</b>							<b>(25,373)</b>		
						<b>16,248</b>	<b>14,409</b>	<b>1,839</b>	
<b>1</b>						<b>2,416</b>	<b>2,853,351</b>		
						<b>1,845</b>		<b>96,886</b>	

Changes during the period							Comprehensive income at 30.06.2019	Equity attributable to the group at 30.06.2019	Equity attributable to non-controlling interests at 30.06.2019
Equity transactions									
Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	% Change in interest held				
(10)							1,360,157	33,579	
							<b>79,005</b>	<b>4,358</b>	
							1,262,231	53,279	
							35,894	1,957	
						<b>(3,333)</b>	<b>(37,756)</b>	<b>(163)</b>	
<b>5</b>							<b>(25,370)</b>		
						<b>47,437</b>	<b>47,007</b>	<b>430</b>	
<b>5</b>						<b>43,703</b>	<b>2,721,168</b>		
<b>(10)</b>						<b>401</b>		<b>93,440</b>	



## CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

	30/06/2020	30/06/2019
<b>OPERATING ACTIVITIES</b>		
<b>1. Cash generated from operations</b>	<b>158,848</b>	<b>174,268</b>
- profit for the period (+/-)	14,409	47,007
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through other comprehensive income (-/+)	41,247	(14,038)
- net hedging gains (losses) (-/+)	4	(8)
- net adjustments for credit risk (+/-)	42,716	114,036
- depreciation and amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	26,714	26,141
- provisions for risks and charges and other costs/revenues (+/-)	22,070	13,270
- unpaid taxes, duties and tax credits (+)	5,284	20,822
- other adjustments (+/-)	6,404	(32,962)
<b>2. Cash generated/absorbed by financial assets</b>	<b>(3,803,955)</b>	<b>585,781</b>
- financial assets held for trading	(21,030)	66,444
- financial assets designated at fair value	-	-
- financial assets mandatorily measured at fair value through profit and loss	(83,226)	36,990
- financial assets measured at fair value through other comprehensive income	293,706	1,338,541
- financial assets measured at amortised cost	(3,965,627)	(872,474)
- other assets	(27,778)	16,280
<b>3. Cash generated/absorbed by financial liabilities</b>	<b>4,870,681</b>	<b>538,218</b>
- financial liabilities valued at amortised cost	4,505,636	433,920
- financial liabilities held for trading	(20,489)	1,794
- financial liabilities carried at fair value	-	-
- other liabilities	385,534	102,504
<b>Net cash generated/absorbed by operating activities</b>	<b>1,225,574</b>	<b>1,298,267</b>

	30/06/2020	30/06/2019
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash generated by</b>	<b>18,791</b>	<b>6,392</b>
- sales of equity investments	7,279	-
- dividends collected from equity investments	10,111	6,377
- sales of property, equipment and investment property	1,401	15
- sales of intangible assets	-	-
- sales of subsidiaries and business divisions	-	-
<b>2. Cash absorbed by</b>	<b>(13,250)</b>	<b>(15,808)</b>
- purchases of equity investments	-	(1,999)
- purchases of property, equipment and investment property	(5,811)	(7,070)
- purchases of intangible assets	(7,439)	(6,739)
- purchases of subsidiaries and business divisions	-	-
<b>Net cash generated/absorbed by investing activities</b>	<b>5,541</b>	<b>(9,416)</b>
<b>C. FINANCING ACTIVITIES</b>		
- issues/purchases of treasury shares	1	5
- issues/purchases of equity instruments	-	-
- distribution of dividends and other uses	-	(22,487)
- sale/purchase of controlling interests in third parties	-	-
<b>Net cash generated/absorbed by financing activities</b>	<b>1</b>	<b>(22,482)</b>
<b>NET CASH GENERATED/ABSORBED IN THE PERIOD</b>	<b>1,231,116</b>	<b>1,266,369</b>

Key:

(+) generated (-) absorbed

## RECONCILIATION

Line items	30/06/2020	30/06/2019
Cash and cash equivalents at beginning of period	1,826,427	1,577,163
Total net cash generated/absorbed in the period	1,231,116	1,266,369
Cash and cash equivalents: effect of change in exchange rates	12,803	8,933
<b>Cash and cash equivalents at end of period</b>	<b>3,070,346</b>	<b>2,852,465</b>





## EXPLANATORY NOTES

### ***Form and content of the report on the first half of 2020***

The report for the first half 2020 has been prepared in accordance with art. 154-ter of Legislative Decree 58 of 24 February 1998 «Consolidated Law on financial intermediation under arts. 8 and 21 of law 52 of 6/2/1996» and the provisions issued by Consob. Account has also been taken of the instructions issued by Consob with resolutions 15520 of 27/7/2006 and Communication DEM/6064293 of 28/7/2006 and Communication DEM/11070007 of 5/8/2011.

The condensed consolidated interim report at 30 June 2020 has been prepared in accordance with IAS 34 and comprises:

- interim directors' report on operations;
- balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement;
- explanatory notes that describe the amounts contained in the consolidated financial report for the half-year and contain the information required by current regulations.

### ***General information***

#### ***Declaration of compliance with International Financial Reporting Standards***

Banca Popolare di Sondrio, società cooperativa per azioni declares that this condensed consolidated interim report has been prepared in compliance with IAS 34.

### ***Basis of preparation***

This condensed consolidated interim report has been prepared in accordance with the following general criteria specified in IAS 1:

- 1) Going concern. The condensed consolidated interim report has been prepared on a going-concern basis: assets, liabilities and «off balance sheet» transactions have been measured at their value in use. In this regard, we would point out that the Board of Directors and Board of Statutory Auditors evaluate the company's prospects with particular attention. The underlying assumption is fully justified and there is no need for detailed supporting analyses, in addition to the information provided in the condensed consolidated interim report and the report on operations.

Considering the structure of deposits based essentially on the T-LTRO refinancing operations, customer current accounts, repurchase agreements and loans, mainly to retail customers and SMEs which the Group monitors constantly, as well as the prevalence of government securities and prime corporate bonds, even considering the difficulties encountered by sovereign debt securities in the recent past, management is of the opinion that there are no critical areas that could negatively influence the Group's capital solidity and profitability, which are key assumptions for adopting the going-concern basis. With reference to the information provided in Document no. 2 of 6 February 2009 and of Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and ISVAP and subsequent updates, the Group has the reasonable expectation of continuing to operate as a going concern in the foreseeable future and has therefore prepared the condensed consolidated half-year report as at 30 June 2020 on the assumption of business continuity. Indeed, the Group has a reasonable

expectation of continuing to operate even in the changed macroeconomic scenario heavily penalised by the COVID-19 pandemic. In this regard, management believes that, despite foreseeable negative repercussions on certain types of revenues and the cost of credit and the elements of risk referred to in the section entitled «Risk Management», the Group can continue to operate as a going concern in the foreseeable future, with capital ratios that are higher than the regulatory minimum requirements. This conclusion also takes into account the significant government interventions in support of companies and households, the incisive monetary policy measures of central banks and the temporary easing of regulatory requirements.

- 2) Accruals basis. Costs and revenues are matched in the accounting periods to which they relate, regardless of when the related transactions are settled.
- 3) Consistency of presentation in the condensed consolidated interim report. Items are presented and classified in the same way from one year to the next, in order to ensure the comparability of information, unless changes are required by an international accounting standard or related interpretation, or a different presentation or classification would be more appropriate for the meaningful and reliable disclosure of information. If the presentation or classification of items is changed, the comparative amounts are also reclassified, if feasible, and the nature of the reclassification is explained together with the related reasons. The format of the financial statements and the explanatory notes complies with the Bank of Italy's Instructions dated 22 December 2005 and subsequent amendments.
- 4) Significance and grouping. Each significant group of similar items is shown separately in the financial statements. Items with a dissimilar nature or use are reported separately, unless they are insignificant.
- 5) No offsetting of balances. Assets, liabilities, costs and revenues are not offset against each other unless required or allowed by an international accounting standard or related interpretation, or unless this is specifically envisaged in the reporting formats established for banks.
- 6) Comparative information. Prior period comparative information is provided for all the data reported in the financial statements, except if a different approach is allowed by an international accounting standard or related interpretation.

The condensed consolidated interim report is prepared in accordance with Italian regulations, to the extent compatible with IFRS. Accordingly, this condensed consolidated interim report reflects the requirements of Decree 136/2015, the Italian Civil Code (c.c.) and the regulations contained in the Consolidated Finance Law for listed companies regarding the report on operations (art. 2428 c.c.) and the audit (art. 2409-bis c.c.).

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

### ***Scope and methods of consolidation***

The condensed consolidated interim report presents the economic and financial position at 30 June 2020 of the Banca Popolare di Sondrio banking group, which comprises the Parent Company, Banca Popolare di Sondrio (Suisse) SA, Factorit S.p.a., Sinergia Seconda, Banca della Nuova Terra S.p.a., Popso Covered Bond S.r.l. and the entities that are controlled by the Group pursuant to IFRS 10.

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

Name	Location	Type of relationship <sup>(1)</sup>	Share capital (in thousands)	% held	% of votes
Banca Popolare di Sondrio (Suisse) S.A.	Lugano	1	(CHF) 180,000	100	100
Factorit S.p.a.	Milan	1	85,000	60.5	60.5
Sinergia Seconda S.r.l.	Milan	1	60,000	100	100
Banca della Nuova Terra S.p.a.	Milan	1	31,315	100	100
Pirovano Stelvio S.p.a. **	Sondrio	1	2,064	100	100
Servizi Internazionali e Strutture Integrate 2000 S.r.l.**	Milan	1	75	100	100
Immobiliare San Paolo S.r.l. **	Tirano	1	10*	100	100
Immobiliare Borgo Palazzo S.r.l.**	Tirano	1	10*	100	100
Popso Covered Bond srl	Conegliano V.	1	10	60	60
Centro delle Alpi RE**	Milan	4	70,062	-	-

<sup>(1)</sup> 1 = majority of voting rights at ordinary shareholders' meeting.

4 = other form of control

\* held by Sinergia Seconda S.r.l.

\*\* equity investments not included in the Banking Group for supervisory purposes

The Parent Company holds 100% of Fondo Immobiliare Centro delle Alpi Real Estate and consolidates it line-by-line.

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

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

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

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

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

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

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



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

The joint ventures shown below are valued at equity:

Name	Location	Type of relationship <sup>(1)</sup>	Share capital (in thousands)	% held	% of votes
Rajna Immobiliare srl	Sondrio	7	20	50	50
Rent2Go S.r.l.	Bolzano	7	11,400	33.33	33.33

<sup>(1)</sup> 7 = joint control.

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

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

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

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

Any change in the other components of comprehensive income relating to these subsidiaries is presented as part of the Group's comprehensive income.

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

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not subject to a separate impairment test.

After applying the equity method, the Group assesses whether it is necessary to recognise an impairment loss on its investment in associates or joint ventures. At each reporting date, the Group assesses whether there is objective evidence that the investments in associates or joint ventures have suffered impairment. In this case, the Group calculates the amount of the impairment as the difference between the recoverable value of the associate or joint venture and its carrying amount in its financial statements, recognising this difference in the profit or loss for the year under the heading «portion pertaining to the result of associates and joint ventures».

Any subsequent writebacks cannot exceed the impairment losses recorded previously.

Upon the loss of significant influence over an associate or joint control over a joint venture,

the Group assesses and recognises the residual investment at fair value.

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

The ownership percentages are specified in the following table:

Name	Location	Share capital (in thousands)	% held
Alba Leasing S.p.a.	Milan	357,953	19.264
Arca Vita S.p.a.	Verona	208,279	14.837
Arca Holding S.p.a.	Milan	50,000	34.715
Cossi Costruzioni S.p.a.	Sondrio	12,598	18.250
Unione Fiduciaria S.p.a.	Milan	5,940	24.000
Polis Fondi Sgrpa	Milan	5,200	19.600
Bormio Golf S.p.a.	Bormio	317	25.237
Lago di Como Gal S.c.r.l.	Canzo	22	28.953
Sofipo S.A.	Lugano	(CHF) 2,000*	30.000
Acquedotto dello Stelvio S.r.l.	Bormio	21**	27.000
Sifas S.p.a.	Bolzano	1,209**	21.614

\* held by Banca Popolare di Sondrio (Suisse) SA

\*\* held by Pirovano Stelvio S.p.a.

### **Special purpose vehicle for the securitisation of impaired loans**

Based on the provisions of IFRS 10, the Vehicle Company Diana S.P.V. S.r.l., specifically established pursuant to Law 130/1999, does not fall within the scope of consolidation of Banca Popolare di Sondrio, as:

- Banca Popolare di Sondrio and the other Group companies have no shareholding relationship with the SPV nor do they have the de facto or legal power to appoint the directors of the company.
- the SPV is not a related party of Banca Popolare di Sondrio or of the other Group companies pursuant to IAS 24;
- Banca Popolare di Sondrio and the other Group companies have no power, whether de facto or by law, to manage the key activities of the SPV (credit recovery);
- the servicing contract provides that investors (and therefore also Banca Popolare di Sondrio as the Transferring Bank) are not entitled to revoke the Master Servicer and/or the Special Servicers; with reference to the Master Servicer, the SPV is the entity that will have the right or the obligation to revoke the assignment of the Master Servicer and to appoint another entity;
- the structure of the securitisation allowed the derecognition from the financial statements of Banca Popolare di Sondrio of the loans sold as the rights to receive the financial flows were transferred to the SPV (para. 3.2.4 (a) of IFRS 9) and the «substantially all of the risks and benefits» associated with them (para. 3.2.6 (a) of IFRS 9).

Please refer to part 16, Other information, for more details regarding the securitisation completed during the period.

### **Business combinations**

Business combinations are accounted for using the purchase method. The total cost of an acquisition is the sum of the consideration paid, measured at fair value at the acquisition date, and the non-controlling interest in the company acquired.

For each business combination, the Group defines whether to measure the non-controlling interest at fair value or in proportion to the non-controlling interest in the identifiable net





assets of the company acquired. Acquisition costs are written off during the year and classified under administrative expenses.

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

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

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

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

The goodwill associated with the asset disposed of is determined on the basis of the relative values of the asset disposed of and the part maintained by the CGU.

### ***Translation of financial statements in currencies other than the euro***

The financial statements of Banca Popolare di Sondrio (Suisse) SA are translated into euro at the official year-end exchange rate for balance sheet items, while costs and revenues are translated into euro at average exchange rate. Differences arising on translation are booked in the statement of comprehensive income.

### ***Subsequent events***

No events have taken place between the reporting date of this condensed consolidated interim report and its approval by the Board of Directors on 07/08/2020 that would require an adjustment to the approved information, and nothing of significance has occurred that would require additional disclosures. On 6 July 2020 the Economic and Finance Ministry was sent the request for the GACS for the sale of NPLs completed in June.

### ***Other aspects***

The financial statements presented in the condensed consolidated interim report comply with the mandatory reporting formats required for statutory reporting purposes by the Bank

of Italy Regulation no. 262 dated 22 December 2005, 6th update. The accounting policies applied during the period under review are consistent with the previous year.

The following are the new documents issued by the IASB and endorsed by the EU, which have to be adopted from the financial statements for the years beginning on 1 January 2020:

- Amendments to references to the IFRS Conceptual Framework.
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Regulation (EU) 2020/34 dated 15 January 2020 which issued the «IBOR Reform» document modifying certain hedge accounting requirements. This enables entities to report useful information during the period of uncertainty caused by the gradual elimination of benchmark interest rates by the end of 2021. This regulation introduced a number of changes to hedge accounting in order to avoid uncertainties about the amount and timing of the cash flows deriving from the reform of interest rates leading to the interruption of existing hedges and problems in designing new hedging relationships.
- Amendments to IFRS 3 – Business combinations. The amendments are to help determine whether a transaction is an acquisition of a business or of a group of assets that does not satisfy the definition of a business given in IFRS 3.
- Amendments to IAS 1 and IAS 8 – Definition of material. The amendments aim to clarify the definition of «material» in order to help companies assess whether a piece of information should be included in the financial statement.

The changes to the international accounting standards that have taken place have not had a significant impact on the condensed consolidated interim financial statements.

The new accounting standards, amendments and interpretations, whose application will become mandatory after 31 December 2020, are listed below:

- Amendments to IAS 1 Financial Statement Presentation: Classification of liabilities as current or non-current. On 23 January 2020 the IASB publish an amendment to IAS 1 which seeks to clarify one of the IAS 1 criteria for the classification of a liability as non-current, namely the requirement that the entity must have the right to defer settlement of the liability for at least 12 months after the end of the reporting period.

The amendment includes:

- clarification that the right to defer settlement must exist at the end of the reporting period;
- clarification that classification is unaffected by management intentions or expectations about possible exercise of the deferral right;
- clarification about how loan conditions influence classification; and;
- clarification of the requirements for classifying a liability that the entity intends to settle or might settle by the transfer of its own equity instruments.

This applies from 1 January 2022.

- IFRS 17 – Insurance contracts published on 18 May 2017 and the amendments to IFRS 17 published on 25 June 2020. This applies from 1 January 2023.
- Amendments to IFRS 4 – postponement of application of IFRS 9 for insurance companies IFRS 17 – Contracts

It is also worth remembering that among the international accounting standards not yet approved by the European Union that come into force in 2020, there is the Amendment to IFRS 16 – Covid-19 – Related Rent Concessions.

In the first half of 2020, the IASB approved the amendment to IFRS 16 on lease accounting. The amendment allows the lessor, as a practical expedient and in certain specific cases, not to have to assess whether a particular concession on lease payments following the COVID 19 pandemic should be accounted for as a lease modification. EU approval of this amendment is expected in the second half of 2020, so it is not applicable in the condensed consolidated interim report.

- On 14 May 2020, the IASB published a number of amendments to IFRS:



- amendments to IFRS 3 Business Combinations: to update the reference in IFRS 3 to the Conceptual Framework in the revised version, without this involving any changes to the standard;
- amendments to IAS 16 Property, Plant and Equipment: not to allow the amount received from the sale of goods produced before the asset was ready for use to be deducted from the cost of the fixed asset. Such sales revenues and costs will be recognised in the income statement;
- amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: to clarify which cost items have to be considered to assess whether a contract will make a loss
- Annual Improvements 2018 - 2020: amendments are made to IFRS 1 First-time Adoption of International Financial Reporting Standards, to IFRS 9 Financial Instruments, to IAS 41 Agriculture and to the Illustrative Examples accompanying IFRS 16 Leases.

The amendments will come into effect on 1 January 2022.

The condensed consolidated interim financial statements, accompanied by the directors' report on operations, consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the financial statements.

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

These estimates and valuations were made on a going concern basis, without considering the unlikely forced sale of the assets measured. All required disclosures are given in the notes on the accounting policies applied to each of the aggregates in the financial statements; however, as allowed by IAS 34, this condensed consolidated interim report does not include all of the information provided in an annual report.

The Parent Company and other Group companies have defined the estimation processes that support the carrying amounts of the more significant items recognised in the condensed consolidated interim report at 30 June 2020, as required by the prevailing accounting standards and relevant regulations.

These processes are largely based on estimating the future recoverability of amounts reported in the financial statements in accordance with rules dictated by current regulation and have been performed on a going concern basis, i.e. valuations are not based on the assumption of a forced sale.

The outcome of this work supports the carrying amount of these items at 30 June 2020.

It should be stated, however, that this valuation process was particularly complex in view of the continuing macroeconomic and market context that have made it increasingly difficult to prepare even short-term forecasts for the financial parameters which have a significant impact on estimates.

The parameters and information used to verify the above figures have been heavily affected by the particularly uncertain macroeconomic and market environment which could, as in the past, experience rapid changes that are currently unforeseeable, with effects – even significant effects – on the amounts stated in the interim report at 30 June 2020. For further details, please refer to the section on accounting policies and uncertainties regarding the use of estimates in the preparation of the condensed consolidated interim financial statements, reported at the end of the «Analysis of the principal captions contained in the condensed consolidated interim report».

The condensed consolidated interim financial statements are subject to a limited audit by EY S.p.A. in accordance with the shareholders' resolution of 29 April 2017 which appointed them as auditors for the nine-year period from 2017 to 2025.

## **Analysis of the principal captions contained in the condensed consolidated interim report**

### **Classification of financial assets**

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

### **Held to Collect (HTC)**

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

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

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

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

### **Held to Collect & Sell (HTC&S)**

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

### **Others (FVTPL)**

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

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

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

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

### **Solely Payment of Principal and Interest Test (SPPI test)**

By means of an SPPI test, it is possible to check whether a financial asset may be considered to be a «basic lending arrangement», whereby the contractual cash flows consist solely of payments of principal and interest accrued on the principal amount outstanding. If the test of the characteristics of the contractual cash flows shows

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

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

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

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

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

### ***Classification***

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

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

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

## **Recognition**

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

## **Accounting policies**

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

With regard to instruments listed on official markets, fair value is calculated with reference to their official bid price at the close of trading, while the fair value of instruments not listed on official markets is determined by reference to prices supplied by information providers such as Bloomberg and Reuters. If this is not possible, estimates and valuation models that take account of market data are used, where available; these methods are based on the valuation of listed instruments with similar characteristics, calculations of discounted cash flows or models for the determination of option prices, taking into account the credit risk profile of the issuer.

