Pillar 3 Report
Public Disclosures
Banca Popolare di Sondrio Group

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Banca Popolare di Sondrio
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Sondrio Companies Register no. 00053810149
Official List of Banks no. 842
Official List of Cooperative Banks no. A160536
Parent Company of the Banca Popolare di Sondrio Group - Official List of Banking Groups no. 5696.0
Member of the Interbank Deposit Protection Fund
Fiscal code and VAT number: 00053810149
Share capital: € 1,360,157,331; Reserves: € 1,157,414,409
(Figures approved at the Shareholders' meeting of 12 April 2020)
Stock listed on the Mercato Telematico Azionario (MTA or Screen-Traded Market)

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Introduction

New harmonised rules for banks and investment firms came into force on 1 January 2014 as implemented by:

- Regulation (EU) 575/2013 (*Capital Requirements Regulation*, known as the "CRR") of the European Parliament and Council of 26 June 2013 governing the prudential requirements for credit institutions and investment firms ("Pillar 1" provisions) and the rules on public disclosures by institutions ("Pillar 3" provisions), as amended by Regulation (EU) 2019/876 of the European Parliament and Council of 20 May 2019[1] and Regulation (EU) 2020/873 of the European Parliament and Council of 24 June 2020;
- in Directive 2013/36/EU (*Capital Requirements Directive*, "CRD IV") of the European Parliament and Council of 26 June 2013 on access to the activity of credit institutions and on the prudential supervision of credit institutions and investment firms, as amended by Directive (EU) 2019/878 of the European Parliament and Council of 20 May 2019[1];
- Commission Implementing Regulation (EU) no. 1423/2013 of 20 December 2013, laying down implementing technical standards with regard to disclosure of own funds requirements for institutions pursuant to Regulation (EU) no. 575/2013 of the European Parliament and Council.

These regulations have transposed into European Union law all the prudential reforms approved in recent years by the Basel Committee for Banking Supervision (known as the "Basel 3 Framework"). The CRR took effect directly in the Member States, whereas the rules contained in CRD IV had to be transposed into the various national systems.

The regulatory framework of reference throughout the EU is completed with the execution measures contained in Regulatory or Implementing Technical Standards (RTS and ITS) adopted by the European Commission on the proposal of the European Supervisory Authorities (ESAs).

At a national level, the new harmonised rules were implemented by the Bank of Italy, mainly through the following measures:

- Circular no. 285 of 17 December 2013 *"Supervisory instructions for banks"* and subsequent updates;
- Circular no. 286 of 17 December 2013 *"Instructions for banks and securities firms on the preparation of supervisory reports"* and subsequent updates.

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[1] The following regulations were published in the Official Journal of the European Union on 7 June 2019:

- Regulation (EU) 2019/876 of the European Parliament and Council of 20 May 2019, which amends Regulation (EU) no. 575/2013 relating to prudential requirements for credit institutions and investment firms, with regard to the leverage ratio, the net stable funding ratio, the own funds requirements and eligible liabilities, counterparty risk, market risk, exposures to central counterparties, exposures to undertakings for the collective investment of transferable securities, large exposures, reporting and disclosure obligations and Regulation (EU) no. 648/2012 ("CRR II");
- Directive (EU) 2019/878 of the European Parliament and Council of 20 May 2019, which amends Directive 2013/36/EU on access to the banking business and on prudential supervision of credit institutions and investment firms, as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures ("CRD V").

Except as expressly provided for in the two regulations, "CRR II" will apply from 28 June 2021, while "CRD V" must be implemented by the Member States of the European Union by 28 December 2020.

Circular no. 285 includes the prudential rules applicable to Italian banks and banking groups, revised and updated to adapt national law to the changes introduced into the EU, with particular regard to the new regulatory and institutional framework of European banking supervision, outlining in this a complete, organic, rational regulatory system integrated with directly applicable EU provisions, so as to facilitate their adoption by operators.

The regulatory measure groups together the applicable provisions according to the regulatory sources from which they derive, distinguishing between:

- EU regulation subject to national transposition ("CRD IV"), for which specific implementing provisions are established;
- EU direct adoption legislation ("CRR"), for which, for each topic, the applicable rules are referred to; furthermore, in the cases provided for in the European legislation, specific guidelines are defined that are useful for their full and easy application and areas where national discretionary powers are exercised by the Bank of Italy are identified as part of the process of transposition into national law;
- regulation of non-harmonised matters, for which specific provisions are laid down to align the Italian legal system with the supervisory standards defined by international bodies, notwithstanding the fact that they do not derive from EU legislation.

Circular no. 286 laid down the national rules governing the transmission of prudential supervisory reporting on an individual and consolidated basis required to financial institutions; this is largely based on the EU Commission's Implementing Regulation no. 680/2014 of 16 April 2014 and subsequent updates, which imposes binding technical standards on harmonised reporting for supervisory purposes in accordance with the CRR (so-called "COREP schemes", COmmon REPorting). These regulatory measures, together with the Bank of Italy's Circular no. 154 of 22 November 1991 (*"Supervisory reports by banks and financial institutions. Reporting formats and instructions for submitting information flows"*) and subsequent updates, translate the provisions envisaged in the European Union into the formats used to file prudential reports.

Circular no. 286 also provides indications for the transmission of non-harmonised reports required by the national supervisory regulations.

Even in the reformulated regulatory framework, the prudential regime applicable to financial institutions continues to be split into three "Pillars".

"Pillar 1" (*Minimum capital requirements*) imposes specific capital requirements to all supervised entities designed to cope with the typical risks of banking and finance, providing for alternative calculation methods, characterised by different levels of complexity. Following these revisions, the Pillar 1 regulation has been strengthened, *inter alia*, through a harmonised definition of available capital, the provision of more rigorous minimum capital standards for supervisory purposes, the introduction of a quantitative limit to excess leverage and new liquidity risk control mechanisms.

"Pillar 2" (*Supervisory review process*) requires banks to equip themselves with strategies and internal processes to verify in a current and future perspective the adequacy of both capital (ICAAP - *Internal Capital Adequacy Assessment Process*) and liquidity positions (ILAAP - *Internal Liquidity Adequacy Assessment Process*), as well as carrying out a clear and independent assessment of the risks to which they are exposed in relation to their operations and their reference markets, also considering risk profiles other than those recognised by the "Pillar 1" capital requirements. The task of verifying the reliability and consistency of the results of these two processes and to adopt, where the situation requires it, appropriate corrective measures, is up to the Supervisory Authorities as part of its Supervisory Review and Evaluation Process ("SREP"). Increasing importance is also attributed to corporate governance structures and internal control frameworks of intermediaries as determining factors for the stability of the individual institutions as well as of the financial system as a whole.

"Pillar 3" (*Market discipline*) establishes public disclosure requirements to allow market participants to make a more accurate assessment of banks' capital strength and exposure to risks, as well as of their risk management and control systems. In this regard, the main developments have concerned the introduction of broader transparency requirements for supervised entities, given the market's need for more and more information on the qualitative composition of intermediaries' regulatory capital and the ways in which they quantify their own capital ratios.

On the subject of "Pillar 3", Public Disclosures by financial institutions are currently regulated by:

- the CRR, Part Eight "Disclosure by institutions" (articles 431 – 455) and Part Ten, Title I, Chapter 1 *"Own funds requirements, unrealised gains and losses measured at fair value and deductions"* (article 473-bis) and Chapter 3 *"Transitional provisions for disclosure of own funds"* (article 492) [2];
- the Bank of Italy Circular no. 285 of 17 December 2013, Part Two *"Application in Italy of the CRR"*, Chapter 13 *"Public disclosures"*;
- the regulatory or implementing technical standards issued by the European Commission to regulate:
  - the standard forms for the publication of information regarding the main characteristics of capital instruments;
  - the standard forms for the publication of information regarding Own Funds in the transitional period of application of the Basel 3 rules;
  - disclosure requirements on capital reserves;
  - standard forms for the publication of information on the indicators of systemic importance;
  - disclosures concerning unencumbered assets;
  - standard forms for the publication of information on leverage;
- the Guidelines issued by the European Banking Authority ("EBA") on specific aspects of the public disclosure requirements.

With regard to the latter, with its 22nd update to Circular no. 285 issued on 12 June 2018, the Bank of Italy transposed the following EBA Guidelines on Pillar 3 disclosures into national law:

- EBA/GL/2014/14 Guidelines on the relevance, exclusivity, confidentiality and frequency of disclosures in accordance with articles 432, paragraphs 1 and 2, and 433 of the CRR;

2 The amendments to "Pillar 3" regulations introduced by Regulation (EU) 2019/876 of the European Parliament and Council of 20 May 2019 (known as "CRR II") will take effect on 28 June 2021.

- EBA/GL/2016/11 Guidelines (version 2) on disclosure requirements pursuant to Part 8 of the CRR;
- EBA/GL/2017/01 Guidelines on Liquidity Coverage Ratio (LCR) disclosure to complement the disclosure of liquidity risk management under article 435 of the CRR;
- EBA/GL/2018/01 Guidelines on uniform disclosures under article 473-bis of the CRR as regards the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds[3].

Furthermore, with the 31st update of 24 March 2020 to Circular no. 285, the Bank of Italy has implemented the EBA/GL/2018/10 Guidelines on disclosure of non-performing and forborne exposures.

With these semi-annual Public Disclosures, the Banca Popolare di Sondrio Group (also referred to as the "Group") intends to fulfil the disclosure requirements envisaged in the Pillar 3 legislation mentioned previously.

This document has been prepared by Banca Popolare di Sondrio, the Parent, on a consolidated basis with reference to the scope of consolidation used for supervisory purposes (prudential consolidation area). The English translation of the document is made available to the public, together with the consolidated interim financial report at 30 June 2020, on the English version of the Bank's website (www.popso.it) following this pattern: "*About us - Reports and papers*", as allowed by the reference regulations. The Italian version is available on the Bank's website (www.popso.it) in the "*Informativa Societaria"* section.

The document is accompanied by the certification pursuant to art. 154-bis, paragraph 2, of Legislative Decree 58/98 (Consolidated Finance Act, "CFA") by the Manager responsible for preparing the Company's accounting documents of the Parent Banca Popolare di Sondrio.

In compliance with article 434 of the CRR ("Means of disclosure"), in the presence of similar information already published in other equivalent documents, reference is made to the document in which such piece of information is disclosed.

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NOTE: All figures indicated in the sections of this document are expressed in thousands of euro, unless stated otherwise. Any significant changes with respect to previous publication periods are mentioned in this document.

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[3] These Guidelines were partially amended by the EBA/GL/2020/12 Guidelines relating to supervisory reports and disclosure requirements in accordance with the CRR "quick-fix" in response to the COVID-19 pandemic, issued on 11 August 2020.

Overview of the document

Section 1 - Scope of application

This section illustrates the composition of the Banking Group to which the Pillar 3 disclosure requirements apply, explaining differences in the scope of consolidation for prudential and financial reporting purposes.

Section 2 - Own funds

This section provides information on the main characteristics of the items making up the Group's capital position, showing the various elements of regulatory Own Funds, as well as those of the prudential filters, adjustments and deductions. A reconciliation between the elements of Own Funds and the Group's balance sheet aggregates is also provided.

Section 3 - Capital requirements

This section briefly illustrates the approach adopted by the Group to assess the adequacy of its capital in support of current and future activities. It also shows the measurement of capital absorption to deal with credit and counterparty risk, market risk, operational risk and credit valuation adjustment (CVA) risk, as well as the calculation of Pillar 1 capital ratios.

Section 4 - Leverage

This section explains the methods used by the Group in measuring the degree of its financial leverage, with regard to the determination of the Leverage Ratio provided by the supervisory regulations, the breakdown of its constitutive factors and a reconciliation with the relevant accounting aggregates.

Section 5 - Effects of the adoption of the IFRS 9 transitional arrangements on Own Funds and capital ratios

This section illustrates the decisions adopted by the Group regarding compliance with the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on Group's Own Funds and capital ratios, giving the amounts of Own Funds, Common Equity Tier 1 capital and Tier 1 capital, as well as the figures for the Common Equity Tier 1 Ratio, Tier 1 Capital Ratio, Total Capital Ratio and Leverage Ratio with and without the application of the transitional provisions.

Section 6 - Credit risk: general information and adjustments

This section provides information on the dynamics and composition of: a) non-performing exposures, those subject to forbearance measures and collateral assets obtained by the Group by taking possession as part of execution processes for the work-out of impaired loans; b) new loans subject to public guarantee schemes disbursed to customers to cope with the economic consequences of the COVID-19 pandemic and exposures benefiting from moratoria; c) impairment adjustments and loss provisions on these various types of exposure.

Section 7 - Credit risk: information on the portfolios subject to the IRB Method

This section describes the general structure of the internal rating system which has been subject to validation for regulatory purposes; it provides information on the characteristics of the PD, LGD and EAD models developed internally, on the exposure portfolios falling under the Advanced IRB Method, on the operational uses of the rating and the related risk parameters for managerial purposes, as well as on the control mechanisms to which the rating system is regularly subjected.

Section 8 - Liquidity risk

This section represents the average quarterly pattern of the Group's Liquidity Coverage Ratio (LCR) and the corresponding numerator and denominator. It also gives information on the additional control processes adopted by the Group for the identification, mitigation and management of its liquidity risk profile.

Summary of information published in accordance with CRR requirements

The following is a summary table that links the articles of Regulation (EU) no. 575/2013 ("CRR") indicating the relevant disclosure requirements for the Banca Popolare di Sondrio Group, accompanied by the respective disclosure frequency, with the sections of this document in which the qualitative or qualitative information required by the "Pillar 3" regulations are reported with regard to the Group's situation at 30 June 2020.

Reg. (EU) 575/2013 (CRR)	Article description	Frequency of publication	Section Public Disclosures at 30 June 2020
Art. 431	Scope of disclosure requirements	-	
Art. 432	Non-material, proprietary or confidential information	-	
Art. 433	Frequency of disclosure	-	
Art. 434	Means of disclosures	-	
Art. 435	Risk management objectives and policies	Annual	
		Semi-annual *information on LCR*	8 - Liquidity risk
Art. 436	Scope of application	Semi-annual	1 - Scope of application
Art. 437	Own funds	Semi-annual	2 - Own funds
Art. 438	Capital requirements	Semi-annual	3 - Capital requirements
Art. 439	Exposures to counterparty credit risk	Annual	
Art. 440	Capital buffers	Annual	
Art. 442	Credit risk adjustments	Annual *full art. 442*	
		Semi-annual *some tables in the EBA/GL/2018/10 Guidelines*	6 - Credit risk: general information and adjustments
Art. 443	Unencumbered assets	Annual	
Art. 444	Use of ECAIs	Annual	
Art. 445	Exposure to market risk	Annual	
Art. 446	Operational risk	Annual	
Art. 447	Exposures in equities not included in the trading book	Annual	
Art. 448	Exposure to interest rate risk on positions not included in the trading book	Annual	
Art. 449	Exposure to securitisation positions	Annual	
Art. 450	Remuneration policy	Annual	
Art. 451	Leverage	Semi-annual	4 - Leverage
Art. 452	Use of the IRB Approach to credit risk	Annual *full art. 452*	
		Semi-annual *info in letters d), e) and f) of art. 452*	7 - Credit risk: information on the portfolios subject to the IRB Method

Art. 453	Use of credit risk mitigation techniques	Annual	
Art. 473-bis	Introduction of IFRS 9	Semi-annual	5 - Effects of the IFRS 9 transitional arrangements on own funds and capital ratios

At the reference date of this document, Articles 441 (*Indicators of global systemic importance*), 454 (*Use of the Advanced Measurement Approaches to operational risk*) and 455 (*Use of Internal Market Risk Models*) of Regulation (EU) no. 575/2013 are not applicable to the Banca Popolare di Sondrio Group.

Section 1 - Scope of application (art. 436 CRR)

Qualitative information

These Public Disclosures, prepared by the Parent, apply to the Banca Popolare di Sondrio Banking Group, which at the reference date is made up as follows:

	Company name	Status	Registered office	Operational office
1	Banca Popolare di Sondrio ScpA	Bank – Parent Company	Sondrio	Sondrio
2	Banca Popolare di Sondrio (SUISSE) SA	Swiss bank (registered in the Lugano Commercial Register) – wholly-owned	Lugano (CH)	Lugano (CH)
3	Factorit SpA	Factoring company (registered in the Register of Financial Intermediaries pursuant to art. 106 of the CBA) – 60.5% held	Milan	Milan
4	Sinergia Seconda Srl	Real estate company – wholly-owned	Milan	Milan
5	Popso Covered Bond Srl	SPV for the issue of covered bonds – 60% held	Conegliano Veneto (TV)	Conegliano Veneto (TV)
6	Banca della Nuova Terra SpA	Bank – Wholly-owned	Sondrio	Milan

The scope of consolidation for regulatory purposes, which is determined in accordance with the supervisory regulations currently in force, provides for full (or "line-by-line") consolidation of the subsidiaries mentioned above, as banking, financial or service companies controlled directly by the Parent Company.

The scope of consolidation for accounting purposes includes the companies over which the Parent Company exercises "control" which, as defined by IFRS 10 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 be obtained in various ways, including by exposure to risks and returns of the investment, and not just as a consequence of the power to influence financial and operating policies of the investee. In particular, "control" is deemed to exist in the following circumstances:

a) availability of actual and potential voting rights at a shareholders' meeting and/or other contractual rights, relations or other elements that guarantee influence over the relevant activities of the investment;

b) exposure to the variability of results, for example in terms of an overall economic interest in the investment;

c) with regard to the above points, existence of an ability to influence the economic results of the investment by the power exercised over it.

The scope of consolidation also includes the equity investments where the Parent Company exercises a "significant influence" in that the shareholding, directly or indirectly owned, 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.

Banking, insurance and financial companies jointly controlled and subject to significant influence are measured using the equity method, with the exclusion of those that are less significant, which are valued at cost.

In compliance with the provisions of Regulation (EU) no. 575/2013 ("CRR"), these investments are deducted from Common Equity Tier 1 (CET 1) Capital only for the amount exceeding 10% of this aggregate, calculated as indicated in art. 48, para. 1, letter b), points i) and ii) of the CRR; the portion of the investments included in the previous threshold, not being deducted from Own Funds, receives a risk weighting factor of 250%.

Equity investments in jointly controlled and associated companies that are not of a banking, financial or service nature are generally measured using the equity method.

The composition of the scope of consolidation for accounting and regulatory purposes is shown below, with an indication, in the first case, of the valuation methods used for the shareholdings and, in the second case, of the treatment applied to calculate the regulatory capital requirements.

Table 1 - Scope of consolidation for accounting and regulatory purposes and additional entities deducted from Own Funds

Company name	Registered office	% Holding	Type of activity	IAS/IFRS accounting treatment				Regulatory treatment		
				Line-by-line consolidation	Valuation at equity	Valuation at cost	Non-consolidated	Line-by-line consolidation	Deducted from own funds / Subject to threshold	Inclusion in RWAs
Banca Popolare di Sondrio (Suisse) S.A.	Lugano (CH)	100.00	Banking	X				X		
Banca della Nuova Terra S.p.a.	Sondrio	100.00	Banking	X				X		
Factorit S.p.a.	Milan	60.50	Financial	X				X		
Servizi Internazionali e Strutture Integrate 2000 S.r.l.	Milan	100.00	Non-financial	X						X
Sinergia Seconda S.r.l.	Milan	100.00	Real Estate	X				X		
Pirovano Stelvio S.p.a.	Sondrio	100.00	Non-financial	X						X
Immobiliare San Paolo S.r.l.	Tirano	100.00 (1)	Real Estate	X						X
Immobiliare Borgo Palazzo S.r.l.	Tirano	100.00 (1)	Real Estate	X						X
Popso Covered Bond S.r.l.	Conegliano V.	60.00	Financial	X				X		
Centro delle Alpi Real Estate	Milan	100.00	Financial	X						X
Rajna Immobiliare S.r.l.	Sondrio	50.00	Real Estate		X					X
Alba Leasing S.p.a.	Milan	19.26	Financial		X				X	
Arca Vita S.p.a.	Verona	14.84	Insurance		X				X	
Arca Holding S.p.a.	Milan	34.71	Financial		X				X	
Unione Fiduciaria S.p.a.	Milan	24.00	Financial		X				X	
Polis Fondi Sgrpa	Milan	19.60	Financial		X				X	
Bormio Golf S.p.a.	Bormio	25.24	Non-financial			X				X
Lago di Como Gal S.c.r.l.	Canzo	28.95	Non-financial			X				X
Sofipo S.A.	Lugano (CH)	30.00 (2)	Financial		X				X	
Acquedotto dello Stelvio S.r.l.	Bormio	27.00 (3)	Non-financial			X				X
Sifas S.p.a.	Bolzano	21.61 (3)	Non-financial			X				X
Rent2Go S.r.l.	Bolzano	33.33	Non-financial		X					X
Cossi Costruzioni S.p.a.	Sondrio	18.25	Non-financial		X					X

(1) held by Sinergia Seconda S.r.l.
(2) held by Banca Popolare di Sondrio (Suisse) S.A.
(3) held by Pirovano Stelvio S.p.a.