If data is not available for measurement under the above models, fair value measurement is performed using unobservable inputs (e.g. adjusted equity; cost, in the event that this is the best approximation of fair value).

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

- Discounted Cash Flow Model (DCF)
- Reverse mortgage model
- ABS model

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

## **Recognition of components affecting the income statement**

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

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

## **Derecognition**

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





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

### ***Classification***

This line item includes all financial assets (fixed-yield securities, variable-yield securities and loans) classified in the portfolio measured at fair value through other comprehensive income. The following are classified in the portfolio measured at fair value through other comprehensive income:

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

### ***Recognition***

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

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

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

### ***Accounting policies***

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

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

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

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

### ***Recognition of components affecting the income statement***

The interest calculated using the effective interest method, which takes account of the difference between cost and redemption value, is recorded in the income statement. Income and charges deriving from a change in fair value are, net of deferred tax effect, classified in separate line items within shareholders' equity: «Valuation reserves: Variable-yield securities

measured at fair value through other comprehensive income» and «Valuation reserves: Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income». As an exception for fixed-yield securities, changes in fair value triggered by changes in risk are recognised in profit or loss in the line item 130 b) «Net impairment adjustments/write backs relating to credit risk» in relation to financial assets measured at fair value through other comprehensive income. Upon derecognition of fixed-yield securities, accumulated gains or losses pertaining thereto are recognised in profit or loss.

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

Dividends are shown under «dividends and similar income».

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

### **Derecognition**

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

## **3. Financial assets measured at amortised cost**

### **Classification**

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

a) due from banks (current accounts, guarantee deposits, fixed-yield securities, etc.).

These include operating loans linked to the provision of financial services and activities as defined by the Consolidated Banking Act and the Consolidated Finance Act (for example, the distribution of financial products).

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

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

Also included are:

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

### **Recognition**

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

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

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

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

### **Accounting policies**

Subsequent to initial recognition, valuations are carried out on an amortised cost basis, using the effective interest method. Amortised cost is represented by the initial value net of any repayments of principal, as uplifted or decreased by writebacks or writedowns and the amortisation of the difference between the amount paid and that recoverable on maturity. The effective interest rate is the rate using which the present value of future cash flows equals the amount of the loan granted, as adjusted by directly-related costs and revenues. Short-term loans (less than 12 months) without a specific repayment date and loans repayable on demand are recognised at historical cost, as the calculation of the amortised cost does not produce significant differences with respect to this amount. The effective interest rate identified initially, or when the indexing parameter for the loan is modified, is used subsequently to discount expected cash flows, even if there has been a credit change associated with the loan triggered by loan forbearance that has led to a change in the contractual rate.

For measurement purposes, financial assets measured at amortised cost are classified in one of 3 different stages as follows:

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

Classification in one of the stage 3 credit-impaired categories complies with the definition of «Non-performing exposures» provided by the Implementing Technical Standards (ITS) of the EBA and adopted by the European Commission, where impaired financial assets are to be split between «non-performing», «unlikely to pay» and «past due and/or impaired overdrawn accounts». At each reporting date, an entity must assess whether there has been a significant increase in credit risk since the date of initial recognition. The determination of a significant increase in credit risk (SICR) and the subsequent estimation of impairment, which may either be annual (for positions classified in stage 1) or multiannual based on the residual life of the exposure (for positions classified in stage 2), is performed via the use of specific methodologies, which combine the use of absolute criteria – specifically, information relating to the number of continuous days past due/overdrawn, any forbearance measures, use of the low credit risk exemption for limited and particular types of counterparties and technical

forms – and relative criteria. More precisely, the latter enable the measurement, via the analysis of an appropriate PD-based metric («Probability of Default»), of the change in the riskiness of the position over a timescale equating to the residual life thereof that has elapsed since the origination date up to the analysis/reporting date. For the construction thereof, use is made of probability of default term structures (lifetime PD curves, which differ according to appropriate granularity), which are constructed starting with an internal rating system, where available, or that assigned by an external rating agency, and by also taking into consideration elements of a predictive-evolutionary nature and specific to the macroeconomic scenario deemed to be most plausible at the analysis/reporting date in compliance with the underlying rationale of the new accounting standard. Such a case would result in a transfer between stages: this model is symmetrical and assets may be moved from one stage to another. In particular, consistent with the prudent principles of forbearance, an observation period of at least two years is applied before returning the position to a better stage.

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

In particular:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the context of calculating the ECL, internal regulations require the expected loss and the recoverable value of non-performing loans to be estimated in disposal scenarios in accordance with a specific procedure, comprising several phases, that starts with identification

of the scenarios. In general, the accounting rules require the estimate of the loss on non-performing loans to reflect a range of possible outcomes for different scenarios, each associated with a specific probability of occurrence.

Currently, the following possible scenarios have been identified, each with different models and estimated outcomes:

- internal management of credit recovery activities;
- disposal to third parties of impaired exposures.

The next phase consists in identifying the portfolio to be sold, based on knowledge of its characteristics, the existence of any internal and/or external constraints, the monitoring of market conditions and any more complex strategic and operational objectives. The aggregate is defined with reference to the specific factors attributed to each position, such as their contractual characteristics (e.g. type of guarantee, ageing, size of the exposure etc.) and relevant operational information, including the type of recovery procedures already in progress, the geographical location of the counterparty, any impediments or obstacles to disposal, the strategic orientation of the group, the conditions existing from time to time in the market for the disposal of loans, the strategies adopted by competitors, and any other internal and/or external factors that can be explained appropriately.

Each operational scenario identified is assigned a specific probability of occurrence. This probability is determined after considering both quantitative and qualitative elements that can be supported by factual data and documented analysis; for example, the probability of occurrence of the external disposal scenario considers such qualitative elements as the progress made on preparations for the sale and the stage reached in the approval process.

The next phase involves estimating the expected loss for each scenario. The estimate of losses on non-performing loans must reflect reasonable and well-founded information, available without excessive cost or effort, including details of past events, current conditions and the economic situation expected in future. In line with the internal regulations for quantifying the loss expected on non-performing exposures, an estimate is made of the cash flows expected from each operational scenario identified.

Without prejudice to specific regulatory instructions, the estimate of cash flows from internal credit management scenarios takes account of macroeconomic and sector information, the situation faced by the debtor, the cash flows expected from the restructuring of unlikely-to-pay exposures, any secured and unsecured guarantees, the period for which the position has been impaired and the expected time to obtain recovery.

The estimate of cash flow from loan disposal scenarios takes account of any similar transactions carried out in the past by the group, as well as specific information available about the underlying (situation faced by the borrower and any loan guarantees obtained) and the market for the disposal of non-performing loans (e.g. historical and forecast market curves, positioning analyses, discount rates based on current and expected conditions in the market for impaired loans and receivables).

The expected loss on each impaired position is therefore determined using the following formula:

Expected Loss Individual position	=	Expected Loss - Disposal Scenario * Probability of occurrence of Disposal	+	Expected Loss - Internal Management Scenario * Probability of occurrence of Internal Management
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### **Recognition of components affecting the income statement**

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

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

As regards financial assets classified in stage 3 and loans purchased or originated credit-





impaired (POCI), interest is calculated using the net interest method and is recognised in the line item «interest and similar income».

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

### ***Derecognition***

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

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

However, the standard includes new guidance on:

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

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

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

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

### **3.1. Commitments and guarantees given**

#### ***Classification***

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

#### ***Recognition and measurement***

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

#### ***Recognition of components affecting the income statement***

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

charges - a) Commitments and guarantees given»

#### **4. Hedging transactions**

##### ***Classification and recognition***

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

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

The hedging of market risks can take two different forms:

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

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

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

##### ***Measurement and recognition of components affecting the income statement***

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

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

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

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

- derivative instruments are stated at their fair value. The gains and losses deriving from the effective part of the hedge, net of the related deferred tax effect, are recorded among the «Valuation reserves» within equity and only released to income when the hedged



change in cash flows takes place;

- the hedged item continues to be valued on the basis applicable to the category concerned;
- the amounts recognised among the components of other comprehensive income are reclassified to the income statement for the year in which the hedged transaction affects the income statement, for example when charges or income are recognised in relation to the hedged instrument.

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

### ***Derecognition***

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

## **5. Equity investments**

### ***Classification***

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

### ***Recognition***

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

### ***Accounting policies***

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

### ***Measurement and recognition of components affecting the income statement***

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

### ***Derecognition***

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

## **6. Property, equipment and investment property**

### ***Classification***

This caption includes buildings, land, installations, furniture, equipment, furnishings and machinery.

The rights of use acquired with the lease relating to the use of a tangible asset (for lessees) are also included.

In addition, this caption includes buildings held for investment purposes in order to earn rentals or enjoy capital appreciation.

## **Recognition**

Property, equipment and investment property are initially recorded at cost, including all expenses directly related to the asset's installation prior to being brought into service. Expenditure on improvements that will generate future economic benefits is added to the value of the assets concerned, while routine maintenance costs are charged to the income statement.

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

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

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

At the time the contract begins, the lessee recognises:

- an asset consisting of the right to use the asset underlying the lease contract:
  - the financial liability for the lease;
  - payments for the lease paid before or on the date on which the lease takes effect (net of the lease incentives already received);
  - initial direct costs;
  - any (estimated) costs for the dismantling or restoration of the underlying leased asset;
- a financial liability deriving from the lease agreement corresponding to the present value of the payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise the lessee's incremental borrowing rate is used. If a lease contract contains «non-lease components» (for example services, such as routine maintenance, to be recorded according to the provisions of IFRS 15) the lessee has to account for «lease components» and «non-lease components» separately and split the contract consideration between the various components based on their relative prices.

The lease term is determined by taking into account:

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

## **Accounting policies**

Following initial recognition, property, equipment and investment property are stated at cost net of accumulated depreciation and any permanent impairment of value, except for property held for investment purpose, which are measured at fair value. Depreciation is provided on a systematic basis over the useful lives of the various categories of asset. The total book value of property has been split, based on specific appraisals, between the value of buildings and that of the related land, which is not depreciated since it has an indefinite life. Property, equipment and investment property are subjected to impairment testing at year end, or at interim reporting dates if there is evidence of a possible loss of value, and any impairment of their carrying amount with respect to their recoverable amount is charged to the income statement. Recoverable amount is defined as the asset's fair value, less any selling costs, or, if greater, its value in use as represented by the present value of future cash flows generated by the asset; subsequent writebacks do not exceed the impairment losses recorded previously.

With regard to lease contracts, the lessee must:

- assess the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for on the basis of the provisions of IAS 36 «Impairment of assets», adjusted to take into account any restatements of the lease liability;

- increase the liability deriving from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or, alternatively, at the incremental borrowing rate and reduce it for payments of principal and interest. In the event of changes in payments due for leases, the liability must be restated; the impact of the recalculation of the liability is recognised as a contra-entry to the asset consisting of the right of use.

### **Recognition of components affecting the income statement**

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

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

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

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

### **Derecognition**

Property, equipment and investment property are derecognised on disposal or when their economic lives are over and they are not expected to generate any further economic benefits.

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

## **7. Intangible assets**

### **Classification**

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

Intangible assets comprise software and goodwill.

### **Recognition**

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

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

### **Accounting policies**

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

estimated: the impairment loss, being the difference between the carrying amount and the recoverable amount, is charged to the income statement.

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

### **Recognition of components affecting the income statement**

Periodic amortisation, impairment losses and writebacks are recorded in the «amortisation and net impairment losses on intangible assets» caption of the income statement.

It is not permitted to book any subsequent recoveries in value.

### **Derecognition**

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

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

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

## **9. Current and deferred taxation**

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

Tax liabilities are determined by applying the current tax rates and regulations.

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

If there are deductible or taxable temporary differences at the reporting date between the value of assets and liabilities for tax purposes and the related carrying amounts, the corresponding deferred tax assets and liabilities are recognised using the liability method. Deferred tax liabilities are recognised on all related temporary differences, with the following exceptions: – they derive from the initial recognition of goodwill, or an asset or liability, in a transaction that did not represent a business combination and that, at the time, did not influence the results reported for statutory and tax purposes; – the reversal of taxable temporary differences associated with equity investments in subsidiary

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

## 10. Provisions for risks and charges

This caption comprises the following provisions:

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



- a reliable estimate can be made of the amount necessary to settle the obligation.

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

## **11. Financial liabilities measured at amortised cost**

### ***Classification***

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

### ***Recognition***

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

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

### ***Accounting policies***

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

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

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

### ***Recognition of components affecting the income statement***

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

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



### ***Derecognition***

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

### **12. Financial liabilities held for trading**

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

### **13. Financial liabilities measured at fair value**

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

### **14. Currency transactions**

They include all assets and liabilities denominated in currencies other than Euro.

### ***Recognition***

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

### ***Accounting policies***

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

### ***Recognition of components affecting the income statement***

Exchange differences deriving from the settlement of monetary items or from the translation of monetary items using rates other than the initial translation rate, or the closing rate at the end of prior periods, are recorded in the income statement for the period in which they arise.

Exchange differences on assets, excluding monetary items, that are classified as financial assets measured at fair value through other comprehensive income, are recognised among the valuation reserves.

### ***Derecognition***

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

### **15. Termination indemnities**

Post-employment benefits (i.e. termination indemnities) are treated as a defined-benefit plan or a defined-benefit obligation. Accordingly, pursuant to IAS 19, the value of this

obligation is determined by extrapolating the current liability, using actuarial assumptions, for the portion of the amount accrued.

Under the projected unit credit method, each year of service originates an additional unit of indemnity that is used to calculate the final obligation. This calculation is performed by forecasting future payments with reference to historical-statistical analyses and the demographic curve, and discounting them using a market interest rate. The actuarial analysis is carried out every six months by an independent actuary.

As a result of the reform of supplementary pensions by Decree 252 of 5 December 2005, the termination indemnities accrued up to 31 December 2006 remain in the company, whereas those accruing after that either have to be assigned to some form of supplementary pension fund or kept in the company and subsequently transferred to INPS, depending on the preference of the individual employee. This has entailed changes in the underlying assumptions used for the actuarial calculation: in particular, account no longer has to be taken of the average annual rate of increase in salaries.

In compliance with Law 335/95, employees hired since 28 April 1993 may allocate part of their termination indemnities to a supplementary pension fund established pursuant to current in-house agreements.

Gains and losses arising from changes in actuarial assumptions are booked to equity as shown in the statement of comprehensive income.

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

## **16. Other information**

### **Diana Project – derisking of a portfolio of non-performing loans to a securitisation vehicle**

As explained in the interim report, during the second quarter of 2020 the Diana Project was completed, giving a decisive acceleration to the process of derisking and improving the quality of assets through the sale of a portfolio of non-performing loans. The portfolio was made up 74% of secured non-performing mortgage loans and of unsecured positions for the other 26%.

The securitisation was completed for legal purposes on 1 June 2020 through the sale without recourse of a portfolio of non-performing loans pursuant to arts 1, 4 and 7.1 of Law 130 of 30 April 1999 to Diana S.P.V. S.r.l., for a gross book value at the date of sale of 872.231 million euro. The securitised portfolio at the date the sale took effect for economic purposes (1 April 2019) included 999.717 million euro of NPLs. On 17 June 2020, the payment of the purchase price by the SPV was financed through the issue of 3 classes of ABS securities, initially fully subscribed by Banca Popolare di Sondrio, for a total nominal value of 273.651 million split as follows:

- Senior tranche (Class A) of 235 million, with investment grade rating (BBB assigned by DBRS Morningstar, Baa2 by Moody's and BBB by Scope Ratings) consistent with the requirements of the regulations for the issue of the State guarantee (GACS) by Economic and Finance Ministry, pursuant to Legislative Decree 18/2016, for which the formal procedure has been started. These securities provide a yield equal to the 6-month Euribor plus an annual spread of 0.5%
- Mezzanine tranche (Class B) of 35 million, unrated, with a yield equal to the sum of an annual spread of 9% and the lower of the 6-month Euribor and 0, to which has to be added the greater of the 6-month Euribor and 0.
- Junior tranche (Class J) of 3.651 million, unrated, with a yield equal to the 6-month Euribor plus an annual spread of 15% and any variable yield depending on the performance of the securitisation.

The placement of 95% of the Mezzanine and Junior tranches with institutional investors was

completed on 25 June 2020. In compliance with the retention rule in art. 6, paragraph 4, of the Securitisation Regulation, art. 51, paragraph (1), letter (a) of the AIFMD Regulation and art. 254, paragraph (2), letter (a) of the Solvency II Regulation, Banca Popolare di Sondrio has retained ownership of 5% of the Mezzanine securities (nominal value 1,750,000) and of the Junior securities (nominal value 182,550).

Consistently with the provisions of IFRS 9, as a result of the settlement of the sale of 95% of the aforementioned notes, the conditions for the derecognition from the financial statements of the bad loans sold have been met, as the rights and benefits relating to them have been substantially transferred. All of the Senior notes are classified in the «Financial assets at amortised cost» portfolio, conversely the portions of the Mezzanine notes (fair value 667,368 euro) and of Junior notes (fair value 528 euro) that are still owned have been recorded as «Financial assets mandatorily measured at fair value through profit or loss».

The SPV has entered into an Interest Rate Cap (IRC) type derivative contract in order to protect itself from interest rate risk. The Transferring Bank is not a «direct» or «indirect» counterparty (through an investee) of derivative instruments designed to attribute part of the risks assumed by the vehicle to the Transferring Bank.

The loss on sale, 45.105 million euro, which is included in «Gains (losses) from the sale or repurchase of financial assets measured at amortised cost», derives from the sale of non-performing loans and from the subsequent sale of the subordinated tranches. In addition, other charges of € 2.651 million connected with the sale are also added.

The credit management and recovery activity was entrusted by the Vehicle Company to Prelios Credit Servicing S.p.A., a servicer appointed in accordance with article 2, paragraphs 3 and 6-bis of Law 130/1999.

For the sake of completeness of information, it should be noted that in the context of the transaction, Banca Popolare di Sondrio granted the vehicle Diana S.P.V. S.r.l. a «Limited Recourse Loan» of Euro 10.925 million, intended, on the date of issue of the securities, as a cash reserve available to the SPV to cover any misalignments between the recovery plan of the Transferred Portfolio and the payments to be made to the security holders. This loan, recorded under «Financial assets measured at amortised cost», will be repaid out of the liquidity available to the SPV according to the order of payment priority and, in any case, prior to repayment of the senior notes' principal, so it does not represent any form of credit support for the securitisation.

The main elements of the transaction described above are summarised below:

Portfolio sale date	01/06/2020
Vehicle Company	Diana S.P.V. S.r.l.
Servicer	Prelios Credit Servicing S.p.A.
Securities issue date	17/06/2020
Type of transaction	Traditional with GACS guarantee from the Economic and Finance Ministry.
Assets transferred	NPLs made up of mortgage and unsecured credit exposures
Sector of the economy	Non-performing loans to individual, corporate and retail customers
Geographical breakdown	Loans subject to securitisation mainly refer to individuals resident in Italy
Subordinated loan (Cash reserve)	10.925 million
Guarantees and credit lines issued by third parties	IRC contract for hedging cash flows of notes issued
Quality of the assets transferred	Non-performing loans
Amount of securitised assets	The total of the loans receivable from the transferred portfolio amounts to Euro 872 million.
Sale price of the securitised assets	The sale price is Euro 274 million.

The vehicle company has issued the following securities:

Seniority	Maturity	Issue amount	Rating by DBRS Morningstar	Rating by Moody's	Rating by Scope Ratings
Senior	December 2038	235,000,000	BBB	Baa2	BBB
Mezzanine	December 2038	35,000,000	N/A	N/A	N/A
Junior	December 2038	3,651,000	N/A	N/A	N/A
<b>TOTAL</b>		<b>273,651,000</b>			

### Share-based payments – Transactions settled using equity instruments

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

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

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

### Revenues from contracts with customers

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

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



or loss. If an entity receives from the customer consideration that envisages the reimbursement to the customer of all or part of the revenue obtained, a liability should be recognised for expected future reimbursements. The estimate of this liability is updated at each year end or interim reporting date based on the portion of the consideration that an entity does not expect to be entitled to.

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

### **Income from dividends**

Dividends are recognised when the right to collect them arises.

### **Treasury shares**

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

### **Covered bonds**

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

On 1 June 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

A second assignment of performing loans totalling € 202 million took place on 5 December 2015, under the same contract.