Section 2 - Own Funds (art. 437 CRR)

Qualitative information

Main characteristics of the elements constituting Own Funds

The key elements of Own Funds consist of:

- Common Equity Tier 1 Capital (CET1)
- Additional Tier 1 Capital (AT1)
- Tier 2 Capital (T2).

CET1 and AT1 constitute Tier 1 Capital (T1) which, added to Tier 2, gives Total Own Funds.

Common Equity Tier 1 Capital (CET1)

The Common Equity Tier 1 Capital (CET1) is made up of the following positive and negative components:

- Share capital and related share premium reserve
- Retained earnings
- Negative valuation reserves - OCI
- Other reserves
- Previous CET1 instruments subject to transitional instructions (grandfathering)
- Non-controlling interests
- Prudential filters
- Deductions.

The prudential filters are (positive or negative) regulatory adjustments to items in the financial statements aimed at safeguarding the quality of Own Funds, reducing the potential volatility caused by applying IAS/IFRS. The prudential filters exclude from CET1 the valuation reserve generated by cash flow hedges and unrealised gains/losses arising from changes in own creditworthiness (liabilities under the fair value option and derivative liabilities).

The main deductions from CET 1 capital consist of goodwill and other intangible assets and, from 30 June 2019, any amount of expected credit losses quantified through the risk parameters calculated with internal rating models that would exceed the total net adjustments for credit risk posted in the balance sheet (so-called "shortfall"), relating to the regulatory portfolios for which approval has been obtained from the Supervisory Authority for the purpose of measuring the capital requirements on credit risk under the Advanced Internal Rating-Based Approach ("Corporate" and "Retail" portfolios).

Additional significant deductions from CET1 are:

- deferred tax assets (DTA) that rely on future profitability;
- deferred tax assets that rely on future profitability and arise from temporary differences (deducted for the amount that exceeds the thresholds provided for in the regulations);
- non-significant investments in equity instruments issued by financial sector entities (deducted for the amount that exceeds the thresholds provided for in the regulations);
- significant investments in equity instruments issued by financial sector entities (deducted for the amount that exceeds the thresholds provided for in the regulations);
- any deductions exceeding the availability of Additional Tier 1 Capital.

Additional Tier 1 Capital (AT1)

The Additional Tier 1 Capital (AT1) consists of the following positive and negative components:

- Equity instruments and related premiums
- Previous AT1 instruments subject to transitional instructions (grandfathering)
- Instruments issued by subsidiaries and included in AT1
- Deductions.

Tier 2 Capital (T2)

The 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 instructions (grandfathering)
- Instruments issued by subsidiaries and included in T2
- Surplus on expected losses of recognized value adjustments, within the limit of 0.60% of weighted exposures for credit risk according to AIRB Method
- Deductions.

Transitional arrangements

At 30 June 2020, Own Funds were calculated in application of the prudential regulations that came into force on 1 January 2014, which transposed the new capital standards defined by the Basel Committee for Banking Supervision ("Basel 3 Framework").

The supervisory rules established transitional provisions, which are still in progress, characterised by a progressive introductory period ("phase-in") of part of the new regulations on Own Funds and capital requirements, during which only a percentage of certain elements are deducted from or included in Tier 1 Capital, while the residual elements are otherwise included in/deducted from Additional Tier 1 Capital and Tier 2 Capital or considered as part of risk weighted assets.

The transition period also provides for safeguard clauses (known as "grandfathering") 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 CET1, AT1 or T2.

As explained in greater detail in Section 5 of this document, the Group's Own Funds and prudential capital ratios at 30 June 2020 are calculated in application of the transitional arrangements set out in Regulation (EU) no. 2017/2395 of the European Parliament and Council of 12 December 2017, as partially amended by Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, designed to mitigate the impact of the introduction of IFRS 9.

Lastly, it should be noted that Regulation (EU) 2020/873 of the European Parliament and Council of 24 June 2020 granted supervised entities the right, for the three-year period 2020-2022, to mitigate for prudential purposes the cumulative effects of profits and losses not yet realised starting from 1 January 2020 on performing exposures to central administrations and public sector entities classified in the portfolio of "Financial assets measured at fair value through other comprehensive income" (FVOCI). Complete sterilisation of the effects is envisaged for the year 2020, with decreasing percentages in the following two years (70% in 2021 and 40% in 2022), through a corresponding increase in Common Equity Tier 1 (CET1) capital. At 30 June 2020, the Group decided not to take advantage of this temporary treatment.

Regulatory requirements

From 1 January 2014, banking groups must comply with the following minimum capital requirements:

- Common Equity Tier 1 (CET1) ratio of 4.5%
- Tier 1 ratio of 5.5% (6% from 2015)
- Total Capital ratio of 8%.

The following capital reserves (known as "buffers") have to be added to these minimum ratios provided by the CRR with the aim of providing supervised entities with high quality capital to be used in times of market tension to prevent malfunctions of the banking system and avoid interruptions to the credit disbursement process, as well as to face the risks deriving from the systemic relevance at a global or domestic level of certain banks.

Each additional capital reserve plays a specific role; in particular:

- *Capital Conservation Buffer:* made up of an additional 2.5% of Common Equity Tier 1 Capital, intended to safeguard the minimum amount of regulatory capital under adverse market conditions. In this regard, with the 18th update of Circular no. 285/2013, the Bank of Italy, opting for the transposition at national level of the transitional arrangements envisaged in the CRD IV Directive, established that, from 1 January 2017, banks and banking groups were required to adopt a process to gradually introduce the capital conservation requirement, which provided for the application of a minimum reserve coefficient of:
  - 1.25% from 1 January 2017 to 31 December 2017
  - 1.875% from 1 January 2018 to 31 December 2018

- 2.5% from 1 January 2019.

- *Countercyclical Capital Buffer:* this is also made up of Tier 1 Capital to protect the banking sector at times of excessive lending growth; following measures by the competent supervisory bodies, it could be set up during periods of economic expansion to cope with any losses that might arise during the downward phases of the cycle, based on a specific coefficient established at a national level. The countercyclical coefficient for exposures to Italian counterparties, which is reviewed by the Bank of Italy on a quarterly basis, was confirmed at 0% also in the second quarter of 2020.
- *Additional reserves for systemic banks relevant globally or locally* (*Global Systemically Important Institution Buffer or G-SII buffers* and *Other Systemically Important Institution Buffer or O-SII buffer*): consisting of Tier 1 Capital; they apply to institutions of global systemic importance (G-SIIs, Global Systemically Important Institutions) and to other systemically important institutions (O-SIIs) to take into account the greater risks they potentially pose to the stability of the financial system. The buffer for G-SIIs can vary between a minimum of 1% and a maximum of 3.5%, whereas for O-SIIs a non-binding maximum threshold of 2% is foreseen.
- *Systemic Risk Buffer*: additional reserve of an amount equal to at least 1% of the risk exposures, established by each individual EU Member State in order to mitigate long-term non-cyclical macro-prudential risks and, in this way, cope with the negative effects of unexpected systemic crises.

The sum of regulatory requirements and additional reserves determines the minimum level of capital conservation required for banks and banking groups (known as the "combined buffer requirement"). From 1 January 2019 these minimum regulatory capital levels for the Banca Popolare di Sondrio Group are as follows:

- Common Equity Tier 1 (CET1) ratio of 7%
- Tier 1 Ratio of 8.5%
- Total Capital Ratio of 10.5%.

Banks that do not hold capital reserves to the extent required are subject to distribution limits; 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 of time, the amount of capital needed to maintain their reserves above the required minimum level.

On 13 December 2019, on the basis of the evidence collected as part of the annual Supervisory Review and Evaluation Process (SREP), the European Central Bank notified Banca Popolare di Sondrio of the Supervisory Board's decision regarding the new minimum ratios to be applied on a consolidated basis for the year 2020, with effect from 1 January. The new minimum capital levels to be met by the Group are indicated below:

- a minimum requirement for Common Equity Tier 1 ratio equal to 10.0%, made up of the sum of the Pillar 1 regulatory requirement (4.5%), the "fully-loaded" amount of Capital Conservation Buffer for the current year (2.5%) and the additional Pillar 2 Requirement - P2R (3%);

- a minimum requirement for Tier 1 ratio of 11.5%, being the sum of the Pillar 1 regulatory requirement (6%), the "fully-loaded" amount of Capital Conservation Buffer for the current year (2.5%) and the additional Pillar 2 Requirement (3%);
- a minimum requirement for Total Capital ratio of 13.5%, calculated as the sum of the Pillar 1 regulatory requirement (8%), the "fully-loaded" amount of Capital Conservation Buffer for the current year (2.5%) and the additional Pillar 2 Requirement (3%).

While the first two items of each coefficient are specified by the prudential regulations and are identical for all financial institutions within the same country, the third item is determined by the ECB based on the actual level of risks faced by the individual entity.

With a press release dated 12 March 2020, the European Central Bank announced the introduction of a temporary capital relief and greater operational flexibility in the implementation of bank-specific supervisory measures in reaction to the spread of the Coronavirus, in order to allow banks directly supervised by the ECB to continue to play a central role in funding the real economy and thus mitigate the COVID-19 impact on the European countries. Consequently, through a communication dated 8 April 2020, the Supervisory Authority established, with effect from 12 March 2020, that the additional Pillar 2 requirement (P2R) of the Group should be satisfied by Common Equity Tier 1 (CET1) capital for a minimum of 56.25% and by Tier 1 (T1) capital for a minimum of 75%. Following the re-composition of capital for P2R component, the following applies to the Group:

- a minimum requirement for the Common Equity Tier 1 ratio of 8.69%;
- a minimum requirement for the Tier 1 ratio of 10.75%;
- a minimum requirement for the Total Capital ratio of 13.5% (unchanged).

At the same time, the possibility of operating temporarily below the level defined by the Capital Conservation Buffer was envisaged as a further measure of flexibility.

A "Pillar 2 Guidance" (P2G), which aims to offer a guideline to the prospective evolution of the Group's capital position, is added to these minimum ratios. The latter target parameter, assigned by the Supervisory Authority as a result of the SREP process, however, assumes a confidential nature and, unlike the above mentioned capital requirements, is not publicly disclosed, as it is an element which, also according to the Supervisory approach, is not relevant for the calculation of distributable dividends.

Conditions for the inclusion of interim or year-end earnings

With reference to Regulation (EU) no. 575/2013 ("CRR"), on 4 February 2015 the European Central Bank issued a Decision establishing the procedures to be followed by banks or banking groups subject to its direct supervision (Regulation (EU) no. 468/2014) with regard to the inclusion in Common Equity Tier 1 Capital (CET1) of interim or year-end earnings before a formal decision-making act is taken to confirm the result.

They can only be included (art. 26 CRR) with the prior approval of the Competent Authority, which in this case is the ECB, and it will only give approval if the following conditions are met:

- earnings must be checked and certified by the Independent Auditors;

- the bank or banking group must deliver a specific declaration referring to such earnings with reference to the accounting standards applied and the inclusion of foreseeable charges and dividends, the latter calculated on the basis of specific methodologies as indicated.

The Decision also provides the model of certification that banks or banking groups must adopt for the purpose of requesting authorisation.

Quantitative information

The following tables summarise the main characteristics of the Group's capital instruments through formats exposing consolidated regulatory Own Funds at 30 June 2020 compared with those at 31 December 2019, both calculated in application of the phasing-in rules of Basel 3.

Composition of Own Funds

Table 2 - Composition of Own Funds

	30/06/2020	31/12/2019
A. Common Equity Tier 1-CET1 before the application of prudential filters	**2,860,373**	**2,821,704**
of which: CET1 instruments subject to transitional instructions	-	-
B. Prudential filters of CET1 (+/-)	-	-
C. CET1 gross of the elements to be deducted and the effects of the transitional instructions (A+/- B)	**2,860,373**	**2,821,704**
D. Elements to be deducted from CET1	103,374	113,745
E. Transitional arrangements - Impact on CET1 (+/-), including minority interest subject to transitional arrangements	18,214	4,372
F. Total Common Equity Tier 1 - CET1 (C-D +/-E)	**2,775,212**	**2,712,331**
G. Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions	**7,588**	**9,191**
of which: AT1 instruments subject to transitional instructions	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional instructions - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions	-	-
L. Total Additional Tier 1 - AT1 (G-H+/-I)	**7,588**	**9,191**
M. Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions	**450,080**	**499,047**
of which: T2 instruments subject to transitional instructions	-	
N. Elements to be deducted from T2	8,175	10,679
O. Transitional arrangements - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional arrangements	-	-
P. Total Tier 2 - T2 (M-N +/-O)	**441,905**	**488,368**
Q. Total Own Funds (F+L+P)	**3,224,705**	**3,209,890**

Source: Consolidated Financial Statements - Notes to the financial statements - Part F: Information on consolidated equity, Section 2: Capital and capital adequacy ratios

The composition of Own Funds at 30 June 2020 did not take into account the portion of annual profits achieved up to 30 June, net of an estimate of the dividend payable (dividend pay-out).

Despite the exceptional nature of the overall context, the dynamics in the Group's regulatory capital compared with the situation at 31 December 2019 were broadly positive. The main upswing in CET1 capital was given by the contribution from retained earnings nourished by the previous year's profit, since no dividends were to be paid to comply with supervisory recommendations. The increased portion of IFRS 9 FTA (First-Time Adoption) adjustments to capital reserves "neutralised" according to the arrangements for the gradual introduction of the new accounting standard, also had a positive impact, due to the effect of amendments of the transitional rules recently stated, as part of the EU initiatives in reaction to the pandemic, by Regulation (EU) 2020/873 of 24 June 2020, which will be discussed in further detail in Section 5 of this document.

With regard to the total available capital, the progressive phase-out of "Tier 2" subordinated liabilities, which causes a steady decline in the eligible amount of older security issues that are recognised as regulatory capital, had a negative impact on total Own Funds.

The table required by Annex IV *"Own Funds disclosure template"* of the Commission Implementing Regulation (EU) no. 1423/2013, with reference to the Group's situation at 30 June 2020, is provided below, prepared following the instructions contained in Annex V.

Table 3 - Model for the publication of information on Own Funds: detail of the constituent elements

		Amounts at 30/06/2020
	Common Equity Tier 1 capital	
1	Capital instruments and related share premium accounts	2,882,821
	of which: share capital	1,360,157
	of which: share premium reserve	79,005
	of which: reserves – other	1,443,659
2	Retained earnings	-
3	Accumulated other comprehensive income (and other reserves) (*)	(14,147)
3a	Provisions for general banking risks	-
4	Amount of qualifying items referred to in Article 484, paragraph 3, and the related share premium accounts subject to phase out from CET1	-
5	Minority interests (amount allowed in consolidated CET1)	35,600
5a	Independently reviewed interim profits, net of any foreseeable charge or dividend	-
6	**Common Equity Tier 1 (CET 1) capital before regulatory adjustments**	**2,904,274**
	Common Equity Tier 1 (CET1): regulatory adjustments	
7	Additional value adjustments (negative amount)	(3,405)
8	Intangible assets (net of the related tax liability) (negative amount)	(31,324)
9	Empty set in the EU	-
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of the related tax liability where the conditions in article 38, paragraph 3, are met) (negative amount)	(4,677)
11	Fair value reserves related to gains or losses on cash flow hedges	-
12	Negative amounts resulting from the calculation of expected loss amounts	(45,158)
13	Any increase in equity that results from securitised assets (negative amount)	-

14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
15	Defined-benefit pension fund assets (negative amount)	-
16	Direct and indirect holdings by the institution of its own CET1 instruments (negative amount)	(36,826)
17	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the institution's Own Funds (negative amount)	-
18	Direct and indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
19	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(7,672)
20	Empty set in the EU	-
20a	Exposure amount of the following items which qualify for a risk weighting (RW) of 1250%, where the institution opts for the deduction alternative	-
20b	*of which: qualifying holdings outside the financial sector (negative amount)*	-
20c	*of which: securitisation positions (negative amount)*	-
20d	*of which: free deliveries (negative amount)*	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in article 38, paragraph 3, are met) (negative amount)	-
22	Amount exceeding the 15% threshold (negative amount)	-
23	*of which: direct and indirect holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities*	-
24	Empty set in the EU	-
25	*of which: deferred tax assets arising from temporary differences*	-
25a	Losses for the current financial year (negative amount)	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(129,062)**
29	**Common Equity Tier 1 (CET1) capital**	**2,775,212**
	Additional Tier 1 (AT1): instruments	
30	Capital instruments and the related share premium accounts	-
31	*of which: classified as equity under applicable accounting standards*	-
32	*of which: classified as liabilities under applicable accounting standards*	-
33	Amount of qualifying items referred to in article 484, paragraph 4, and the related share premium accounts subject to phase out from AT1	-
34	Qualifying Tier 1 capital included in consolidated AT1 (including minority interests not included in row 5) issued by subsidiaries and held by third parties	7,588
35	*of which: instruments issued by affiliates subject to phase out*	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**7,588**
	Additional Tier 1 (AT1): regulatory adjustments	
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-
38	Direct, indirect and synthetic holdings of AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the institution's Own Funds (negative amount)	-

39	Direct and indirect and synthetic holdings of AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
40	Direct and indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
41	Empty set in the EU	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**
44	**Additional Tier 1 (AT1) capital**	**7,588**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**2,782,800**
	Tier 2 capital (T2): instruments and provisions	
46	Capital instruments and the related share premium accounts	396,551
47	Amount of qualifying items referred to in article 484, paragraph 5, and the related share premium accounts subject to phase out from T2	-
48	Qualifying Own Funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by affiliates and held by third parties	10,118
49	*of which: instruments issued by affiliates subject to phase out*	-
50	Loan write-downs	*43,217*
51	**Tier 2 (T2) capital before regulatory adjustments**	**449,886**
	Tier 2 capital (T2): regulatory adjustments	
52	Direct and indirect holdings by an institution of its own T2 instruments and subordinated loans (negative amount)	(7,981)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holding with the institution designed to artificially inflate the institution's Own Funds (negative amount)	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
56	Empty set in the EU	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(7,981)**
58	**Tier 2 capital (T2)**	**441,905**
59	**Total capital (TC = T1 + T2)**	**3,224,705**
60	**Total risk weighted assets**	**17,693,199**
	Capital ratios and buffers	
61	**Common Equity Tier 1** (as a percentage of the total risk exposure)	*15.69%*
62	**Tier 1** (as a percentage of the total risk exposure)	*15.73%*
63	**Total capital** (as a percentage of the total risk exposure)	*18.23%*
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92, paragraph 1, letter a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	*2.503%*
65	*of which: capital conservation buffer requirement* (**)	*2.500%*
66	*of which: countercyclical buffer requirement*	*0.003%*
67	*of which: systemic risk buffer requirement*	-

67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of the risk exposure)	-
69	[not relevant in EU legislation]	-
70	[not relevant in EU legislation]	-
71	[not relevant in EU legislation]	-
	Capital ratios and buffers	
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	240,643
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	284,139
74	Empty set in the EU	-
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liability where the conditions in article 38, paragraph 3, are met)	76,399
	Applicable caps on the inclusion of provisions in Tier 2 capital	
76	Credit risk adjustments included in T2 in respect of exposures subject to the standardised approach (before the application of the cap)	-
77	Cap on inclusion of credit risk adjustments in T2 capital under the standardised approach	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (before the application of the cap)	-
79	Cap for inclusion of credit risk adjustments in T2 capital under internal ratings-based approach	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

Source: COREP - Capital Adequacy: Models C 01.00-C05.01

(*) Line item 3 includes the positive capital element envisaged by the transitional arrangements referred to in paragraph 8 of art. 437-bis CRR aimed at mitigating the negative impact of IFRS 9 on regulatory Own Funds

(**) With a decision by the Supervisory Authority on 12 March 2020, the capital conservation buffer requirement, while continuing to exist as a regulatory obligation, was made temporarily available to cope with the COVID-19 pandemic.

Reconciliation of carrying amount of Shareholder's Equity with regulatory Own Funds

The information contained in this paragraph is presented according to the method indicated in Annex I *"Balance sheet reconciliation methodology"* of the Implementing Regulation (EU) no. 1423/2013 of the European Commission dated 20 December 2013, in compliance with the disclosure requirements provided by art. 437, para. 1, letter a) of the CRR.

In particular, the following table shows the reconciliation of regulatory Own Funds at 30 June 2020 and 31 December 2019 with the carrying amount of the Group's equity capital.

Table 4 - Reconciliation of carrying amount of equity capital with Own Funds

	30/06/2020	31/12/2019
Consolidated equity	**2,853,351**	**2,841,780**
Adjustments for companies not belonging to the banking group	(297)	(571)
Carrying amount of equity (banking group)	**2,853,054**	**2,841,209**
Difference between consolidated profit at banking group level and profit included in Own Funds	(14,676)	(45,951)
Difference in the calculation of valuation reserves	(2,152)	(4,298)
Minority interests that can be included in CET1	35,600	43,043
Treasury shares as collateral for exposures	(11,453)	(12,299)
Further deduction for potential repurchase of treasury shares	-	-
Prudential filter for property disposals	-	-
A. Common Equity Tier 1-CET1 before the application of prudential filters	**2,860,373**	**2,821,704**
of which: CET1 instruments subject to transitional instructions	-	-
B. Prudential filters of CET1 (+/-)	-	-
C. CET1 gross of the elements to be deducted and the effects of the transitional instructions (A+/- B)	**2,860,373**	**2,821,704**
D. Elements to be deducted from CET1	103,374	113,745
E. Transitional arrangements - Impact on CET1 (+/-), including minority interest subject to transitional arrangements	18,214	4,372
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**2,775,212**	**2,712,331**
G. Additional Tier 1 - AT1, gross of the elements to be deducted and the effects of the transitional instructions	**7,588**	**9,191**
of which: AT1 instruments subject to transitional instructions	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional instructions - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the transitional instructions	-	-
L. Total Additional Tier 1 - AT1 (G-H+/-I)	**7,588**	**9,191**
M. Tier 2 - T2, gross of the elements to be deducted and the effects of the transitional instructions	**450,080**	**499,047**
of which: T2 instruments subject to transitional instructions	-	-
N. Elements to be deducted from T2	8,175	10,679
O. Transitional arrangements - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the transitional arrangements	-	-
P. Total Tier 2 - T2 (M-N+/-O)	**441,905**	**488,368**
Q. Total Own funds (F+L+P)	**3,224,705**	**3,209,890**

In further detail, the following is a reconciliation between the elements of Own Funds, with related prudential filters and deductions, and the Group's balance sheet line items at 30 June 2020, in accordance with the disclosure requirements provided by art. 437, para. 1, letter a) of the CRR.

Table 5 - Reconciliation between balance sheet assets and liabilities and Own Funds

ASSET ITEMS	Accounting figures		Amount relevant for Own Funds
	Accounting scope	***Prudential scope***	
70. Equity investments	290,835	337,107	(7,672)
100. Intangible assets	31,326	31,324	(31,324)
- of which: Goodwill	*12,632*	*12,632*	*(12,632)*
- of which: Other intangible assets	*18,694*	*18,692*	*(18,692)*
110. Tax assets:	437,106	437,065	(4,677)
- of which b) deferred tax assets	*416,400*	*416,395*	*(4,677)*

LIABILITY ITEMS	Accounting figures		Amount relevant for Own Funds
	Accounting scope	***Prudential scope***	
10. Financial liabilities measured at amortised cost	41,542,843	41,542,842	388,764
c) Debt securities issued	2,828,955	2,828,955	388,764
- of which: Subordinated liabilities not subject to transitional provisions	*722,275*	*722,275*	*388,764*
- of which: Subordinated liabilities subject to transitional provisions	-	-	-
120. Valuation reserves	(18,878)	(19,070)	(21,222)
- of which: Actuarial profits (losses) on defined-benefit plans	*(70,015)*	*(70,015)*	*(70,015)*
- of which: Valuation reserves: Financial assets measured at fair value through other comprehensive income	*48,793*	*48,793*	*48,793*
150. Reserves	1,444,031	1,443,659	1,443,659
160. Share premium reserve	79,005	79,005	79,005
170. Share capital	1,360,157	1,360,157	1,360,157
180. Treasury shares (-)	(25,373)	(25,373)	(36,826)
190. Minority interests	96,886	96,886	53,306
- of which: to be included in CET1	-	-	*35,600*
- of which: to be included in AT1	-	-	*7,588*
- of which: to be included in T2	-	-	*10,118*
200. Profit for the period	14,409	14,676	-

OTHER ELEMENTS OF OWN FUNDS	Amount relevant for Own Funds
Other elements of Own funds	1,729
- of which: Negative elements of Tier 2 capital	*(194)*
TOTAL OWN FUNDS	**3,224,705**

Main features of equity instruments

The following is the information on the main features of the equity instruments issued by the Group at 30 June 2020 presented according to the model contained in Annex II of the EU Implementing Regulation no. 1423/2013 of the European Commission dated 20 December 2013.

Table 6 - Model on the main characteristics of equity instruments of Own Funds

1	Issuer	Banca Popolare di Sondrio scpa
2	Unique identifier *(e.g. CUSIP, ISIN or Bloomberg identification for private placements)*	IT0000784196
3	Governing law of the instrument	Italian law
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital
6	Eligible at solo (sub-) consolidation/solo and (sub-) consolidation	solo and (sub-) consolidation
7	Instrument type *(types to be specified by each jurisdiction)*	Cooperative share of Banca Popolare (CRR, art. 29)
8	Amount recognised in regulatory capital (millions of Euro, at the most recent reporting date)	1,323
9	Nominal amount of the instrument	1,360
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	equity
11	Original date of issuance	N/A
12	Perpetual or dated	perpetual
13	Original maturity date	without maturity
14	Early redemption at the issuer's discretion, subject to prior supervisory approval	no
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	fully discretionary
21	Existence of step up or other incentive to redeem	no
22	Non-cumulative or cumulative	non-cumulative
23	Convertible or non-convertible	non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	no
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1
36	Non-compliant transitioned features	no
37	If yes, specify non-compliant features	N/A

(*) N/A = not applicable

1	Issuer	Banca Popolare di Sondrio scpa
2	Unique identifier *(e.g. CUSIP, ISIN or Bloomberg identification for private placements)*	IT0005092884
3	Governing law of the instrument	Italian law

	Regulatory treatment	
4	Transitional CRR rules	Tier 2 Capital
5	Post-transitional CRR rules	Tier 2 Capital
6	Eligible at solo (sub-) consolidation/solo and (sub-) consolidation	solo and (sub-) consolidation
7	Instrument type *(types to be specified by each jurisdiction)*	Tier 2 instruments (CRR, art.63)
8	Amount recognised in regulatory capital (millions of Euro, at the most recent reporting date)	67
9	Nominal amount of the instrument	200
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	liabilities - amortised cost
11	Original date of issuance	30/03/2015
12	Perpetual or dated	at maturity
13	Original maturity date	30/03/2022
14	Early redemption at the issuer's discretion, subject to prior supervisory approval	no
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	fixed
18	Coupon rate and any related index	2.50%
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory
21	Existence of step up or other incentive to redeem	no
22	Non-cumulative or cumulative	non-cumulative
23	Convertible or non-convertible	non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	no
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	senior
36	Non-compliant transitioned features	no
37	If yes, specify non-compliant features	N/A

(*) N/A = not applicable

1	Issuer	Banca Popolare di Sondrio scpa
2	Unique identifier *(e.g. CUSIP, ISIN or Bloomberg identification for private placements)*	IT0005135527
3	Governing law of the instrument	Italian law
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 Capital
5	Post-transitional CRR rules	Tier 2 Capital

6	Eligible at solo (sub-) consolidation/solo and (sub-) consolidation	solo and (sub-) consolidation
7	Instrument type *(types to be specified by each jurisdiction)*	Tier 2 instruments (CRR, art.63)
8	Amount recognised in regulatory capital (millions of Euro, at the most recent reporting date)	122
9	Nominal amount of the instrument	274
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	liabilities - amortised cost
11	Original date of issuance	23/10/2015
12	Perpetual or dated	at maturity
13	Original maturity date	23/10/2022
14	Early redemption at the issuer's discretion, subject to prior supervisory approval	no
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	fixed
18	Coupon rate and any related index	3.00%
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory
21	Existence of step up or other incentive to redeem	no
22	Non-cumulative or cumulative	non-cumulative
23	Convertible or non-convertible	non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	no
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	senior
36	Non-compliant transitioned features	no
37	If yes, specify non-compliant features	N/A

(*) N/A = not applicable

1	Issuer	Banca Popolare di Sondrio Scpa
2	Unique identifier *(e.g. CUSIP, ISIN or Bloomberg identification for private placements)*	XS2034847637
3	Governing law of the instrument	Italian law
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 Capital
5	Post-transitional CRR rules	Tier 2 Capital
6	Eligible at solo (sub-) consolidation/solo and (sub-) consolidation	solo and (sub-) consolidation
7	Instrument type *(types to be specified by each jurisdiction)*	Tier 2 instruments (CRR, art.63)

8	Amount recognised in regulatory capital (millions of Euro, at the most recent reporting date)	200
9	Nominal amount of the instrument	200
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	liabilities - amortised cost
11	Original date of issuance	30/07/2019
12	Perpetual or dated	at maturity
13	Original maturity date	30/07/2029
14	Early redemption at the issuer's discretion, subject to prior supervisory approval	no
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	fixed
18	Coupon rate and any related index	6.25%
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory
21	Existence of step up or other incentive to redeem	no
22	Non-cumulative or cumulative	non-cumulative
23	Convertible or non-convertible	non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	no
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	senior
36	Non-compliant transitioned features	no
37	If yes, specify non-compliant features	N/A

(*) N/A = not applicable

Section 3 - Capital requirements (art. 438 CRR)

Qualitative information

The Group constantly monitors its capital adequacy, considered both in terms of size and composition, in respect of the risks taken, and those to which the Group might be exposed in implementing business strategies.

According to this, also in line with the provisions set out in the Pillar 2 regulatory framework, the Group has in place an internal process (ICAAP - *Internal Capital Adequacy Assessment Process*) to regularly evaluate if its capital level and composition are adequate, in current and prospective terms, to cope with all the significant risks to which the Group is or might be exposed, based on the medium-term forecasts adopted for strategic, capital and financial planning.

Taking into account the projections of the balance sheet and consolidated income statement aggregates, the risk profiles considered relevant for the Group's core business are identified and analysed, according to their type, through quantitative and/or qualitative approaches.

Specifically, ICAAP assessments are conducted from a double perspective:

- *Internal normative perspective*: it represents a multi-year assessment of the ability of the Group's capital position to meet all regulatory and Supervisory requirements, as well as to face on an ongoing basis all other internal and external capital constraints applicable from time to time over a medium-term horizon (at least three years). This perspective takes into account the potential impacts of all risks considered material for the Group, not limited to those covered by Pillar 1 requirements.
- *Internal economic perspective*: it integrates the normative perspective and refers to the Group's ability to face, through a suitable supply of capital resources, all the material risks likely to generate economic losses and to reduce the total available capital. In this perspective, the Group ensures adequate risk coverage with capital that is commensurate with its internal concept of capital adequacy. Under the economic perspective, the time horizon of the capital evaluation is normally one year.

The metrics used in the Group's capital adequacy analyses based on the aforementioned perspectives refer to the following key notions:

- *absorbed capital*, understood as the capital need relating to a specific risk which is deemed necessary to cover losses exceeding a given expected level;
- *total absorbed capital*, understood as the amount of capital absorbed referring to all the material risks assumed by the Group in current or prospective terms, including any internal capital needs due to strategic considerations;
- *total available capital*, consisting of the overall capital instruments that are expected to cover the total amount of capital needs determined through risk quantification.

The correct measurement of risk exposures, carried out in both current and prospective terms, as well as under stressed conditions, makes it possible to determine the amount of internal capital needed to cover the different types of risk that may have a material impact on the Group.

The Group's ability to continue operating by maintaining sound and robust financial conditions is regularly verified as part of the management reporting on business performance and risk exposures. The potential impacts on the capital position of key managerial choices and initiatives, or any significant changes in corporate strategies and in the external environment, are also previously assessed before making any related decision.

The system of targets and limits stated in the Risk Appetite Framework (RAF) for capital indicators are taken as a landmark to evaluate the adequacy of the Group's capitalisation as determined in the ICAAP, in line with the minimum regulatory requirements and with the additional supervisory constraints currently and prospectively in force.

Quantitative information

The following tables show the amounts of regulatory capital that are absorbed by credit and counterparty, market, operational and credit valuation adjustment (CVA) risks, as well as the levels reached by the supervisory capital ratios based on the Group's Common Equity Tier 1 Capital (Common equity Tier 1 ratio), Tier 1 Capital (Tier 1 ratio) and Total Own Funds (Total Capital ratio) at 30 June 2020, calculated according to the Basel 3 phase-in arrangements, compared with the equivalent figures reported at 31 December 2019.

Table 7 - Composition of prudential requirements

CAPITAL ADEQUACY	30/06/2020		31/12/2019	
	Risk-weighted amount	*Capital requirement*	*Risk-weighted amount*	*Capital requirement*
Credit and counterparty risk:	**15,417,298**	**1,233,384**	**15,298,594**	**1,223,888**
• ***Standardised approach***	8,214,449	657,156	8,167,147	653,372
• ***Internal rating based approach (Advanced IRB)***	7,202,849	576,228	7,131,447	570,516
Credit valuation adjustment risk (CVA risk): Standardised approach	**28,685**	**2,295**	**22,324**	**1,786**
Market risk: Standardised approach	**314,470**	**25,158**	**315,649**	**25,252**
Position risk on debt instruments	20,511	1,641	15,972	1,278
Position risk on equity instruments	144,055	11,524	130,094	10,407
Particular approach for position risk on UCITs	145,854	11,668	169,579	13,566
Foreign exchange risk	1	0	5	0
Commodity risk	4,049	324	-	-
Operational risk: Standardised approach	**1,587,858**	**127,029**	**1,587,858**	**127,029**
TOTAL CAPITAL REQUIREMENTS	**17,693,199**	**1,415,456**	**17,224,426**	**1,377,954**

Source: COREP - Capital Adequacy - Risk Exposure Amounts: Model C 02.00

Table 8 - Composition of the prudential requirement on credit and counterparty risk calculated with the Standardised Approach

CREDIT AND COUNTERPARTY RISK: STANDARDISED APPROACH	30/06/2020		31/12/2019	
	Risk-weighted amount	*Capital requirement*	*Risk-weighted amount*	*Capital requirement*
Total Credit and counterparty risk	**8,214,449**	**657,156**	**8,167,147**	**653,372**
Credit and counterparty risk – excl. securitisation positions	*8,213,892*	*657,111*	*7,992,539*	*639,403*
- Central governments or central banks	5,624	450	3,934	315
- Regional governments or local authorities	17,927	1,434	17,178	1,374
- Non-central government public sector entities	250,501	20,040	117,247	9,380
- Multilateral development banks	-	-	-	-
- International organisations	-	-	-	-
- Banks and other financial institutions	1,198,579	95,886	927,990	74,239
- Corporates	2,435,671	194,854	2,693,698	215,496
- Retail	283,364	22,669	291,680	23,334
- Secured by mortgages on immovable property	1,560,430	124,834	1,491,534	119,323
- Defaulted exposures	64,923	5,194	63,239	5,059
- High-risk items	183,303	14,664	156,813	12,545
- Covered bonds	56,414	4,513	71,512	5,721
- Short-term exposures to corporates, banks and other financial institutions	-	-	-	-
- Undertakings for the collective investment of transferable securities (UCITS)	297,827	23,826	295,391	23,631
- Equity instruments	845,166	67,613	851,819	68,146
- Other assets	1,014,163	81,133	1,010,504	80,840
Securitisations - securitisation positions: total	*344,887*	*27,591*	*173,392*	*13,871*
Risk exposure amount for contributions to the default fund of central counterparties (CCP)	*557*	*45*	*1,216*	*97*

Source: COREP - Capital Adequacy - Risk Exposure Amounts: Model C 02.00

Table 9 - Composition of the prudential requirement on credit and counterparty risk calculated with the Advanced Method Based on Internal Ratings (Advanced IRB Method)

CREDIT AND COUNTERPARTY RISK: INTERNAL RATING BASED APPROACH (ADVANCED IRB)	30/06/2020		31/12/2019	
	Risk-weighted amount	*Capital requirement*	*Risk-weighted amount*	*Capital requirement*
Total Credit and counterparty risk	**7,202,849**	**576,228**	**7,131,447**	**570,516**
Exposures to or guaranteed by Corporates	*5,233,409*	*418,673*	*5,247,388*	*419,791*
- Corporates: SMEs	2,380,756	190,460	2,805,767	224,461
- Corporates: Other businesses	2,852,653	228,212	2,441,621	195,330
Retail exposures	*1,969,440*	*157,555*	*1,884,059*	*150,725*
- Retail - Secured by real estate: SMEs	415,339	33,227	373,714	29,897
- Retail - Secured by real estate: individuals	510,638	40,851	408,583	32,687
- Other Retail: SMEs	895,586	71,647	941,947	75,356
- Other Retail: individuals	125,249	10,020	136,687	10,935
- Other assets	22,629	1,810	23,129	1,850

Source: COREP - Capital Adequacy - Risk Exposure Amounts: Model C 02.00

Table 10 - Capital ratios

PRUDENTIAL CAPITAL RATIOS	30/06/2020	31/12/2019
Common equity Tier 1 ratio (CET1 ratio)	**15.69%**	**15.75%**
Tier 1 ratio	**15.73%**	**15.80%**
Total Capital ratio	**18.23%**	**18.64%**

Source: COREP - Capital Adequacy - Capital Ratios: Model C 03.00

The figures reported in the previous tables referring to 30 June 2020 are the same as those communicated to the Supervisory Authorities in the context of consolidated supervisory reporting.

The trend in the Group's capital ratios in the first half of the year was affected by the significant increase in overall risk exposure amounts, which more than offset the strengthening of total Own Funds already described in Section 3.

Compared with the situation at the end of 2019, credit RWAs increased by virtue of a strong expansion of the lending volumes granted by the Group to support the real economy that was being weakened by the crisis; however, no material effect on risk exposures stems from the evolution of publicly guaranteed exposures (including the guarantee schemes already present before COVID-19), which benefit from zero weighting. The increased capital savings associated with the application of the new and broader “SME Supporting Factor”[4], introduced on 30 June 2020 by Regulation (EU) 2020/873 amending Regulation (EU) 2019/876 ("CRR II") – which brought forward the entry into force of some CRR II provisions scheduled for the next year –, partly mitigated the burden on capital requirements.

Credit risk exposure of the Group was also affected by the deconsolidation of Euro 1 billion of bad loans due to the NPL securitisation transaction completed in June. Weighted assets still include the contribution of senior securities issued by the SPV and entirely held by the Parent Banca Popolare di Sondrio pending receipt of the state guarantee (GACS) which will eliminate the weighting. The impact on RWAs for the portion of mezzanine and junior securities kept by the Bank in accordance with securitisation regulations (5% retention rule), bearing a 1250% risk weighting, was rather limited; the same is true for the exposure associated with the liquidity line granted by the Bank to the SPV as part of the NPL disposal.