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

A fifth assignment of performing loans for a total of € 307 million took place on 1 October 2017 under the same contract. A sixth assignment of performing loans for a total of € 323 million took place on 1 October 2018. Lastly, a seventh assignment of performing loans for a total of € 352 million took place on 1 December 2019.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, they were not derecognised and have therefore been retained on the financial statements.

### **Interbank Deposit Protection Fund - Voluntary Scheme**

In December 2015, the Parent Company joined the Voluntary Scheme established as part of the Interbank Deposit Protection Fund to support measures in favour of member banks in receivership or distress or in danger of collapse. This is an additional tool to resolve banking crises intended for interventions when there is a reasonable chance of turning round the bank or when the intervention is likely to cost less than liquidating it. The Fund intervened in support of Banca Carige in 2018, resulting in a payment by the Bank of 5.257 million matched by the recognition of a financial asset represented by securities measured at fair value through profit and loss. This financial asset was written down in full in the 2018 financial statements. No other charges for other interventions were accounted for during 2019 and the period under review.



## **Significant accounting policies and uncertainties about the use of estimates when preparing the consolidated financial statements (pursuant to IAS 1 and the recommendations contained in Bank of Italy/Consob/Isvap documents 2 dated 6 February 2009 and 4 dated 3 March 2010)**

As stated previously, the adoption of certain accounting policies necessarily requires recourse to estimates and assumptions that influence the value of the assets and liabilities recognised in the interim report and in the disclosures made about any contingent assets and liabilities. When accounting estimates are made, the Group considers all information available at the time of preparing this interim financial report, as well as any reasonable assumptions based on external evidence and its own historical experience. However reasonable, it cannot be excluded that these estimates might not be confirmed in the future operating scenarios that unfold for the Group. The results reported in future might, in fact, differ significantly from the estimates made when preparing the interim financial statements and, consequently, adjustments to the carrying amounts of reported assets and liabilities might become necessary that are currently unforeseeable and cannot be estimated.

The principal uncertainties at this time, with a potential impact on the future operating scenarios that unfold for the Group, include the direct and indirect adverse consequences for the Italian and global economies of the COVID-19 pandemic.

### **Impacts of COVID 19**

Based on the indications of ESMA in the Public Statement of 20 May 2020 containing recommendations about the implications of the COVID-19 pandemic on the interim financial reports of listed issuers, later referred to by Consob in its Notice no. 8/20 of 16 July 2020, the following is the information regarding the impacts of the Covid-19 epidemic on the recoverability of assets, on material uncertainties and risks, and on the results for the period.

To date, budget targets have not been updated as there are still too many uncertainties. Once the epidemic and the economy have been stabilised, which is the main priority, we will be able to proceed in this direction.

### **ECL – Expected credit losses**

During the first half of 2020, to calculate expected losses on performing loans and to update the historical series of risk parameters and macroeconomic factors based on the latest available forecasts, including the effects of the Covid-19 pandemic, we continued to make improvements to our models with a view to making better estimates of expected losses, in line with the requirements of IFRS 9.

With specific reference to the explicit modelling of the scenario-dependency component as postulated by the accounting standard, we would point out that the following three different macro-scenarios and the respective weighting factors were adopted to calculate the loan loss adjustments made at June 2020:

- a baseline scenario, corresponding to the mid-June 2020 update of the baseline scenario initially released by the official supplier on the occasion of the last forecast report, to which a probability of 80% was attributed;
- a (slightly) favourable scenario, based on the mid-May 2020 update of the baseline scenario initially released by the official supplier at the time of its last forecast report, to which a probability of 10% was attributed;
- a (slightly) adverse scenario, based on the macroeconomic forecasts published by the Bank of Italy at the beginning of June 2020, to which a probability of 10% was attributed;

As regards the SICR thresholds to be used in the absolute staging criteria, they were recalibrated on the basis of the new macro-economic scenarios according to the usual methodologies and the definition of specific adjustment coefficients, also defined on the



basis of a data-driven approach to remove elements of excessive pro-cyclicality when estimating provisions.

Overall, these revisions resulted in higher collective loan loss adjustments, going from 124 million euro at 31 December 2019 to 146 million euro at 30 June 2020.

In any case, it cannot be excluded that the introduction of different methodologies, parameters and assumptions in determining the recoverable value of the Group's performing credit exposures - also influenced by the evolution of the economic-financial and regulatory context of reference could lead to valuations that are different from those carried out for the purpose of these interim accounts at 30 June 2020.

In particular, in order to determine the impact of the losses expected following the selection of various macroeconomic scenarios, the section dedicated to credit risk contains a sensitivity analysis of the losses expected on performing loans to customers.

### **Moratoria and other support measures**

In order to evaluate the effects on the interim financial statements, in consideration of the economic support measures implemented by the Italian government and by trade associations, which require a significant intervention by the banking system, three macro-classes of measures can be identified:

- moratoria/suspensions on mortgages and loans in favour of individuals and businesses;
- State-guaranteed loans in favour of small, medium and large enterprises;
- cash advances to workers, depending on the particular type of loan to be granted.

The accounting classification of loans are the same as those used in the financial statements at 31 December 2019, to which reference should be made for more details, with the exception of the following. Given the exceptional nature of the situation caused by the COVID-19 pandemic and the guidelines of the Supervisory Authorities, aimed at using the margins of flexibility existing in the accounting and prudential regulations, during the first half of 2020 it was decided to make some changes to the accounting classification, such as:

- loan suspensions and concessions (e.g. restructuring/rescheduling) according to a specific law or allowed by the banking system for the purpose of providing lines of credit to cope with COVID-19 are not to be identified as forborne exposures;
- suspensions and concessions other than those in point 1) are subject to specific assessment and considered forborne, with consequent transfer to stage 2, in all cases in which the financial difficulty and/or type of support granted is not exclusively attributable to the COVID-19 pandemic and/or are not sufficient to cope with its effects;
- the triggers for automatic classification to default in the presence of forbearance measures already active on performing customers deriving from a previous non-performing status, have been deactivated in order to avoid, in the case of an amount overdue by thirty days, the customer's automatic transfer to non-performing loans and downgraded to non-binding parameters of high relevance to monitor the riskiness of these positions in any case. Similarly, adherence to a second moratorium, not being a forborne exposure, is not considered a binding parameter of unlikely-to-pay;
- in the presence of an investigation for a concession for COVID-19 purposes, continuous and material overruns for 90 days do not result in automatic classification among non-performing past due exposures. The calculation of overdue days is in fact suspended for the entire period of the suspension.

### **Impairment test on goodwill**

Checks are carried out periodically to ensure that there are no indicators of permanent losses on intangible assets with an indefinite useful life (goodwill) and equity investments recorded under assets. Impairment testing is carried out annually by determining the value in use or the fair value of the assets and verifying that the value at which the intangible asset or investment is recorded in the financial statements is lower than the value in use or the

fair value, whichever is the higher, net of selling costs. At 30 June 2020, goodwill on the books amounted to a total of 12.6 million.

However, given that the COVID-19 epidemic has brought about the conditions for activation of impairment indicators as per IAS 36, in line with what ESMA said in its communication of 20 May 2020 (ESMA32-63-972) and reiterated in the most recent CONSOB communication with the notice no. 8/20, we decided to update the impairment test as reported in the notes in the comment on «intangible assets», where there is an explanation of the main assumptions underlying the recoverability of goodwill and the results of the test.

### **Deferred tax assets**

The assets shown in the Group's balance sheet include deferred tax assets, which principally derive from temporary differences between the date of recognition of costs in the income statement and the date on which they become tax deductible and, to a lesser extent, from tax losses carried forward. The recognition of these assets and their subsequent retention in the balance sheet is dependent on verification of their recoverability. This involves the performance of a probability test that, inter alia, takes account of the tax regulations in force at the reporting date.

At 30 June the Group accounted for approximately 416 million of deferred tax assets, for which it is reasonably believed that there are no recoverability problems as around 335 million, more than 80% of the total, meet the requirements of Law no. 214 of 22 December 2011 and can be transformed into tax credits in the event of recognition of a «statutory loss», a «tax loss» for IRES purposes and a «negative net production value» for IRAP purposes; their recovery is therefore certain, as unrelated to the ability to generate future taxable income.

### **Government securities**

The current volatility of sovereign spreads has affected the valuation of the fixed-yield securities owned by the Group which were down in value at 30 June 2020. For further details on the Group's exposure to sovereign risk, please refer to the notes. Overall, the effect on the valuation reserves was negative for approximately 11 million, while it was much more limited in the income statement as there are relatively few sovereign fixed-yield securities classified in portfolios at fair value through profit or loss; the management of fixed-yield securities owned by the Group classified in the «held to collect» (HTC) and «held to collect and sell» (HTCS) portfolios continues in line with the choices made in previous years and no changes have been made to the business models.

### **Transfer of financial assets held for trading**

As in the previous year, the Group did not carry out any reclassifications of financial assets.

## **INFORMATION ON FAIR VALUE**

### **Qualitative information**

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

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



price of an identical asset or liability cannot be found, it is necessary to use measurement techniques that maximise the use of significant observable inputs and minimise the use of unobservable inputs.

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

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

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

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

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

### **Processes and sensitivity of the measurements**

The Group uses various methodologies to determine the fair value of assets and liabilities.

Based on the inputs available for use, financial instruments are classified into Level 1, Level 2 and Level 3. Level 1 financial instruments are those listed in active markets, whose fair value is determined with reference to official market prices. If there is more than one active market, reference is made to the principal market; failing this, the most advantageous market is used. Level 1 inputs cannot be adjusted in normal circumstances. The concept of active market does not coincide with that of official market; rather, it refers strictly to the financial instrument concerned. It follows that a listing in an official market is not sufficient to be considered as listed in an active market. Listed prices are obtained from price boards, dealers, brokers etc. and reflect transactions carried out on an orderly basis.

Level 2 financial instruments are those whose inputs do not include the listed prices included in Level 1 that are directly or indirectly observable for the asset or liability concerned. In this case, the measurement techniques used include the market value method, the cost method and the income method which, in turn, is based on present value techniques and models for measuring the price of options.

The use of present value techniques involves determining:

- a) the future cash flows deriving from the asset or liability to be measured;
- b) the uncertainty inherent in the cash flows, given possible changes in their amount and timing;
- c) the rate applicable to risk-free monetary assets of similar duration;

- d) the risk premium;
- e) for liabilities, the related non-performance risk, including the credit risk associated with the debtor.

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

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

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

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

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

In particular, the following analyses were carried out:

- a) analysis of the sensitivity to changes in the PD (Probability of default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (total fair value lower by 0.04% in the adverse scenario and substantially in line in the favourable scenario). The changes were very limited because the credit risk associated with most of these instruments is low.
- b) analysis of the sensitivity to changes in the LGD (Loss Given Default) parameter under various scenarios: (slightly) favourable and adverse. In both cases, the changes in fair value were very limited (fair value lower by 0.26% under the adverse scenario and higher by 0.29% under the favourable scenario).  
Here too, the changes were very limited because the credit risk associated with most of these instruments is low.
- c) analysis of the sensitivity to changes in the rate used to discount cash flows, applying a parallel shock to the rate curves of +/-200 basis points. In these cases, fair value decreased by 0.41% following an increase in the rate curves and, conversely, increased by 3.11% following a decrease in them. In particular, for fixed-rate instruments, the capitalisation rate was not affected by the shock which, however, did affect the discounting of cash flows; conversely, with regard to variable-rate instruments, the spread component of the capitalisation rate was not affected by the shock which, however, did affect determination of the variable component of coupons and the discounting cash flows. The shocked and non-shocked fair value may be affected by discounting using a negative rate; this is consistent with recent calculations for other purposes and with market practice. The capitalisation phase has a natural limit of zero and no rates are generated with a negative interest rate. The changes in fair value are greater than found with the other two sensitivity analyses, but nevertheless remain low.
- d) sensitivity analysis to quantify the effect of modelling explicitly the illiquidity and funding spread component. If this component is not modelled explicitly, the change in fair value is +3.47%; conversely, if a parallel shock to the rate curves of +/-50 basis points is applied, the change in fair value is -1.52% if the rate curves are shifted up, and +1.60% if they are shifted down.



## Fair value hierarchy

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

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

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

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

## Other information

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

## QUANTITATIVE INFORMATION

### Fair value hierarchy

#### Assets and liabilities carried at fair value on a recurring basis: allocation to fair value levels

Financial assets/liabilities carried at fair value	30/06/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss of which	212,163	343,518	428,036	211,483	340,948	353,274
a) Financial assets held for trading	172,267	45,102	7,069	170,496	35,865	8,105
- financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily measured at fair value	39,896	298,416	420,967	40,987	305,083	345,169
2. Financial assets measured at fair value through other comprehensive income	2,195,938	-	88,431	2,517,070	-	74,159
3. Hedging derivatives	-	-	-	-	-	-
4. Property, equipment and investment property	-	-	62,269	-	-	62,787
5. Intangible assets	-	-	-	-	-	-
<b>Total</b>	<b>2,408,101</b>	<b>343,518</b>	<b>578,736</b>	<b>2,728,553</b>	<b>340,948</b>	<b>490,220</b>
1. Financial assets held for trading	7,643	49,953	190	-	66,829	190
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	8,720	-	-	11,320	-
<b>Total</b>	<b>7,643</b>	<b>58,673</b>	<b>190</b>	<b>-</b>	<b>78,149</b>	<b>190</b>



### Annual changes in assets measured at fair value on a recurring basis (Level 3)

	Financial assets measured at fair value through comprehensive income								
	Total	of which: a) financial assets held for trading		of which: b) financial assets designated at fair value		of which: c) other financial assets measured at fair value through comprehensive income		Property, equipment and investment property	Intangible assets
<b>1. Opening balance</b>	<b>353,307</b>	<b>8,105</b>	-	<b>345,202</b>	<b>74,159</b>	-	<b>62,787</b>	-	
<b>2. Increases</b>	<b>171,083</b>	-	-	<b>171,083</b>	<b>30,744</b>	-	-	-	
2.1. Purchases	159,919	-	-	159,919	2,565	-	-	-	
2.2. Income booked to:	7,422	-	-	7,422	8,081	-	-	-	
2.2.1. Income statement	7,422	-	-	7,422	-	-	-	-	
- of which realized gains	6,279	-	-	6,279	-	-	-	-	
2.2.2. Equity	-	-	-	-	8,081	-	-	-	
2.3 Transfers from other levels	-	-	-	-	19,794	-	-	-	
2.4 Other increases	3,742	-	-	3,742	304	-	-	-	
<b>3. Decreases</b>	<b>96,354</b>	<b>1,036</b>	-	<b>95,318</b>	<b>16,470</b>	-	<b>518</b>	-	
3.1. Sales	12,690	-	-	12,690	-	-	-	-	
3.2. Reimbursements	74,118	-	-	74,118	132	-	-	-	
3.3. Losses booked to:	5,474	1,036	-	4,438	13,669	-	518	-	
3.3.1. Income statement	5,474	1,036	-	4,438	9	-	518	-	
- of which realized losses	5,464	1,035	-	4,429	-	-	518	-	
3.3.2. Equity	-	-	-	-	13,660	-	-	-	
3.4 Transfers from other levels	-	-	-	-	2,657	-	-	-	
3.5 Other decreases	4,072	-	-	4,072	12	-	-	-	
<b>4. Closing balance</b>	<b>428,036</b>	<b>7,069</b>	-	<b>420,967</b>	<b>88,431</b>	-	<b>62,269</b>	-	

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

There were no substantial changes in financial liabilities measured at fair value level 3.

### Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: allocation to fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	30/06/2020				31/12/2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	38,202,971	7,110,142	-	32,161,425	34,200,066	6,403,705	-	28,795,515
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>38,202,971</b>	<b>7,110,142</b>	<b>-</b>	<b>32,161,425</b>	<b>34,200,066</b>	<b>6,403,705</b>	<b>-</b>	<b>28,795,515</b>
1. Financial liabilities measured at amortised cost	41,542,843	2,567,109	274,501	38,713,888	36,949,458	2,598,332	247,560	34,144,708
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
<b>Total</b>	<b>41,542,843</b>	<b>2,567,109</b>	<b>274,501</b>	<b>38,713,888</b>	<b>36,949,458</b>	<b>2,598,332</b>	<b>247,560</b>	<b>34,144,708</b>



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

The «day one profit/loss» provided for in IFRS 7 and IFRS 9 para. B5.1.2A derives from the difference at the time of initial recognition between the transaction price of the financial instrument and its fair value. This difference can generally be found for those financial instruments that do not have an active market. This difference is charged to the income statement over the useful life of the financial instrument concerned.

We do not have any transactions outstanding which could generate significant income that could be defined as «day one profit/loss».

## Information on the consolidated balance sheet

### Assets

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

##### Financial assets held for trading: breakdown by sector

Items/Amounts	Total 30/06/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
<b>A. Cash assets</b>						
1. Fixed-yield securities	78,110	-	-	82,698	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other fixed-yield securities	78,110	-	-	82,698	-	-
2. Variable-yield securities	65,389	-	-	57,212	-	-
3. Mutual funds	28,148	10,185	-	30,586	11,808	-
4. Loans	-	-	-	-	-	-
4.1 Repo transactions	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total (A)</b>	<b>171,647</b>	<b>10,185</b>	<b>-</b>	<b>170,496</b>	<b>11,808</b>	<b>-</b>
<b>B. Derivatives</b>						
1. Financial derivatives:	620	34,918	7,069	-	24,057	8,105
1.1 for trading	620	34,918	7,069	-	24,057	8,105
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
<b>Total (B)</b>	<b>620</b>	<b>34,918</b>	<b>7,069</b>	<b>-</b>	<b>24,057</b>	<b>8,105</b>
<b>Total (A+B)</b>	<b>172,267</b>	<b>45,103</b>	<b>7,069</b>	<b>170,496</b>	<b>35,865</b>	<b>8,105</b>



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

Items/Amounts	Total 30/06/2020			Total 31/12/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>1. Fixed-yield securities</b>	<b>39,851</b>	-	<b>37,205</b>	<b>40,846</b>	-	<b>37,335</b>
1.1 Structured securities	-	-	36,999	-	-	37,132
1.2 Other fixed-yield securities	39,851	-	206	40,846	-	203
<b>2. Variable-yield securities</b>	-	-	-	-	-	-
<b>3. Mutual funds</b>	<b>45</b>	<b>298,417</b>	<b>46,389</b>	<b>141</b>	<b>305,083</b>	<b>47,502</b>
<b>4. Loans</b>	-	-	<b>337,373</b>	-	-	<b>260,332</b>
4.1 Repo transactions	-	-	-	-	-	-
4.2 Other	-	-	337,373	-	-	260,332
<b>Total</b>	<b>39,896</b>	<b>298,417</b>	<b>420,967</b>	<b>40,987</b>	<b>305,083</b>	<b>345,169</b>

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

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

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

Items/Amounts	Total 30/06/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
<b>1. Fixed-yield securities</b>	<b>2,161,552</b>	-	<b>31,460</b>	<b>2,489,354</b>	-	<b>14,423</b>
1.1 Structured securities	385,266	-	30,503	369,387	-	10,677
1.2 Other fixed-yield securities	1,776,286	-	957	2,119,967	-	3,746
2. Variable-yield securities	34,386	-	56,973	27,716	-	59,736
3. Loans	-	-	-	-	-	-
<b>Total</b>	<b>2,195,938</b>	-	<b>88,433</b>	<b>2,517,070</b>	-	<b>74,159</b>

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

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



## Financial assets measured at amortised cost - line item 40

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

Type of transaction/Amounts	Total 30/06/2020					
	Book value			Fair value		
	First and second stage	Third stage	of which: impaired assets purchased or originated	L1	L2	L3
<b>A. Deposits with central banks</b>	<b>1,807,219</b>	-	-	-	-	<b>1,807,219</b>
1. Fixed-term deposits	-	-	-	-	-	-
2. Compulsory reserve	1,804,358	-	-	-	-	-
3. Repo transactions	-	-	-	-	-	-
4. Other	2,861	-	-	-	-	-
<b>B. Loans and receivables with banks</b>	<b>1,360,119</b>	-	-	<b>438,809</b>	-	<b>924,052</b>
1. Loans	762,769	-	-	-	-	762,769
1.1 Current accounts and sight deposits	198,418	-	-	-	-	-
1.2 Fixed-term deposits	455,672	-	-	-	-	-
1.3 Other loans:	108,679	-	-	-	-	-
- Repo transactions	-	-	-	-	-	-
- Leases	-	-	-	-	-	-
- Other	108,679	-	-	-	-	-
2. Fixed-yield securities	597,350	-	-	438,809	-	161,283
2.1 Structured securities	194,847	-	-	178,539	-	12,367
2.2 Other fixed-yield securities	402,503	-	-	260,270	-	148,916
<b>Total</b>	<b>3,167,338</b>	-	-	<b>438,809</b>	-	<b>2,731,271</b>

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

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

Type of transaction/Amounts	Total 30/06/2020					
	Book value			Fair value		
	First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3
<b>1. Loans</b>	<b>26,468,951</b>	<b>1,254,193</b>	<b>158,276</b>	-	-	<b>28,786,826</b>
1.1. Current accounts	3,204,572	488,423	58,033	-	-	-
1.2. Repo transactions	1,003,556	-	-	-	-	-
1.3. Mortgage loans	14,904,277	660,907	84,892	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary or pension	451,940	11,226	996	-	-	-
1.5. Leases	-	-	-	-	-	-
1.6. Factoring	1,788,163	11,309	-	-	-	-
1.7. Other loans	5,116,443	82,328	14,355	-	-	-
<b>2. Fixed-yield securities</b>	<b>7,312,489</b>	-	-	<b>6,671,333</b>	-	<b>661,333</b>
2.1. Structured securities	1,995,670	-	-	1,336,213	-	640,531
2.2. Other fixed-yield securities	5,316,819	-	-	5,335,120	-	20,802
<b>Total</b>	<b>33,781,440</b>	<b>1,254,193</b>	<b>158,276</b>	<b>6,671,333</b>	-	<b>29,430,159</b>

Total 31/12/2019						
Book value			Fair value			
First and second stage	Third stage	of which: impaired assets purchased or originated	L1	L2	L3	
<b>83,529</b>	-	-	-	-	<b>83,529</b>	
-	-	-	-	-	-	
80,548	-	-	-	-	-	
-	-	-	-	-	-	
2,981	-	-	-	-	-	
<b>983,929</b>	-	-	<b>335,862</b>	-	<b>655,323</b>	
503,533	-	-	-	-	503,604	
191,760	-	-	-	-	-	
270,009	-	-	-	-	-	
41,764	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
41,764	-	-	-	-	-	
480,396	-	-	335,862	-	151,719	
115,632	-	-	110,773	-	6,268	
364,764	-	-	225,089	-	145,451	
<b>1,067,458</b>	-	-	<b>335,862</b>	-	<b>738,852</b>	

Total 31/12/2019						
Book value			Fair value			
First and second stage	Third stage	of which: impaired assets purchased or originated	Level 1	Level 2	Level 3	
<b>25,382,603</b>	<b>1,538,441</b>	<b>185,895</b>	-	-	<b>27,863,530</b>	
3,468,586	619,158	68,596	-	-	-	
1,099,082	-	-	-	-	-	
13,869,982	805,069	100,614	-	-	-	
492,614	22,784	2,195	-	-	-	
-	-	-	-	-	-	
2,210,498	11,821	-	-	-	-	
4,241,841	79,609	14,490	-	-	-	
<b>6,211,564</b>	-	-	<b>6,067,843</b>	-	<b>193,133</b>	
1,402,490	-	-	1,212,684	-	193,133	
4,809,074	-	-	4,855,159	-	-	
<b>31,594,167</b>	<b>1,538,441</b>	<b>185,895</b>	<b>6,067,843</b>	-	<b>28,056,663</b>	



Loans are the object of specific partial coverage.