As for the contribution to total RWAs at 30 June 2020 by other types of risk, exposure to market risk remained roughly stable since the end of 2019; the capital requirement for operational risk remained unchanged after the annual update as per regulatory provisions. Lastly, the CVA risks on OTC derivative transactions have been reconfirmed scarcely material.

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4 The “SME Supporting Factor” is a preferential weighting factor to be applied on exposures to small and medium-sized enterprises (SMEs) which was introduced under the new European regulation on the capital requirements of banks; it translates into a benefit for the calculation of credit risk related capital requirements.

Section 4 - Leverage (art. 451 CRR)

Qualitative information

Regulation (EU) no. 575/2013 ("CRR"), as partially amended by Delegated Regulation (EU) no. 2015/62, brought into effect from 1 January 2014 introducing the requirement for supervised entities to calculate a specific Leverage ratio in order to limit the build-up of an excessive leverage, namely a particularly high level of indebtedness compared with Own Funds which can make a bank vulnerable.

The indicator, which was implemented as part of the Basel 3 framework, is a simple backstop measure aimed at complementing the traditional risk-based capital requirements. The main objectives of its calculation and monitoring are to:

– prevent unsustainable leverage accumulation and, hence, mitigate the impact of sudden deleveraging processes, as experienced during the last global crisis;
– act as a constraint against model risk and measurement errors related to current systems to calculate risk-weighted assets, underlying the way the capital ratios are determined.

Banks must provide themselves with policies and procedures to identify, manage and adequately monitor the risk of excessive leverage. It is also envisaged that banks should manage leverage risk conservatively, bearing in mind the potential increases in risk due to reductions in Own Funds caused by expected or realised losses deriving from current accounting rules.

The Leverage ratio is calculated quarterly, at individual and consolidated levels, as the ratio between a measure of high-quality capital (Tier 1 Capital) and an exposure measure, expressed as a percentage. The exposure measure includes both on-balance sheet exposures and off-balance sheet (OBS) items; the latter, which are calculated by applying predefined "credit conversion factors" to the relevant notional amount of each OBS item, mainly consist of credit commitments (disbursements also connected to undrawn portions of credit lines granted to customers), guarantees and exposures in derivative instruments.

The Basel Committee has proposed a regulatory minimum of 3% for the Leverage ratio. This threshold is expected to be transposed into the EU legislation acting as a new harmonised requirement that supervised entities will be obliged to satisfy on a continuous basis; its introduction is foreseen on 28 June 2021 when Regulation (EU) no. 2019/876 of the European Parliament and Council of 20 May 2019 ("CRR II") will come into full effect.

In the period between 1 January 2015 and 31 December 2021, the coefficient is determined by using as the numerator both of the following configurations for Tier 1 Capital at each period-end:

– Tier 1 Capital calculated using the "phased-in" rules, i.e. according to the *pro tempore* arrangements applicable during the so-called "transitional period", in which the Basel 3 criteria to calculate regulatory Own Funds have to be applied in gradually increasing proportions;
– Tier 1 Capital calculated according to the "fully-phased" rules, i.e. without applying both the exceptions to the full adoption of Basel 3 schemes envisaged by the transitional arrangements and the grandfathering clauses for eligibility of capital instruments in Own Funds calculation.

The risk of excessive leverage is managed by the Group by monitoring even more conservative levels for the Leverage ratio which are set internally by the Risk Appetite Framework (RAF), in addition to the regulatory minimum required for the indicator.

More generally, the Group pursues strategies to carefully control its financial leverage by containing the dynamics of assets within sustainable levels compatible with a long-term equilibrium, taking into account a harmonious balance with the liability structure, with a view of safeguarding its capital and financial soundness. Maintenance of a well-balanced matching between assets and liabilities is an integral part of the overall evaluations carried out, from a current and future perspective, when setting the RAF and strategic plan objectives.

Quantitative information

A summary of the key elements of the Group's Leverage ratio at 30 June 2020 is shown in the table below, both according to the Basel 3 "fully-loaded" rules and the "phased-in" criteria in force at the reference date, compared with the equivalent figures at 31 December 2019.

Table 11 - Leverage ratio

Capital and total exposures	**30/06/2020**	**31/12/2019**
Total Leverage ratio exposures - fully phased	50,589,721	45,237,038
Total Leverage ratio exposures - phased-in	50,589,721	45,237,038
Tier 1 capital - fully phased	2,764,587	2,717,150
Tier 1 capital - phased-in	2,782,800	2,721,522
Leverage ratio	**30/06/2020**	**31/12/2019**
Leverage ratio - fully phased	**5.46%**	**6.01%**
Leverage ratio - phased-in	**5.50%**	**6.02%**

Source: COREP - Leverage ratio calculation: Model C 47.00

The decrease in the Leverage ratio recorded in the first half of the year (-55 basis points when measured with the "fully-phased" rules, -52 basis points when measured with the "phased-in" rules in force in 2020) was affected by the considerable upsurge in assets that compose the total exposure in the denominator. These were particularly affected by the growth in volumes of financial investments and loans made possible by the acquisition of fresh funds granted by the European Central Bank through the programme of targeted longer-term refinancing operations (TLTRO-III), as explained in greater detail in Section 8 of this document.

The tables below summarise the main pieces of information about the Leverage ratio reported by the Group at 30 June 2020 and at 31 December 2019 as envisaged by article 451 of Regulation (EU) no. 575/2013 ("CRR"), prepared in accordance with the technical rules contained in the Commission Implementing Regulation (EU) no. 2016/200 of 15 February 2016.

Table 12 - LRCom Model - Leverage Ratio common disclosure

		30/06/2020	**31/12/2019**
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	45,016,752	39,887,602
2	(Asset amounts deducted in determining Tier 1 capital)	-	-
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**45,016,752**	**39,887,602**
	Derivative exposures		
4	Replacement cost associated with all derivative transactions (net of eligible cash variation margin)	22,227	20,188
5	Add-on amounts for potential future exposures associated with all derivative transactions (mark-to-market method)	22,994	15,016
EU-5a	Exposure determined under original exposure method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deduction of receivables for cash variation margin provided in derivative transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of lines from 4 to 10)**	**45,221**	**35,204**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,023,952	1,111,074
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	111,508	84,640
EU-14a	Derogation for SFTs: counterparty credit risk exposure in accordance with articles 429 ter, paragraph 4 and 222 of Regulation (EU) 575/2013	-	-
15	Agent transaction exposures	-	-

EU-15a	(Exempted CCP leg of client-cleared SFT exposures)	-	-
16	**Total securities financing transaction (SFT) exposures (sum of lines from 12 to 15a)**	**1,135,460**	**1,195,714**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	19,614,830	19,295,606
18	(Adjustments for conversion to credit equivalent amounts)	(15,222,541)	(15,177,088)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**4,392,289**	**4,118,518**
	(Exempted exposures in accordance with article 429, paras. 7 and 14, of Regulation (EU) 575/2013 (on- and off-balance sheet))		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with article 429, para. 7, of Regulation (EU) 575/2013 (on- and off-balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with article 429, para. 14, of Regulation (EU) 575/2013 (on- and off-balance sheet))	-	-
	Capital and total exposure measures		
20	**Tier 1 capital**	**2,782,800**	**2,721,522**
21	**Leverage ratio total exposure measures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**50,589,721**	**45,237,038**
	Leverage ratio		
22	**Leverage ratio**	**5.50%**	**6.02%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional arrangements	Transitional arrangements
EU-24	Amount of derecognised fiduciary items in accordance with article 429, paragraph 11, of Regulation (EU) 575/2013		-

Source: COREP - Leverage ratio calculation: Model C 47.00

Table 13 - LRSpl Model - Spit-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	CRR Leverage ratio exposures (CRR)	30/06/2020	31/12/2019
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	45,016,752	39,887,602
EU-2	Trading book exposures	181,652	182,284
EU-3	Banking book exposures, of which:	44,835,100	39,705,318
EU-4	*Covered bonds*	*237,269*	*278,427*
EU-5	*Exposures treated as sovereigns*	*12,367,117*	*9,005,387*
EU-6	*Exposures to regional governments, multilateral development banks (MDB), international organisations and public sector entities (PSE) not treated as sovereigns*	*400,322*	*289,579*

EU-7	*Institutions*	*2,844,500*	*2,506,571*
EU-8	*Secured by mortgages on immovable properties*	*10,218,731*	*9,714,919*
EU-9	*Retail exposures*	*3,511,438*	*3,402,723*
EU-10	*Corporate*	*10,303,589*	*9,881,135*
EU-11	*Exposures in default*	*1,288,899*	*1,573,249*
EU-12	*Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)*	*3,663,235*	*3,053,329*

Source: COREP - Breakdown of leverage ratio exposure measure components: Model C 43.00

Table 14 - LRSum Model - Summary reconciliation of accounting assets and Leverage ratio exposures

		30/06/2020	31/12/2019
1	**Total assets as per published financial statements**	**46,157,302**	**41,146,189**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(2,072)	(1,649)
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with article 429, paragraph 13, of Regulation (EU) 575/2013)	-	-
4	Adjustments for derivative financial instruments	22,994	15,016
5	Adjustments for securities financing transactions (SFTs)	111,508	84,640
6	Adjustment for off-balance sheet items (conversion to credit equivalent amounts of off-balance sheet exposures)	4,392,289	4,118,518
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with article 429, paragraph 7, of Regulation (EU) 575/2013)	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429, paragraph 14, of Regulation (EU) 575/2013)	-	-
7	Other adjustments	(92,300)	(125,676)
8	**Leverage ratio total exposure measure**	**50,589,721**	**45,237,038**

Source: COREP - Leverage ratio calculation: Model C 47.00

Section 5 - Effects of the IFRS 9 transitional arrangements on Own Funds and capital ratios (art. 473-bis CRR)

Qualitative information

Regulation (EU) no. 2017/2395 of the European Parliament and Council of 12 December 2017 amending and integrating Regulation (EU) no. 575/2013 ("CRR") introduced transitional arrangements aimed at mitigating at system level the impact on the Own Funds and prudential ratios of supervised entities following the entry into of IFRS 9 force from 1 January 2018. Adoption of the transitional arrangements by banks was optional and could be "integral" or "partial" depending on whether it concerned all the regulatory provisions or only a portion of them, as specified below.

These arrangements, partially revised with the entry into force of Regulation (EU) 2020/873 of the European Parliament and Council of 24 June 2020, allows intermediaries to temporarily include in the calculation of their Common Equity Tier 1 (CET1) an additional amount of capital to "neutralise" the effects that would occur on the balance sheet items following the expected increase in provisions for expected losses on financial instruments resulting from a full and immediate adoption of the new accounting standard.

The total amount related to these additional loss provisions, calculated net of tax effects, is included in regulatory capital as a positive item. This can be broken down into:

- a "static" component, representing the increase in credit risk adjustments during first-time adoption of the new accounting standards; it is calculated as the difference between the amount of impairment losses on financial assets at 31/12/2017 (determined in accordance with the previous IAS 39) and the expected credit losses calculated at 1 January 2018 (date of FTA of IFRS 9); this component remains constant throughout the entire transitional period;
- a "dynamic" component, which measures further increases in credit risk adjustments that could occur over the entire transitional period, i.e. with respect to the expected credit loss provisions in place at 1 January 2018 (the changes in loss allowances for lifetime expected credit losses on financial assets that are credit-impaired are excluded).

Following the deterioration of the macroeconomic scenario connected to the ongoing COVID-19 emergency, the "dynamic" component of the transitional arrangements, originally envisaged until 31 December 2022, was extended for another two years by Regulation (EU) 2020/873 and split into the following sub-components:

- the first ("before-COVID") refers to increases in loss provisions recorded from 1/1/2018 to 31/12/2019; the additional amount of CET1 relating to them is subject to an "adjustment factor" which declines over time, from 70% in 2020 to 25% in 2022, reaching zero from 1 January 2023;

- the second ("after-COVID") refers to increases in loss provisions recorded at each reporting date between 1/1/2020 and the new deadline marking the end of the transitional period (31 December 2024); also in this case, the calculation of the additional amount of CET1 related to them is based on the application of "adjustment factors" which gradually decrease over the years, initially set at 100% in 2020 and 2021 and then reduced to 25% in 2024, reaching zero from 1 January 2025.

The higher provisions recognised on first-time adoption of the accounting standard and those recorded during throughout the transitional period are included – net of the tax effect – as a positive element in CET1 capital. They are determined in a different way, split between credit exposures treated for supervisory purposes with the “Standardised Approach” and exposures treated with the “Internal Rating-Based Approach”.

In the calculation of capital ratios, any increase in credit risk provisions is also subject to the application of a so-called "scaling factor": this has the effect of limiting the amount of new allowances which would be entirely deducted from the exposure value considered to determine the risk-weighted amounts in the "Standardised Approach". This ensures that the institution applying the transitional arrangements does not benefit from both a strengthening in its CET1 capital due to the compensatory IFRS 9 adjustments (in the numerator of the ratios) as well as a reduced risk exposure (in the denominator of the ratios).

Similarly, with reference to the exposures treated with the "Internal Rating-Based Approach", if provisions overcome the statistical-based estimates of expected loss deriving from credit risk internal models, the portion of excess adjustments used to increase Tier 2 capital would be neutralised in order to avoid duplicating the benefit already recognised in CET1 capital.

For the same purpose, the additional amount of CET1 capital correlated to the change in provisions is added back to the total exposure measure in the denominator of the Leverage ratio.

The EU regulations have given banks the right to adopt the transitional IFRS 9 regime in an "integral" manner, i.e. including both the "static" and "dynamic" components, or in a "partial" manner, i.e. including only the "static" component. Any institutions that decided to apply the transitional provisions, in part or in full, had to make a specific communication to the competent Supervisory Authority by 1 February 2018.

Given the above, the Banca Popolare di Sondrio Group has chosen to make use of these transitional arrangements on an "integral" basis, i.e. with reference to the additional credit risk provisions for expected credit losses on performing and credit-impaired financial instruments observed at the time of FTA of IFRS 9 (the "static" component), as well as the increase in impairment losses recorded excluding credit-impaired instruments (only positions classified into Stage 1 and Stage 2) at each reference date following FTA (the "dynamic" component). The decision of the Group was formally communicated to the European Central Bank within the time limits provided and remains still confirmed, also following the changes to the transitional arrangements introduced by Regulation (EU) 2020/873 of 24 June 2020.

Quantitative information

Below we provide information on the Group's regulatory Own Funds, RWA-based capital ratios and Leverage ratio at 30 June 2020, 31 December 2019 and 30 June 2019 – all calculated using "phased-in" criteria envisaged by the IFRS 9 transitional arrangements – compared with the corresponding measures calculated without the application of such transitional provisions.

Table 15 - IFRS 9-FL Model - Comparison of the Group's Own Funds and capital and leverage ratios, with and without the application of the transitional provisions for IFRS 9

	Available capital (amounts)	30/06/2020	31/12/2019	30/06/2019
1	Common Equity Tier 1 (CET1) capital	2,775,212	2,712,331	2,597,015
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,756,998	2,707,959	2,592,619
3	Tier 1 capital	2,782,800	2,721,522	2,606,597
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,764,587	2,717,150	2,602,201
5	Total capital	3,224,705	3,209,890	2,898,169
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,206,491	3,205,518	2,893,773
	Risk-weighted assets (amounts)			
7	Total risk-weighted assets	17,693,199	17,224,426	16,755,407
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,681,687	17,223,800	16,754,890
	Capital ratios			
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.69%	15.75%	15.50%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.59%	15.72%	15.47%
11	Tier 1 (as a percentage of risk exposure amount)	15.73%	15.80%	15.56%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.64%	15.78%	15.53%
13	Total capital (as a percentage of risk exposure amount)	18.23%	18.64%	17.30%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.13%	18.61%	17.27%

	Leverage ratio			
15	Leverage ratio total exposure measure	50,589,721	45,237,038	46,286,119
16	Leverage ratio	5.50%	6.02%	5.63%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.46%	6.01%	5.62%

Source: COREP - Capital adequacy: Models C 01.00-C05.01 and Leverage ratio calculation: Model C 47.00

The figures reported in the table above demonstrate how the negative impacts on the Group's capital adequacy in the event of immediate and full recognition of the new accounting standard would remain broadly limited also at 30 June 2020.

The marginal increase, compared with the previous publication dates, in the gaps between the capital solvency and leverage ratios calculated according to the IFRS 9 transitional regime and those available to the Group on the assumption that it had not opted for such a possibility, is entirely attributable to the rise in the "dynamic" component as described above.

This increase has been partially offset by the lower capital contribution of the additional loss adjustments that occurred following the FTA of the accounting standard and up to 31/12/2019 ("before COVID"), having in the meantime reduced the phase-in percentage of this component included in CET1 capital (from 85% in 2019 to 70% in 2020) on the basis of the transitional rules in force during the current year.

Section 6 - Credit risk: general information and adjustments (art. 442 CRR)

Quantitative information

The following tables, supported by qualitative notes and explanations, show the changes and composition of:

– non-performing exposures, those subject to forbearance measures and collateral assets obtained by the Group by taking possession as part of execution processes for the work-out of non-performing loans;

– exposures subject to measures applied in response to the effects of the COVID-19 crisis (payment moratoria and public guarantee schemes);

– loss provisions and adjustments on these types of exposure.

The amounts reported in this section, which refer to the Banking Group, are those shown in the financial statements, the FINREP supervisory reporting and additional reporting templates to the Supervisory Authorities at the reference date of 30 June 2020, integrated, where necessary, by figures and information obtained from internal sources.

Reporting on non-performing and forborne exposures

The following tables contain the half-year information at 30 June 2020 regarding non-performing exposures, those subject to forbearance measures and the assets obtained by the Group by taking possession as part of execution processes for the work-out of non-performing loans. The tables comply with the uniform formats envisaged by the EBA/GL/2018/10 “Guidelines on disclosure of non-performing and forborne exposures" of 17 December 2018.

Table 16 - Credit quality of forborne exposures (Template 1 - EBA/GL/2018/10)

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance				**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**		**Collateral received and financial guarantees received on forborne exposures**	
		Performing forborne	**Non-performing forborne**			**On performing forborne exposures**	**On non-performing forborne exposures**		**Of which collateral and financial guarantees received on non-performing exposures with forbearance measures**
				Of which defaulted	***Of which impaired***				
1	Loans and advances	732,708	989,637	989,637	967,787	(24,119)	(454,405)	925,665	149,124
2	*Central banks*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
3	*General governments*	*19,829*	*-*	*-*	*-*	*(89)*	*-*	*-*	*-*
4	*Credit institutions*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
5	*Other financial corporations*	*1,146*	*26,596*	*26,596*	*26,596*	*(11)*	*(15,793)*	*127*	*271*
6	*Non-financial corporations*	*459,287*	*742,258*	*742,258*	*721,216*	*(16,462)*	*(360,696)*	*601,752*	*128,374*
7	*Households*	*252,447*	*220,783*	*220,783*	*219,975*	*(7,556)*	*(77,917)*	*323,786*	*20,479*

8	Debt securities	-	-	-	-	-	-	-	-
9	Commitments to grant loans	54,968	16,949	16,949	16,949	418	31	-	9,190
10	***Total***	***787,676***	***1,006,586***	***1,006,586***	***984,736***	***(23,701)***	***(454,374)***	***925,665***	***158,313***

Source: FINREP - Exposures subject to forbearance measures (19): Model F19.00

Exposures subject to forbearance measures showed a decrease compared with 31 December 2019, both in the performing and in the non-performing part of the loan portfolio. This trend has been mainly related to the number of "cures" and terminations of credit agreements subject to forbearance. Among the customer segments, the most significant improvement during the half year was achieved by “Non-financial corporations”.

Table 17 - Credit quality of performing and non-performing exposures by past due days (Template 3 - EBA/GL/2018/10)

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			**Non-performing exposures**								
			Not past due or past due ≤ 30 days	**Past due > 30 days ≤ 90 days**		**Unlikely-to-pay loans that are not past due or are past due ≤ 90 days**	**Past due > 90 days ≤ 180 days**	**Past due > 180 days ≤ 1 year**	**Past due > 1 year ≤ 2 years**	**Past due > 2 years ≤ 5 years**	**Past due > 5 years ≤ 7 years**	**Past due > 7 years**	**Of which defaulted**
1	Loans and advances	27,481,198	27,311,680	169,519	2,788,572	620,622	145,234	138,263	279,996	679,807	420,196	504,454	2,788,572
2	*Central banks*	*2,861*	*2,861*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
3	*General governments*	*562,474*	*562,474*	*-*	*400*	*-*	*-*	*-*	*-*	*398*	*-*	*2*	*400*
4	*Credit institutions*	*564,673*	*543,215*	*21,458*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
5	*Other financial corporations*	*2,915,395*	*2,906,222*	*9,172*	*59,659*	*15,598*	*38*	*6*	*7,361*	*23,747*	*12,589*	*319*	*59,659*
6	*Non-financial corporations*	*14,228,499*	*14,162,053*	*66,446*	*1,960,478*	*411,673*	*115,372*	*107,644*	*208,355*	*486,925*	*280,978*	*349,530*	*1,960,478*
7	*of which SMEs*	*7,280,357*	*7,236,169*	*44,188*	*1,220,538*	*341,349*	*101,464*	*65,384*	*119,115*	*290,787*	*155,357*	*147,083*	*1,220,538*
8	*Households*	*9,207,296*	*9,134,853*	*72,443*	*768,035*	*193,350*	*29,825*	*30,612*	*64,281*	*168,737*	*126,628*	*154,603*	*768,035*
9	Debt securities	10,196,809	10,196,809	-	-	-	-	-	-	-	-	-	-

10	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
11	*General governments*	*8,069,757*	*8,069,757*	-	-	-	-	-	-	-	-	-	-
12	*Credit institutions*	*1,043,273*	*1,043,273*	-	-	-	-	-	-	-	-	-	-
13	*Other financial corporations*	*955,800*	*955,800*	-	-	-	-	-	-	-	-	-	-
14	*Non-financial corporations*	*127,979*	*127,979*	-	-	-	-	-	-	-	-	-	-
15	Off-balance sheet exposures	19,452,804			*263,620*								*263,620*
16	*Central banks*	-			-								-
17	*General governments*	*493,456*			*217*								*217*
18	*Credit institutions*	*324,817*			-								-
19	*Other financial corporations*	*1,476,714*			*425*								*425*
20	*Non-financial corporations*	*15,552,989*			*249,007*								*249,007*
21	*Households*	*1,604,828*			*13,971*								*13,971*
22	***Total***	***57,130,811***	***37,508,488***	***169,519***	***3,052,192***	***620,622***	***145,234***	***138,263***	***279,996***	***679,807***	***420,196***	***504,454***	***3,052,192***

Source: FINREP - Exposures in default: Model F 18.00

The Group's stock of gross impaired loans, as well as their incidence on total loans and advances to customers (gross NPL ratio equal to 9.21% at 30 June 2020, down from 11.77% at the end of 2019, both calculated on FINREP data), shrank considerably following the securitisation of approximately Euro 1 billion of bad loans announced to the market on 17 June 2020. The decrease in non-performing exposures has been mostly concentrated in the time range of past due loans “beyond 1 year”, as well as for customers segments “Non-financial corporations” and “Households”.

Table 18 - Performing and non-performing exposures and related provisions (Template 4 - EBA/GL/2018/10)

		a	b	c	d	e	f	g	h	I	j	k	l	m	n	o
		Gross carrying amount/nominal value						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-offs	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which Stage 1	*Of which Stage 2*		*Of which Stage 2*	*Of which Stage 3*		*Of which Stage 1*	*Of which Stage 2*		*Of which Stage 2*	*Of which Stage 3*			
1	Loans and advances	27,481,198	24,680,485	2,483,420	2,788,572	-	2,756,638	(125,352)	(56,373)	(68,979)	(1,513,300)	-	(1,501,446)	-	17,863,518	1,104,317
2	*Central banks*	*2,861*	*2,861*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
3	*General governments*	*562,474*	*542,546*	*19,829*	*400*	*-*	*400*	*(614)*	*(525)*	*(89)*	*(207)*	*-*	*(207)*	*-*	*550*	*-*
4	*Credit institutions*	*564,673*	*564,673*	*-*	*-*	*-*	*-*	*(328)*	*(328)*	*-*	*-*	*-*	*-*	*-*	*88,022*	*-*
5	*Other financial corporations*	*2,915,395*	*2,900,116*	*13,875*	*59,659*	*-*	*59,659*	*(15,707)*	*(14,699)*	*(1,008)*	*(42,218)*	*-*	*(42,218)*	*-*	*1,444,278*	*4,172*
6	*Non-financial corporations*	*14,228,499*	*12,449,172*	*1,570,430*	*1,960,478*	*-*	*1,930,237*	*(71,280)*	*(24,927)*	*(46,354)*	*(1,104,507)*	*-*	*(1,093,250)*	*-*	*8,107,476*	*746,369*
7	*of which SMEs*	*7,280,357*	*6,288,072*	*992,285*	*1,220,538*	*-*	*1,220,538*	*(50,027)*	*(16,648)*	*(33,379)*	*(614,242)*	*-*	*(614,242)*	*-*	*5,146,289*	*549,704*
8	*Households*	*9,207,296*	*8,221,116*	*879,286*	*768,035*	*-*	*766,342*	*(37,421)*	*(15,894)*	*(21,527)*	*(366,368)*	*-*	*(365,771)*	*-*	*8,223,192*	*353,775*
9	Debt securities	10,196,809	9,985,042	134,711	-	-	-	(16,896)	(6,473)	(10,423)	-	-	-	-	-	-
10	*Central banks*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
11	*General governments*	*8,069,757*	*8,047,137*	*-*	*-*	*-*	*-*	*(4,915)*	*(4,915)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
12	*Credit institutions*	*1,043,273*	*891,332*	*134,711*	*-*	*-*	*-*	*(11,280)*	*(856)*	*(10,423)*	*-*	*-*	*-*	*-*	*-*	*-*
13	*Other financial corporations*	*955,800*	*924,481*	*-*	*-*	*-*	*-*	*(564)*	*(564)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
14	*Non-financial corporations*	*127,979*	*122,092*	*-*	*-*	*-*	*-*	*(138)*	*(138)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
15	Off-balance sheet exposures	19,452,804	18,052,763	1,400,041	263,620	-	263,620	17,520	14,198	3,322	29,491	-	29,491		3,098,965	111,916
16	*Central banks*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*		*-*	*-*
17	*General governments*	*493,456*	*492,712*	*744*	*217*	*-*	*217*	*12*	*12*	*-*	*122*	*-*	*122*		*25,263*	*-*
18	*Credit institutions*	*324,817*	*324,817*	*-*	*-*	*-*	*-*	*214*	*214*	*-*	*-*	*-*	*-*		*10,497*	*-*
19	*Other financial corporations*	*1,476,714*	*1,443,625*	*33,089*	*425*	*-*	*425*	*6,054*	*6,048*	*6*	*325*	*-*	*325*		*64,835*	*77*
20	*Non-financial corporations*	*15,552,989*	*14,343,146*	*1,209,843*	*249,007*	*-*	*249,007*	*8,740*	*6,342*	*2,398*	*27,766*	*-*	*27,766*		*2,672,481*	*108,685*
21	*Households*	*1,604,828*	*1,448,463*	*156,365*	*13,971*	*-*	*13,971*	*2,500*	*1,582*	*919*	*1,277*	*-*	*1,277*		*325,888*	*3,155*
22	***Total***	***57,130,811***	***52,718,290***	***4,018,172***	***3,052,192***	***-***	***3,020,258***	***(124,727)***	***(48,648)***	***(76,079)***	***(1,483,809)***	***-***	***(1,471,955)***	***-***	***20,962,483***	***1,216,233***

Source: FINREP - Non-performing exposures (18): Model F 18.00; Forborne exposures (19): Model F19.00; Breakdown of financial assets by instrument and by industry of the counterparty (4): Model F 04.03.1 - F 04.04.1

Compared with the situation at 31 December 2019, a decrease occurred in the volume of performing exposures classified in Stage 2 (positions with a significant increase in credit risk); the related coverage rose correspondingly. On the other hand, the coverage of non-performing loans declined in the half-year due to the bulk sale of bad loans that took place last June, which on average involved positions with a high level of coverage.

Table 19 - Collateral obtained by taking possession and execution processes (Template 9 - EBA/GL/2018/10)

		a	b
		Collateral obtained by taking possession	
		Value at initial recognition	**Accumulated negative changes**
1	Property, plant and equipment (PP&E)	-	-
2	Other than PP&E	32,927	(638)
3	*Residential immovable property*	2,159	(638)
4	*Commercial Immovable property*	-	-
5	*Movable property (auto, shipping, etc.)*	-	-
6	*Equity and debt instruments*	-	-
7	*Other*	30,768	-
8	***Total***	32,927	(638)

Source: FINREP - Collateral obtained by taking possession during the year [held at the reference date] (13): Model F 13.02.1

The main contributions to the figures above came from the enforcement of collaterals obtained by the Group on a voluntary basis or in the context of legal proceedings.

Disclosure on exposures subject to measures applied in reaction to the effects of the COVID-19 crisis (loans subject to legislative and non-legislative moratoria and new loans backed by public guarantee schemes)

The following tables contain pieces of information, as of 30 June 2020, regarding the Group’s risk exposures subject to measures applied to face the economic consequences of the COVID-19 pandemic, i.e. legislative and non-legislative moratoria for loan repayments and public guarantees on new loans granted. The formats of the tables comply with the uniform schemes provided for by the EBA/GL/2020/07 "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis" of 2 June 2020.

In particular, the following information is provided:

- exposures that benefit from payment moratoria that meet the features defined by the EBA/GL/2020/02 "Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis" (so-called "general payment moratoria"), granted on the basis of laws, decrees, regulatory provisions, agreements and memoranda of understanding, however denominated, connected to the pandemic;
- new loans to customers backed by guarantee schemes provided by the state or other public entity or, in any case, backed by disbursements of state funds in order to deal with the negative economic consequences of the pandemic.

Table 20 - Information on loans and advances subject to legislative and non-legislative moratoria (Template 1 - EBA/GL/2020/07)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount							**Accumulated impairment, accumulated negative changes in fair value due to credit risk**							**Gross carrying amount**
			Performing			**Non-performing**				**Performing**			**Non-performing**			
				Of which: exposures with forbearance measures	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2))***		***Of which: exposures with forbearance measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***			***Of which: exposures with forbearance measures***	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***		***Of which: exposures with forbearance measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***	Inflows to non-performing exposures
1	Loans and advances subject to moratorium	3,790,896	3,790,217	8,484	760,823	679	71	644	37,661	37,536	482	28,573	125	10	120	330
2	of which: Households	1,098,109	1,097,499	4,291	238,378	610	71	574	13,096	13,003	232	10,198	93	10	88	261

3	*of which: Collateralised by residential immovable property*	*677,291*	*676,928*	*2,573*	*130,274*	*363*	*-*	*363*	*6,252*	*6,187*	*108*	*4,776*	*64*	*-*	*64*	*189*
4	of which: Non-financial corporations	2,654,778	2,654,709	4,193	516,723	70	-	70	24,210	24,178	251	18,175	32	-	32	70
5	*of which: Small and Medium-sized Enterprises*	*2,375,552*	*2,375,482*	*3,714*	*440,546*	*70*	*-*	*70*	*22,129*	*22,098*	*216*	*16,574*	*32*	*-*	*32*	*70*
6	*of which: Collateralised by commercial immovable property*	*1,456,801*	*1,456,801*	*1,326*	*342,253*	*-*	*-*	*-*	*17,568*	*17,568*	*67*	*14,054*	*-*	*-*	*-*	*-*

Source: ECB COVID-19 reporting package - COVID-19 Moratoria and State Guarantees template (EBA)

In order to counteract the negative economic effects of the COVID-19 emergency, the Italian government intervened through specific regulatory provisions issued to freeze payment obligations on bank loan agreements by debtors who experienced difficulties because of the pandemic (so-called "legislative moratoria"). With reference to Small and Medium-sized Enterprises (including self-employed and freelance workers) that have suffered temporary liquidity shortages as a consequence of the pandemic, Decree Law no. 18 *"Cura Italia"* gave them the possibility to ask for the suspension, until 30 September 2020, of instalment payments - only for the principal amount or for the entire instalment – on loans disbursed before the entry into force of the said Decree. In relation to the entire audience of consumers, the Government also expanded the range of action of the pre-existing Solidarity Fund (the so-called "Gasparrini Fund") for first home purchase mortgage loans, applicable to individuals with a loan of an original amount not exceeding 400 thousand Euro for the purchase of a primary house in Italy, as long as the applicants have suffered one of the events foreseen in the regulatory provision as a result of the health emergency (e.g. job loss, drawing temporary redundancy benefits, reduction in the earnings of self-employed workers/professionals). This form of benefit provides for the total suspension – for both principal and interest – of loan repayments for a maximum of 18 months.

Along with legislative moratoria, similar measures were promoted by the Italian Banking Association (ABI) through specific memoranda of understanding. With reference to Micro-Enterprises and Small and Medium-sized Enterprises, ABI and the trade associations that signed the already operational *"2019 Credit Agreement"* have signed an Addendum aimed at extending the application of the package of measures called *"Businesses in Recovery 2.0"* (suspension of payment of the principal amount of loans for a maximum period of 12 months or extension of the repayment deadline within the maximum limit of 100% of the residual duration) to bank loans outstanding at 31 January 2020 granted to companies hit by the pandemic that do not already have non-performing credit exposures. In June, the scope of application of the *"COVID-19 Addendum"* was extended to larger companies; as part of the extension – from 30/6/2020 to 30/9/2020 – of the deadline by which it is possible to submit a moratorium request, the possibility has also been provided for a company to ask for the suspension of an entire instalment payment, and no longer just the principal amount. ABI and 17 Consumer Associations have also signed a new Agreement which provides for the possibility of suspending the principal amount of payment instalments of real estate mortgage-backed loans and other loans repayable by instalment for up to 12 months (including consumer credit) taken out before 31 January 2020, thereby expanding the range of financial measures to support households, self-employed workers and professionals hit by the epidemic. With the extension – from 30/6/2020 to 30/9/2020 – of the deadline by which to submit a moratorium request, the possibility was also provided for an obligor to ask for suspension of an entire instalment.

At 30 June 2020, the Banca Popolare di Sondrio Group granted moratoria on loans for a total exposure of Euro 4.4 billion, of which Euro 4.1 billion with suspension still under way; of the latter, Euro 3.8 billion were referred to legislative moratoria. In greater detail, the Group granted:

- legislative moratoria referring to over 14 thousand loan transactions, for a total exposure of Euro 2.7 billion;

- moratoria promoted by trade associations referring to almost 8 thousand instalment loans, for a total exposure of Euro 1.3 billion;
- moratoria granted on the initiative of a Group company (non-legislative and non-associational) for almost 900 credit agreements, equal to a total exposure of Euro 378 million, of which over 500 relationships (almost Euro 70 million in terms of exposure) referring to retail customers and the rest (approximately Euro 300 million in terms of exposure) to non-financial corporations.

The economic sectors that have submitted the most requests for moratoria include, in addition to Households, industries such as Accommodation and Catering, Tourism and Travel Agencies, Textiles and Clothing, Transport and Warehousing, Retail Trade.

Table 21 - Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria (Template 2 - EBA/GL/2020/07)

		a	b	c	d	e	f	g	h	i
		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	*Of which: expired*	Residual maturity of moratoria				
						<= 3 months	*> 3 months <= 6 months*	*> 6 months <= 9 months*	*> 9 months <= 12 months*	*> 1 year*
1	Loans and advances for which moratorium was offered	18,504	4,082,542							
2	Loans and advances subject to moratorium (granted)	17,810	3,857,566	2,564,203	66,670	2,586,152	207,193	749,307	241,702	6,543
3	of which: Households		1,129,658	332,588	31,549	344,812	124,059	492,683	130,150	6,406
4	*of which: Collateralised by residential immovable property*		*695,338*	*94,809*	*18,048*	*103,042*	*106,861*	*363,511*	*97,933*	*5,943*
5	of which: Non-financial corporations		2,686,881	2,216,485	32,102	2,225,769	64,113	253,383	111,377	137
6	*of which: Small and Medium-sized Enterprises*		*2,406,648*	*2,120,620*	*31,096*	*2,124,289*	*8,214*	*206,533*	*36,515*	*-*

7	*of which: Collateralised by commercial immovable property*		*1,465,370*	*1,322,485*	*8,569*	*1,333,560*	*5,487*	*101,486*	*16,268*	*-*

Source: ECB COVID-19 reporting package - COVID-19 Moratoria and State Guarantees template (EBA)

The moratoria granted by the Group to face the COVID-19 emergency differ not only by type but also by residual maturity, according to the number of instalments for which the borrowers asked for temporary suspension due to difficulties related to the pandemic.

At 30 June 2020, the moratoria granted were mostly concentrated in the residual maturity time range of less than 3 months, mainly represented by legislative suspensions under the *"Cura Italia"* Decree. The portion of the portfolio of moratoria with a residual maturity of more than 3 months mainly consists of suspensions granted in application of memoranda of understanding promoted on a voluntary basis by the banking system as members of the Italian Banking Association ("ABI moratoria").

Table 22 - Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis (Template 3 - EBA/GL/2020/07)

		a	b	c	d
		Gross carrying amount		**Maximum amount of the guarantee that can be considered**	**Gross carrying amount**
			of which: forborne	***Public guarantees received***	***Inflows to non-performing exposures***
1	**Newly originated loans and advances subject to public guarantee schemes**	212,153	-	211,770	90
2	of which: Households	58,608			-
3	*of which: Collateralised by residential immovable property*	-			-
4	of which: Non-financial corporations	121,131	-	120,773	90
5	*of which: Small and Medium-sized Enterprises*	-			-

6	*of which: Collateralised by commercial immovable property*	-		-

Source: ECB COVID-19 reporting package - COVID-19 Moratoria and State Guarantees template (EBA)

With respect to new loans and advances subject to public guarantee schemes, the Group immediately activated the possibility for its customers to request new loans backed by the financial support of the home country Government or other Public Administration entity, or in any case backed by disbursements of public funds provided to mitigate the economic effects of the health emergency.

With particular reference to loans granted to Italian customers, as required by the "Liquidity Decree” of 8 April 2020, public guarantees or counter-guarantees are mainly issued by the Central Guarantee Fund for SMEs (managed by Mediocredito Centrale), by ISMEA (for loans to the agricultural sector) and from SACE (for loans to large companies with an international vocation) and are substantially applicable to all economic sectors. The guarantee scheme extends to the entire maturity of a loan which usually lasts up to 6 years.

The public guarantee coverage level is 100% for loans amounting up to Euro 30 thousand. For loans totalling over Euro 30 thousand, the public guarantee – issued by the Central Guarantee Fund or by ISMEA – is equal to 90% of a loan amount for credit agreements aimed at granting fresh liquidity to the obligors and 80% for outstanding debt consolidation arrangements with a minimum amount of fresh liquidity of not less than 10-25% of the consolidated debt. Depending on the size of the company, SACE guarantee scheme ranges between 70% and 90% of the loan requested.

At 30 June 2020, new loans and advances subject to public guarantee schemes disbursed by the Group amounted to a total of Euro 212 million, of which Euro 121 million to Non-financial corporations and the remaining to Households; they are mostly represented by loans of up to a maximum of Euro 30 thousand. Almost all of the disbursements made were performing exposures at the reference date.

Section 7 - Credit risk: information on the portfolios subject to the IRB method (art. 452 CRR)

Qualitative information

ECB authorisation and roll-out plan for internal models

On 27 May 2019, the European Central Bank authorised the Banca Popolare di Sondrio Group to adopt its internal models for the purpose of measuring the capital requirements for credit risk (Advanced IRB Approach - AIRB) relating to "Corporate" and "Retail" regulatory portfolios, with effects starting from the supervisory reporting at 30 June 2019.