Mortgage loans include € 1,579 million of mortgages, which were the subject of covered bond transactions by the Parent Company.

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

Given that the Parent Company maintained all of the risks and benefits of these loans, they have not been derecognised and have therefore been retained on the balance sheet. The fair value of loans with a contractual duration that extends beyond the short term is determined using measurement models that discount the flow of future repayments, net of any expected losses. The discounting rate is determined with reference to expected market interest rates, as well as to other specific components that take account of direct operating costs and the actual financing costs incurred by the Group.

The difference between fair value and book value is mainly attributable to the difference between market rates and the rates used to value fixed-rate loans.

The decrease in loans classified in the third stage is due to the derisking carried out by the Group, the «Diana Project» in particular, details of which can be found in the «Other information» section of these notes. The «Other fixed-yield securities» in Level 3 of the fair value hierarchy include senior securities of € 235 million subscribed by the Parent Company as part of the «Diana Project».

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

	Gross value				Total adjustments			
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Partial total write-off
Fixed-yield securities	7,869,666	385,457	50,668	-	5,197	5,292	-	-
Loans	26,681,480	-	2,483,588	2,755,638	57,155	68,982	1,501,446	214,926
<b>Total 30/06/2020</b>	<b>34,551,146</b>	<b>385,457</b>	<b>2,534,256</b>	<b>2,755,638</b>	<b>62,352</b>	<b>74,274</b>	<b>1,501,446</b>	<b>214,926</b>
<b>Total 31/12/2019</b>	<b>29,392,329</b>	<b>-</b>	<b>3,374,733</b>	<b>3,683,410</b>	<b>40,179</b>	<b>65,256</b>	<b>2,144,969</b>	<b>343,073</b>
of which: impaired financial assets purchased or originated	-	-	48,953	215,144	-	1,814	104,008	121

At 30 June 2020, gross exposures of financial assets measured at amortised cost show a significant positive change for positions classified at stage 1 due to investment of the resources raised through the T-LTRO III refinancing operations with the European Central Bank and a reduction, in terms of both gross value and adjustments, for non-performing exposures as a result of the «Diana Project» sale. Adjustments on stages 1 and 2 show a significant increase due to the adoption, when estimating expected losses, of worse macroeconomic scenarios that reflect the difficult economic situation caused by the pandemic.

### *Equity investments – line item 70*

#### **Equity investments: changes during the year**

	Total 30/06/2020	Total 31/12/2019
<b>A. Opening balance</b>	<b>294,609</b>	<b>220,957</b>
<b>B. Additions</b>	<b>6,302</b>	<b>75,561</b>
B.1 Purchases	-	56,730
B.2 Write-backs	-	-
B.3 Revaluations	-	49
B.4 Other changes	6,302	18,782
<b>C. Decreases</b>	<b>10,076</b>	<b>1,909</b>
C.1 Disposals	5,985	1,301
C.2 Adjustments	-	-
C.3 Writedowns	-	-
C.4 Other changes	4,091	608
<b>D. Closing balance</b>	<b>290,835</b>	<b>294,609</b>
<b>E. Total revaluations</b>	<b>-</b>	<b>-</b>
<b>F. Total adjustments</b>	<b>(447)</b>	<b>(447)</b>

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

The sale refers for 5.985 million to the reduction of the interest in Arca Holding S.p.A.

### *Property, equipment and investment property – line item 90*

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

Assets/Values	Total 30/06/2020	Total 31/12/2019
<b>1. Owned assets</b>	<b>260,494</b>	<b>262,571</b>
a) land	70,440	70,390
b) buildings	172,087	174,213
c) furniture	5,195	5,228
d) IT equipment	2,725	2,606
e) other	10,047	10,134
<b>2. Rights of use acquired through leases</b>	<b>211,853</b>	<b>222,814</b>
a) land	-	-
b) buildings	211,445	222,362
c) furniture	-	-
d) IT equipment	163	210
e) other	245	242
<b>Total</b>	<b>472,347</b>	<b>485,385</b>
of which: obtained by enforcing guarantees received	-	-



## Investment property: analysis of assets carried at fair value

Assets/Values	Total 30/06/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
<b>1. Owned assets</b>	-	-	<b>62,269</b>	-	-	<b>62,787</b>
a) land	-	-	-	-	-	-
b) buildings	-	-	62,269	-	-	62,787
<b>2. Rights of use acquired through leases</b>	-	-	-	-	-	-
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
<b>Total</b>	-	-	<b>62,269</b>	-	-	<b>62,787</b>
of which: obtained by enforcing guarantees received	-	-	-	-	-	-

## Intangible assets – line item 100

### Intangible assets: breakdown by type

Assets/Values	Total 30/06/2020		Total 31/12/2019	
	Finite life	Indefinite life	Finite life	Indefinite life
<b>A.1 Goodwill</b>	-	<b>12,632</b>	-	<b>12,632</b>
A.1.1 Attributable to the banking group	-	12,632	-	12,632
A.1.2 Attributable to minority interests	-	-	-	-
<b>A.2 Other intangible assets:</b>	<b>18,694</b>	-	<b>18,554</b>	-
A.2.1 Carried at cost	18,694	-	18,554	-
a) Intangible assets generated internally	319	-	248	-
b) Other assets	18,375	-	18,306	-
A.2.2 Carried at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
<b>Total</b>	<b>18,694</b>	<b>12,632</b>	<b>18,554</b>	<b>12,632</b>

Intangible assets comprise € 18.694 million for the cost of purchasing software with a finite life that is amortised over that period, which is normally 3 years and goodwill for € 12.632 million. The accounting treatment of goodwill is in accordance with IFRS 3 on business combinations. This standard requires that the acquisition and therefore the first consolidation of the acquired entity has to take place on the date when the purchaser effectively obtains control over the other business.

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

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

- Factorit S.p.a., acquired in 2010. The Parent Company booked a figure of € 7.847 million, which was the difference between the price paid and the book net equity at the

acquisition date.

- Prestinuova S.p.a., acquired on 23 July 2018. This company operates in the granting of loans repayable by assigning a fifth of one's salary or pension. The acquisition took place on payment of a consideration of € 53 million. The company's equity on acquisition amounted to € 40 million with a difference of € 14 million. After an initial recognition in the consolidated interim report at 30 September 2018 of a provisional goodwill of € 14 million, in the months following the acquisition, the Group carried out the activities to determine the fair value of assets and liabilities, which led to the recognition of effective goodwill of € 5 million on the acquisition.

Since the COVID-19 epidemic triggered off impairment indicators pursuant to IAS 36, impairment tests were carried out as of 30 June 2020.

For goodwill, the carrying amount was not written down because the tests carried out on the basis of IAS 36 did not reveal any impairment losses. In this case we have used the Dividend Discount Model (DDM), which assumes that the economic value of a financial intermediary is equal to the sum of the present value of the future cash flows generated in the chosen time horizon of the plan and distributable to shareholders while maintaining an adequate level of capitalisation to ensure future growth and perpetual capitalisation of a dividend considered after the explicit planning period. We assumed a rate of the dividend growth after the explicit planning period of 1.5% per year and a cost of capital used to discount future dividends of 7.82% for Factorit Spa and 9.12% for Prestinuova Spa.

The value in use amounted to € 195 million, with a surplus over its share of equity plus goodwill of € 39 million for Factorit Spa. The value in use of Prestinuova S.p.A., which was absorbed by BNT in 2019, amounted to € 207 million, with a surplus of € 125 million.

### ***Other assets – line item 120***

	<b>30/06/2020</b>	<b>31/12/2019</b>
Advances paid to tax authorities	40,344	48,867
Withholdings on interest due to customers	-	141
Tax credits and related interest	4,697	6,545
Current account cheques drawn on third parties	20,212	21,689
Current account cheques drawn on Group banks	884	309
Transactions in customers' securities	26,423	5,547
Inventories	46,397	37,070
Advances to suppliers	1,154	1,200
Advances to customers awaiting collections	12,360	19,475
Miscellaneous debits in transit	16,418	29,672
Liquidity of pension fund	9,288	11,582
Accrued income not allocated	26,005	46,616
Prepayments not allocated	33,965	23,413
Differences on elimination	1,230	1,553
Residual items	82,635	75,821
<b>Total</b>	<b>322,012</b>	<b>329,500</b>

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





## LIABILITIES AND EQUITY

### Financial liabilities measured at amortised cost – line item 10

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

Type of transaction/amounts	Total 30/06/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
<b>1. Due to central banks</b>	<b>8,069,184</b>	-	-	-	<b>2,713,646</b>	-	-	-
<b>2. Due to banks</b>	<b>1,684,715</b>	-	-	-	<b>1,614,063</b>	-	-	-
2.1 Current accounts and sight deposit	454,965	-	-	-	449,969	-	-	-
2.2 Fixed-term deposits	810,995	-	-	-	748,455	-	-	-
2.3 Loans	415,559	-	-	-	412,998	-	-	-
2.3.1 Repo transactions	-	-	-	-	-	-	-	-
2.3.2 Other	415,559	-	-	-	412,998	-	-	-
2.4 Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
2.5 Payables for leases	192	-	-	-	194	-	-	-
2.6 Other payables	3,004	-	-	-	2,447	-	-	-
<b>Total</b>	<b>9,753,899</b>	-	-	<b>9,753,899</b>	<b>4,327,709</b>	-	-	<b>4,327,709</b>

These payables are not specifically hedged.

Amounts due to central banks comprise three loans from the ECB as part of its «Targeted Longer-Term refinancing operations» (T-LTRO III): one of € 1.600 million, obtained in December 2019, repayable on 21 December 2022, a second obtained in March of € 2.100 million, repayable on 29 March 2023. Again in the first half of 2020, a third transaction was completed, starting from 24 June 2020, with maturity on 28 June 2023 for € 4.368 million. These loans payable are secured by bonds, consisting mainly of Government bonds and loans receivable.

«Other loans» are made up principally of funding set up by EIB in connection with loans granted by this institution on the basis of the convention stipulated with it.

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

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

Type of transaction/Amounts	Total 30/06/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
<b>1. Current accounts and sight deposits</b>	<b>27,655,725</b>	-	-	-	<b>27,760,407</b>	-	-	-
<b>2. Fixed-term deposits</b>	<b>1,045,010</b>	-	-	-	<b>1,201,862</b>	-	-	-
<b>3. Loans</b>	<b>2,106</b>	-	-	-	<b>514,100</b>	-	-	-
3.1 Repurchase agreements	100	-	-	-	509,383	-	-	-
3.2 Other	2,006	-	-	-	4,717	-	-	-
<b>4. Payables for commitments to repurchase own equity instruments</b>	<b>-</b>	-	-	-	<b>-</b>	-	-	-
<b>5. Payables for leases</b>	<b>212,328</b>	-	-	-	<b>222,603</b>	-	-	-
<b>6. Other payables</b>	<b>44,820</b>	-	-	-	<b>118,025</b>	-	-	-
<b>Total</b>	<b>28,959,989</b>	-	-	<b>28,959,989</b>	<b>29,816,997</b>	-	-	<b>29,816,997</b>

These payables are not specifically hedged.

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

## Financial liabilities measured at amortised cost: breakdown of securities issued

Type of security/Amounts	Total 30/06/2020				Total 31/12/2019			
	Fair Value				Fair Value			
	BV	L1	L2	L3	BV	L1	L2	L3
<b>A. Securities</b>								
1. bonds	2,700,835	2,567,109	146,381	-	2,711,879	2,598,332	154,687	-
1.1 structured	824,946	716,848	112,592	-	833,882	732,310	122,070	-
1.2 other	1,875,889	1,850,261	33,789	-	1,877,997	1,866,022	32,617	-
2. other securities	128,120	-	128,120	-	92,873	-	92,873	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,828,955</b>	<b>2,567,109</b>	<b>274,501</b>	<b>-</b>	<b>2,804,752</b>	<b>2,598,332</b>	<b>247,560</b>	<b>-</b>

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

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

## Financial liabilities held for trading – line item 20

### Financial liabilities held for trading: breakdown by sector

Type of transaction/ Amounts	Total 30/06/2020					Total 31/12/2019				
	Fair Value					Fair Value				
	NV	L1	L2	L3	Fair Value*	NV	L1	L2	L3	Fair Value*
<b>A. Cash liabilities</b>										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Fixed-yield securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
<b>Total A</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>B. Derivatives</b>										
1. Financial derivatives	-	7,643	49,952	190	-	-	-	66,829	190	-
1.1 For trading	-	7,643	49,952	190	-	-	-	66,829	190	-
1.2 Connected with the fair value option	-	-	-	-	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 For trading	-	-	-	-	-	-	-	-	-	-
2.2 Connected with the fair value option	-	-	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-	-	-
<b>Total B</b>	<b>-</b>	<b>7,643</b>	<b>49,952</b>	<b>190</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66,829</b>	<b>190</b>	<b>-</b>
<b>Total (A+B)</b>	<b>-</b>	<b>7,643</b>	<b>49,952</b>	<b>190</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66,829</b>	<b>190</b>	<b>-</b>

FV\* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

NV = Nominal or notional value



## Hedging derivatives – line item 40

### Hedging derivatives: breakdown by type of hedge and by level

	NV			Fair value			30/06/2020			NV			Fair value			31/12/2019		
	30/06/2020	L1	L2	L3	31/12/2019	L1	L2	L3	31/12/2019	L1	L2	L3						
<b>A. Financial derivatives</b>	<b>250,775</b>	-	<b>8,720</b>	-	<b>274,553</b>	-	<b>11,320</b>	-	<b>274,553</b>	-	<b>11,320</b>	-						
1) Fair value	250,775	-	8,720	-	274,553	-	11,320	-	274,553	-	11,320	-						
2) Financial flows	-	-	-	-	-	-	-	-	-	-	-	-						
3) Foreign investments	-	-	-	-	-	-	-	-	-	-	-	-						
<b>B. Credit derivatives</b>	-	-	-	-	-	-	-	-	-	-	-	-						
1) Fair value	-	-	-	-	-	-	-	-	-	-	-	-						
2) Financial flows	-	-	-	-	-	-	-	-	-	-	-	-						
<b>Total</b>	<b>250,775</b>	-	<b>8,720</b>	-	<b>274,553</b>	-	<b>11,320</b>	-	<b>274,553</b>	-	<b>11,320</b>	-						

## Other liabilities – line item 80

### Other liabilities – breakdown

	30/06/2020	31/12/2019
Amounts at the disposal of third parties	391,618	397,067
Taxes to be paid on behalf of third parties	142,014	49,011
Taxes to be paid	1,203	2,723
Employee salaries and contributions	21,153	23,025
Suppliers	21,120	19,118
Transit accounts for sundry entities	54,334	18,790
Invoices to be received	2,221	18,235
Credits in transit for financial transactions	2,720	2,024
Value date differentials on portfolio transactions	257,264	155,232
Directors' and statutory auditors' emoluments	233	1,167
Loans disbursed to customers to be finalised	12,915	9,895
Miscellaneous credit items being settled	40,308	26,806
Accrued expenses not allocated	26,304	15,545
Deferred income not allocated	18,845	16,530
Differences on elimination	132,846	2,387
Residual items	129,989	63,879
<b>Total</b>	<b>1,255,087</b>	<b>821,434</b>

The increase of 52.79% mainly relates to the «value date differentials on portfolio transactions» and «Taxes to be paid on behalf of third parties». Accrued expenses and deferred income that have not been allocated to a specific liability item are recognised in accordance with the matching principle.

## Post-employment benefits – line item 90

### Post-employment benefits: changes during the year

	Total 30/06/2020	Total 31/12/2019
<b>A. Opening balance</b>	<b>43,789</b>	<b>43,222</b>
<b>B. Additions</b>	<b>3,656</b>	<b>10,596</b>
B.1 Provisions for the period	3,656	7,975
B.2 Other changes	-	2,621
<b>C. Decreases</b>	<b>4,860</b>	<b>10,029</b>
C.1. Payments made	869	2,501
C.2 Other changes	3,991	7,528
<b>D. Closing balance</b>	<b>42,585</b>	<b>43,789</b>
<b>Total</b>	<b>42,585</b>	<b>43,789</b>

## Provisions for risks and charges – line item 100

### Provisions for risks and charges: breakdown

Items/Components	Total 30/06/2020	Total 31/12/2019
<b>1. Provisions for credit risk related to commitments and financial guarantees given</b>	<b>27,236</b>	<b>20,439</b>
<b>2. Provisions on other commitments and other guarantees given</b>	<b>19,776</b>	<b>22,972</b>
<b>3. Pension and similar obligations</b>	<b>178,704</b>	<b>179,965</b>
<b>4. Other provisions for risks and charges</b>	<b>46,078</b>	<b>46,922</b>
4.1 Legal disputes	23,073	26,185
4.2 Personnel expenses	18,791	17,200
4.3 Other	4,214	3,537
<b>Total</b>	<b>271,794</b>	<b>270,298</b>

Pension and similar obligations of € 178.704 million at 30 June 2020 consist of the pension fund for the Parent Company's personnel of € 152.061 million and the actuarial liabilities linked to the supplementary pension plan for employees of BPS Suisse SA of € 26.643 million.

The Parent Company's pension plan for employees is an internal defined-benefit plan intended to supplement the pension paid to retired employees by the State. The plan is funded by contributions from the Parent Company and from employees which are determined on a percentage of income basis and credited each month. This plan is also a separate fund pursuant to art. 2117 of the Italian Civil Code.

The value of the fund is adjusted with reference to its membership, which was closed on 4/28/1993. This closed group comprises 346 employees and 292 pensioners.

Since 28/04/1993, employees have been given the chance to join another supplementary pension scheme as laid down by law and by contract.

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

The adequacy of the fund with respect to the present value of the obligations at the reference date is periodically verified using calculations prepared by an independent actuary, making demographic assumptions that distinguish between age and gender, as well as technical-economic assumptions that reflect the theoretical changes in remuneration and benefits. The technical assessments made reference to dynamic economic and financial assumptions.

The discounting rate reflects the yield on prime bonds.

### Sensitivity analysis of actuarial assumptions

Following the COVID-19 pandemic, a sensitivity analysis was carried out to determine the



effect of changes in the principal actuarial assumptions used in the calculations. For this purpose, the base used for the valuation was also used as the base scenario and the two most significant assumptions were increased and decreased, obtaining the results shown below for Banca Popolare di Sondrio Scpa and Banca Popolare di Sondrio (Suisse) SA:

### **Sensitivity**

#### **Banca Popolare di Sondrio Scpa**

- +0.25% increase in the discount rate, liability of € 136.091 million
- 0.25% decrease in the discount rate, liability of € 147.865 million
- +0.25% increase in the inflation rate, liability of € 143.727 million
- 0.25% decrease in the inflation rate, liability of € 139.782 million

#### **Banca Popolare di Sondrio (Suisse) SA**

- +0.50% change in the discount rate, liability of € 19.783 million
- 0.50% decrease in the discount rate, liability of € 34.317 million
- +0.50 change salary increase rate, liability of € 27.108 million
- 0.50 change salary increase rate, liability of € 26.062 million

### **Other provisions for risks and charges**

The provision for legal disputes covers outstanding disputes regarding, in particular, claims for repayment from the liquidators of bankrupt customers, concerning positions classified as doubtful or which have already been written off, and other disputes that have arisen in the ordinary course of business. The Group makes provisions in these cases when, considering the opinion of legal advisors, it appears likely that payments will be made and a reasonable estimate can be made of the amount concerned. No provisions are made in relation to disputes considered to be without merit.

The duration of such disputes is difficult to assess, given the extended time required in order to obtain justice.

The expected payments have been stated at their present value, considering the average time taken to complete bankruptcy claims and using market rates of interest at 30/06/2020 as the discount rate.

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

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

### ***Group equity – Line items 120, 130, 140, 150, 160, 170 and 180***

Share capital comprises 453,385,777 issued and fully-paid ordinary shares, without par value, totalling € 1,360.157 million. Shares in circulation have dividend and voting rights from 1 January 2020.

At the period-end, the Group held treasury shares with a carrying value of € 25.373 million. At 30 June 2020, shareholders' equity, including the portion attributable to non-controlling interests and the result for the period, amounts to € 2,950 million, versus € 2,937 million at 31 December 2019, with an overall net increase of € 13 million. This trend is mainly attributable to the profit for the period equal to € 16 million euro and the negative change in the valuation reserves of € 12 million, the latter largely attributable to fixed-yield securities valued at fair value through other comprehensive income, including those relating to associates valued using the equity method, which were affected by the trend in the spread on Italian government bonds..

## Other information

### Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given			Total 30/06/2020	Total 31/12/2019
	First stage	Second stage	Third stage		
<b>1. Commitments to make loans</b>	<b>12,244,472</b>	<b>577,610</b>	<b>121,377</b>	<b>12,943,459</b>	<b>12,633,878</b>
a) Central banks	-	-	-	-	-
b) Public administrations	398,847	744	122	399,713	419,442
c) Banks	30,799	-	-	30,799	129,327
d) Other financial companies	1,193,106	1,276	23	1,194,405	1,032,052
e) Non-financial companies	9,434,667	492,832	109,939	10,037,438	9,836,392
f) Households	1,187,053	82,758	11,293	1,281,104	1,216,665
<b>2. Financial guarantees issued</b>	<b>545,005</b>	<b>55,066</b>	<b>16,828</b>	<b>616,899</b>	<b>631,557</b>
a) Central banks	-	-	-	-	-
b) Public administrations	7,456	-	-	7,456	7,842
c) Banks	14,006	-	-	14,006	17,588
d) Other financial companies	177,316	17	210	177,543	180,044
e) Non-financial companies	287,423	40,252	15,660	343,335	351,332
f) Households	58,804	14,797	958	74,559	74,751

### Other commitments and other guarantees given

	Nominal value Total 30/06/2020	Nominal value Total 31/12/2019
<b>Other guarantees given</b>	<b>2,894,536</b>	<b>2,837,143</b>
of which: impaired loans	66,662	65,653
a) Central banks	-	-
b) Public administrations	40,807	37,338
c) Banks	78,934	93,634
d) Other financial companies	25,964	58,279
e) Non-financial companies	2,564,867	2,465,000
f) Households	183,964	182,892
<b>Other commitments</b>	<b>3,257,730</b>	<b>3,256,864</b>
of which: impaired loans	58,751	109,366
a) Central banks	-	-
b) Public administrations	45,697	46,666
c) Banks	201,078	207,281
d) Other financial companies	79,227	49,879
e) Non-financial companies	2,852,557	2,872,969
f) Households	79,171	80,069



## Management and intermediation for third parties

Type of service	Amount 30/06/2020
<b>1. Execution of orders on behalf of customers</b>	<b>806,104</b>
a) purchases	430,104
1. settled	428,853
2. not settled	1,251
b) sales	376,000
1. settled	375,119
2. not settled	881
<b>2. Portfolio management</b>	<b>1,555,501</b>
a) Individual	1,555,501
b) Collective	-
<b>3. Custody and administration of securities</b>	<b>52,003,523</b>
a) Third-party securities on deposit: associated with activities as a custodian bank (excluding portfolio management)	2,718,021
1. securities issued by consolidated companies	-
2. other securities	2,718,021
b) third-party securities on deposit (excluding portfolio management): other	18,027,955
1. securities issued by consolidated companies	2,104,336
2. other securities	15,923,619
c) Third-party securities on deposit with third parties	20,504,771
d) Own securities on deposit with third parties	10,752,776
<b>4. Other transactions</b>	<b>-</b>



## Information on the consolidated income statement

### Interest - line items 10 and 20

#### Interest and similar income: breakdown

Items/technical forms	Fixed-yield securities	Loans	Other transactions	Total 30/06/2020	Total 30/06/2019
<b>1. Financial assets measured at fair value through profit or loss</b>	<b>640</b>	<b>3,138</b>	-	<b>3,778</b>	<b>3,151</b>
1.1 Financial assets held for trading	139	-	-	139	373
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	501	3,138	-	3,639	2,778
<b>2. Financial assets measured at fair value through other comprehensive income</b>	<b>6,432</b>	-	-	<b>6,432</b>	<b>8,406</b>
<b>3. Financial assets measured at amortised cost</b>	<b>15,442</b>	<b>245,522</b>	-	<b>260,964</b>	<b>268,720</b>
3.1 Loans and receivables with banks	3,314	2,999	-	6,313	5,145
3.2 Loans and receivables with customers	12,128	242,523	-	254,651	263,575
<b>4. Hedging derivatives</b>	-	-	-	-	-
<b>5. Other assets</b>	-	-	-	-	-
<b>6. Financial liabilities</b>	-	-	-	<b>11,443</b>	<b>10,744</b>
<b>Total</b>	<b>22,514</b>	<b>248,660</b>	-	<b>282,617</b>	<b>291,021</b>
of which: interest and similar income on impaired financial assets	-	18,982	-	18,982	24,226
of which: interest income on finance leases	-	-	-	-	-

#### Interest and similar expense: breakdown

Items/technical forms	Payables	Securities	Other transactions	Total 30/06/2020	Total 30/06/2019
<b>1. Financial liabilities measured at amortised cost</b>	<b>(13,067)</b>	<b>(31,722)</b>	-	<b>(44,789)</b>	<b>(48,820)</b>
1.1 Due to central banks	(26)	-	-	(26)	(76)
1.2 Due to banks	(3,760)	-	-	(3,760)	(6,752)
1.3 Due to customers	(9,281)	-	-	(9,281)	(16,678)
1.4 Securities issued	-	(31,722)	-	(31,722)	(25,314)
<b>2. Financial liabilities held for trading</b>	-	-	-	-	-
<b>3. Financial liabilities designated at fair value</b>	-	-	-	-	-
<b>4. Other liabilities and funds</b>	-	-	-	-	-
<b>5. Hedging derivatives</b>	-	-	<b>(2,862)</b>	<b>(2,862)</b>	<b>(3,774)</b>
<b>6. Financial assets</b>	-	-	-	<b>(1,908)</b>	<b>(8,364)</b>
<b>Total</b>	<b>(13,067)</b>	<b>(31,722)</b>	<b>(2,862)</b>	<b>(49,559)</b>	<b>(60,958)</b>
of which: interest expense relating to lease liabilities	(1,829)	-	-	(1,829)	(1,977)



### Differentials on hedging transactions

Items	Total 30/06/2020	Total 30/06/2019
A. Positive differentials on hedging transactions:	-	-
B. Negative differentials on hedging transactions:	(2,862)	(3,774)
<b>C. Balance (A-B)</b>	<b>(2,862)</b>	<b>(3,774)</b>

### Commissions – line items 40 and 50

#### Fee and commission income: breakdown

Type of service/Amounts	Total 30/06/2020	Total 30/06/2019
<b>a) guarantees given</b>	<b>11,644</b>	<b>12,251</b>
<b>b) credit derivatives</b>	-	-
<b>c) management, intermediation and consultancy services:</b>	<b>46,261</b>	<b>43,054</b>
1. trading in financial instruments	2,080	1,597
2. trading in foreign currencies	-	-
3. portfolio management	4,917	4,929
3.1 individual	4,917	4,929
3.2 collective	-	-
4. custody and administration of securities	4,209	3,925
5. custodian bank	2,202	1,859
6. placement of securities	15,844	16,035
7. order receipt and transmission	6,945	4,475
8. consultancy	-	-
8.1 investments	-	-
8.2 corporate finance	-	-
9. distribution of third-party services	10,064	10,234
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	9,010	8,648
9.3 other products	1,054	1,586
<b>d) collection and payment services</b>	<b>38,553</b>	<b>43,706</b>
<b>e) services for securitisation transactions</b>	-	-
<b>f) services for factoring transactions</b>	<b>9,876</b>	<b>11,226</b>
<b>g) tax collection services</b>	-	-
<b>h) management of multilateral trading systems</b>	-	-
<b>i) management of current accounts</b>	<b>17,213</b>	<b>17,640</b>
<b>j) other services</b>	<b>36,988</b>	<b>35,574</b>
<b>Total</b>	<b>160,535</b>	<b>163,451</b>

The sub-item «other services» is essentially made up of loan commissions and commissions generated by the foreign currency exchange activities.

### Fee and commission expense: breakdown

Services/Amounts	Total 30/06/2020	Total 30/06/2019
a) <b>guarantees received</b>	<b>(228)</b>	<b>(340)</b>
b) <b>credit derivatives</b>	-	-
c) <b>management and intermediation services:</b>	<b>(2,994)</b>	<b>(2,055)</b>
1. trading in financial instruments	(1,755)	(920)
2. trading in foreign currencies	-	-
3. portfolio management	-	-
3.1 own	-	-
3.2 delegated to third parties	-	-
4. custody and administration of securities	(1,239)	(1,135)
5. placement of financial instruments	-	-
6. door-to-door distribution of financial instruments, products and services	-	-
d) <b>collection and payment services</b>	<b>(3,631)</b>	<b>(4,932)</b>
e) <b>other services</b>	<b>(1,487)</b>	<b>(3,555)</b>
<b>Total</b>	<b>(8,340)</b>	<b>(10,882)</b>

### Dividends and similar income – line item 70

#### Dividends and similar income: breakdown

Items/Income	Total 30/06/2020		Total 30/06/2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1,138	127	1,378	-
B. Other financial assets mandatorily measured at fair value	-	572	-	635
C. Financial assets measured at fair value through other comprehensive income	1,102	11	1,106	13
D. Equity investments	-	-	36	-
<b>Total</b>	<b>2,240</b>	<b>710</b>	<b>2,520</b>	<b>648</b>



## Net trading income – line item 80

### Net trading income: breakdown

Transactions/Income items	Gains (A)	Trading profits (B)	Losses (C)	Trading losses (D)	Profit (loss) [(A+B)-(C+D)]
<b>1. Financial assets held for trading</b>	<b>9,710</b>	<b>14,081</b>	<b>(29,436)</b>	<b>(2,519)</b>	<b>(8,164)</b>
1.1 Fixed-yield securities	127	565	(391)	-	301
1.2 Variable-yield securities	383	938	(24,925)	(1,971)	(25,575)
1.3 Mutual funds	-	284	(4,283)	(548)	(4,547)
1.4 Loans	-	-	-	-	-
1.5 Other	9,200	12,294	163	-	21,657
<b>2. Financial liabilities held for trading</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
2.1 Fixed-yield securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
<b>3. Other financial assets and liabilities: exchange differences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(251)</b>
<b>4. Derivatives</b>	<b>1,445</b>	<b>5,754</b>	<b>(9,862)</b>	<b>(7,597)</b>	<b>(10,248)</b>
4.1 Financial derivatives:	1,445	5,754	(9,862)	(7,597)	(10,248)
- On debt securities and interest rates	827	2,706	(1,179)	(2,526)	(172)
- On equities and equity indices	618	-	(8,683)	(2,059)	(10,124)
- On currency and gold	-	-	-	-	12
- Other	-	3,048	-	(3,012)	36
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges linked to the fair value option	-	-	-	-	-
<b>Total</b>	<b>11,155</b>	<b>19,835</b>	<b>(39,298)</b>	<b>(10,116)</b>	<b>(18,663)</b>

Net trading income passes from € 32.756 million to - € 18.663 million, with a decrease in net trading income on securities from €7.977 million to a loss of € 0.732 million and an overall negative imbalance, between capital gains and losses, on securities and currency of € 19.726 million compared with a positive one of € 11.714 million in the comparative period.

These results were negatively affected by the performance of financial markets following Covid-19.

The income from trading in «other financial assets» of € 12.294 million is made up principally of exchange gains.

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

## Net hedging gains (losses) – line item 90

### Net hedging gains (losses): breakdown

Income items/Amounts	Total 30/06/2020	Total 30/06/2019
<b>A. Income from:</b>		
A.1 Fair value hedging derivatives	2,571	1,464
A.2 Hedged financial assets (fair value)	-	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4. Cash-flow hedges	-	-
A.5 Assets and liabilities in foreign currency	-	-
<b>Total income from hedging activities (A)</b>	<b>2,571</b>	<b>1,464</b>
<b>B. Charges from:</b>		
B.1 Fair value hedging derivatives	(2,575)	(1,456)
B.2 Hedged financial assets (fair value)	-	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedges	-	-
B.5 Assets and liabilities in foreign currency	-	-
<b>Total charges from hedging activities (B)</b>	<b>(2,575)</b>	<b>(1,456)</b>
<b>C. Net hedging gains (losses) (A-B)</b>	<b>(4)</b>	<b>8</b>
of which: hedging result on net positions	-	-

Income include € 2.571 million for the valuation at fair value of hedging derivatives, versus a negative valuation of the loans being hedged of € 2.575 million at fair value. The net result of measuring the hedging structure at fair value is a negative balance of € 0.004 million.

## Gains (losses) on sale or repurchase – line item 100

### Gains (losses) from sales or repurchases: breakdown

Items/income items	Total 30/06/2020			Total 30/06/2019		
	Profits	Losses	Profit (loss)	Profits	Losses	Profit (loss)
<b>Financial assets</b>						
<b>1. Financial assets measured at amortised cost</b>	<b>7,843</b>	<b>(48,245)</b>	<b>(40,402)</b>	<b>2,603</b>	-	<b>2,603</b>
1.1. Loans and receivables with banks	-	-	-	-	-	-
1.2. Loans and receivables with customers	7,843	(48,245)	(40,402)	2,603	-	2,603
<b>2. Financial assets measured at fair value through other comprehensive income</b>	<b>7,112</b>	-	<b>7,112</b>	<b>3,215</b>	<b>(392)</b>	<b>2,823</b>
2.1 Fixed-yield securities	7,112	-	7,112	3,215	(392)	2,823
2.2 Loans	-	-	-	-	-	-
<b>Total assets (A)</b>	<b>14,955</b>	<b>(48,245)</b>	<b>(33,290)</b>	<b>5,818</b>	<b>(392)</b>	<b>5,426</b>
<b>Financial liabilities measured at amortised cost</b>	-	-	-	-	-	-
<b>1. Due to banks</b>	-	-	-	-	-	-
<b>2. Due to customers</b>	-	-	-	-	-	-
<b>3. Securities issued</b>	<b>19</b>	<b>(15)</b>	<b>4</b>	<b>306</b>	<b>(3)</b>	<b>303</b>
<b>Total liabilities (B)</b>	<b>19</b>	<b>(15)</b>	<b>4</b>	<b>306</b>	<b>(3)</b>	<b>303</b>

The result of line item «1.2 Loans and receivables with customers» records the effects of the derisking represented by the Diana Project, which was completed last June with the sale of non-performing loans.

For further details, please refer to paragraph «Other information» under Other aspects, section 16, of these.



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

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

Transactions/Income items	Gains (A)	Gains on disposal (B)	Losses (C)	Losses on disposal (D)	Profit (loss) [(A+B) - (C+D)]
<b>1. Financial assets</b>	<b>17,586</b>	<b>1,648</b>	<b>(29,093)</b>	<b>(90)</b>	<b>(9,949)</b>
1.1 Fixed-yield securities	117	1,255	(1,737)	(4)	(369)
1.2 Variable-yield securities	-	9	(2)	(22)	(15)
1.3 Mutual funds	744	384	(9,271)	(64)	(8,207)
1.4 Loans	16,725	-	(18,083)	-	(1,358)
<b>2. Financial assets: exchange differences</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,642</b>
<b>Total</b>	<b>17,586</b>	<b>1,648</b>	<b>(29,093)</b>	<b>(90)</b>	<b>(8,307)</b>

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

**Net adjustments for credit risk – line item 130**

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

Transactions/Income items	Adjustments (1)			Write-backs (2)		Total 30/06/2020	Total 30/06/2019
	First and second stage	Third stage Write-off	Other	First and second stage	Third stage		
<b>A. Loans and receivables with banks</b>	<b>(6,662)</b>	<b>-</b>	<b>-</b>	<b>213</b>	<b>-</b>	<b>(6,449)</b>	<b>(248)</b>
- Loans	(1,216)	-	-	186	-	(1,030)	(159)
- Fixed-yield securities	(5,446)	-	-	27	-	(5,419)	(89)
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
<b>B. Loans and receivables with customers</b>	<b>(59,786)</b>	<b>(9,286)</b>	<b>(125,318)</b>	<b>42,866</b>	<b>115,831</b>	<b>(35,693)</b>	<b>(106,443)</b>
- Loans	(58,223)	(9,286)	(125,318)	42,860	115,831	(34,136)	(106,562)
- Fixed-yield securities	(1,563)	-	-	6	-	(1,557)	119
of which: impaired loans acquired or originated	(1,098)	-	(5,965)	1,397	4,669	(997)	2,277
<b>Total</b>	<b>(66,448)</b>	<b>(9,286)</b>	<b>(125,318)</b>	<b>43,079</b>	<b>115,831</b>	<b>(42,142)</b>	<b>(106,691)</b>

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

Transactions/Income items	Adjustments (1)			Write-backs (2)		Total 30/06/2020	Total 30/06/2019
	First and second stage	Third stage Write-off	Other	First and second stage	Third stage		
<b>A. Debt securities</b>	<b>(5,345)</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>(5,295)</b>	<b>1,031</b>
<b>B. Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
- Customers	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-
of which: impaired financial assets purchased or originated	-	-	-	-	-	-	-
<b>Total</b>	<b>(5,345)</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>(5,295)</b>	<b>1,031</b>

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

## ***Gains/losses on contractual changes not resulting in derecognition – line item 140***

### **Gains (losses) on contractual changes: breakdown**

Contractual changes not resulting in derecognition amounted to 5.389 million, with respect to 1.462 million in the comparative period.