The initial model validation scope includes exclusively the Parent Company Banca Popolare di Sondrio Scpa. The Subsidiaries Factorit Spa and Banca Popolare di Sondrio (SUISSE) SA are included in a multi-year roll-out plan for internal models, which also envisages the extension of advanced metrics for risk exposures comprised in the "Institutions" regulatory portfolio. The subsidiaries Sinergia Seconda Srl and Banca della Nuova Terra Spa, on the other hand, are not included in the roll-out plan and, subject to future reconsideration, will continue to use the Standardised Approach on a permanent basis (known as "PPU", Permanent Partial Use perimeter).

More specifically, the Group has been authorised by ECB to use its own internal models to estimate the following risk parameters:

- PD (Probability of Default), the probability that a borrower will not be able to meet his credit commitments;
- LGD (Loss Given Default), the estimated loss rate associated with a position at the time of default of a borrower;
- EAD (Exposure at Default), an estimate of a borrower's expected credit exposure at the time of default[5].

General structure, uses and control/review of the internal rating system

Structure of the rating models

The models used for the calculation of PD are differentiated according to the risk segment to which the counterparty belongs, as well as the phase of the credit process in which they are applied, i.e. at the time of the request for a loan ("acceptance model") or during its subsequent monitoring ("internal behaviour model").

[5] The authorisation received by the Supervisory Authority only concerned the EAD model for "Retail" regulatory portfolio. The development of a similar model for "Corporate" counterparties will be included in the multi-year roll-out plan.

The associated internal rating is primarily determined through an integrated statistical model structured in modules, which rely on data from multiple sources (Internal and External Performance, Qualitative Information, Financial Statements and Standard Models). The rating obtained is subject to automatic downgrades and, where relevant, specific adjustments that depend on the economic sector to which each borrower belongs.

In the application of the model, the rating is assigned at counterparty level, also taking into account - but only for "Corporate" customers of any economic or legal ties between components of a same corporate group that could influence it. In this way, it is possible to discriminate the creditworthiness of customers based on 13 rating classes, differentiated by risk segment.

The rating automatically assigned by the system is subject to expert "validation" by the branch network at least once a year; failure to do this will lead to rating expiry, which is activated also in cases where the rating is no longer representative of the counterparty's actual risk profile or signals of deterioration in the credit quality should be observed(according to a specific set of automatic triggers for early expiry).

For "Corporate" segments, a derogation from the rating assigned by the system (a so-called "override") is also possible, but only in the event that internally regulated specific conditions are met and subject to a maximum limit of upgrades. Requests for a rating override made by the competent structures are assessed centrally by a dedicated rating desk unit operating at the Parent Company's Risk Control Department, which, after examination of the proposals, is entitled to accept, change or reject them.

The LGD calculation models are estimated starting from the discounted cash flows originated by the credit recovery activities carried out by the bank on its past non-performing exposures ("workout LGD approach"), from which the "LGS" component[6] - relating to the loss rate of non-performing positions - is then derived. For exposures other than bad loans ("sofferenze"), an adjustment factor, known as the "danger rate", is applied with the aim of quantifying the probability that a counterparty might shift to bad loans and, with it, the potential evolution of its exposure in the various stages of credit deterioration that precede a legal action to recover the impaired loan. This adjustment factor is differently derived depending on the administrative status in which each credit position is classified, distinguishing between performing, past due and unlikely-to-pay loans.

The LGD parameter is differently estimated according to the characteristics of the counterparty, the type of product offered and the possible presence of collaterals supporting the credit exposures. The so-called "downturn" component is subject to a dedicated estimation procedure, which incorporates the recessive effects of the business cycle, as well as an additional prudential adjustment applied to non-performing positions which consider the length of time they have been classified in a default state. Specific components of the model add further adjustments to account for the probability that a partial write-off ("saldo e stralcio") on doubtful loans will occur to recover whatever possible and avoid litigation or a claw-back action is taken on bad loans.

The models for calculating the EAD provide for estimates of so-called "credit conversion factors" (CCF) to be applied to loan positions with undrawn margins[7] compared with the credit facility

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6 Acronym of "Loss Given Sofferenza"

7 "Undrawn margin" means the positive difference between the amount of the credit facility granted and the drawn portion of the credit line at each reference date.

originally granted to the customer in order to determine the actual use at the time of default. A corrective factor is also estimated to account for the expected exposure at the time of default for credit positions which are already overdrawn (so-called "K Factor").

The rating system is subject to regular audit and internal validation to guarantee through independent analyses the reliability and performance of the risk parameter estimation models, as well as compliance with the regulatory requirements time-to-time applicable.

Comparison between internal and ECAI ratings

The 13 internal rating classes related to performing counterparties are also aggregated, for management purposes, into 6 buckets of creditworthiness (Excellent, Good, Medium, Uncertain, Bad, Very Bad) and 3 risk categories (Low Risk, Medium Risk, High Risk).

The following table shows a reconciliation with the ECAI ratings - taking as a point of reference the risk classification adopted by Moody's for the "Corporate" models and the "Small Business"[8] segment in the "Retail" sector (where the reconciliation is not clear, a range of values is given).

Risk	Creditworthiness	Corporate	Retail – Small Businesses
Low	*Excellent*	Investment grade	Investment grade
	Good	Investment grade	Investment / Speculative grade
Medium	*Medium*	Speculative grade	Speculative grade
High	*Uncertain*	Speculative grade	Speculative grade
	Bad	Speculative grade	Speculative grade
	Very Bad	Speculative grade	Speculative grade

Uses of the rating system

The internal rating system represents a fundamental element of the bank's credit processes and procedures. It is fully integrated with them in accordance with regulatory requirements. IRB-related risk metrics are specifically used in the following areas:

- Granting of credit and determination of decision-making powers
- Credit monitoring
- Asset quality targets
- Management and branch network reporting
- Risk-adjusted pricing
- ICAAP and Risk Appetite Framework (RAF)
- Credit policies

8 For details on the management segmentation of exposures, please refer to the following paragraph entitled "Risk Segmentation".

- Impairment.

Granting of credit and determination of the decision-making powers

Rating systems are key elements of credit analysis in the preliminary investigation of new loan applications and in the mechanism for establishing decision-making powers in matters of credit disbursement and renewal, as the competent decision-making body is, inter alia, identified according to the risk profiles of the transaction to be resolved, of the borrower and any counterparties connected to it (and related exposures), involving the use of internal parameters.

These risk factors are also assessed upon the renewal/revision of outstanding loans, allowing for automatic revision in the presence of specific solvency criteria, including maximum thresholds for the counterparty's probability of default, differentiated by risk segment.

Credit monitoring

The credit monitoring process includes an automatic predictive "early warning" system designed to detect as timely as possible potentially problematic counterparties through a set of events or indicators acting as symptoms of difficulty in order to calibrate the organisational effort in the management of anomalous positions by addressing them within dedicated "monitoring paths", differentiated by level of risk intercepted and customer segment, and, ultimately, allowing rapid and effective intervention by the managers (where necessary).

The monitoring system is based on several indicators that act as signals of a potential deterioration in credit quality of the positions; these include changes in internal rating classes assigned to individual counterparties, as well as the existence of overdrawn past due situations, the occurrence of external prejudicial events and any credit anomalies in the Central Credit Register ("Centrale dei Rischi" database) regarding the positions under observation.

Asset quality targets

The bank adopts a system for the assignment of specific objectives to the sales network in terms of the quality of the credit disbursed. These targets, set at budgetary level for each area and branch, are aimed at minimizing the portfolio exposure in the worst rating classes in order to prevent or even mitigate the risks for the credit positions to drift to a non-performing status.

Internal reporting

On a periodic basis, the bank prepares management-level reports on evolutionary aspects of credit portfolio composition and associated risks, lending dynamics and coverage of exposures. This reporting, structured in accordance with internal risk measurement methodologies, constitutes a valuable informative support to top management and other competent corporate bodies for the related assessments and decisions in the matter. Two reporting tools for risk-based analyses around the composition of the loan portfolio, updated on a monthly basis, are also addressed to the commercial network.

Risk-adjusted pricing

To support the determination of the price levels of loans that adequately compensate the risks associated with each transaction, the bank has developed an Economic Value Added (EVA) calculation tool which is integrated within the electronic credit line system.

This measure of "value creation" can be calculated by operators, both *ex ante* (i.e. during preliminary investigation of the loan application, prior to disbursement) and *ex post* (i.e. to monitor the ongoing risk-return profile of the credit exposures), it is based on the amount of the "expected credit loss", quantified for each position based on the risk parameters produced by the rating system, aimed at facilitating the formation of spreads on risk-related loans.

ICAAP and Risk Appetite Framework (RAF)

Within the ICAAP (Internal Capital Adequacy Assessment Process), the amount of capital needs related to risks to which the Groups' credit portfolio is exposed under current and forward-looking scenarios is assessed to evaluate capital resilience, even under stressed conditions. In assessing the impacts on the Group's equity position according to the future prospects expected for operations and in the event of unfavourable economic performance, such assessments assume the use of credit risk factors resulting from internal models for the purpose of quantifying the capital absorbed by the credit risk. For stress tests, these parameters, relating to "Retail" and "Corporate" portfolios, are derived from regulatory parameters calculated through the application of so-called "satellite models", which provide values for credit risk factors that are conditioned by the macro-economic scenarios defined by the bank.

The risk-based parameters estimated with internal rating models are also integrated in the RAF structure through the periodic quantification of key metrics expressing the credit risk appetite of the bank and the Banking Group as a whole.

Credit policies

The risk parameters estimated by the system also play an important role in the definition of credit policies, expressed in the form of guidelines and operational guidelines for the commercial network, with a view to configuring the optimal credit portfolio in terms of customer segments, economic sectors and geographical areas.

These translate into qualitative-quantitative objectives in terms of composition of the credit portfolio aimed at optimising the risk-return profile, limiting the weight of riskier exposures and favouring credit reallocation to segments with lower risks and higher expected profitability; the latter are also determined on the basis of metrics estimated by the internal rating system and the measure of capital absorption calculated with IRB method.

Impairment

The lending portfolio is periodically subjected to impairment adjustments by applying the accounting concept of "Expected Credit Losses" (ECL), with the aim of identifying any losses in the economic value of the positions. The type of assessment, based on the concept of "expected credit loss", can be of a collective or analytical nature, depending on the classification status of the debtor and the amount of the exposure.

The process of determining impairment provisions by means of a collective assessment relates to credit exposures classified as performing, past due and/or overdrawn and impaired or automatic unlikely-to-pay loans[9] recently retransferred to that status and - in accordance with IFRS 9 - requires methods for calculating expected losses over the 12 months following the relevant accounting date (for Stage 1 positions) or throughout the entire residual lifetime of the exposures (for Stage 2 positions). Analytical assessment, on the other hand, is carried out for unlikely-to-pay or bad loans, unless they have a negligible amount: in fact, for the latter, standard write-down coefficients based on specific clusterisations are applied[10].

In the impairment process, IRB-based parameters (PD, LGD, EAD) are appropriately adjusted with the intention of satisfying the requirements indicated by the accounting principles, specifically modelling the "point-in-time", "forward-looking" and "scenario-dependent" components; in particular, the parameters of PD and Danger Rate for LGD are recalibrated in a short-term perspective. The parameters for the evolution of margins and overdrawn exposures (EAD) are applied from a management perspective - in this sense, a specific model is also available for the "Corporate" segments, not based on the validated AIRB solution - net of regulatory floors. To this end, specific econometric models ("satellite models") have been set up to define the possible evolutionary dynamics of the customers' credit risk factors in correspondence with different macro-economic scenarios.

Controls and review of the rating system

The degree of reliability of the internal models adopted by the Group is monitored periodically through qualitative and quantitative controls aimed at verifying the performance and maintenance of the original methodological features, with particular regard to the aspects of calibration and stability of the models and their dynamic characteristics. These checks are conducted quarterly or more frequently, where necessary, within the Risk Control Service by the Credit Model Development Office.

The Validation Office - an organisational unit that is independent of the business functions involved in the model development and credit granting processes - is responsible for performing periodic ratification checks (second level controls). In particular, the rating system is globally subject to regular validation processes, consisting of a formalised set of activities, tools and procedures aimed at continuously testing the reliability of the results produced by the system, while maintaining its compliance with regulatory requirements, the operational needs of the company and the developments in reference markets. These evidences are represented in a specific annual report presented to the Board of Directors.

9 Automatic classification to unlikely-to-pay status, used by the bank for management purposes and applied to customers belonging to the "Past due and/or non-performing overdrawn" status for which the objective conditions of irregularity cease to exist as the beneficiary of a tolerance measure ("forbearance") for which the specific requirements regarding their return to performing status (with respect to the year of the "cure period" from application of the measure) are not complied with.

10 In this context, a minimum quantitative threshold is established for identifying those credit exposures which, by their nature, are subjected to purely automatic valuation processes.

The Internal Audit Department, as an independent audit function, also reviews internal rating systems at least once a year, ensuring that they function properly (third-level controls), in compliance with the provisions of Regulation (EU) 575/2013 ("CRR"). Specifically, the Department assesses the functionality of the overall control framework over the rating system by verifying the adequacy and completeness of the activities carried out by the competent functions and the consistency and merits of the ratification results, as well as the ongoing compliance of the internal rating-based (IRB) system with applicable regulatory requirements. The results of the audits carried out are summarized in a specific report submitted annually to the Board of Directors.

Lastly, the rating systems are managed through a specific organizational process for the evaluation, classification and internal approval of the changes made, differentiated in relation to the relevance of the changes envisaged, which provides for notification obligations or requests for approval to the Supervisory Authority, in accordance with the regulatory requirements set by Regulation (EU). 529/2014.

Description of the rating system

Risk segmentation

The internal segmentation process (so-called "management" or "risk" segmentation) allows for a disaggregated view of all borrowers exposed to credit risk by macro-portfolios.

The overall bank's credit portfolio is divided into 16 management classes that combine homogeneous counterparties in terms of characteristics, needs, complexity and amount of credit lines granted, through a deterministic process based on four dimensions: Sector of Economic Activity (code SAE), exposure size, individual turnover and legal form.

The following is a breakdown of the risk segments into which the entire lending portfolio is classified for management purposes; these are in turn grouped by three macro-categories ("Retail", "Corporate" and "Other segments").

Group	Internal segment
Retail	Individuals
	Small Economic Operators
	Small Businesses
	Retail non-profit institutions
Corporate	SMEs
	Corporate non-profit institutions
	Large enterprises
	Public enterprises
	Non-resident non-financial corporations
Other segments	Other intermediaries and financial businesses
	Banks and stockbrokers
	Governments
	Public administrations (not part of Governments)
	Other[11]

[11] This aggregate includes three residual classes.

The regulatory segmentation of exposures adopted for IRB purposes is linked to internal segmentation according to specific correspondences, summarised in the following table.

Regulatory segment	**Internal segment**
Administrations and central banks Multilateral development banks weighted at 0% International organisations weighted at 0%	Governments
Public sector bodies Local authorities	Public administrations (not part of Governments)
Supervised intermediaries	Other intermediaries and financial businesses Banks and stockbrokers
Individuals	Individuals
Small and medium-sized retail enterprises	Small Economic Operators Small Businesses Retail non-profit institutions
Small and medium-sized corporate enterprises	SMEs
Other corporate businesses	Large enterprises Public enterprises Non-resident non-financial corporations Corporate non-profit institutions

PD models

The internal models for assessing the riskiness of each counterparty, expressed by the respective credit rating, are defined specifically for the various management segments (or homogeneous groups of them) according to a modular approach.

The PD models are composed of elementary modules, distinguished by information source, integrated statistically or by means of correction mechanisms ("notching") with respect to previously identified summary values. The differentiation in the number and method of integration of the rating modules is a function of both the segment to which the single counterparty belongs and the phase of the credit process in which they are applied, namely the initial request for financing ("acceptance model") or its continuous monitoring ("internal behaviour model").

The "internal behaviour model" is based primarily on a series of explanatory variables from different information sources (Internal Performance, External Performance, Qualitative Questionnaire, Financial Statements and Standard Models). Other information is added to these, coming from internal databases rather than from an external Credit Bureau or relating to known "prejudicial events", leading to an automatic deterioration mechanism. Further adjustments are foreseen depending on the specific sector of the counterparty or if it belongs to a specific legal and/or economic corporate group.

The "acceptance model"[12] follows the general scheme for determining the counterparty rating envisaged in the "internal behavioural model" calculation, except for the absence of the "Internal

[12] Specific for "Retail" counterparties. For "Corporate" counterparties, the performance models, net of the "Internal performance" module, are also taken during the initial acceptance phase and applied in full during the credit review/renewal phase.

Performance" module and a different way of integrating components related to information acquired from external sources. The derived PD values are then recalibrated to align the average probability of default of the estimate sample to the population's reference default rate (acting as an "anchor point"). The PD parameters, broken-down into specific ranges of values, therefore determine the internal rating classes assigned to borrowers.

The rating scales are specific for homogeneous cluster segments and consist of 13 classes for performing positions and 1 class for "default" positions (i.e. credit exposures in a Bad Loans, Unlikely-to-pay or Past Due administrative status).

Rating assignment process

The process of assigning the rating to the credit counterparties included in the segments covered by internal models is divided into a series of activities.

The first involves the credit officer collecting a series of information of a quantitative or qualitative nature (such as the financial statements, where available, and the qualitative questionnaire to integrate the statistical elements of the models). This information is needed to trigger the automatic rating calculation; they are accompanied by any further indications of a behavioural or trend nature (internal and external). The rating thus determined by the system can only be changed for "Corporate" counterparties via an "expert" intervention by the operators through an "override" mechanism, which requires confirmation or refusal by the central rating desk unit before being applied.

The internal rating is assigned on ad hoc basis to borrowers when new loans are granted or existing ones are renewed, and is re-determined on a monthly basis with updated information so as to ensure full alignment with the current risk level of the customers. The monthly recalculation takes place in automatic mode, with reference to the entire population of interest, in order to monitor the evolution of the risk profile of each counterparty and of the loan portfolio as a whole, appropriately adjusting the rating if objective elements occur which imply changes in customers' creditworthiness. Rating assignment is also prudentially supplemented by automatic worsening mechanisms in the event that negative elements not processed by the models are detected.

As foreseen by the supervisory regulations, the rating automatically assigned by the system is what is known as a "validated rating", which can be used in various operating contexts, but this entails an expert-based assessment before it is used. For each new loan application or in case of review/renewal of an existing credit, the "validation" by the competent manager takes place by accepting the rating elaborated by the system; alternatively, when allowed, the manager can propose an exception to the risk assigned.

The rating class resulting from the monthly recalculation by the system does not replace the "validated rating" in force (which instead continues to be used for the purpose of quantifying the RWAs based on the AIRB approach), except in the case where the discrepancy between the two ratings - "calculated" and "validated" - is higher than a specific number of classes; in this situation, the "validated rating" lapses as it is no longer fully representative of the borrower's riskiness.

Further causes for the cancellation of the rating are envisaged: first and foremost, its natural expiry 12 months after its previous assignment. Unless an automatic rating update is provided, branch operators are promptly notified of the expiry of the ratings assigned to the borrowers they manage, so that they can carry out a new "rating validation".

LGD models

LGD models, referring to the regulatory "Corporate" and "Retail" portfolios, are divided into two sub-categories - "Companies" and "Households" - based on different logic that characterise the credit recovery process in the event of an insolvency (e.g. types of administrative procedures performed). The following table illustrates how the management segments covered the rating system are connected to each of the two LGD models developed by the Bank.

Model	Internal segment
Companies	Small Businesses
	Retail non-profit institutions
	SMEs
	Corporate non-profit institutions
	Large enterprises
	Non-resident non-financial corporations
	Public enterprises
Households	Individuals
	Small Economic Operators

LGD models are developed following a "structured" approach that involves the identification of different modules making up the single model, each parameterised independently and then included in the final LGD calculation. This approach allows the bank to directly isolate the link between the individual modules and the risk drivers that characterise them, preserving their consistency with the different stages of the recovery of non-performing loans in a state of pre-litigation and litigation. In this sense, the approach is configured as being attributable to two macro-phases, based on distinct estimation samples:

- a LGS ("Loss Given Sofferenza") component, relating to the estimate of possible recoveries and losses that might occur if a credit exposure drifts to bad loans ("sofferenze");
- a Danger Rate component, a coefficient that, for exposures other than bad loans, estimates the probability to be reclassified as bad loans,[13] as well as the consequent evolution of the exposure following the reclassification.