## ***Administrative expenses – line item 190***

### **Personnel expenses: breakdown**

Type of expense/Amounts	Total 30/06/2020	Total 30/06/2019
<b>1) Employees</b>	<b>(120,356)</b>	<b>(123,919)</b>
a) Wages and salaries	(80,475)	(79,317)
b) Social security contributions	(20,369)	(19,970)
c) Post-employment benefits	(6)	(11)
d) Pension expenses	(3,027)	(2,544)
e) Provision for employee termination indemnities	(3,646)	(3,681)
f) Provision for pension and similar obligations:	(859)	(5,649)
- defined contribution	-	-
- defined benefits	(859)	(5,649)
g) Payments to external supplementary pension funds:	(1,943)	(1,859)
- defined contribution	(1,934)	(1,856)
- defined benefits	(9)	(3)
h) Costs deriving from payment agreements based on own capital instruments	-	-
i) Other personnel benefits	(10,031)	(10,888)
<b>2) Other working personnel</b>	<b>(62)</b>	<b>(140)</b>
<b>3) Directors and Statutory Auditors</b>	<b>(1,325)</b>	<b>(1,320)</b>
<b>4) Retired personnel</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>(121,743)</b>	<b>(125,379)</b>

### **Average number of employees by category**

	Total 30/06/2020	Total 31/12/2019
<b>1) Employees</b>	3,279	3,234
a) Managers	38	39
b) Officials	804	787
c) Other employees	2,437	2,408
<b>2) Other personnel</b>	5	4
- Actual number of employees	3,299	3,302
- Other personnel	5	4
<b>BRANCHES</b>	<b>366</b>	<b>365</b>





### Other administrative expenses: breakdown

Type of service/amounts	30/06/2020	30/06/2019
Telephone, post and data transmission	(7,297)	(7,529)
Maintenance of property, equipment and investment property	(4,148)	(4,744)
Rent of buildings	(191)	(2,387)
Security	(2,008)	(2,534)
Transportation	(1,407)	(1,751)
Professional fees	(22,700)	(20,367)
Office materials	(915)	(1,053)
Electricity, heating and water	(2,705)	(2,708)
Advertising and entertainment	(1,576)	(1,905)
Legal	(8,815)	(8,191)
Insurance	(1,161)	(932)
Company searches and information	(3,839)	(3,504)
Indirect taxes and dues	(27,181)	(27,336)
Software and hardware rental and maintenance	(10,689)	(10,343)
Data entry by third parties	(1,345)	(1,046)
Cleaning	(3,040)	(3,037)
Membership fees	(1,114)	(1,108)
Services received from third parties	(3,814)	(4,159)
Outsourced activities	(11,638)	(11,368)
Deferred charges	(141)	(408)
Goods and services for employees	(278)	(704)
Other	(29,312)	(31,810)
<b>Total</b>	<b>(145,314)</b>	<b>(148,924)</b>

«Other» includes the € 25.175 million of ordinary and special contributions paid to the National Resolution Fund and the Interbank Deposit Protection Fund.

### *Net accruals to provisions for risks and charges – line item 200*

#### Net accruals to provisions for risks and charges: breakdown

The line item amounts to € 0.507 million.

### *Net gains (losses) on equity investments – line item 250*

#### **Net gains (losses) on equity investments: breakdown**

Income item/Segments	Total 30/06/2020	Total 30/06/2019
<b>1) Joint-ventures</b>		
A. Income	14	9
1. Revaluations	14	9
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	(17)	(221)
1. Write-downs	(17)	(221)
2. Impairment adjustments	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
<b>Profit (loss)</b>	<b>(3)</b>	<b>(212)</b>
<b>2) Associated companies</b>		
A. Income	14,015	9,977
1. Revaluations	13,909	9,977
2. Gains on disposal	106	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	(52)	(224)
1. Write-downs	(52)	(224)
2. Impairment adjustments	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
<b>Profit (loss)</b>	<b>13,963</b>	<b>9,753</b>
<b>Total</b>	<b>13,960</b>	<b>9,541</b>

### *Net gains on sale of investments – line item 280*

#### **Net gains on sales of investments: breakdown**

Income item/amount	Total 30/06/2020	Total 30/06/2019
<b>A. Buildings</b>	<b>101</b>	<b>-</b>
- Gains on disposal	101	-
- Losses on disposal	-	-
<b>B. Other assets</b>	<b>(1)</b>	<b>13</b>
- Gains on disposal	1	14
- Losses on disposal	(2)	(1)
<b>Profit (loss)</b>	<b>100</b>	<b>13</b>



## *Earnings per share*

### **Average number of ordinary shares (fully diluted)**

There were no transactions involving share capital during the year and no financial instruments were issued that might involve the future issue of shares. Accordingly, the number of shares interested in profit is 453,385,777.

The number of shares shown in the table below is the weighted average for the year.

	<b>30/06/2020</b>	<b>30/06/2019</b>
number of shares	453,385,777	453,385,777

### **Other information**

IAS 33 requires that earnings per share (EPS) be reported in accordance with the following definitions:

«Basic EPS», determined by dividing the profit attributable to the bearers of ordinary shares by the weighted average number of ordinary shares in issue.

«Diluted EPS», determined by taking account of the dilutive effect of all potential ordinary shares.

There are no circumstances under which earnings can be diluted and the financial statements do not show discontinued activities to be sold for which basic and diluted EPS must be stated separately

	<b>30/06/2020</b>	<b>30/06/2019</b>
basic EPS	0.032	0.104
diluted EPS	0.032	0.104

## *Information on risks and related hedging policy*

The information provided in this part may be based on internal management figures and, therefore, may not coincide with the tables showing the balance sheet and income statement figures.

## *Risks of the Banking Group*

### **Qualitative information**

Qualitative information about credit risk is provided in the financial statements at 31/12/2019. With reference to impaired financial assets, please refer to the information in the report on operations, in the paragraph on «Lending», and in the «Financial assets measured at amortised cost» section.

## QUANTITATIVE INFORMATION

### Asset quality

#### Non-performing and performing loans: size and adjustments

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

Portfolio/quality	Non-performing loans	Unlikely-to-pay loans	Impaired past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	438,963	749,990	65,239	330,893	36,617,886	38,202,971
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	2,193,012	2,193,012
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	19,013	1,067	11,191	383,158	414,429
5. Financial assets being sold	-	-	-	-	-	-
<b>Total 30/06/2020</b>	<b>438,963</b>	<b>769,003</b>	<b>66,306</b>	<b>342,084</b>	<b>39,194,056</b>	<b>40,810,412</b>
<b>Total 31/12/2019</b>	<b>668,058</b>	<b>849,381</b>	<b>56,537</b>	<b>304,045</b>	<b>35,165,334</b>	<b>37,042,355</b>

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

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

Portfolio/quality	Impaired				Performing			Total (Net exposure)
	Gross exposure	Total adjustments	Net exposure	Total partial write-offs *	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortised cost	2,755,638	1,501,446	1,254,192	214,926	37,085,405	136,626	36,948,779	38,202,971
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	2,199,418	6,406	2,193,012	2,193,012
3. Financial assets designated at fair value	-	-	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	31,934	11,854	20,080	-	-	-	394,349	414,429
5. Financial assets being sold	-	-	-	-	-	-	-	-
<b>Total 30/06/2020</b>	<b>2,787,572</b>	<b>1,513,300</b>	<b>1,274,272</b>	<b>214,926</b>	<b>39,284,823</b>	<b>143,032</b>	<b>39,536,140</b>	<b>40,810,412</b>
<b>Total 31/12/2019</b>	<b>3,732,063</b>	<b>2,158,087</b>	<b>1,573,976</b>	<b>341,863</b>	<b>35,271,911</b>	<b>106,511</b>	<b>35,468,379</b>	<b>37,042,355</b>

The gross carrying amount of financial assets mandatorily measured at fair value at year end includes the credit risk component.



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

Type of exposure/Amounts	Gross exposure		Total adjustments and provisions	Net exposure	Total partial write-offs *
	Impaired	Performing			
<b>A. Cash exposure</b>					
a) Non-performing loans	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-
b) Unlikely-to-pay loans	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-
c) Impaired past due exposures	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-
d) Performing past due exposures	-	48,043	81	47,962	-
- of which: exposures subject to forbearance	-	-	-	-	-
e) Other performing exposures	-	3,563,207	12,315	3,550,892	-
- of which: exposures subject to forbearance	-	-	-	-	-
<b>Total (A)</b>	<b>-</b>	<b>3,611,250</b>	<b>12,396</b>	<b>3,598,854</b>	<b>-</b>
<b>B. Off-balance sheet credit exposures</b>					
a) Impaired	-	-	-	-	-
b) Performing	-	381,147	214	380,933	-
<b>Total (B)</b>	<b>-</b>	<b>381,147</b>	<b>214</b>	<b>380,933</b>	<b>-</b>
<b>Total (A+B)</b>	<b>-</b>	<b>3,992,397</b>	<b>12,610</b>	<b>3,979,787</b>	<b>-</b>

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

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

Type of exposure/Amounts	Gross exposure		Total adjustments and provisions	Net exposure	Total partial write-offs *
	Impaired	Performing			
<b>A. Cash exposure</b>					
a) Non-performing loans	1,404,631	-	965,668	438,963	213,326
- of which: exposures subject to forbearance	230,967	-	151,348	79,619	13,144
b) Unlikely-to-pay loans	1,305,959	-	536,956	769,003	649
- of which: exposures subject to forbearance	742,968	-	301,227	441,741	163
c) Impaired past due exposures	76,983	-	10,677	66,306	-
- of which: exposures subject to forbearance	15,703	-	1,830	13,873	-
d) Performing past due exposures	-	302,440	8,318	294,122	-
- of which: exposures subject to forbearance	-	39,269	1,644	37,625	-
e) Other performing exposures	-	35,843,707	122,322	35,721,385	951
- of which: exposures subject to forbearance	-	693,440	22,475	670,965	951
<b>Total (A)</b>	<b>2,787,573</b>	<b>36,146,147</b>	<b>1,643,941</b>	<b>37,289,779</b>	<b>214,926</b>
<b>B. Off-balance sheet credit exposures</b>					
a) Impaired	263,619	-	29,491	234,128	-
b) Performing	-	20,551,545	17,307	20,534,238	-
<b>Total (B)</b>	<b>263,619</b>	<b>20,551,545</b>	<b>46,798</b>	<b>20,768,366</b>	<b>-</b>
<b>Total (A+B)</b>	<b>3,051,192</b>	<b>56,697,692</b>	<b>1,690,737</b>	<b>58,058,147</b>	<b>214,926</b>

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

### ECL sensitivity analyses

In general, the macroeconomic scenarios reflect changes in dozens of macro-factors forecast over long-term time horizons, considering standard<sup>1</sup> market conditions that are updated quarterly. These forecasts are subjected to specific analysis, discussion and approval by management committees appointed for this purpose. The scenarios examined address different degrees of adverse/favourable conditions affecting the overall macroeconomic situation.

The estimation of write-downs generally considers a baseline scenario that applies «central» trends to the macroeconomic variables, with respect to their initial values at the time of the estimate, in order to derive an overall most likely outcome; in addition, two «alternative» scenarios are considered – «adverse» and «favourable» – that address outcomes deemed somewhat plausible and not extreme in the macroeconomic context identified. The importance of the above scenarios in the final determination of the write-downs is defined using an appropriate set of

1. These estimates may however be updated on an ad hoc basis if the provider identifies atypical elements and/or particular turbulence affecting the general macroeconomic situation.



weighting coefficients that, in general, reflect the estimated severity assigned to each scenario by the external provider, as adjusted after specific internal analysis and processing.

Following the COVID-19 pandemic and its progressive spread world-wide, the last few months have been characterised by an unprecedented deterioration in the macroeconomic context, followed by extreme volatility in the macroeconomic forecasts of the main national and international research institutions.

In order to ensure optimal monitoring of these aspects given the particular importance they have acquired in the light of recent events, the Group has intensified its monitoring of these specific issues, as well as the analysis, benchmarking and use of monthly updates that were released by the supplier with specific reference to the baseline scenario developed in the last official forecast report.

In this regard, it should be noted that, when calculating writedowns at the end of June 2020, the Parent Company adopted the following three different macro-scenarios and the respective weightings:

a baseline scenario, corresponding to the mid-June 2020 update of the baseline scenario initially released by the official supplier on the occasion of the last forecast report, to which a probability of 80% was attributed;

a (slightly) favourable scenario, corresponding to the mid-May 2020 update of the baseline scenario initially released by the official supplier on the occasion of the last forecast report, to which a probability of 10% was attributed;

a (slightly) adverse scenario, based on the macroeconomic forecasts published by the Bank of Italy at the beginning of June 2020, to which a probability of 10% was attributed.

Table 1 shows the evolutionary dynamics of the main macro factors (gross domestic product, unemployment and inflation) in each of these scenarios.

**Table 1 – Annual forecasts for the main macro variables.**

Macro-variable	Baseline scenario June 2020			Bank of Italy scenario			Baseline scenario May 2020		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Italy's GDP (% change on an annual basis)	-9.4%	5.4%	1.7%	-9.2%	4.8%	2.5%	-8.5%	4.5%	1.5%
Italy's unemployment	8.9%	9.8%	9.5%	10.6%	11.0%	10.9%	10.5%	10.1%	9.8%
Italy's inflation (% change on an annual basis)	0.0%	0.8%	1.2%	-0.1%	0.0%	0.8%	-0.3%	1.0%	1.6%

The use of forward-looking information in the impairment model was discussed in more detail in paragraph 2.3 Methods for measuring expected losses in Section 1 Credit risk of part E of the notes to the 2019 financial statements.

In order to quantify the variability to which the final write-downs are subject, given all the scenario-dependent factors considered explicitly in the methodological framework, the Bank has also carried out specific sensitivity analyses in accordance with sector best practices and the most recent recommendations issued by the Supervisory Authorities<sup>2</sup>. The results of these analyses are presented in the following tables.

Table 2 shows, divided by management macrosegment and stage, the different levels of write-downs that correspond to the three individual scenarios - basic, favorable and adverse – and to that weighted on the basis of probabilistic coefficients mentioned above. The results of the simulated scenario are also reported (custom version, and worse, of the Bank of Italy-based scenario used as an adverse scenario in the official calculation, in which the evolutionary dynamics of the Italian GDP variable alone are replaced by the worse ones with reference to the first calendar year of forecast, taken from the adverse scenario of the latest 2020Q2 forecast report), which gives a breakdown of the overall impairment by management macro-segments

2. For example see ESMA32 -63 - 791 dated 22 October 2019.



and stages and shows an overall increase in writedowns of approximately 7.2 million compared with the weighted scenario (and of 7.5 million compared with the baseline scenario). Table 3 indicates the writedowns that would have been recorded had four different sets of probabilities<sup>3</sup> been applied with respect to the official one adopted.

**Table 2 - Writedowns [in €/million] at 30 June 2020 of the performing loans of the Parent Company associated with different macroeconomic scenarios**

Operational macro-segment	Stage	Favourable	Baseline	Adverse	Adverse	Adverse custom <sup>41</sup>
<b>Corporate &amp; Large Corporate</b>	Stage 01	19.6	19.6	19.8	19.6	20.7
	Stage 02	34.6	34.9	35.4	34.9	36.6
	<b>Total</b>	<b>54.2</b>	<b>54.5</b>	<b>55.2</b>	<b>54.5</b>	<b>57.2</b>
<b>Small businesses</b>	Stage 01	8.9	8.9	8.9	8.9	9.2
	Stage 02	15.0	15.1	15.3	15.1	1.6
	<b>Total</b>	<b>23.9</b>	<b>24.0</b>	<b>24.2</b>	<b>24.0</b>	<b>25.1</b>
<b>Small Economic Operators</b>	Stage 01	5.5	5.6	5.8	5.6	5.9
	Stage 02	9.4	9.4	9.7	9.4	9.8
	<b>Total</b>	<b>14.8</b>	<b>15.0</b>	<b>15.5</b>	<b>15.0</b>	<b>15.7</b>
<b>Individuals</b>	Stage 01	5.2	5.0	5.3	5.1	5.3
	Stage 02	11.1	10.8	11.3	10.9	11.4
	<b>Total</b>	<b>16.3</b>	<b>15.9</b>	<b>16.6</b>	<b>16.0</b>	<b>16.8</b>
<b>Other</b>	Stage 01	20.8	21.6	23.5	21.7	23.6
	Stage 02	0.2	0.2	0.3	0.2	0.3
	<b>Total</b>	<b>21.1</b>	<b>21.8</b>	<b>23.7</b>	<b>21.9</b>	<b>23.8</b>
<b>Total</b>	Stage 01	60.0	60.6	63.3	60.8	64.6
	Stage 02	70.3	70.5	71.9	70.6	74.1
	<b>Total</b>	<b>130.3</b>	<b>131.2</b>	<b>135.2</b>	<b>131.5</b>	<b>138.7</b>

3. The weighting factors for the baseline, adverse and favourable scenarios are respectively 75%-15%-10% (alternative 1), 75%-10%-15% (alternative 2), 75%-20%-10% (alternative 3) and 75%-10%-20% (alternative 4)

4. In the custom scenario, the evolutionary dynamics of only the Italian GDP variable in the adverse scenario are replaced by the worse ones equal to -12.2%, +5.5% and +1.9% respectively for the first, second and third year.



**Table 3 - Writedowns [in €/million] at 30 June 2020 of the performing loans of the Parent Company associated with different weighting of macroeconomic scenarios**

Macro-segment	Stage	Weighted alt. scen. 1	Weighted alt. scen. 2	Weighted alt. scen. 3	Weighted alt. scen. 4
<b>Corporate &amp; Large Corporate</b>	Stage 01	19.6	19.6	19.6	19.6
	Stage 02	35.0	34.9	35.0	34.9
	<b>Total</b>	<b>54.6</b>	<b>54.5</b>	<b>54.6</b>	<b>54.5</b>
<b>Small businesses</b>	Stage 01	8.9	8.9	8.9	8.9
	Stage 02	15.1	15.1	15.2	15.1
	<b>Totale</b>	<b>24.0</b>	<b>24.0</b>	<b>24.0</b>	<b>24.0</b>
<b>Small Economic Operators</b>	Stage 01	5.6	5.6	5.6	5.6
	Stage 02	9.4	9.4	9.4	9.4
	<b>Total</b>	<b>15.0</b>	<b>15.0</b>	<b>15.1</b>	<b>15.0</b>
<b>Individuals</b>	Stage 01	5.1	5.1	5.1	5.1
	Stage 02	10.9	10.9	11.0	10.9
	<b>Total</b>	<b>16.0</b>	<b>16.0</b>	<b>16.1</b>	<b>16.0</b>
<b>Other</b>	Stage 01	21.8	21.6	21.9	21.6
	Stage 02	0.2	0.2	0.2	0.2
	<b>Total</b>	<b>22.0</b>	<b>21.9</b>	<b>22.1</b>	<b>21.8</b>
<b>Total</b>	Stage 01	61.0	60.8	61.1	60.8
	Stage 02	70.7	70.6	70.8	70.6
	<b>Total</b>	<b>131.7</b>	<b>131.4</b>	<b>131.9</b>	<b>131.4</b>

### Significant risks

	30/06/2020	31/12/2019
Number of positions	15	14
Exposure	18,882,312	15,159,408
Risk position	5,389,473	3,940,622

The exposure limit of 10% of own funds – the threshold for inclusion of a counterparty in the category of «significant risks» – has to be measured in terms of the «nominal amount» of the exposure, i.e. the sum of cash risk assets and off-balance sheet transactions with a customer or a group of related customers. On the other hand, the «risk position», on which the maximum limits are measured for the assumption of each individual significant risk, is given by the same aggregate weighted according to a system that takes account of the nature of the debtor and any guarantees that have been obtained.

The above positions include the Republic of Italy (nominal exposure, 6,634 million; risk position, 6.8 million), solely in relation to the sovereign securities held in the Bank's portfolios, and Cassa di Compensazione Garanzia - Clearing House (nominal exposure, 1,074 million; risk position, nil), principally in relation to lending repo transactions, as well as nominal exposures to Spain of 1,715 million with zero risk positions.

The number of large risks and the related exposures differ from those reported for supervisory purposes, since art. 4 of Regulation 575/2013 CRR allows the existence of a group of related customers to be considered separately for each company or entity that is controlled directly.

## Banking group – Market risk

Qualitative information about interest rate, price and exchange rate risks is provided in the financial statements at 31/12/2019.

### Derivative instruments and related hedging policy

#### Financial derivatives

##### A.1 Financial trading derivatives: notional values at period end

Underlying assets/Type of derivative	Total 30/06/2020				Total 31/12/2019			
	Over the counter				Over the counter			
	Without central counterparties				Without central counterparties			
	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets
<b>1. Fixed-yield securities and interest rates</b>	-	-	<b>1,357,101</b>	-	-	-	<b>1,359,752</b>	-
a) Options	-	-	32,904	-	-	-	37,936	-
b) Swaps	-	-	1,324,197	-	-	-	1,321,816	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
<b>2. Variable-yield securities and stock indices</b>	-	-	<b>130,319</b>	-	-	-	<b>19,500</b>	-
a) Options	-	-	130,319	-	-	-	19,500	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
<b>3. Currency and gold</b>	-	-	<b>3,826,832</b>	-	-	-	<b>4,078,173</b>	-
a) Options	-	-	42,663	-	-	-	42,431	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	3,784,169	-	-	-	4,035,742	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
<b>4. Commodities</b>	-	-	<b>99,089</b>	-	-	-	<b>34,495</b>	-
<b>5. Other</b>	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>5,413,341</b>	-	-	-	<b>5,491,920</b>	-



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

Types of derivatives	Total 30/06/2020				Total 31/12/2019			
	Over the counter				Over the counter			
	Without central counterparties				Without central counterparties			
	Central counterparties	With settlement agreement	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreement	Organised markets
<b>1. Positive fair value</b>								
a) Options	-	-	8,173	-	-	-	8,470	-
b) Interest rate swap	-	-	10,170	-	-	-	11,192	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	20,383	-	-	-	11,974	-
f) Forward	-	-	-	-	-	-	-	-
g) Other	-	-	3,881	-	-	-	525	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>42,607</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,161</b>	<b>-</b>
<b>2. Negative fair value</b>								
a) Options	-	-	8,299	-	-	-	526	-
b) Interest rate swap	-	-	9,804	-	-	-	10,638	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	35,870	-	-	-	55,345	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	3,812	-	-	-	509	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>57,785</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>67,018</b>	<b>-</b>

## Financial hedging derivatives

### A.1 Financial hedging derivatives: notional values at period end

Underlying assets/Type of derivative	Total 30/06/2020				Total 31/12/2019			
	Over the counter				Over the counter			
	Without central counterparties				Without central counterparties			
	Central counterparties	With settlement agreements	Without settlement agreements	Organised markets	Central counterparties	With settlement agreements	Without settlement agreement	Organised markets
<b>1. Fixed-yield securities and interest rates</b>	-	-	<b>250,775</b>	-	-	-	<b>274,553</b>	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	250,775	-	-	-	274,553	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
<b>2. Variable-yield securities and stock indices</b>	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
<b>3. Currency and gold</b>	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
<b>4. Commodities</b>	-	-	-	-	-	-	-	-
<b>5. Other</b>	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>250,775</b>	-	-	-	<b>274,553</b>	-



## A.2 Financial hedging derivatives: gross positive and negative fair value – breakdown by product

Types of derivatives	Positive and negative fair value							
	Total 30/06/2020				Total 31/12/2019			
	Over the counter				Over the counter			
	Central counterparties	Without central counterparties		Organised markets	Central counterparties	Without central counterparties		Organised markets
With settlement agreements		Without settlement agreements	With settlement agreements			Without settlement agreements		
<b>Positive fair value</b>								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-
<b>Negative fair value</b>								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	8,720	-	-	-	11,320	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>8,720</b>	-	-	-	<b>11,320</b>	-

### Banking group - Liquidity risk

Qualitative information about liquidity risk is provided in the financial statements at 31/12/2019.

### Securitisation transactions and disposal of assets

#### Covered bonds

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

On 1 June 2014, pursuant and consequent to the combined provisions of arts. 4 and 7-bis of law 130 of 30 April 1999, a portfolio of performing loans totalling € 802 million was assigned without recourse to «POPSO Covered Bond s.r.l.», the vehicle company, in relation to the issue on 5 August 2014 of the first series of 5-year covered bonds for € 500 million.

A second assignment of performing loans totalling € 202 million took place on 5 December 2015, under the same contract.

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

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

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

A seventh assignment of performing loans for a total of € 352 million took place on 1 December 2019.

The above securitisations involved the sale of residential mortgages to the SPV, which was simultaneously granted a subordinated loan in order to settle the sale price. Since the Bank retains all the risks and benefits relating to those loans, they were not derecognised.

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

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

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

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

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

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

Series and Class	Series 2
ISIN Code	IT0005175242
Issue date	04/04/2016
Maturity Date	04/04/2023
Extended maturity	04/04/2024
Value date	Euro
Amount	500,000,000
Type of rate	Fixed
Parameter	0.750%
Coupon	Annual
Applicable law	Italian

### **Banking group – Operational risks**

Qualitative information about operational risks is provided in the financial statements at 31/12/2019.

### **Information on exposure to sovereign debt**

CONSOB with communication no. DEM/11070007 of 05/08/2011 invited listed companies to provide in the financial statements information on exposures to sovereign debtors, i.e. bonds issued by central and local governments, government agencies and any loans made to them.

In this regard we communicate that the overall exposure of the Group as at 30/06/2020 amounted to € 9,878 million and was structured as follows:





- a) Government securities: € 6,020 million
- b) Securities of other issuers: € 2,275 million;
- c) Loans to government departments: € 264 million;
- d) Loans to state-owned or local government-owned enterprises: € 1,021 million;
- e) Loans to other public administrations and miscellaneous entities: € 298 million..

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

## ***Information on equity***

### ***Consolidated capital***

#### **QUALITATIVE INFORMATION**

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

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

The Group has always made every effort to have an adequate and suitable level of capital to enable its operations to grow steadily and to protect against risk in accordance with the requirements of the supervisory regulations. In line with its status as a cooperative bank, the capitalisation policy has been identified as the instrument that, by creating the role of shareholder/customer, makes it possible to pursue the strategy of autonomous growth decided by Management. This is why the history of the Group features periodic increases in capital, carried out in ways that are technically straightforward and transparent, so that the shareholders can immediately understand the terms of the operation. Based on this premise, we have never issued innovative capital instruments and the repeated increases have always been taken up en masse.

The financial resources raised by such operations, together with the reserves built up in accordance with the articles of association, have enabled the Group to expand its activities harmoniously and to look forward to future challenges with a certain tranquillity.

The crisis and the adverse effects on the financial statements of banks have hit their self-financing capability that, in the past, contributed substantially to the capitalisation of lending institutions. The tensions in the financial markets in recent years, hit by crisis, have not left room for the Bank to further strengthen its equity position, despite constant operational growth that, in 2010, included the acquisition of control over Factorit Spa with a view to providing specialist tools in support of the real economy. The last increase in share capital took place in 2014 through a combined bonus and rights issue with the receipt for the cash portion of € 343 million.

Having taken note of the ECB's recommendations regarding the payment of dividends, which reflected concern about the effects of the COVID-19 pandemic on the capital strength of banks, the ordinary shareholders' meeting of 12 June 2020 resolved to allocate the profit for 2019 entirely to reserves. With a recommendation dated 28 July 2020, the ECB extended the deadline for the suspension of dividend payments until 1 January 2021; the Board of Directors took note of the fact.

The responsibilities that the bank has versus its shareholders and that derive from its status as a cooperative bank have led to an extremely prudent style of management of

the company's capital, as can be seen from the mix of assets and liabilities in the balance sheet.

## QUANTITATIVE INFORMATION

The component parts and amounts of the Group's equity are described in the following tables.

### B.1 Consolidated equity: breakdown

Items/Amounts	Consolidation for supervisory purposes	Insurance companies	Other businesses	Consolidated eliminations and adjustments	Total
<b>1. Share capital</b>	<b>1,393,736</b>	-	-	-	<b>1,393,736</b>
<b>2. Share premium reserve</b>	<b>83,362</b>	-	-	-	<b>83,362</b>
<b>3. Reserves</b>	<b>1,452,958</b>	-	<b>372</b>	<b>47,976</b>	<b>1,501,306</b>
<b>4. Equity instruments</b>					-
<b>5. (Treasury shares)</b>	<b>(25,373)</b>	-	-	-	<b>(25,373)</b>
<b>6. Valuation reserves:</b>	<b>(21,387)</b>	-	<b>192</b>	<b>2,152</b>	<b>(19,043)</b>
- Variable-yield securities measured at fair value through other comprehensive income	45,046	-	-	-	45,046
- Hedge of variable-yield measured at fair value through other comprehensive income					-
- Financial assets (other than variable-yield securities) measured at fair value through other comprehensive income	3,759	-	-	-	3,759
- Property, equipment and investment property	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash-flow hedges	-	-	-	-	-
- Hedging instruments (non-designated elements)	-	-	-	-	-
- Exchange differences	-	-	-	(113)	(113)
- Non-current assets and disposal groups held for sale	-	-	-	-	-
- Financial liabilities measured at fair value through profit or loss (changes in own creditworthiness)	-	-	-	-	-
- Actuarial profits (losses) on defined-benefit plans	(70,192)	-	-	-	(70,192)
- Share of valuation reserves of equity investments valued at net equity	-	-	-	2,265	2,265
- Special revaluation regulations	-	-	192	-	192
<b>7. Profit (loss)</b>	<b>14,572</b>	-	<b>(267)</b>	<b>1,943</b>	<b>16,248</b>
<b>Total</b>	<b>2,897,868</b>	-	<b>297</b>	<b>52,071</b>	<b>2,950,236</b>



## B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Values	Banking group		Insurance companies		Other businesses		Consolidated eliminations and adjustments		Total 30/06/2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Fixed-yield securities	14,238	(10,479)	-	-	-	-	-	-	14,238	(10,479)
2. Variable-yield securities	58,659	(13,625)	-	-	-	-	-	-	58,659	(13,625)
3. Loans	-	-	-	-	-	-	-	-	-	-
<b>Total 30/06/2020</b>	<b>72,897</b>	<b>(24,104)</b>	-	-	-	-	-	-	<b>72,897</b>	<b>(24,104)</b>
<b>Total 31/12/2019</b>	<b>73,302</b>	<b>(16,660)</b>	-	-	-	-	-	-	<b>73,302</b>	<b>(16,660)</b>

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

	Fixed-yield securities	Variable-yield securities	Loans
<b>1. Opening balance</b>	<b>12,844</b>	<b>43,798</b>	-
<b>2. Positive changes</b>	<b>8,478</b>	<b>13,655</b>	-
2.1 Increases in fair value	2,806	13,655	-
2.2 Adjustments for credit risk	5,672	-	-
2.3 Transfer to income statement of negative reserves from disposals	-	-	-
2.4 Transfer to other components of equity (variable-yield securities)	-	-	-
2.5 Other changes	-	-	-
<b>3. Negative changes</b>	<b>(17,563)</b>	<b>(12,407)</b>	-
3.1 Reductions in fair value	(13,073)	(12,404)	-
3.2 Write-backs for credit risk	(378)	-	-
3.3 Transfer to income statement from positive reserves: from disposals	(4,112)	-	-
3.4 Transfer to other components of equity (variable-yield securities)	-	(3)	-
3.5 Other changes	-	-	-
<b>4. Closing balance</b>	<b>3,759</b>	<b>45,046</b>	-

## Valuation reserves relating to defined-benefit plans: changes during the year

The valuation reserve relating to the defined-benefit plans has a negative balance of € 70.192 million. This amount derives from the recognition of the related actuarial gains and losses and the associated taxation.

## *Capital and capital adequacy ratios*

### *Scope of application of the regulations*

The new harmonised rules for banks and investment firms contained in Regulation (EU) no. 575/2013 (Capital Requirement Regulation - CRR) and Directive 2013/36 EU (Capital Requirement Directive - CRD IV) came into force on 1 January 2014, adopting in the European Union the standards established by the Basel Committee on Banking Supervision (Basel 3).

While the CRR Regulation is directly applicable in national law, the CRD IV Directive was implemented by Bank of Italy Circular 285 of 17 December 2013 «Supervisory instructions for banks», which also set out the regulatory decisions made at national level in relation to Own

Funds during the transition period. The Circular adopted the CRD IV regulations that the Bank of Italy was required to implement and redesigned the overall reporting framework for consistency with the EU instructions. In the context of the financial crisis generated by the COVID-19 emergency, the European Parliament issued Regulation 873 on 24 June 2020 in order to ease the capital requirements of banks by giving them the opportunity to provide further support to the economy. Among other regulatory provisions, it provides for the anticipation of certain measures to mitigate capital absorption, which should have come into force in one year according to CRR2 (EU Regulation 876/2019), with 30.06.20 as the accounting date (by way of example, one of these concerns the extension of support to SMEs).

### **Bank's own funds**

#### **QUALITATIVE INFORMATION**

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

- Tier 1 Capital;
- Tier 2 Capital.

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

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

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

- Share capital;
- Share premium reserve;
- Retained earnings;
- Negative valuation reserves - OCI;
- Other reserves;
- Previous CET 1 instruments subject to transitional instructions (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters are regulatory adjustments of the carrying amount of (positive or negative) elements of the Tier 1 capital.

The deductions are negative elements of the Tier 1 capital.

Additional Tier 1 capital (AT1) consists of the following positive and negative components:

- Equity instruments and related premiums;
- Previous AT1 instruments subject to transitional arrangements (grandfathering);
- Deductions.

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

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

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

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



Following the introduction of the new IFRS 9, the Group decided to take advantage of EU Regulation 2017/2395, which granted supervised intermediaries the possibility to include, temporarily, an additional amount in the calculation of their CET1 capital aimed at «neutralising» the effects the higher accounting provisions caused by immediate adoption of the new standard. With the entry into force of EU Regulation no. 873 of 24 June 2020, EU Regulation 2017/2395 was amended by extending the transitional regime, originally envisaged to alleviate the impacts associated with the introduction of IFRS 9, to increase the provisions on performing positions following the deterioration of the macroeconomic scenario in relation to the ongoing COVID-19 emergency. This further mitigation of CET1 is therefore added to the one disciplined by Regulation 2017/2395, also with a period of application that decreases over the years. Specifically, the additional adjustments due to the coming into force of IFRS 9 will continue to be included as a positive element of CET1 due to the already foreseen computability percentages that decrease over time, from 70% in 2020 to 25% in 2022 and reaching zero in 2023, while the higher provisions linked to the COVID-19 emergency will also be added to CET1, again on the basis of declining percentages over the years, from 100% in 2020 to 25% in 2024, until it reaches zero in 2025.

The expected impact on capital ratios calculated under the transitional (or «Phased in») rules is therefore more limited. In May 2019, the bank received authorisation from the ECB to use its internal rating system (AIRB) to measure capital requirements on credit risk; this AIRB method was applied for the first time in the context of the prudential reports as of 30 June 2019.

## QUANTITATIVE INFORMATION

	30.06.2020	31.12.2019
<b>A. Common Equity Tier 1-CET1 before the application of prudential filters</b>	<b>2,860,373</b>	<b>2,821,704</b>
of which: CET1 instruments subject to transitional arrangements		-
B.1 Prudential filters of CET1 (+/-)		-
<b>C. CET1 gross of the elements to be deducted and the effects of the transitional instructions (A +/- B)</b>	<b>2,860,373</b>	<b>2,821,704</b>
D. Elements to be deducted from CET1	<b>103,374</b>	<b>113,745</b>
<b>E. Transitional instructions – Impact on CET1 (+/-), including minority interest subject to transitional instructions</b>	<b>18,214</b>	<b>4,372</b>
<b>F. Total Common Equity Tier 1-CET1 (C - D +/- E)</b>	<b>2,775,212</b>	<b>2,712,331</b>
<b>G. Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions</b>	<b>7,588</b>	<b>9,191</b>
of which: AT1 instruments subject to transitional instructions		-
<b>H. Elements to be deducted from AT1</b>		-
<b>I. Transitional instructions – Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions</b>		-
<b>L. Total Additional Tier 1 - AT1 (G - H +/- I)</b>	<b>7,588</b>	<b>9,191</b>
<b>M. Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions</b>	<b>450,080</b>	<b>499,047</b>
of which: T2 instruments subject to transitional instructions		-
<b>N. Elements to be deducted from T2</b>	<b>8,175</b>	<b>10,679</b>
<b>O. Transitional instructions – Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional instructions</b>		-
<b>P. Total Tier 2 - T2 (M - N +/- O)</b>	<b>441,905</b>	<b>488,368</b>
<b>Q. Total Own Funds (F + L + P)</b>	<b>3,224,705</b>	<b>3,209,890</b>

## Capital adequacy

### QUALITATIVE INFORMATION

The Basel 3 regulations establish the following minimum ratios for banking groups:

- CET 1 of 4.50%;
- Tier 1 of 6%;
- Total Capital Ratio of 8%.

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

- Capital Conservation Buffer (CCB), comprising an additional 2.5% of Common Equity Tier 1 capital, intended to safeguard the minimum level of regulatory capital under adverse market conditions;
- Anti-cyclical capital reserve, intended to protect the banking sector at times of excessive lending growth; this is currently not implemented but, following instructions from the Supervisory Bodies, could be established during times of economic growth to set aside capital of primary quality to cover possible losses during a downturn, by applying a specific coefficient established at national level;
- Additional reserves set aside using capital of primary quality by entities of global significance and other entities of systemic importance. The buffer for entities of global significant may vary from a minimum of 1% to a maximum of 3.5%, while a non-binding maximum threshold of 2% is envisaged for the others;
- Capital reserve against systemic risk, to be established by each member State with a minimum of 1%.

The sum of the regulatory requirements and the additional reserves gives the minimum capital requirement, which for the current year is as follows:

- CET 1 of 7%;
- Tier 1 of 8.5%;
- Total Capital Ratio of 10.5%.

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

The European Central Bank used its powers and in December 2019 communicated the Supervisory Board's decision concerning the minimum capital requirements to be maintained at a consolidated level in 2020:

- a minimum requirement of Common Equity Tier 1 Ratio of 10%, calculated as the sum of the First Pillar regulatory minimum requirement (4.50%), the Capital Conservation Buffer (2.5%), and an additional Second Pillar requirement (3%);
- a minimum requirement of Tier 1 Capital Ratio of 11.50%
- a minimum requirement of Total Capital Ratio of 13.5%, calculated as the sum of the First Pillar regulatory minimum requirement (8%), the Capital Conservation Buffer (2.5%) and an additional Second Pillar requirement (3%).

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

Indeed, on the basis of the evidence collected as part of the Supervisory Review and Evaluation Process (SREP), it is up to the ECB to set the capital ratios and/or cash ratios for each intermediary under its direct supervision, as well as an indication of further qualitative and quantitative considerations and recommendations.

In 2017 a «Pillar 2 Guidance» was added as a guideline to the future evolution of the group's capital. The latter parameter assumes a confidential nature and, unlike the two minimum requirements, is not publicly announced, as it is an element which, also according



to the ECB's approach, is not relevant for the calculation of distributable dividends.  
At 30 June 2020, the parameters of the Group under the new regulations are as follows:

- CET 1 Capital ratio 15.69%;
- Tier 1 Capital ratio 15.73%;
- Total Capital ratio 18.23%.

On a fully-phased basis

- CET 1 Capital ratio 15.59%;
- Tier 1 Capital ratio 15.64%;
- Total Capital ratio 18.13%.

The leverage ratio required by Basel 3, calculated as the ratio of Tier 1 to total on- and off-balance sheet assets, is 5.50% applying the transitional criteria in force for 2020 and 5.46% under the definitive criteria.

The Texas ratio is 45.15%

## QUANTITATIVE INFORMATION

Categories/Amounts	Unweighted amounts		Weighted amounts/ requirements	
	30/06/2020	31/12/2019	30/06/2020	31/12/2019
<b>A. Assets at risk</b>				
A.1 Credit and counterparty risk	-	-	-	-
1. Standardised approach	26,856,780	22,852,537	8,214,449	7,993,755
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced	23,707,366	23,098,504	7,202,849	7,131,447
3. Securitisations	666,464	206,228	344,887	173,392
<b>B. Capital adequacy requirements</b>				
B.1 Credit and counterparty risk			1,260,975	1,223,888
B.2 Loan adjustment risk			2,295	1,786
B.3 Regulation risks				
B.4 Market risks				
1. Standard methodology			25,158	25,252
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic method				
2. Standardised approach			127,029	127,029
3. Advanced method				
B.6 Other calculation elements				
B.7 Total precautionary requirements			1,415,456	1,377,955
<b>C. Risk assets and capital ratios</b>				
C.1 Risk-weighted assets			17,693,201	17,224,432
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			15.69	15.75
C.3 Tier 1 capital/ Risk-weighted assets (T1 capital ratio)			15.73	15.80
C.4 Total Own funds/Risk-weighted assets (Total capital ratio)			18.23	18.64



## **PART H** *Related party transactions*

### *Related-party transactions*

#### **Related party disclosures**

In accordance with Consob Resolution 17221 of 12.3.2010 and subsequent amendments, by resolution of the Board of Directors on 11 November 2010 the Parent Company adopted its own «Internal procedures on related party transactions». A related party is understood as being a person in a certain position who could exercise an influence over the Group such as to condition, directly or indirectly, the way that it operated to favour their own personal interests.

The related parties were identified as defined by IAS 24 and by the above mentioned CONSOB Regulation. They were considered related parties:

1. Subsidiary companies, parent companies and companies under joint control.
2. Companies that can exercise significant influence over the reporting bank.
3. Associated companies.
4. Joint ventures in which the reporting bank holds an investment.
5. Managers with strategic responsibilities within the bank or its parent company.
6. Close family members of the parties listed in point 5.
7. Subsidiary companies, companies under joint control and companies subject to significant influence by one of the parties listed in points 5 and 6.
8. Pension funds of employees and any other entity related to them.

Close family members are defined as follows: the spouse (not legally separated) or companion of the person concerned; the children and dependant relatives of the person concerned, of the spouse (not legally separated) and of the companion; the parents, second degree relatives and others living with the person concerned.

Considering the Bank's status as a cooperative bank in accordance with Title II, Chapter V, Section I of the Consolidated Banking Act (CBA), shareholders are not considered related parties of the Group just because they own shares in it.

No atypical or unusual transactions have been carried out with related parties during the year.