To determine the final LGD parameter to be applied, other model components are also available, such as the costs - both direct and indirect - linked to credit recovery processes and the potential losses associated with the positions subject to partial write-off ("saldo e stralcio").

[13] This component only detects counterparties that are not in a in default; for borrowers who are already classified as non-performing, the danger rate can only be 1.

Lastly, in order for the LGD values to duly take into account the typical adverse effects of an economic slowdown, an additional "downturn" factor is estimated.

The calculation of the LGD, both for regulatory and management purposes, is updated monthly.

No override mechanisms are allowed for the calculated LGD values.

EAD models

The EAD models relating to "Retail" counterparties, authorised for regulatory purposes by the Supervisory Authority, have been estimated on data samples for the segments used for management purposes: "Individuals", "Small Economic Operators", "Small Businesses" and "Non-Profit Institutions (Retail)" , whose temporal depth is representative of different phases of the economic cycle.

The framework for determining the internal EAD parameter involves estimating two distinct components, each applicable to a specific situation:

- *CCF (Credit Conversion Factor)*, referring to exposures that have available margins with respect to the amount of the credit lines granted to the borrowers in order to estimate their actual withdrawal at the time of default;
- *K Factor*, which quantifies the potential evolution of credit exposures at the time of default on already overdue loans.

Among the relevant factors considered in the EAD models, there are data relating to each counterparty and existing credit products.

From November 2019, only for accounting purposes related to the calculation of loan loss impairment and not subject to validation for AIRB purposes, EAD models for "Corporate" counterparties are also in place; these are estimated on samples based on the customer segments used for management purposes, namely "SMEs", "Large Enterprises", "Public Enterprises", "Non-profit institutions (Corporate)" and "Non-resident non-financial corporations". Similarly to the EAD models for the "Retail" segment, both CCF and Factor K components are envisaged. On the other hand, even though the key factors considered in these models are based on counterparty types and product features as well, they stand out as being model-specific, both during the model selection process and finally when included in the group of the explanatory variables for the Corporate EAD values.

The EAD calculation is updated monthly, both for regulatory and management purposes.

Also in this case, similarly to the LGD parameters, no override mechanisms are allowed for the EAD values calculated by the system.

Quantitative information

Exposure value by regulatory class

Table 23 - Amounts of Group exposures by regulatory portfolio (Advanced IRB Approach)

	30/06/2020					
	Nominal exposure				EAD	Credit risk adjust-ments
Regulatory portfolio	***Total***	***of which: exposures in the financial statements subject to credit risk***	***of which: off-balance sheet exposures subject to credit risk***	***of which: exposures subject to counterparty credit risk***		
Exposures to or guaranteed by Corporates	*23,801,213*	*11,488,297*	*12,290,124*	*22,792*	*13,456,640*	*951,322*
- Corporates: SMEs	10,995,573	6,483,146	4,503,190	9,237	7,086,178	591,075
- Corporates: Other businesses	12,805,639	5,005,151	7,786,934	13,555	6,370,462	360,247
Retail exposures	*11,508,555*	*8,329,904*	*3,177,895*	*757*	*10,250,726*	*631,366*
- Retail - Secured by real estate: SMEs	1,730,008	1,687,361	42,647	-	1,718,962	80,983
- Retail - Secured by real estate: individuals	3,021,432	2,991,525	29,907	-	3,021,687	80,627
- Other Retail: SMEs	5,367,913	2,795,038	2,572,519	356	4,116,212	344,841
- Other Retail: individuals	1,170,798	782,804	387,593	401	1,124,226	123,049
- Other assets	218,405	73,176	145,229	-	269,640	1,866
TOTAL CREDIT AND COUNTERPARTY RISK (ADVANCED IRB METHOD)	**35,309,768**	**19,818,200**	**15,468,018**	**23,549**	**23,707,366**	**1,582,688**

Source: COREP - Credit and counterparty credit risks and free deliveries - IRB Approach to capital requirements: Model C 08.01

NOTE: The amounts shown in the table do not include exposures which, even if they are formally part of the first AIRB validation scope, still fall within the prudential treatment envisaged by the Standardised Approach due to the absence of internally estimated risk parameters (PD or LGD). At 30 June 2020, they represent approximately 4.5% of the total exposures falling within the AIRB scope.

Key:

- *Nominal exposure*: the sum of: a) amount of the original on-balance sheet exposures calculated on positions subject to credit risk, gross of any loan adjustments and the effect of recognised credit risk mitigation techniques (CRM); b) amount of off-balance sheet exposures subject to credit risk, calculated gross of any credit risk adjustments, credit conversion factors (CCF) and the effect of CRM techniques; c) original amount of exposures relating to transactions subject to counterparty risk (e.g. derivative transactions, securities financing transactions, long-term settlement transactions)
- *EAD*: amount of the exposure in accordance with articles 166 to 168 and article 230, paragraph 1, of the CRR, calculated net of specific credit risk adjustments and after the application of credit conversion factors (CCF)

Distribution of exposures by regulatory class and PD class

Table 24 - Distribution of Group exposures by regulatory portfolio and PD class (Advanced IRB Approach) - Exposures to or guaranteed by Corporates

				30/06/2020		
Regulatory portfolio	***PD classes***	***EAD***	***Average weighting factor (%)***	***RWA***	***PD weighted average (%)***	***LGD weighted average (%)***
Corporate exposures						
- Corporates: SMEs	from 0.00 to <0.15	494,529	13.17%	65,124	0.12%	26.95%
	from 0.15 to <0.25	646,900	15.76%	101,967	0.16%	26.15%
	from 0.25 to <0.50	1,494,545	25.17%	376,206	0.40%	24.21%
	from 0.50 to <0.75	15,278	31.38%	4,794	0.73%	25.00%
	from 0.75 to <2.50	1,712,129	38.10%	652,399	1.39%	22.10%
	from 2.50 to <10.00	1,087,086	45.69%	496,720	4.74%	20.02%
	from 10.00 to ≤100.00	1,635,712	41.79%	683,544	29.29%	19.33%
	Total	***7,086,178***	***33.60%***	***2,380,756***	***3.95%***	***22.85%***
- Corporates: Other businesses	from 0.00 to <0.15	494,258	19.56%	96,661	0.12%	29.28%
	from 0.15 to <0.25	933,040	24.02%	224,128	0.16%	28.49%
	from 0.25 to <0.50	2,278,553	35.11%	800,064	0.37%	27.93%
	from 0.50 to <0.75	844	48.88%	412	0.73%	18.77%
	from 0.75 to <2.50	1,303,309	63.67%	829,767	1.41%	29.43%
	from 2.50 to <10.00	724,719	81.01%	587,092	4.07%	26.36%
	from 10.00 to ≤100.00	635,740	49.47%	314,528	29.30%	23.26%
	Total	***6,370,462***	***44.78%***	***2,852,653***	***1.69%***	***28.16%***

Source: COREP - Credit and counterparty credit risks and free deliveries - IRB Approach to capital requirements (Breakdown of exposures by obligor grades): Model C 08.02

Table 25 - Distribution of Group exposures by regulatory portfolio and PD class (Advanced IRB Approach) - Retail exposures

Regulatory portfolio	*PD classes*	*EAD*	*Average weighting factor (%)*	*RWA*	*PD weighted average (%)*	*LGD weighted average (%)*	*Average CCF (%)*
Retail exposures							
- Exposures secured by real estate	from 0.00 to <0.15	69,687	2.22%	1,548	0.10%	10.85%	88.54%
	from 0.15 to <0.25	248,169	2.76%	6,839	0.18%	8.69%	87.85%
	from 0.25 to <0.50	256,749	5.10%	13,101	0.32%	11.01%	74.65%
	from 0.50 to <0.75	842,036	6.85%	57,667	0.57%	7.74%	96.10%
	from 0.75 to <2.50	1,259,854	12.65%	159,318	1.33%	8.71%	89.27%
	from 2.50 to <10.00	769,711	26.92%	207,198	4.65%	9.13%	88.88%
	from 10.00 to ≤100.00	1,294,443	37.11%	480,307	30.25%	10.55%	59.11%
	Total	***4,740,649***	***19.53%***	***925,977***	***9.20%***	***11.44%***	***86.03%***
- Other retail exposures	from 0.00 to <0.15	399,700	6.22%	24,864	0.11%	29.46%	67.11%
	from 0.15 to <0.25	386,341	5.91%	22,815	0.17%	19.57%	72.40%
	from 0.25 to <0.50	530,228	12.73%	67,523	0.35%	26.89%	59.86%
	from 0.50 to <0.75	445,116	13.36%	59,467	0.62%	17.87%	76.37%
	from 0.75 to <2.50	1,138,416	19.99%	227,601	1.48%	20.45%	66.07%
	from 2.50 to <10.00	857,328	23.08%	197,894	4.90%	18.70%	64.56%
	from 10.00 to ≤100.00	1,483,308	28.36%	420,671	30.27%	19.17%	60.53%
	Total	***5,240,438***	***19.48%***	***1,020,835***	***6.96%***	***23.58%***	***65.86%***
- Other assets	from 0.00 to <0.15	53,961	0.65%	350	0.06%	15.43%	125.98%
	from 0.15 to <0.25	34,534	1.53%	529	0.17%	15.46%	144.82%
	from 0.25 to <0.50	-	-	-	-	-	-
	from 0.50 to <0.75	85,342	3.93%	3,355	0.55%	15.49%	191.57%
	from 0.75 to <2.50	40,269	7.51%	3,025	1.27%	15.51%	228.08%
	from 2.50 to <10.00	27,795	17.47%	4,857	4.20%	15.51%	317.42%
	from 10.00 to ≤100.00	27,738	37.90%	10,514	25.66%	15.49%	137.87%
	Total	***269,640***	***8.39%***	***22,629***	***3.23%***	***15.48%***	***173.85%***

Source: COREP - Credit and counterparty credit risks and free deliveries - IRB Approach to capital requirements (Breakdown of exposures by obligor grades): Model C 08.02

NOTE: The PD weighted average values (EAD) are calculated only on performing positions. The average CCF amounts are calculated by comparing the off-balance sheet exposure after application of the credit conversion factors with the total off-balance sheet exposures before application of these factors

Actual credit risk adjustments

The table below shows the value adjustments on loans recorded in the consolidated income statement at 30 June 2020 with reference to the exposures falling within the regulatory portfolios to which the Advanced IRB Approach is applied.

Table 26 - Credit risk adjustments by regulatory portfolio (Advanced IRB Approach)

	Regulatory portfolio	Loan loss adjustments
Performing	*Exposures to or guaranteed by Corporates*	*56,002*
	- Corporates: SMEs	36,595
	- Corporates: Other businesses	19,407
	Retail exposures	*53,161*
	- Retail - Secured by real estate: SMEs	13,123
	- Retail - Secured by real estate: individuals	12,688
	- Other Retail: SMEs	24,066
	- Other Retail: individuals	2,552
	- Other assets	731
Total Performing		**109,163**
Default	*Exposures to or guaranteed by Corporates*	*895,320*
	- Corporates: SMEs	554,480
	- Corporates: Other businesses	340,840
	Retail exposures	*578,205*
	- Retail - Secured by real estate: SMEs	67,860
	- Retail - Secured by real estate: individuals	67,939
	- Other Retail: SMEs	320,774
	- Other Retail: individuals	120,497
	- Other assets	1,135
Total Default		**1,473,525**
TOTAL CREDIT RISK ADJUSTMENTS		**1,582,688**

Source: COREP - Credit and counterparty credit risks and free deliveries - IRB Approach to capital requirements (Breakdown of exposures by obligor grades): Model C 08.02

Comparison between PD and default rates

As part of the maintenance and monitoring of the rating models, an annual test is carried out to verify how the point-in-time decay rates (for the previous year) relate to the so-called "anchor point" for the calibration of each model, which represents a long-term "central tendency" (i.e. an expression of a more "through-the-cycle" perspective which, according to the prudential regulations, has to be a key feature of models recognised to be used for the IRB Approach); on the other hand, the correct calibration of the rating scales is verified in order to identify any underestimate of the risk levels underlying the PD values associated with the various classes compared with the actual default rates observed during the year.

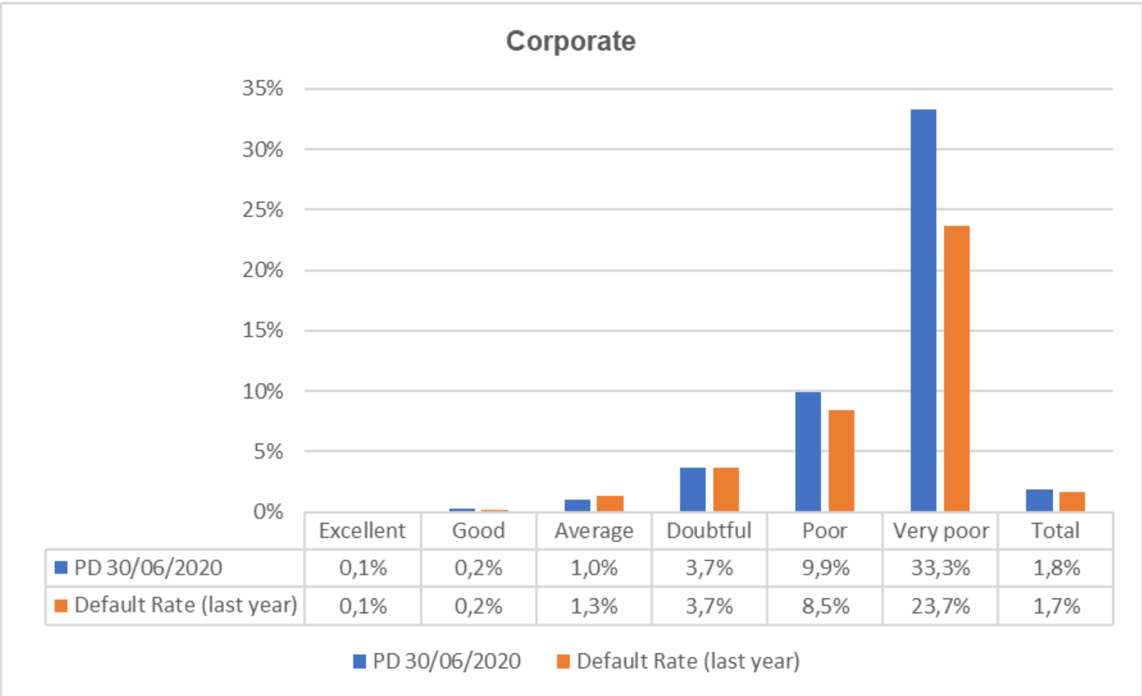
The following table shows the comparison between the long-term default rates and the default rates observed in the last year for each of the calibration segments.

Table 27 - Comparison between calibration default rates of rating models (long-term) and default rates observed in the last year by calibration segment

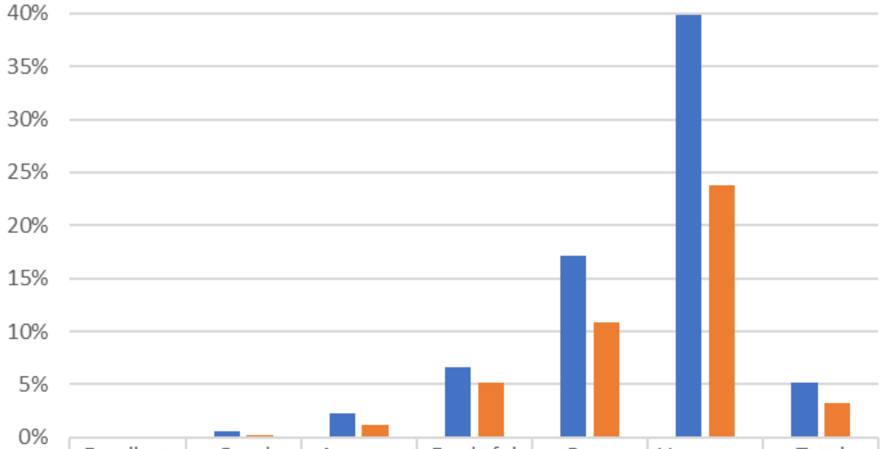
Segment	Calibration default rate (long-term)	Default rate (last year)
Corporate	4.76%	1.69%
Small Businesses	6.90%	3.23%
Small Economic Operators	5.12%	1.77%
Individuals	4.88%	1.69%

NOTE: The long-term average default rates refer to 2007-2016 annual cohorts for the following segments: "Small Businesses", "Small Economic Operators" and "Individuals", and to 2009-2016 annual cohorts for the "Corporate" segment. The average default rates observed over the last year refer to the default rates of performing positions with a rating at 30/06/2019 and which defaulted in the following 12 months.

The following graphs show the comparison between the values of the average default rates observed in the last year and the associated average values of PD at the beginning of the annual observation period, by calibration segment and rating category (Excellent, Good, Average, Doubtful, Poor, Very Poor) assigned to the debtors according to their rating class.



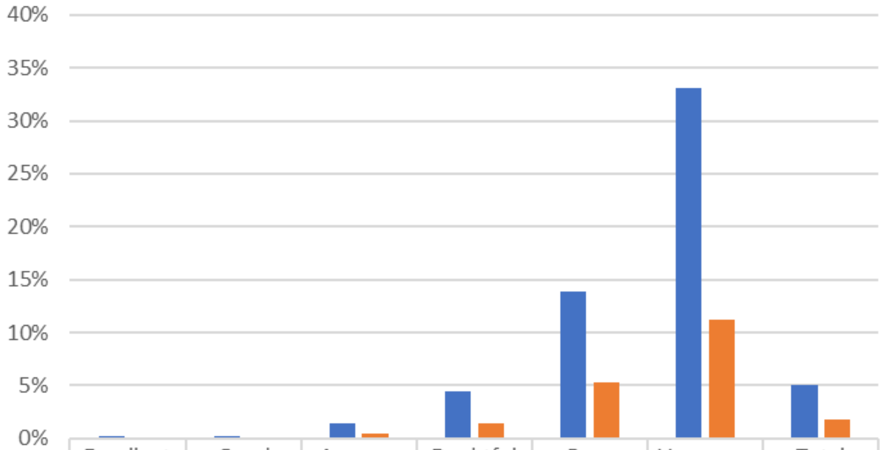
Small Business



	Excellent	Good	Average	Doubtful	Poor	Very poor	Total
PD 30/06/2020	0,1%	0,5%	2,2%	6,6%	17,2%	39,8%	5,2%
Default Rate (last year)	0,1%	0,3%	1,2%	5,2%	10,9%	23,7%	3,2%

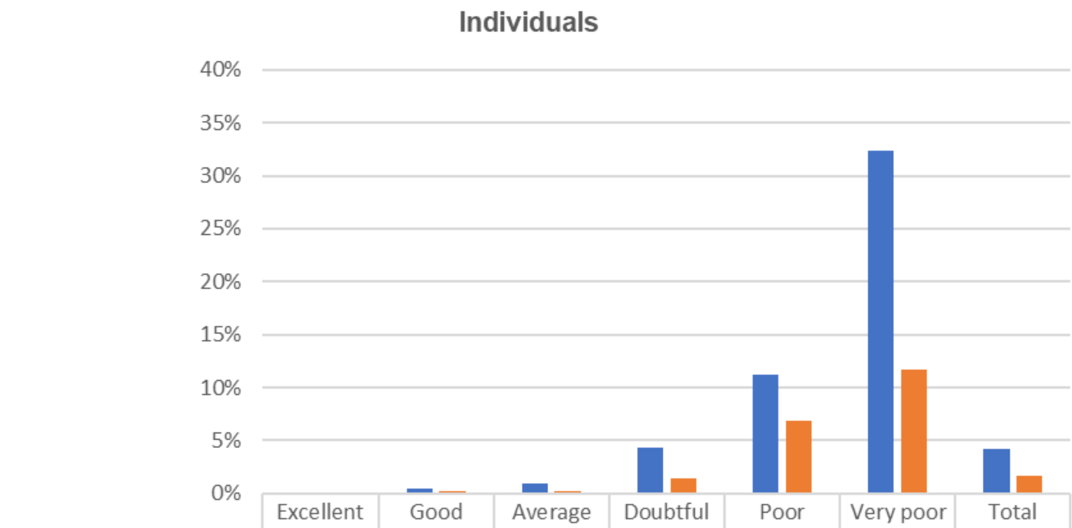
■ PD 30/06/2020 ■ Default Rate (last year)

Small Economic Operators



	Excellent	Good	Average	Doubtful	Poor	Very poor	Total
PD 30/06/2020	0,2%	0,2%	1,4%	4,5%	13,9%	33,1%	5,1%
Default Rate (last year)	0,0%	0,1%	0,5%	1,5%	5,3%	11,2%	1,8%

■ PD 30/06/2020 ■ Default Rate (last year)



	Excellent	Good	Average	Doubtful	Poor	Very poor	Total
PD 30/06/2020	0,1%	0,4%	1,0%	4,3%	11,2%	32,4%	4,2%
Default Rate (last year)	0,1%	0,2%	0,3%	1,4%	6,8%	11,7%	1,7%

NOTE: Last year's average default rates shown in the graphs, estimated as the straight average weighted by the number of counterparties included in each segment and rating class, refer to the observation period July 2019 - June 2020. The annual average PDs at 30 June 2020 are simple averages by number of counterparties falling into each segment and rating class.