Relations with companies in which investments are held are conducted as part of normal operations and mainly relate to current accounts, deposit accounts and loans. These relations are settled on arm's-length terms. Other relations with other related parties, excluding the above companies, are also settled on the market terms applying to the individual transactions, or on terms in line with those applied to employees, if applicable. No specific provisions were made during the year for losses on amounts due from related parties. The remuneration of the directors and statutory auditors is authorised at the shareholders' meeting; the Board of Directors establishes the compensation of Directors who hold particular offices laid down in the Articles of Association.

The compensation paid to directors and managers can be found in the «Remuneration Report of Banca Popolare di Sondrio» pursuant to art. 123-ter CFA, which is also available on the bank's website.

For related parties with administration, management and control functions, there is a special approval procedure for the granting of bank credit laid down in art. 136 of the CBA. This makes the transaction subject to the unanimous approval of the Board of Directors and the consent of all members of the Board of Statutory Auditors.



(in thousands of euro)	Assets	Liabilities	Income	Charges	Guarantees given and commitments	Guarantees received
Directors	868	8,241	8	11	135	1,253
Statutory auditors	413	452	4	-	712	595
Management	60	1,193	-	5	515	-
Family members	2,856	13,915	27	22	997	14,124
Subsidiaries	4,052,792	69,864	2,633	135	2,249,198	11,925
Associated companies	594,292	196,963	1,750	231	386,595	1,508
Other	142,660	18,215	329	4	122,462	14,465

Loans to subsidiaries are represented mainly by interbank relations with Banca Popolare di Sondrio (Suisse) SA and Factorit spa, while loans to associated companies relate for € 267.5 million to Alba Leasing S.p.A.; assets with other related parties include loans of € 80.2 million granted to the affiliate Release S.p.A.

## Segment information

### Primary format

#### Distribution by business segment: income statement

Items	Businesses	Individuals and other customers	Securities	Central functions	Total	Reconciliation	Total 30/06/2020
Interest income	156,623	134,520	-	60,799	351,942	-69,325	282,617
Interest expense	-18,630	-49,161	-	-51,093	-118,884	69,325	-49,559
<b>Net interest income</b>	<b>137,993</b>	<b>85,359</b>	<b>-</b>	<b>9,706</b>	<b>233,058</b>	<b>-</b>	<b>233,058</b>
Fee and commission income	70,272	36,498	48,127	5,662	160,559	-24	160,535
Fee and commission expense	-2,628	-3,063	-2,851	251	-8,291	-49	-8,340
Dividends and similar income	-	-	-	2,950	2,950	-	2,950
Net trading income	-	-	-	-18,663	-18,663	-	-18,663
Net hedging gains (losses)	-	172	-	-176	-4	-	-4
Gains/losses from sales or repurchases	-42,174	-1,684	-	10,572	-33,286	-	-33,286
Net change in financial assets and liabilities carried at fair value	-651	-692	-	-6,964	-8,307	-	-8,307
<b>Total income</b>	<b>162,812</b>	<b>116,590</b>	<b>45,276</b>	<b>3,338</b>	<b>328,016</b>	<b>-73</b>	<b>327,943</b>
Adjustments to the net value of financial assets	-30,589	-4,882	-	-17,355	-52,826	-	-52,826
<b>Net financial income</b>	<b>132,223</b>	<b>111,708</b>	<b>45,276</b>	<b>-14,017</b>	<b>275,190</b>	<b>-73</b>	<b>275,117</b>
Administrative expenses	-62,750	-83,522	-26,359	-71,763	-244,394	-22,663	-267,057
Provisions for risks and charges	-505	-164	-	162	-507	-	-507
Depreciation and net impairment losses on property, equipment and investment property	-5,015	-7,567	-2,485	-3,725	-18,792	-	-18,792
Amortisation and net impairment losses on intangible assets	-1,826	-2,696	-872	-2,011	-7,405	-	-7,405
Other operating income/expense	2,218	1,745	-70	5	3,898	22,736	26,634
Net gains (losses) on equity investments	-	-	-	13,960	13,960	-	13,960
Net result of fair value measurement of property, equipment and investment property and intangible assets	-	-	-	-518	-518	-	-518
Net gains on sales of investments	-	-	-	100	100	-	100
<b>Gross profit</b>	<b>64,345</b>	<b>19,504</b>	<b>15,490</b>	<b>-77,807</b>	<b>21,532</b>	<b>-</b>	<b>21,532</b>

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

### Distribution by business segment: balance sheet

Items	Businesses	Individuals and other customers	Securities	Central functions	Total 30/06/2020
Financial assets	17,460,833	11,778,500	-	12,522,563	41,761,896
Other assets	-	-	-	3,829,464	3,829,464
Property, equipment and investment property	119,246	176,530	57,161	181,679	534,616
Intangible assets	4,611	6,715	2,145	17,855	31,326
Financial liabilities	8,373,133	23,447,401	-	9,788,814	41,609,348
Other liabilities	11,649	1,180	-	1,270,509	1,283,338
Provisions	113,997	104,981	26,123	69,278	314,379
Guarantees given	2,983,537	434,956	-	92,941	3,511,434
Commitments	13,297,704	2,640,952	30,671	231,863	16,201,190



Items	Businesses	Individuals and other customers	Securities	Central functions	<b>Total 31/12/2019</b>
Financial assets	17,496,848	11,629,662	-	8,865,099	37,991,609
Other assets	-	-	-	2,575,222	2,575,222
Property, equipment and investment property	124,840	180,394	59,015	183,923	548,172
Financial liabilities	4,411	6,352	2,073	18,350	31,186
Passività finanziarie	7,908,081	24,742,733	-	4,376,983	37,027,797
Other liabilities	18,946	1,783	-	846,755	867,484
Provisions	114,564	104,025	26,309	69,189	314,087
Guarantees given	2,925,402	432,075	-	111,222	3,468,699
Commitments	13,073,651	2,448,590	31,891	336,609	15,890,741

## Secondary format

### Distribution by geographical area: income statement

Items	Northern Italy	Central-Southern Italy	Switzerland	<b>Total</b>	Reconciliation	<b>Total 30/06/2020</b>
Interest income	281,588	36,141	35,086	352,815	-70,198	282,617
Interest expense	-104,871	-7,032	-7,287	-119,191	69,632	-49,559
<b>Net interest income</b>	<b>176,716</b>	<b>29,109</b>	<b>27,799</b>	<b>233,624</b>	<b>-566</b>	<b>233,058</b>
Fee and commission income	126,813	22,695	11,975	161,483	-948	160,535
Fee and commission expense	-5,432	-2,301	-1,272	-9,005	665	-8,340
Dividends and similar income	18,561	-	11	18,572	-15,622	2,950
Net trading income	-27,981	-	9,475	-18,506	-157	-18,663
Net hedging gains (losses)	-	-	172	172	-176	-4
Gains/losses from sales or repurchases	-31,495	-1,791	-	-33,286	-	-33,286
Net change in financial assets and liabilities carried at fair value	-8,253	-260	74	-8,439	132	-8,307
<b>Total income</b>	<b>248,929</b>	<b>47,452</b>	<b>48,234</b>	<b>344,615</b>	<b>-16,672</b>	<b>327,943</b>
Adjustments to the net value of financial assets	-39,760	-11,258	-1,943	-52,961	135	-52,826
<b>Net financial income</b>	<b>209,169</b>	<b>36,194</b>	<b>46,291</b>	<b>291,654</b>	<b>-16,537</b>	<b>275,117</b>
Administrative expenses	-195,681	-19,764	-29,395	-244,840	-22,217	-267,057
Provisions for risks and charges	-3,825	3,157	39	-629	122	-507
Depreciation and net impairment losses on property, equipment and investment property	-16,554	-1,507	-2,475	-20,536	1,744	-18,792
Amortisation and net impairment losses on intangible assets	-5,521	-555	-683	-6,759	-646	-7,405
Other operating income/expense	5,456	711	144	6,311	20,323	26,634
Net gains (losses) on equity investments	643	-	-	643	13,317	13,960
Net result of fair value measurement of property, equipment and investment property and intangible assets	-518	-	-	-518	-	-518
Net gains on sales of investments	100	-	-	100	-	100
<b>Gross profit</b>	<b>-6,731</b>	<b>18,236</b>	<b>13,921</b>	<b>25,426</b>	<b>-3,894</b>	<b>21,532</b>

Items	Northern Italy	Central-Southern Italy	Switzerland	Total	Reconciliation	Total 30/06/2019
Interest income	301,096	37,707	31,706	370,509	-79,488	291,021
Interest expense	-115,911	-14,580	-8,937	-139,428	78,470	-60,958
<b>Net interest income</b>	<b>185,185</b>	<b>23,127</b>	<b>22,769</b>	<b>231,081</b>	<b>-1,018</b>	<b>230,063</b>
Fee and commission income	128,002	25,065	11,446	164,513	-1,062	163,451
Fee and commission expense	-6,889	-3,267	-1,353	-11,509	627	-10,882
Dividends and similar income	11,005	-	13	11,018	-7,850	3,168
Net trading income	23,289	-	9,715	33,004	-248	32,756
Net hedging gains (losses)	-	-	215	215	-207	8
Gains/losses from sales or repurchases	5,729	-	-	5,729	-	5,729
Net change in financial assets and liabilities carried at fair value	4,170	637	30	4,837	-31	4,806
<b>Total income</b>	<b>350,491</b>	<b>45,562</b>	<b>42,835</b>	<b>438,888</b>	<b>-9,789</b>	<b>429,099</b>
Adjustments to the net value of financial assets	-74,976	-31,310	-854	-107,140	18	-107,122
<b>Net financial income</b>	<b>275,515</b>	<b>14,252</b>	<b>41,981</b>	<b>331,748</b>	<b>-9,771</b>	<b>321,977</b>
Administrative expenses	-197,798	-20,155	-28,871	-246,824	-27,479	-274,303
Provisions for risks and charges	-7,430	6,837	-104	-697	17	-680
Depreciation and net impairment losses on property, equipment and investment property	-16,885	-1,564	-2,306	-20,755	1,716	-19,039
Amortisation and net impairment losses on intangible assets	-5,448	-548	-593	-6,589	-645	-7,234
Other operating income/expense	10,111	2,139	62	12,312	25,539	37,851
Net gains (losses) on equity investments	-	-	-	-	9,541	9,541
Net result of fair value measurement of property, equipment and investment property and intangible assets	133	-	-	133	-	133
Net gains on sales of investments	13	-	-	13	-	13
<b>Gross profit</b>	<b>58,210</b>	<b>962</b>	<b>10,169</b>	<b>69,341</b>	<b>-1,082</b>	<b>68,259</b>



### Distribution by geographical area: balance sheet

Items	Northern Italy	Central- Southern Italy	Switzerland	<b>Total 30/06/2020</b>
Financial assets	33,995,276	3,241,383	4,525,237	41,761,896
Other assets	2,943,970	-	885,494	3,829,464
Property, equipment and investment property	451,933	36,187	46,496	534,616
Intangible assets	28,536	1,412	1,378	31,326
Financial liabilities	29,056,785	7,505,371	5,047,192	41,609,348
Other liabilities	1,257,989	1,180	24,169	1,283,338
Provisions	249,239	34,298	30,842	314,379
Guarantees given	2,755,245	584,415	171,774	3,511,434
Commitments	13,903,371	2,033,567	264,252	16,201,190

Items	Northern Italy	Central- Southern Italy	Switzerland	<b>Total 31/12/2019</b>
Financial assets	30,781,484	2,867,970	4,342,155	37,991,609
Other assets	1,872,838	-	702,384	2,575,222
Property, equipment and investment property	464,278	37,665	46,229	548,172
Intangible assets	28,299	1,333	1,554	31,186
Financial liabilities	24,171,704	8,162,884	4,693,209	37,027,797
Other liabilities	836,467	5,859	25,158	867,484
Provisions	247,304	35,806	30,977	314,087
Guarantees given	2,736,850	556,886	174,963	3,468,699
Commitments	13,146,568	2,505,861	238,312	15,890,741

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

The undersigned Mario Alberto Pedranzini as Managing Director and Maurizio Bertoletti, as Manager responsible for preparing the company's accounting documents of Banca Popolare di Sondrio S.c.p.a., confirm:

- the adequacy in relation to the characteristics of the company and the effective application of the administrative and accounting procedures for the formation of the separate financial statements during the course of the period from 1 January 2020 to 30 June 2020;
- the performance of analytical work on the objectives identified for Company Level Controls, including the entire scope of consolidation.

The evaluation of the adequacy and effective application of the administrative and accounting procedures for the formation of the separate financial statements are based on a model, defined by Banca Popolare di Sondrio Società Cooperativa per Azioni, which makes reference to the principles of the "Internal Control - Integrated Framework (CoSO)", issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework for the internal control system and for financial reporting that is generally accepted internationally.

We also confirm that the condensed consolidated interim financial statements at 30 June 2020:

- have been prepared in compliance with the international financial reporting standards recognised by the European Community pursuant to Regulation (CE) 1606/2002 of the European Parliament and by the Council on 19 July 2002;
- agree with the balances on the books of account and the accounting entries;
- are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the scope of consolidation.

The interim report on operations includes a reliable analysis of the progress and performance, the situation of the Bank and the consolidated companies together with a description of the main risks and uncertainties to which they are subjected.

Sondrio, 6 August 2020

The Managing Director  
Mario Alberto Pedranzini



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







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

Review report on the interim condensed consolidated  
financial statements

(Translation from the original Italian text)

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

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

### Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet as of June 30, 2020, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the period then ended and the related explanatory notes of Banca Popolare di Sondrio S.C.p.A. (the “Bank”) and its subsidiaries (the “Banca Popolare di Sondrio Group”). The Directors of Banca Popolare di Sondrio S.C.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca Popolare di Sondrio Group as of June 30, 2020 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, August 28, 2020

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

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



Attachment 1

**FINANCIAL STATEMENTS  
OF THE PARENT COMPANY  
AT 30 JUNE 2020**



## BALANCE SHEET

ASSET ITEMS		30/06/2020	31/12/2019
10.	CASH AND CASH EQUIVALENTS	<b>2,218,480,786</b>	<b>1,153,027,548</b>
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	<b>1,013,751,140</b>	<b>945,662,146</b>
	a) Financial assets held for trading	225,855,536	225,786,507
	c) Other financial assets mandatorily measured at fair value	787,895,604	719,875,639
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT LOSS WITH AN IMPACT ON COMPREHENSIVE INCOME	<b>2,282,247,835</b>	<b>2,590,618,396</b>
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST	<b>34,381,200,257</b>	<b>30,415,372,211</b>
	a) loans and receivables with banks	4,632,665,570	2,365,908,344
	b) loans and receivables with customers	29,748,534,687	28,049,463,867
70.	EQUITY INVESTMENTS	<b>614,046,188</b>	<b>620,398,948</b>
80.	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	<b>387,727,251</b>	<b>400,238,077</b>
90.	INTANGIBLE ASSETS	<b>15,124,156</b>	<b>14,167,977</b>
	of which:		
	- goodwill	-	-
100.	TAX ASSETS	<b>390,179,091</b>	<b>369,299,404</b>
	a) current	16,810,711	-
	b) deferred	373,368,380	369,299,404
120.	OTHER ASSETS	<b>237,626,581</b>	<b>271,318,957</b>
<b>TOTAL ASSETS</b>		<b>41,540,383,285</b>	<b>36,780,103,664</b>

THE CHAIRMAN  
Francesco Venosta

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

EQUITY AND LIABILITY ITEMS		30/06/2020	31/12/2019
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	<b>37,606,354,915</b>	<b>33,139,673,205</b>
	a) Due to banks	8,850,952,110	3,456,147,384
	b) Customer deposits	25,948,521,508	26,899,672,395
	c) Debt securities in issue	2,806,881,297	2,783,853,426
20.	FINANCIAL LIABILITIES HELD FOR TRADING	<b>42,954,479</b>	<b>33,865,539</b>
60.	TAX LIABILITIES	<b>16,944,348</b>	<b>33,716,521</b>
	a) current	-	13,203,226
	b) deferred	16,944,348	20,513,295
80.	OTHER LIABILITIES	<b>1,086,159,713</b>	<b>777,619,715</b>
90.	RESERVE FOR TERMINATION INDEMNITIES	<b>40,121,212</b>	<b>41,237,849</b>
100.	PROVISIONS FOR RISKS AND CHARGES:	<b>237,819,673</b>	<b>236,419,095</b>
	a) commitments and guarantees given	46,453,778	42,790,027
	b) pension and similar obligations	152,061,265	152,526,396
	c) other provisions for risks and charges	39,304,630	41,102,672
110.	VALUATION RESERVES	<b>2,873,720</b>	<b>12,131,964</b>
140.	RESERVES	<b>1,091,589,636</b>	<b>990,903,675</b>
150.	SHARE PREMIUM RESERVE	<b>79,005,128</b>	<b>79,005,128</b>
160.	SHARE CAPITAL	<b>1,360,157,331</b>	<b>1,360,157,331</b>
170.	TREASURY SHARES (-)	<b>(25,321,549)</b>	<b>(25,321,549)</b>
180.	PROFIT (LOSS) FOR THE PERIOD (+/-)	<b>1,724,679</b>	<b>100,695,191</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>41,540,383,285</b>	<b>36,780,103,664</b>

THE MANAGING DIRECTOR AND GENERAL MANAGER  
Mario Alberto Pedranzini

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





# INCOME STATEMENT

ITEMS		30/06/2020	30/06/2019
10.	INTEREST AND SIMILAR INCOME	233,693,356	245,123,850
	of which: interest income calculated using the effective interest method	230,389,469	242,311,466
20.	INTEREST AND SIMILAR EXPENSE	(42,611,220)	(50,212,225)
<b>30.</b>	<b>NET INTEREST INCOME</b>	<b>191,082,136</b>	<b>194,911,625</b>
40.	FEE AND COMMISSION INCOME	138,530,438	140,761,012
50.	FEE AND COMMISSION EXPENSE	(6,171,803)	(7,341,580)
<b>60.</b>	<b>NET FEE AND COMMISSION INCOME</b>	<b>132,358,635</b>	<b>133,419,432</b>
70.	DIVIDENDS AND SIMILAR INCOME	18,560,297	10,969,673
80.	NET TRADING INCOME	(27,991,069)	23,437,613
100.	GAINS/LOSSES FROM SALES OR REPURCHASES OF:	(33,285,975)	5,728,667
	a) financial assets measured at amortised cost	(40,402,001)	2,602,916
	b) financial assets measured at fair value through profit or loss with an impact on comprehensive income	7,112,242	2,822,804
	c) financial liabilities	3,784	302,947
110.	NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	(8,512,908)	4,806,811
	b) other financial assets mandatorily measured at fair value	(8,512,908)	4,806,811
<b>120.</b>	<b>TOTAL INCOME</b>	<b>272,211,116</b>	<b>373,273,821</b>
130.	NET ADJUSTMENTS FOR CREDIT RISK RELATING TO:	(43,476,482)	(100,034,731)
	a) financial assets measured at amortised cost	(38,181,447)	(101,066,183)
	b) financial assets measured at fair value through profit or loss with an impact on comprehensive income	(5,295,035)	1,031,452
140.	GAINS/LOSSES ON CONTRACTUAL AMENDMENTS NOT RESULTING IN DERECOGNITION	(5,389,231)	(1,461,974)
<b>150.</b>	<b>NET FINANCIAL INCOME</b>	<b>223,345,403</b>	<b>271,777,116</b>
160.	ADMINISTRATIVE EXPENSES:	(224,134,279)	(231,530,546)
	a) personnel expenses	(92,135,582)	(96,684,279)
	b) other administrative expenses	(131,998,697)	(134,846,267)
170.	NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES	(302,870)	2,956,721
	a) commitments for guarantees given	(3,663,751)	5,617,984
	b) other net provisions	3,360,881	(2,661,263)
180.	DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	(16,151,328)	(16,611,868)
190.	AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	(5,945,757)	(5,819,572)
200.	OTHER OPERATING INCOME/EXPENSE	24,114,994	32,764,316
<b>210.</b>	<b>OPERATING COSTS</b>	<b>(222,419,240)</b>	<b>(218,240,949)</b>
220.	NET GAINS (LOSSES) ON EQUITY INVESTMENTS	642,540	-
250.	NET GAINS ON SALES OF INVESTMENTS	1,047	3,237
<b>260.</b>	<b>PRE-TAX PROFIT FROM CONTINUING OPERATIONS</b>	<b>1,569,750</b>	<b>53,539,404</b>
270.	INCOME TAXES	154,929	(17,986,804)
<b>280.</b>	<b>POST-TAX PROFIT FROM CONTINUING OPERATIONS</b>	<b>1,724,679</b>	<b>35,552,600</b>
<b>300.</b>	<b>PROFIT (LOSS) FOR THE PERIOD</b>	<b>1,724,679</b>	<b>35,552,600</b>