Section 8 - Liquidity risk (art. 435 CRR)

Qualitative information

The Group regularly monitors its exposure to liquidity risk and the adequacy of the related management and mitigation systems from a current, prospective and stressed perspective, using metrics calculated for both regulatory and internal purposes, the latter defined on the basis of operational specificities and the range of activities performed by the Group.

At an operational level, liquidity management is carried out by Group companies through dedicated business structures; in this context, the Parent Company acts as fund-raising preferential counterparty for its subsidiaries, intervening to cover part of their liquidity needs, as well as in the eventual use of liquidity surplus.

The liquidity reserves available to the Group are mainly held in Euro, to cover any financial requirements in this currency. These remain mainly constituted by bonds issued by the Italian Government, qualifying as "Level 1" assets for the calculation of the Liquidity Coverage Ratio (LCR); following a portfolio diversification policy, however, proprietary investments have been increased in other bond instruments issued by sovereign States - Spain, in particular - as well as by banks and financial companies. The Swiss subsidiary Banca Popolare di Sondrio (SUISSE), in turn, holds a bond portfolio which is mainly composed of Central Bank eligible securities, integrated by cash amounts in CHF deposited with it, aimed at counterbalancing the specific liquidity requirements.

The liquidity risks related to derivative exposures prove to be limited, given the risk strategy pursued which provides for a "back-to-back" hedging of all open positions related to transactions with customers. The risks associated with the concentration of funding sources are mitigated by maintaining a solid retail funding base, which is by definition adequately diversified; further significant sources of funding are represented by national and international private entities and companies, from which the Group has never had problems in raising money at market conditions, given its high reputation.

The Group makes use of funds granted by the European Central Bank through targeted longer-term refinancing operations (TLTRO) for a total of Euro 8.068 billion at 30 June 2020 (Euro 2.7 billion at 31 December 2019), of which Euro 1.6 billion maturing in December 2022, Euro 2.1 billion maturing in March 2023 and the remaining maturing in June 2023.

Quantitative information

The following table shows the average value of the Liquidity Coverage Ratio (LCR) of the Group and its main aggregates, in accordance with the indications contained in the EBA/GL/2017/01 "Guidelines on the disclosure requirements for the Liquidity Coverage Ratio to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) no. 575/2013".

The LCR disclosure is published in a simplified form, as the Group opted for the specific faculty recognised by the Bank of Italy when implementing the said Guidelines by issuing the 22nd update of the "Supervisory Instructions for Banks" (Circular no. 285 of 17 December 2013) dated 12 June 2018.

Table 28 - Model EU-LIQ1 - Disclosure model containing quantitative information on the LCR, which integrates article 435, paragraph 1, letter f) of Regulation (EU) 575/2013

Figures in millions of euro

		Table of weighted amounts			
	Reference quarter:	**Jun-20**	**Mar-20**	**Dec-19**	**Sep-19**
	Number of observations used in the average calculation:	12	12	12	12
21	**LIQUIDITY RESERVE**	7,962	7,729	7,625	7,485
22	**TOTAL NET CASH OUTFLOWS**	4,825	4,514	4,402	4,411
23	**LIQUIDITY COVERAGE RATIO (%)**	167%	174%	175%	172%

Source: COREP - Liquidity: Models C 76.00

NOTE: Figures are calculated as a simple (unweighted) average of the end-of-month observations over the twelve months preceding the end of each quarter

The figures reported in the above table show a convergent pattern in the average levels of the Group's LCR, which over the entire period far exceeds the minimum regulatory requirement (100%). The high quality liquid assets ("HQLA"), representing the liquidity reserves that can be computed in the numerator of the coefficient, remain predominantly made up of instruments issued by eligible sovereign entities classified in the "EHQLA" category (Level 1)[14], recognised as being of extremely high liquidity and credit quality pursuant to the Commission Delegated Regulation (EU) no. 2015/61 of 10 October 2014. Net cash outflows are determined by applying the liquidity outflow and inflow adjustment factors envisaged by the regulatory provisions to all the demand liabilities and assets or those with maturity within 30 days, so as to incorporate in the calculation of the coefficient stress effects of both a systemic and idiosyncratic nature.

More generally, throughout the reporting period, the Group's liquidity profile has proved to be broadly adequate, both over the short term ("operational liquidity") and in the longer run ("structural liquidity"), with no breaches in the internal risk limits and, where present, in the minimum regulatory levels (for LCR and NSFR indicators).

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[14] The rules for calculating the LCR split high quality liquid assets ("HQLA") into three categories, considered in decreasing order of liquidity: "Level 1" ("EHQLA"), "Level 2A" and "Level 2B". Gradually increasing prudential haircuts are applied to these categories, in addition to limits in terms of composition.

In examining the periodic reporting on the most significant risk profiles and evolutions, conscious of the values assumed by the LCR index and the other liquidity risk exposure measures being monitored, the Parent Company's Board of Directors stated, with reference to the situation at 30 June 2020, that the Group’s liquidity levels are still considered to be adequate, both in current and perspective terms, to cope with the risks assumed, and also consistent with the system of risk limits and parameters established by the Risk Appetite Framework (RAF).

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

The undersigned Maurizio Bertoletti, as Manager responsible for preparing the Company's accounting documents of Banca Popolare di Sondrio S.c.p.a., taking account of the provisions of article 154-bis, paragraph 2, of Legislative Decree 58 of 24 February 1998, certifies that the accounting information contained in this document agrees with the underlying accounting entries, records and documentation.

Sondrio, 26 August 2020

Signed: Maurizio Bertoletti

Manager responsible for preparing the
Company's accounting documents

Glossary

Securitisation
Transaction involving the transfer of asset portfolios to a special purpose vehicle and the issue by the latter of securities with varying degrees of subordination in bearing any losses incurred on the underlying assets.

Common Equity Tier 1 (CET1) ratio
Prudential capital adequacy coefficient expressed by the ratio between Common Equity Tier 1 capital (CET1) and total risk exposure amount represented by risk-weighted assets (RWAs).

Amortised cost
Accounting measurement of a financial instrument corresponding to the amount at which it is evaluated at the time of its initial recognition, net of principal repayments, increased or decreased by accumulated amortisation, and adjusted for any loss allowance or adjustment due to non-recoverability.

Credit Bureau
Database that provides updated credit information of loan applicants with the aim of evaluating their creditworthiness and reliability.

EAD – *Exposure At Default*
Expected exposure at the time of insolvency of the counterparty of a risk position.

EBA – *European Banking Authority*
Regulatory body of the European Union, based in London, established by Regulation 1093/2010/EU to replace the Committee of European Banking Supervisors (in abbreviated form, "CEBS").

ECAI – *External Credit Assessment Institutions*
External agencies providing credit assessments, recognised by the Supervisory Authorities, which are specialised in rating services to financial institutions that are allowed to use them for measuring their regulatory capital requirements for credit risk within the Standardised Approach.

Fair value
Value for which an asset could be exchanged or a liability settled in an orderly market transaction between knowledgeable and independent parties.

FVOCI – *Fair Value through Other Comprehensive Income*
Financial instrument (asset or liability) measured at fair value with changes recorded in a specific equity valuation reserve (the so-called "OCI reserve"), i.e. with an impact on comprehensive income. The cases envisaged by IFRS 9 for classification as FVOCI are: i) for instruments with contractual cash flows compatible with the SPPI Test (Solely Payments of Principal & Interests) established by the accounting standard, those that the bank allocates to a portfolio managed according to a "Held to Collect & Sell" (HTC&S) business model; ii) for variable-yield securities, those for which the bank makes an irrevocable designation called the "FVOCI option".

FVTPL – *Fair Value Through Profit or Loss*
Financial instrument (asset or liability) measured at fair value with changes recognised in the income statement. The cases envisaged in IFRS 9 for classification as FVTPL are: i) holding the instrument for trading purposes; ii) designation

at fair value recorded in the income statement ("Through Profit or Loss" or TPL) at the time of initial recognition, iii) mandatory measurement at fair value for those instruments that have contractual cash flows that are incompatible with other accounting classifications envisaged by the standard, or in the event of failure to pass the SPPI Test.

GACS

Acronym for “GAranzia Cartolarizzazione Sofferenze”, i.e. Collateral for Securitisation of Non-Performing Loans. Italian state guarantee scheme to facilitate the disposal of non-performing bank loans through securitisation transactions. Admission to the GACS, granted by decree of the Ministry of Economy and Finance, is envisaged only for tranches of senior ABS (securities with the lowest degree of subordination) issued as part of the securitisation.

Grandfathering

Capital adequacy safeguard clause. It is implemented in situations where an old rule continues to apply to certain current situations, before the final transition to the new prudential regime established by Basel 3.

IAS/IFRS

International Accounting Standards (IAS) issued by the International Accounting Standard Board (IASB), a body in which the accounting professionals of the major countries worldwide are represented, with the European Union, the IOSCO (International Organisation of Securities Commissions) and the Basel Committee on Baking Supervision taking part as observers. This body, which inherited the legacy of the International Accounting Standards Committee (IASC), aims to promote the harmonisation of the accounting rules for the preparation of company financial statements. With the transformation of the IASC into IASB, it was decided, among other things, to call the new accounting standards "International Financial Reporting Standards" (IFRS).

IFRS 9 (Financial instruments)

International accounting standard which, from 1 January 2018, replaced IAS 39 "Financial Instruments: Recognition and Measurement". It applies to all financial instruments that can be classified as assets and liabilities in the balance sheet, having regard to the classification and measurement criteria and the methods for determining impairment adjustments.

ICAAP – *Internal Capital Adequacy Assessment Process*

Internal process to evaluate capital adequacy, as provided for by the "Pillar 2" rules of prudential supervisory regulations, which financial institutions are required to implement to determine an adequate level of internal capital to cope with all relevant risks; these may differ from those covered by the total regulatory capital requirements ("Pillar 1"), as they are part of an individual assessment - both current and prospective - that takes into account the business strategies and the evolution of the macro-economic context, also under stress conditions.

ILAAP – *Internal Liquidity Adequacy Assessment Process*

Internal process for evaluating the adequacy of the governance and management mechanisms in place to face current and prospective liquidity risks, consisting in the processes for the identification, measurement, management and monitoring of liquidity implemented by the financial institutions.

Impairment

Situation in which a financial instrument recorded in the financial statement has a higher carrying amount than what is expected to be recovered, i.e. the amount that can be collected by selling or using the asset, showing a permanent reduction in value. Financial assets that are not measured at fair value through profit or loss (FVTPL) based on the requirements of IFRS 9 are subject to impairment testing, or a process for estimating the recoverable value using a model based on loss expectations, determined on the basis of past events, current and reasonable conditions and "supportable" future forecasts. With regard to assets that do not fall within the scope of application of IFRS 9, an impairment test is carried out periodically. If an excess of carrying amount over recoverable amount is found, the asset suffers an adjustment which is recorded in the accounts. Intangible assets with an indefinite useful life, goodwill acquired in a business combination and, in general, any other asset showing signs of a permanent reduction in value, are submitted to impairment testing annually.

IRB – *Internal Rating Based Approach*

They can be distinguished between a "basic" (FIRB, Foundation Internal Rating-Based Approach) and an "advanced" approach (AIRB, Advanced Internal Rating-Based Approach) in relation to the credit risk parameters that the banks are allowed to estimate internally. In particular, the Advanced IRB method involves internal estimation of all the main risk parameters (PD, LGD, EAD, CCF and, where required, actual maturity) used in the weighting formulas for calculating the capital requirement for credit risk. Adoption of IRB methods for the purpose of calculating capital requirements is subject to authorisation from the Supervisory Authority, after verification of compliance with a set of organisational and quantitative requirements.

ISMEA

Acronym for “Istituto di Servizi per il Mercato Agricolo Alimentare”, i.e. Institute of Services for the Agricultural Food Market. State-owned economic entity responsible for providing information, insurance and financial services and issuing guarantees in favour of agricultural enterprises and their associated forms.

LCR – *Liquidity Coverage Ratio (or Liquidity Coverage Requirement)*

Short-term liquidity coverage indicator determined according to Part 6 of Regulation (EU) no. 575/2013 of 26 June 2013 ("CRR") referring to the minimum proportion of highly liquid assets to be held by financial institutions to ensure their ongoing ability to meet short-term obligations. The coefficient aims to ensure that intermediaries hold an amount of high-quality liquid reserves, readily convertible into cash, sufficient to cover liquidity outflows for a period of at least 30 days, even in a scenario of particularly severe liquidity stress. The indicator is calculated as the ratio between the stock of high-quality liquid assets (HQLA) and total net cash outflows scheduled in the 30 calendar days following the observation date, determined under particularly acute stress assumptions. The parameter must always remain at or above the minimum level of 100%.

Leverage ratio

Prudential ratio introduced by the Basel 3 framework with the aim of containing the degree of financial leverage in the banking sector, which complements the traditional risk-based capital requirements with a metric based on financial aggregates not weighted for risk. It is obtained as the ratio between Tier 1 Capital and Total Exposure, the latter being the sum of on-balance and off-balance sheet exposures.

LGD – *Loss Given Default*

Loss rate in the event of insolvency of a borrower, determined as the ratio between the expected loss on a credit exposure due to the default of the counterparty and the estimated residual exposure at the time of default.

General payment moratorium

Measure to suspend payment obligations connected to a credit agreement, applied to a debtor in financial difficulty in compliance with the following characteristics defined by the EBA/GL/2020/02 Guidelines:

a) a moratorium is based on the applicable national legislation ("legislative moratorium") or on a non-legislative initiative that provides for the reduction of payments promoted by an institution within the framework of an industrial or sector moratorium scheme agreed or coordinated within the banking sector or a significant part of it, possibly in agreement with the public authorities, so that participation in this type of scheme is open and that in this context the credit institutions concerned adopt similar payment reduction measures ("non-legislative moratorium");

b) a moratorium applies to a large group of debtors pre-defined on the basis of broad criteria, where a criterion to determine the scope of the moratorium should allow a debtor to take advantage of the moratorium without its creditworthiness being subjected to rating. Such criteria include, for example, exposure class and subclass, industry sector, product ranges or geographical location. While, on the one hand, the scope of the moratorium may be limited only to non-performing debtors who did not encounter payment difficulties prior to the application of the moratorium, on the other hand it should not be limited solely to debtors in financial difficulties before the outbreak of the COVID-19 pandemic;

c) the moratorium only provides for changes to the payment plan, in particular by suspending, postponing or reducing payments of principal, interest or entire instalments, for a predefined and limited period of time; there are no changes to any other terms and conditions of the loans, such as the interest rate;

d) the moratorium is offered to all exposures that are subject to the same conditions for the modification of the payment plan, even if the moratorium is not mandatory for debtors;

e) the moratorium does not apply to new loan agreements granted after the date of its announcement;

f) the moratorium was initiated to address the COVID-19 pandemic and applied before 30 September 2020; however, this deadline may be revised depending on how the current situation of the pandemic evolves.

Separate general payment moratoria can be applied to broad and diverse segments of borrowers or exposures.

NSFR – *Net Stable Funding Ratio (or Net Stable Funding Requirement)*
Regulatory long-term liquidity indicator envisaged by the Basel 3 frameworks. It is intended as a mechanism aimed at complementing the LCR index with a view to favouring more stable and longer-term financing of assets, offsetting the incentives that banking and financial institutions would have to finance their stock of liquid assets with short-term funds that expire immediately after the 30-day horizon. The index is calculated as the ratio between the available amount of stable funding (ASF) and the required amount of stable funding (RSF). This parameter, which should always be kept equal to or greater than 100%, is structured in such a way as to ensure that long-term assets are financed with at least a minimum amount of stable liabilities in relation to the respective liquidity risk profiles.

OTC – *Over The Counter*
Feature of transactions in derivative instruments traded "over the counter", i.e. concluded directly between the parties without making use of an organised market.

PD – *Probability of Default*
Probability that a counterparty becomes insolvent within a given time horizon.

ECL – *Expected Credit Loss*
Average loss that is expected from a financial asset, loan or portfolio; it represents the average value of a statistical distribution of losses due to credit risk resulting from the combination of three elements: the Exposure at Default (EAD), the Probability of Default (PD) and the Loss Given Default (LGD). As required by accounting principles set by IFRS 9, it is calculated over a time horizon of 12 months for positions classified in Stage 1 and over the entire residual life of the instrument for positions classified in Stage 2 and Stage 3.

Subordinated loan/bond
An unsecured bond/loan characterised by a subordination clause which, in the event of liquidation of the issuer, gives the subscribers a right to repayment, but only once any privileged and general creditors have been satisfied in full.

RAF – *Risk Appetite Framework*
Also called the "risk target system". It represents the reference framework that defines - in line with the maximum risk that can be assumed, the business model and the strategic plan - the risk appetite, tolerance thresholds, risk limits, risk governance policies and the necessary reference processes to define and implement them.

RAS – *Risk Appetite Statement*
A formal statement of the levels and types of risk that the company intends to take for the pursuit of its corporate strategies, as well as of the qualitative objectives in terms of prevention and management of significant risks. This expresses the "risk appetite statement" and is an integral part of the Risk Appetite Framework.

Rating
Synthetic estimate of a debtor's ability to fulfil its credit commitments issued by specialised agencies (external rating) or by the bank itself (internal rating) on the basis of aspects such as financial solvency and growth prospects.

RWA – *Risk-Weighted Assets*
On- and off-balance sheet assets classified and weighted on the basis of different risk-based factors according to the provisions delivered by the Regulatory and Supervisory Authorities for the calculation of solvency ratios.

SACE
Acronym for "Sezione speciale per l'Assicurazione del Credito all'Esportazione", i.e. Special Section for Export Credit Insurance. Government body established in 1977, now a joint-stock company owned by the Cassa Depositi e Prestiti Group, which is controlled by the Italian Ministry of Economy and Finance. The entity has the task of supporting national

firms - large companies and SMEs - that seek to build a solid presence in the global market, building up an internationalisation process. SACE is particularly active in the fields of insurance and financial sectors through the provision of a large panel of services such as export credit, investment protection, factoring, credit insurance, trade and financial guarantees, bonding facilities.

SREP – *Supervisory Review and Evaluation Process*

Prudential review and assessment process with which the Supervisory Authorities periodically assess the ICAAP of financial institutions and its results. Through the SREP the Authority: a) analyses the risk profiles of a supervised entity, individually and in an aggregate perspective, also under stress conditions, and the related contribution to systemic risk; b) evaluates its corporate governance system, the functionality of its internal bodies, its organisational structure and the internal control system; c) verifies compliance of the institution with the set of prudential rules applicable.

Tier 1 ratio

Prudential capital adequacy coefficient expressed by the ratio between Tier 1 Capital and total risk exposure amount represented by risk-weighted assets (RWA).

Total Capital ratio

Prudential capital adequacy coefficient expressed by the ratio between Total Capital and total risk exposure amount represented by risk-weighted assets (RWAs).